

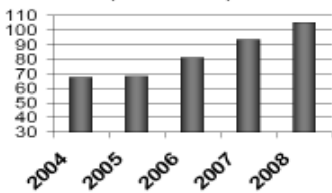
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PEMBINA PIPELINE INCOME FUND

Interim Report

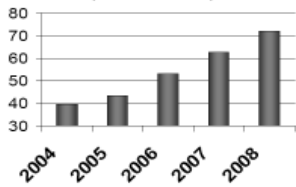
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Second Quarter Revenue* (\$ millions)



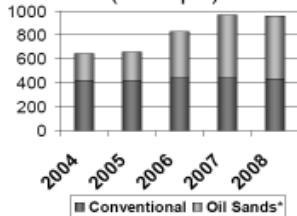
*net of product purchases

Second Quarter Net Operating Income* (\$ millions)



*see "Non-GAAP Measures" below

Second Quarter Total Throughput (mmbpd)



*contracted capacity

PEMBINA COMPLETES HORIZON PIPELINE, INCREASES DISTRIBUTION

- Pembina announced an 8.3 percent increase in its monthly distribution rate to 13 cents per Trust Unit effective for the August 2008 distribution, to be paid on September 15, 2008 to Unitholders of record on August 31, 2008. Solid operating results produced by Pembina's conventional assets together with growth in its oil sands & heavy oil infrastructure and midstream & marketing business units have generated what Pembina believes to be a significant and sustainable increase in cash flow that is expected to support this new distribution rate.
- The Fund distributed \$0.36 per Trust Unit during the second quarter of 2008 for total cash distributions of \$47.9 million, a 12 percent increase over the same period of 2007. Since inception of the Fund, Pembina has distributed at total of \$1.1 billion to Unitholders, or \$11.51 per Trust Unit, on a \$10.00 per Trust Unit original issue price.
- Pembina generated net earnings of \$42.1 million during the quarter and \$74.7 million year-to-date, representing increases of 18.6 and 7.6 percent, respectively, over the comparable periods in 2007.
- Pembina's Conventional Pipelines business segment contributed \$37.7 million in net operating income during the second quarter of 2008 and \$77.6 million year to date, as compared to \$37.4 million and \$75.2 million, respectively, for the same periods of 2007.
- The Oil Sands & Heavy Oil Infrastructure segment generated \$8.9 million and \$18.5 million in net operating income during the second quarter and first half of 2008, compared to \$9.9 million and \$19.4 million during the same periods of 2007.
- Midstream & Marketing contributed \$25.4 million in net operating income during the second quarter of 2008, a 65 percent increase over the same quarter of 2007. Year-to-date operating income of \$47.1 is up 41 percent from the first six months of 2007.
- The \$400 million Horizon Pipeline was completed on July 1, 2008, on schedule. Pembina expects the net operating income contribution of the Oil Sands & Heavy Oil Infrastructure segment to more than double with inclusion of an estimated \$45 million annually in Horizon Pipeline net operating income commencing on the in-service date.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is dated July 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 and six months ended June 30, 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. Pembina intends this strategy 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 & heavy oil infrastructure 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 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 (in millions of dollars, except where noted)	3 Months			6 Months		
	3 Months Ended	3 Months Ended	% Change	6 Months Ended	6 Months Ended	% Change
	June 30, 2008	June 30, 2007		June 30, 2008	June 30, 2007	
Average throughput - conventional (mbbls/d)	433.4	443.8	(2.3)	446.2	451.6	(1.2)
Contracted capacity - oil sands (mbbls/d)	525.0	525.0	–	525.0	525.0	–
Total throughput and contracted volumes (mbbls/d)	958.4	968.8	(1.1)	971.2	976.6	(0.6)
Capital expenditures	88.1	63.7	38.3	183.3	152.4	20.3
Revenue	181.5	126.4	43.6	324.2	239.3	35.5
Product purchases	76.2	33.0	130.9	112.6	49.5	127.5
Operating expenses	33.3	30.7	8.5	68.4	61.9	10.5
Net operating income ²	72.0	62.7	14.8	143.2	127.9	12.0
General & administrative expense	9.7	7.9	22.8	19.1	14.6	30.8
Interest expense on long-term debt	8.3	7.1	16.9	16.5	14.3	15.4
Net earnings	42.1	35.5	18.6	74.7	69.4	7.6
Cash flow from operations	68.2	42.2	61.6	127.3	89.1	42.9
Cash distributed to Unitholders	47.9	42.9	11.7	95.7	85.0	12.6
\$ Per Trust Unit	\$0.3600	\$0.3300	9.1	\$0.7200	\$0.6600	9.1

¹ This second quarter 2008 Interim Report to Unitholders reports unaudited results of the Fund for the three and six months ended June 30, 2008.

² Refer to "Non-GAAP Measures" below.

Conventional Pipelines

(in millions of dollars, except where noted)	3 Months			6 Months		
	3 Months Ended	3 Months Ended	% Change	6 Months Ended	6 Months Ended	% Change
	June 30, 2008	June 30, 2007		June 30, 2008	June 30, 2007	
Average throughput (mbbls/d)	433.4	443.8	(2.3)	446.2	451.6	(1.2)
Revenue	\$ 63.0	\$ 60.2	4.7	\$ 130.1	\$ 122.2	6.5
Operating expenses	25.3	22.8	11.0	52.5	47.0	11.7
Net operating income ¹	37.7	37.4	0.8	77.6	75.2	3.2
Capital expenditures	9.2	20.8	(55.8)	25.2	43.8	(42.5)
Operating expenses (\$/bbl)	0.60	0.53	13.2	0.61	0.54	13.0
Average revenue (\$/bbl)	1.51	1.40	7.9	1.51	1.40	7.9

¹ Refer to "Non-GAAP Measures" below.

Pembina's conventional pipelines transported an average of 433,492 bbls/d and an average of 446,200 bbls/d during the second quarter and the first six months of 2008, respectively, slightly lower than volumes transported during the same periods in 2007.

Of the total average throughput for the second quarter, an average of 412,246 bbls/d was transported on the Alberta systems. Volume was marginally lower than the same period of 2007. Volumes on the Peace, Drayton Valley and Swan Hills systems continued to exceed expectations as a result of increased receipts from new connections and significantly higher condensate throughputs. Higher natural gas production likely contributed to increased volumes on the Northern system during the second quarter, as receipts of natural gas liquids rose substantially. Volume reductions at gas plants and truck terminals due to seasonal turnarounds and road bans offset the increases noted above. A pipeline failure on the Cremona system on June 15th has resulted in the interruption of service on that system. For further discussion of this incident, please see "New Developments and Outlook".

Pembina's Western system transported 21,246 bbls/d during the second quarter and 22,500 bbls/d for the first half of 2008, down 6 and 8 percent from the same periods of 2007, due in part to restrictions at a third party delivery point. The British Columbia (BC) gathering pipelines transported 22,446 bbls/d during the second quarter, down 17 percent from the same period of 2007. Year-to-date throughputs on the BC gathering pipelines are down 12 percent year-over-year, due in part to weather related issues combined with outages at a third party refinery.

Pembina's conventional systems generated revenue of \$63 million and \$130.1 million during the second quarter of 2008 and first six months 2008, respectively, up from \$60.2 million and \$122.2 million in the same periods of 2007. The conventional systems contributed \$77.6 million in operating income during the first six months of the year, 3 percent higher year-over-year. Net operating income during the second quarter of 2008 was impacted by roughly \$2.5 million in unexpected expense related to non-recurring events, including the Cremona Pipeline incident noted

above. The Alberta systems generated revenue of \$54.9 million during the quarter and \$112.2 million for the first half of the year which was 3 percent and 5 percent higher, respectively, than the same periods of 2007. Revenue generated by the BC systems was up 19 and 21 percent from the second quarter and six months periods of 2007, as a result of toll adjustments that were implemented on these systems in January and February of this year. Average revenue per barrel on the Alberta systems of \$1.46 during the second quarter was up 7 cents per barrel from the average for the same period of 2007. Average revenue per barrel on the BC systems increased by 50 cents per barrel from the same period of 2007 to \$1.91 per barrel. This increase was primarily attributable to the toll adjustments mentioned above. During the second quarter of 2008, Pembina continued negotiations with shippers on the Western System to reach a toll settlement.

Oil Sands & Heavy Oil Infrastructure

<i>(in millions of dollars, except where noted)</i>	3 Months			6 Months		
	3 Months Ended June 30, 2008	3 Months Ended June 30, 2007	% Change	6 Months Ended June 30, 2008	6 Months Ended June 30, 2007	% Change
Average throughput (mbbls/d) ¹	525.0	525.0	–	525.0	525.0	–
Revenue	\$ 14.7	\$ 15.4	(4.5)	\$ 30.3	\$ 29.9	1.3
Operating expenses	5.8	5.5	5.5	11.8	10.5	12.4
Net operating income ²	8.9	9.9	(10.1)	18.5	19.4	(4.6)
Capital expenditures	63.0	42.3	48.9	139.4	107.7	29.4
Operating expenses (\$/bbl) ³	0.24	0.23	4.3	0.24	0.20	20.0
Average revenue (\$/bbl) ³	0.60	0.63	(4.8)	0.61	0.58	5.2

¹ Contracted capacity. Actual average throughput was 269,600 bbls/d in the second quarter of 2008 and 268,200 bbls/d in the second quarter of 2007.

² Refer to "Non-GAAP Measures" below.

³ Calculation uses actual average throughput.

Pembina's oil sands infrastructure consists of: the Syncrude Pipeline which provides dedicated service to Syncrude, the world's largest crude oil producer from oil sands; the Cheecham Pipeline which delivers synthetic crude oil from the Syncrude Pipeline to a facility near Cheecham, Alberta; and, the recently completed Horizon Pipeline which provides dedicated service to Canadian Natural Resource Limited's (CNRL) Horizon Oil Sands Project. Revenue generated by these fully contracted pipelines is independent of throughput and provides for the full recovery of operating expenses.

Throughput on the Syncrude Pipeline averaged 268,588 bbls/d during the second quarter and 270,960 bbls/d during the first six months of 2008, consistent with the comparable periods of 2007. This pipeline has a transportation capacity of 389,000 bbls/d and is fully contracted to the Syncrude owners. Revenue generated by the Syncrude Pipeline during the quarter of \$13.5 million is 5 percent lower than the second quarter of 2007 however is consistent with year-over-year revenue of \$27.9 million.

The Cheecham Pipeline, which has a capacity of 136,000 bbls/d and is fully contracted to shippers, generated revenue of \$1.25 million and \$2.4 million during the second quarter and first six months of 2008.

Pembina recently announced the completion of the Horizon Pipeline, which will provide exclusive transportation service to CNRL's Horizon oil sands project with a contracted capacity of up to 250,000 bbls/d. Work on the \$400 million project, which began in November 2006, was completed on July 1, 2008, on schedule. Pembina expects the Horizon Pipeline to contribute \$45 million in net operating income annually over the life of the 25-year contract, commencing on the in-service date.

With the completion of the Horizon Pipeline, Pembina has 775,000 bpd of fully contracted synthetic crude oil transportation capacity in three distinct pipelines serving customers in the Athabasca oil sands region.

Midstream & Marketing Business

<i>(in millions of dollars, except where noted)</i>	3 Months			6 Months		
	Ended	3 Months	Ended	Ended	6 Months	Ended
	June 30, 2008	June 30, 2007	% Change	June 30, 2008	June 30, 2007	% Change
Revenue	\$ 103.8	\$ 50.7	104.7	\$ 163.8	\$ 87.2	87.8
Product purchases	76.2	33.0	130.9	112.6	49.5	127.5
Operating expenses	2.2	2.4	(8.3)	4.0	4.4	(9.1)
Net operating income ¹	25.4	15.4	64.9	47.1	33.3	41.4
Capital expenditures	15.9	0.6	2,550.0	18.7	0.9	1,977.8

¹ Refer to "Non-GAAP Measures" below.

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

Since the onset of expansion of this business in 2005, Pembina has experienced a material increase in cash flow contribution from this segment. Pembina's 50 percent interest in the fully contracted Fort Saskatchewan Ethylene Storage Facility generated \$5.7 million in revenue and \$4.4 million in net operating income during the quarter. Pembina's Midstream & Marketing business continues to exhibit strong aggregate performance, with revenue and net operating income of \$103.8 million and \$25.4 million, during the second quarter of 2008, representing a 105 percent and 65 percent increase, respectively, over the same quarter of 2007.

Effective July 1, 2008, Pembina expects to generate additional net operating income from the addition of new merchant truck terminalling services on the Peace System.

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 second quarter and first half of 2008, operating expenses totaled \$33.3 million and \$68.4 million, up from the same periods of 2007 of \$30.7 million and \$61.9 million. Pembina's conventional pipelines incurred operating costs of \$25.3 million during the second quarter of 2008, up from \$22.8 million incurred during the comparable period in 2007. On a per barrel of throughput basis, operating expenses on the conventional systems averaged 0.60 cents for the quarter compared to 0.53 cents during the same quarter of 2007. This increase is related to one time maintenance work completed in the quarter, \$2.5 million in unexpected expense associated with the Cremona Pipeline incident and other non-recurring events, and an increase in property taxes, power and field costs.

General and administrative expenses (G&A) of \$9.7 million were recorded during the second quarter of 2008, \$1.8 million higher than the previous year. Year-to-date G&A totaled \$19.1 million compared to \$14.6 million incurred during the previous year. G&A expenses have risen in response to a substantial increase in construction activities, competitive employment pressures, and to an overall increase in staffing levels to support both ongoing business and growth opportunities. Pembina expects G&A expenditures to approximate 11.4 percent of net operating income in 2008, slightly lower than 2007.

A gain on the sale of Syncrude linefill has been recorded for \$21 million in the second quarter of 2008. Prior to the scheduled in-service date for Horizon, Pembina purged and sold 196,000 barrels of excess linefill on the 22" Syncrude Pipeline for total estimated proceeds of \$27 million and a gain on sale of \$21 million. In early July, an additional 190,000 barrels were sold at July prices for estimated proceeds of \$28 million and an additional gain on sale of \$22 million to be recorded in the third quarter. Proceeds from the sale of excess linefill on the Syncrude Pipeline will be credited to that asset's rate base. The funds are expected to be redeployed on other capital initiatives.

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.

<i>(in thousands of dollars, except where noted)</i>	3 Months Ended June 30, 2008	3 Months Ended June 30, 2007	6 Months Ended June 30, 2008	6 Months Ended June 30, 2007
Cash flow from operations	\$ 68,230	\$ 42,180	\$ 127,263	\$ 89,087
Add/(deduct):				
Employee future benefits expense	(1,205)	(1,211)	(2,161)	(2,559)
Employee future benefits contributions	887	3,059	1,898	3,059
Changes in non-cash working capital	(19,404)	1,545	(27,447)	4,128
Other	(296)	(409)	(564)	(886)
Distributable cash ¹	\$ 48,212	\$ 45,164	\$ 98,989	\$ 92,829
(Increase) decrease in distribution reserve	\$ (290)	\$ (2,274)	\$ (3,274)	\$ (7,841)
Distributed cash ¹	\$ 47,922	\$ 42,890	\$ 95,715	\$ 84,988
Distributable cash ¹ per Trust Unit before reserve	\$ 0.3622	\$ 0.3507	\$ 0.7427	\$ 0.7209
Distributed cash per Trust Unit ¹	\$ 0.3600	\$ 0.3300	\$ 0.7200	\$ 0.6600
Diluted distributed cash to Unitholders Per Trust Unit	0.3528	0.3211	0.6872	0.6413

¹ Refer to "Non-GAAP Measures" below.

During the second quarter of 2008, the Fund declared distributions of \$0.36 per Trust Unit, or \$47.9 million in aggregate, compared to \$0.33 per Trust Unit, or \$42.9 million in aggregate, paid in the second 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 80 percent of the distributions declared in 2008 will be taxable and 20 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.

Pembina generated \$0.3622 per Trust Unit in distributable cash (before reserve) during the second quarter of 2008. Excluding \$2.5 million in non-recurring expense, as described under "Conventional Pipelines", \$0.3810 per Trust Unit in distributable cash was generated by Pembina's ongoing operations during the quarter.

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.

<i>(in thousands of dollars, except where noted)</i>	3 Months Ended	6 Months Ended	Year Ended December 31		
	June 30, 2008	June 30, 2008	2007	2006	2005
Cash flow from operations	\$ 68,230	\$ 127,263	\$ 189,540	\$ 143,860	\$ 112,360
Net earnings	42,122	74,694	142,305	88,885	70,409
Distributed cash	47,922	95,715	178,870	142,285	113,482
Excess (shortfall) of cash flow from operations over distributed cash	20,308	31,548	10,670	1,575	(1,122)
Excess (shortfall) of net earnings over distributed cash	(5,800)	(21,021)	(36,565)	(53,400)	(43,073)
Cumulative notional reserve ¹	\$ 34,326	\$ 34,326	\$ 31,052	\$ 21,022	\$ 15,128

¹ Refer to "Non-GAAP Measures" below.

Pembina maintains a notional reserve designed 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 for the year 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 six months ended June 30, 2008 was 97 percent, 5.4 percent higher than the same period in the prior year. Pembina estimates that the full year payout ratio in 2008 will approximate 90 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 June 30, 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 has been extended to July 23, 2009. There are no repayments due over the term. At June 30, 2008, Pembina had \$404.6 million drawn leaving \$125.4 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 \$83.6 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 June 30, 2008, Pembina had long-term debt (excluding deferred financing fees) of \$938.1 million. This long-term debt, together with \$44.4 million of outstanding convertible debentures, resulted in a ratio of total debt to total enterprise value of 29.0 percent compared to a ratio of 28.4 percent at March 31, 2008 and a ratio of 26.2 percent as at December 31, 2007.

During the second quarter, \$7.1 million in net debt financing costs were recorded, comparable to 2007.

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. On July 24, 2008, Standard & Poor's (S&P) upgraded its long-term corporate credit and bank loan ratings on Pembina Pipeline Corporation to "BBB+" from "BBB", and its senior secured debt rating on the company to "A-" from "BBB+", with a stable outlook. 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:

Contractual Obligations	Total	Payments Due By Period			
		Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Office and vehicle leases	\$ 17.4	\$ 4.3	\$ 7.4	\$ 5.4	\$ 0.3
Long-term debt	938.1	81.7	23.1	598.0	235.3
Convertible debentures	44.4		44.4		
Construction commitments	43.0	10.0	16.5	16.5	
Total contractual obligations	\$ 1,042.9	\$ 96.0	\$ 91.4	\$ 619.9	\$ 235.6

Pembina is contractually committed to the construction and the operation of the Horizon Pipeline. As of July 1, 2008, the Horizon Pipeline has been substantially completed and Pembina expects to earn its fully contracted revenue commencing on the in-service date. Pembina currently projects the cost to be \$400 million, with \$390 million of that amount expended to June 30, 2008, \$10 million expected to be spent in the last six months of 2008. Pembina expects an additional \$33 million 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	3 Months Ended	6 Months Ended	6 Months Ended
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Development capital				
Conventional pipelines	\$ 9.2	\$ 20.8	\$ 25.2	\$ 43.8
Oil Sands infrastructure	63.0	42.3	139.4	107.7
Midstream business	15.9	0.6	18.7	0.9
Total development capital	\$ 88.1	\$ 63.7	\$ 183.3	\$ 152.4

Pembina expended \$88.1 million on capital projects during the second quarter of 2008, up from \$63.7 million expended during the second quarter of 2007. Capital expenditures for the conventional systems of \$9.2 million during the quarter related to \$4.1 million for new connections and upgrades, \$3.1 million for the Peace system product segregation facilities, \$0.7 million for the Western system corrosion and pipeline inspection programs and upgrades and \$0.2 million for Drayton Valley system product segregation facilities. Oil sands infrastructure spending totaled \$63 million in the second quarter, up from the \$42.3 million expended during the same period of 2007. Of the oil sands related capital expenditures during the second quarter of 2008, \$62.2 million was related to Horizon Pipeline construction and \$0.8 million was invested in upgrades on the Syncrude Pipeline and Cheecham Pipeline. Spending in the midstream business segment of \$15.9 million for the second quarter 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.

	July 28, 2008 ¹	June 30, 2008	June 30, 2007
Trust Units Outstanding	133,371,872	133,278,126	131,388,042
Average Daily Trading Volume (Units per day)	192,741	181,060	251,200
Unit Trading Price (\$/Unit) ²	\$ 17.25	\$ 17.91	\$ 15.96
Principal Amount of Debentures Outstanding (\$millions)	\$ 45.5	\$ 46.4	\$ 60.5
7.35% Convertible Debentures Trading Price ³	\$ 137.95	\$ 143.95	\$ 126.55
Total Market Value of Securities Outstanding (\$millions)	\$ 2,363.38	\$ 2,453.7	\$ 2,173.40
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 19 trading days from July 1 to July 28, 2008, inclusive.

² End of Period.

³ Full conversion to Trust Units of the remaining principal amount of the debenture issue as at July 28, 2008 would result in the issuance of 3.64 million Trust Units.

As at June 30, 2008, non-resident holdings in the Fund totaled approximately 20 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 June 30, 2008. Such critical accounting estimates are presented in Management's Discussion and Analysis for the year ended December 31, 2007.

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 continues to assess the impact of this AcSB announcement on its financial statements and business processes and develop implementation conversion plans.

New Developments and Outlook

Pembina continues to work toward finalizing definitive agreements with founding customers on its proposed Mitsue and Nipisi pipelines. The proposed project targets Nipisi and Peace River heavy oil producers and, if constructed, will offer 22,000 bpd of condensate delivery capacity and 100,000 bpd of diluted heavy oil take-away capacity from the region, commencing in mid-2011. Pembina expects to finalize these arrangements during the third quarter of 2008.

On June 15th, a pipeline failure on Pembina's Cremona system caused the release of approximately 125 barrels of sweet crude oil. The line was quickly shut down and Pembina, in cooperation with various regulatory authorities, contained and cleaned up the spill. On July 17th, Pembina experts and a safety crew, under the supervision of provincial regulators, successfully installed a pipeline clamp to seal the pipe in preparation for purging the line. The line has now been successfully purged and, pending regulatory approvals, Pembina is prepared to commence remedial activities. These remedial activities will include removing approximately 700 m of pipe, replacing the pipe, reburying the pipe and restoring the right-of-way. Pembina expects that this remedial action will occur in August 2008, with the pipeline being placed back into service early September 2008. This incident is not expected to have a material impact on Pembina's financial results.

On July 24, 2008, Standard & Poor's (S&P) upgraded its rating on Pembina Pipeline Corporation to "BBB+" from "BBB", on a diverse business risk profile and a stable outlook. S&P also raised its rating on Pembina's senior secured debt to "A-" from "BBB+". Pembina considers the maintenance of investment grade credit agency ratings as critical to its ongoing ability to access capital markets on attractive terms.

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. Effective with the August 2008 distribution, Pembina will increase its distribution rate by 8.3 percent to 13 cents per Trust Unit per month, or \$1.56 per Trust Unit on an annual basis. Continuing solid operating performance across all three of Pembina's business segments, together with the anticipated contribution of revenue generated by the recently completed Horizon Pipeline, has enabled the above referenced increase in the distribution rate. The quality of our current asset portfolio and the breadth of tangible and prospective growth opportunities presently under development across all of our business segments lend confidence in our continuing ability to maintain and grow future distributions.

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.

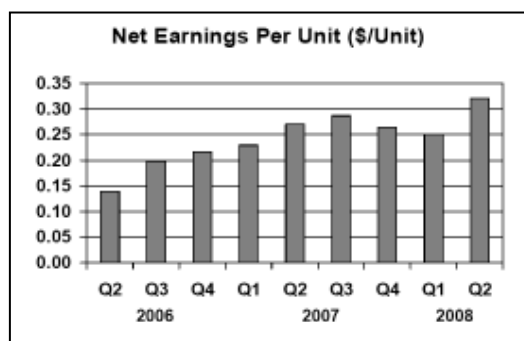
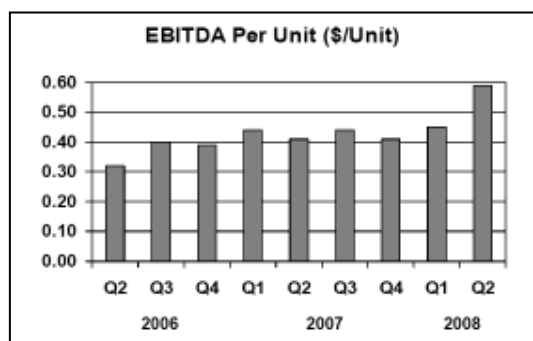
Selected Quarterly Information

(in thousands of dollars, except where noted)	2008		2007				2006		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	181,484	142,735	133,990	131,477	126,373	112,948	89,636	85,719	81,499
Product purchases	76,215	36,451	32,756	32,761	32,947	16,589	1,574	393	575
Operating expenses	33,262	35,095	35,885	31,833	30,718	31,192	32,933	29,570	28,132
EBITDA ¹	78,640	59,916	54,518	58,660	53,676	56,271	49,626	50,261	39,554
Cash flow from operations	68,230	59,034	48,788	51,666	42,180	46,907	41,111	32,430	26,055
Net earnings	42,122	32,572	34,981	37,903	35,492	33,929	27,231	24,563	16,940
Net earnings per Trust Unit (\$/Unit):									
Basic	0.32	0.25	0.26	0.29	0.27	0.27	0.22	0.20	0.14
Diluted	0.31	0.24	0.26	0.28	0.27	0.26	0.22	0.20	0.14
Distributed cash ¹	47,922	47,793	47,684	46,198	42,890	42,098	37,687	36,461	34,567
Distributed cash per Trust Unit ¹									
Basic	0.3600	0.3600	0.3600	0.3500	0.3300	0.3300	0.3000	0.2950	0.2850
Diluted	0.3528	0.3530	0.3521	0.3393	0.3211	0.3219	0.2956	0.2902	0.2803
Trust Units outstanding (thousands):									
Weighted average (basic)	133,117	132,758	132,454	131,994	129,966	127,568	125,625	123,576	121,289
Weighted average (diluted)	137,564	137,196	137,243	138,206	137,856	135,206	132,789	131,502	130,036
End of period	133,278	132,816	132,542	132,065	131,388	128,247	126,218	124,262	122,030

¹ Refer to "Non-GAAP Measures" below.

Net earnings of \$42.1 million were recorded during the second quarter of 2008, compared to \$35.5 million and \$16.9 million over the same periods in 2007 and 2006. The 18.7 percent increase in net earnings over the same period in 2007 relates in large measure to a \$21 million gain on sale of linefill associated with the completion of the Horizon Pipeline. Net operating income continues to grow at \$72.0 million in the second quarter of 2008, compared to \$62.7 million and \$52.8 million over the same periods in 2007 and 2006. This represents a substantial increase of 14.8 percent and 36.4 percent, respectively, due to the expansion of midstream operations as well as to toll increases and strong performance 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 MD&A 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. Further, this document contains forward-looking statements regarding net operating income, which is based upon the assumption that the in-service date for the Horizon Pipeline is August 1, 2008, that future tolls are consistent with internal projections, that counterparties comply with contracts in a timely manner, that there are no unforeseen events preventing performance of contracts by Pembina, and that there are no unforeseen material costs not recoverable from shippers. 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; the amount of future liabilities related to environmental incidents; the availability of coverage under Pembina's insurance policies (including in respect of Pembina's business interruption insurance policy); future acquisitions and growth and growth potential in Pembina's conventional pipelines, oil sands & heavy oil infrastructure and midstream & marketing operations; the construction of the Mitsue and Nipisi pipelines; the in-service date of the Horizon and Mitsue and Nipisi pipelines; potential revenue and cash flow enhancement; future cash flows; 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 the 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, non-performance of the transportation agreements in accordance with their terms, the strength and operations of the oil and natural gas production industry and related commodity prices, the regulatory environment and decisions and the inability to obtain required regulatory approvals (including in respect of the Mitsue and Nipisi pipelines), 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 (including in respect of the proposed construction of the Mitsue and Nipisi pipelines and related facilities), 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. Management of the Fund approved the financial outlook contained herein as of the date hereof. The purpose of the financial outlook contained herein is to give the reader an indication of the value to Pembina of the Horizon Pipeline. Readers should be aware that the information contained in the financial outlook contained herein may not be appropriate for other purposes.

consolidated balance sheets

(unaudited)

(In thousands of dollars)

	June 30 2008	Dec. 31 2007
Assets		
Current assets:		
Cash	\$	\$ 16,736
Accounts receivable and other	100,056	56,177
	100,056	72,913
Property, plant and equipment	1,686,082	1,524,887
Goodwill and other	356,124	358,212
Derivative financial instruments	13,455	10,796
	\$ 2,155,717	\$ 1,966,808
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 7,489	\$
Accounts payable and accrued liabilities	71,874	59,485
Distributions payable to Unitholders	15,993	15,905
Current portion of long-term debt	81,659	6,422
	177,015	81,812
Long-term debt	849,348	772,364
Convertible debentures	44,378	47,702
Asset retirement obligations	81,646	62,236
Future income taxes	103,137	93,957
	1,255,524	1,058,071
Unitholders' equity:		
Trust Units (note 6)	1,331,215	1,320,692
Deficit	(440,911)	(419,890)
Accumulated other comprehensive income	9,889	7,935
	900,193	908,737
	\$ 2,155,717	\$ 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 June 30, 2008	3 Months Ended June 30, 2007	6 Months Ended June 30, 2008	6 Months Ended June 30, 2007
Revenues:				
Conventional pipelines	\$ 62,983	\$ 60,190	\$ 130,080	\$ 122,175
Oil Sands infrastructure	14,733	15,450	30,331	29,928
Midstream & Marketing business	103,768	50,733	163,808	87,218
	181,484	126,373	324,219	239,321
Expenses:				
Operations	33,262	30,718	68,357	61,910
Product purchases	76,215	32,947	112,666	49,536
General and administrative	9,705	7,875	19,077	14,596
Depreciation and amortization	17,469	16,458	34,595	32,464
Accretion on asset retirement obligations	1,566	594	2,510	1,002
Internalization of management contract	4,479	781	6,338	1,339
Other	(20,817)	376	(20,775)	1,993
	121,879	89,749	222,768	162,840
Earnings before interest and taxes	59,605	36,624	101,451	76,481
Interest on long-term debt	8,248	7,134	16,488	14,315
Interest on convertible debentures	872	1,378	1,771	2,803
Earnings before taxes	50,485	28,112	83,192	59,363
Income tax expense (reduction)	8,363	(7,380)	8,498	(10,058)
Net earnings	42,122	35,492	74,694	69,421
Deficit, beginning of period	(435,111)	(391,494)	(419,890)	(383,325)
Distributed cash	(47,922)	(42,890)	(95,715)	(84,988)
Deficit, end of period	\$ (440,911)	\$ (398,892)	\$ (440,911)	\$ (398,892)
Earnings per Trust Unit				
Basic	\$ 0.32	\$ 0.27	\$ 0.56	\$ 0.54
Diluted	\$ 0.31	\$ 0.27	\$ 0.54	\$ 0.53

See accompanying notes to the consolidated financial statements

consolidated statement of comprehensive income

(Unaudited)

(In thousands of dollars)

	3 Months Ended June 30, 2008	3 Months Ended June 30, 2007	6 Months Ended June 30, 2008	6 Months Ended June 30, 2007
Net earnings for the period	\$ 42,122	\$ 35,492	\$ 74,694	\$ 69,421
Other comprehensive income:				
Unrealized gain on derivative instruments designated as cash flow hedges, net of tax of \$0.3 million and \$0.7 million	858	1,535	1,954	9,317
Total comprehensive income	\$ 42,980	\$ 37,027	\$ 76,648	\$ 78,738
Accumulated other comprehensive income:				
Opening balance, net of tax of \$3.3 million and \$2.9 million	\$ 9,031	\$ 12,830	\$ 7,935	\$ 5,048
Unrealized gain on derivative instruments designated as cash flow hedges, net of tax of \$0.3 million and \$0.7 million	858	1,535	1,954	9,317
Balance, end of period, net of tax of \$3.6 million	\$ 9,889	\$ 14,365	\$ 9,889	\$ 14,365

See accompanying notes to the consolidated financial statements

consolidated statements of cash flows

(Unaudited)

(In thousands of dollars)

	3 Months	3 Months	6 Months	6 Months
	Ended	Ended	Ended	Ended
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 42,122	\$ 35,492	\$ 74,694	\$ 69,421
Items not involving cash:				
Depreciation and amortization	17,469	16,458	34,595	32,464
Accretion on asset retirement obligations	1,566	594	2,510	1,002
Future income tax expense (reduction)	8,363	(7,380)	8,498	(10,058)
Linefill gain	(21,308)		(21,308)	
Employee future benefits expense	1,205	1,211	2,161	2,559
Trust Unit based compensation expense	320	209	588	486
Other	(24)	200	(24)	400
Employee future benefits contributions	(887)	(3,059)	(1,898)	(3,059)
Changes in non-cash working capital	19,404	(1,545)	27,447	(4,128)
Cash flow from operations	68,230	42,180	127,263	89,087
Financing activities:				
Bank borrowings	93,762	40,018	155,377	87,024
Repayment of senior secured notes	(1,591)	(1,479)	(3,153)	(2,932)
Issue of Trust Units on exercise of options	4,482	1,843	6,611	3,404
Issue of Trust Units under Distribution Reinvestment Plan		24,053		47,170
Distributions to Unitholders - current year	(47,866)	(42,545)	(79,721)	(70,535)
Distributions to Unitholders - prior year			(15,905)	(12,622)
	48,787	21,890	63,209	51,509
Investing activities:				
Capital expenditures	(81,900)	(65,230)	(177,068)	(146,682)
Changes in non-cash working capital	(42,227)	(1,176)	(37,629)	(133)
	(124,127)	(66,406)	(214,697)	(146,815)
Change in cash	(7,110)	(2,336)	(24,225)	(6,219)
Cash (bank indebtedness), beginning of period	(379)	(2,022)	16,736	1,861
Bank indebtedness, end of period	\$ (7,489)	\$ (4,358)	\$ (7,489)	\$ (4,358)
Other cash disclosures:				
Interest on long-term debt paid	\$ (10,230)	\$ (9,083)	\$(20,866)	\$(19,034)
Interest capitalized	\$ (3,617)	\$ (2,286)	\$ (7,139)	\$ (3,464)

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 continues to assess the impact of this AcSB announcement on its financial statements and business processes and develop implementation conversion plans.

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 six months ended June 30, 2008, and using the June 30, 2008 closing price of \$17.91 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 June 2008, the potential deferred payment would be \$17.4 million of which, \$4.7 million has been expensed in 2007 and \$6.3 million has been expensed at June 30, 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 went into service on July 1, 2008. As at June 30, 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 June 30, 2008				
Revenues:				
Pipeline transportation	\$ 62,983	\$ 14,733	\$	\$ 77,716
Terminalling, storage and hub services			103,768	103,768
Revenue before expenses	62,983	14,733	103,768	181,484
Expenses:				
Operations	25,234	5,839	2,189	33,262
Product purchases			76,215	76,215
General and administrative	9,320	337	48	9,705
Depreciation and amortization	11,532	3,016	2,921	17,469
Accretion on asset retirement obligations	1,296	270		1,566
Internalization of management contract	4,479			4,479
Other ²	491	(21,308)		(20,817)
	52,352	(11,846)	81,373	121,879
Earnings before interest and taxes	\$ 10,631	\$ 26,579	\$ 22,395	\$ 59,605
Property, plant and equipment ¹	\$ 788,120	\$ 742,307	\$ 155,655	\$ 1,686,082
Goodwill and other	\$ 206,309	\$ 28,300	\$ 121,515	\$ 356,124

¹ Included in property, plant and equipment are assets under construction for the Horizon Pipeline of \$390.3 million.

² Included in other for Oilsands & Heavy Oil Infrastructure segment is a gain on sale of Syncrude linefill of \$21.3 million. This represents the purging and sale of 196,000 barrels of excess linefill for total proceeds of \$27 million. In early July, an additional 190,000 barrels were sold at July prices for estimated proceeds of \$28 million and an additional gain on sale of \$22 million to be recorded in the third quarter.

(in thousands of dollars)	Conventional Pipelines	Oil Sands & Heavy Oil Infrastructure	Midstream & Marketing Business	Total
Six months ended June 30, 2008				
Revenues:				
Pipeline transportation	\$ 130,080	\$ 30,331	\$	\$ 160,411
Terminalling, storage and hub services			163,808	163,808
Revenue before expenses	130,080	30,331	163,808	324,219
Expenses:				
Operations	52,500	11,827	4,030	68,357
Product purchases			112,666	112,666
General and administrative	18,134	674	269	19,077
Depreciation and amortization	23,233	6,044	5,318	34,595
Accretion on asset retirement obligations	2,188	322		2,510
Internalization of management contract	6,338			6,338
Other ²	533	(21,308)		(20,775)
	102,926	(2,441)	122,283	222,768
Earnings before interest and taxes	\$ 27,154	\$ 32,772	\$ 41,525	\$ 101,451
Property, plant and equipment ¹	\$ 788,120	\$ 742,307	\$ 155,655	\$ 1,686,082
Goodwill and other	\$ 206,309	\$ 28,300	\$ 121,515	\$ 356,124

¹ Included in property, plant and equipment are assets under construction for the Horizon Pipeline of \$390.3 million.

² Included in other for Oilsands & Heavy Oil Infrastructure segment is a gain on sale of Syncrude linefill of \$21.3 million. This represents the purging and sale of 196,000 barrels of excess linefill for total proceeds of \$27 million. In early July, an additional 190,000 barrels were sold at July prices for estimated proceeds of \$28 million and an additional gain on sale of \$22 million to be recorded in the third quarter.

(in thousands of dollars)	Conventional Pipelines	Oil Sands & Heavy Oil Infrastructure	Midstream & Marketing Business	Total
Three months ended June 30, 2007				
Revenues:				
Pipeline transportation	\$ 60,190	\$ 15,450	\$	\$ 75,640
Terminalling, storage and hub services			50,733	50,733
Revenue before expenses	60,190	15,450	50,733	126,373
Expenses:				
Operations	22,846	5,499	2,373	30,718
Product purchases			32,947	32,947
General and administrative	7,548	327		7,875
Depreciation and amortization	11,170	3,045	2,243	16,458
Accretion on asset retirement obligations	566	28		594
Internalization of management contract	781			781
Other	376			376
	43,287	8,899	37,563	89,749
Earnings before interest and taxes	\$ 16,903	\$ 6,551	\$ 13,170	\$ 36,624
Property, plant and equipment ¹	\$ 790,124	\$ 487,777	\$ 120,841	\$ 1,398,742
Goodwill and other	\$ 208,244	\$ 28,300	\$ 125,161	\$ 361,705

(in thousands of dollars)	Conventional Pipelines	Oil Sands & Heavy Oil Infrastructure	Midstream & Marketing Business	Total
Six months ended June 30, 2007				
Revenues:				
Pipeline transportation	\$ 122,175	\$ 29,928	\$	\$ 152,103
Terminalling, storage and hub services			87,218	87,218
Revenue before expenses	122,175	29,928	87,218	239,321
Expenses:				
Operations	46,962	10,496	4,452	61,910
Product purchases			49,536	49,536
General and administrative	13,942	654		14,596
Depreciation and amortization	21,953	6,029	4,482	32,464
Accretion on asset retirement obligations	948	54		1,002
Internalization of management contract	1,339			1,339
Other	1,993			1,993
	87,137	17,233	58,470	162,840
Earnings before interest and taxes	\$ 35,038	\$ 12,695	\$ 28,748	\$ 76,481
Property, plant and equipment ¹	\$ 790,124	\$ 487,777	\$ 120,841	\$ 1,398,742
Goodwill and other	\$ 208,244	\$ 28,300	\$ 125,161	\$ 361,705

¹ Included in property, plant and equipment are assets under construction for the Horizon Pipeline of \$146.4 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 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 (power and commodity swaps) 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	\$ 71,874	\$ 59,479	\$ 132	\$ 11,038	\$	\$ 1,225
Distributions payable to Unitholders	15,993	15,993				
Long-term debt (excluding financing fees)	938,122	3,269	78,390	14,856	606,306	235,301
Convertible debentures	44,378				44,378	
	\$1,070,367	\$ 78,741	\$ 78,522	\$ 25,894	\$ 650,684	\$ 236,526

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 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 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. The \$60 million interest rate swap matured on June 9, 2008.

The Fund's credit facilities as at June 30, 2008 consisted of an unsecured \$500 million revolving credit facility and a \$30 million operating line of credit. Pembina had \$404.6 million drawn leaving \$125.4 of undrawn capacity. At June 30, 2008, the Fund was exposed to changes in interest rates on \$479.6 million of bank borrowings.

Liquidity and Capital Resources (in thousands of dollars)	June 30 2008	Dec. 31 2007
Variable rate debt		
Bank debt	\$ 404,567	\$ 250,000
Senior unsecured notes	75,000	75,000
Variable rate debt swapped to fixed		(60,000)
Total variable rate debt outstanding (average rate of 3.76%)	479,567	265,000
Fixed rate debt		
Senior unsecured notes	375,000	375,000
Senior secured notes	83,555	86,708
Variable rate debt swapped to fixed		60,000
Total fixed rate debt outstanding (average rate of 5.78%)	458,555	521,708
Convertible debentures	44,378	47,702
Total debt and debentures outstanding	982,500	834,410
Unutilized debt capacity	125,433	280,000

Interest rates on \$458.6 million in senior secured and unsecured notes have been fixed, leaving roughly 51% 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 \$1.2 million on net cash flows.

The Fund is also exposed to changes in the cost of power. At June 30, 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 June 30, 2008, was an unrealized gain of \$13.5 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. There are no material differences in the carrying amounts of the financial instruments reported on the balance sheet compared to the estimated fair values except as follows:

(in thousands of dollars)	June 30, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$	\$	\$	\$
Senior secured notes	83,555	90,050	86,708	93,659
Senior unsecured notes	450,000	435,645	450,000	441,893
Convertible debenture	44,378	66,732	47,702	67,770

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 six months ended 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	458,750	6,611
Debenture conversions	277,840	3,325
Contributed surplus		587
Balance, June 30, 2008	133,278,126	\$ 1,331,215

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 second quarter of 2008 was \$42.1 million (2007 - \$35.5 million) and for the six months ended June 30, 2008 was \$74.7 million (2007 - \$69.4 million). The weighted average Trust Units outstanding for the second quarter of 2008 were 133,117,000 Units (2007 - 129,966,000) and for the six months ended June 30, 2008 were 132,937,000 (2007 - 128,774,000).

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 second quarter of 2008 were \$42.7 million (2007 - \$36.9 million). In computing diluted earnings per Trust Unit, 4,446,000 Trust Units (2007 - 7,889,000) were added to the weighted average Trust Units outstanding for the second 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 second quarter of 2008 are \$0.32 and \$0.31, respectively, compared to \$0.27 for both basic and diluted in the second quarter of 2007.

The diluted net earnings for the six months ended June 30, 2008 were \$75.9 million (\$2007 - \$72.2 million). In computing the six months ended diluted earnings per Trust Unit, 8,171,000 Trust Units (2007 - 8,122,000) were added to the weighted average Trust Units for the dilutive effect of both convertible debentures and employee Trust Unit options. Basic and diluted earnings per Trust Unit for the six months ended June 30, 2008 are \$0.56 and \$0.54, respectively, compared to \$0.54 and \$0.53, respectively, in the six months period of 2007.

At June 30, 2008, 3,631,702 options were outstanding, of which 2,231,235 were exercisable (June 30, 2007 - 1,804,056) at a weighted average price of \$14.17 (June 30, 2007 - \$13.62).

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:

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Quarterly Results Webcast:

A live internet broadcast of Pembina's Second Quarter 2008 Results conference call is scheduled for July 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 Plan¹:

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.