PEMBINA

PEMBINA PIPELINE INCOME FUND

2010 INTERIM REPORT Q1

Pembina Pipeline first quarter boosts earnings and cash flow

Financial gains reflect expansion into gas services and lower operating costs

All financial figures are in Canadian dollars unless noted otherwise. This report contains forward-looking statements and information that are based on Pembina's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. Actual results may differ materially from those expressed or implied by these forward-looking statements. Please see page 20 for more information. This report also refers to financial measures that are not defined by Canadian generally accepted accounting principles (GAAP). For more information, about these non-GAAP measures, please see page 18.

Pembina Pipeline Income Fund ("Pembina" or the "Fund") generated increased revenue, net operating income, net earnings and cash flow from operating activities during the first quarter of 2010 compared to the first quarter of 2009, primarily the result of expanding operations to include natural gas gathering and processing and reduced operating expenses.

Revenue, net of product purchases, during the first quarter of 2010 was $131.5 million, compared to $116.1 million during the same period in 2009. The increase primarily reflects the contribution of Pembina's Gas Services business, which was acquired in June 2009, as well as increased revenue generated by Midstream & Marketing. This was offset by decreased revenue in the Conventional Pipelines business, a result of reduced throughput. During the first quarter of 2010, throughput averaged 389,300 barrels per day (bbls/d), compared to 412,500 bbls/d during the same period in 2009. The decline is attributable to reduced crude oil and natural gas liquids ("NGLs") production in the upstream energy sector and the December 2009 sale of Pembina's Cremona Pipeline system, which reduced average throughput by approximately 10,000 bbls/d.

Operating expenses during the first quarter of 2010 were $38.3 million, compared to $44.1 million during the first quarter of 2009, largely because of cost reductions in the Conventional Pipelines business. This decrease in expenses had a positive impact on net operating income, which totaled $93.2 million during the first quarter of 2010 compared to $72 million generated during the same time period in 2009.

Net earnings were $51.1 million ($0.32 per Trust Unit) in the first quarter of 2010, compared to $28.3 million ($0.21 per Trust Unit) in 2009. The increase reflects higher revenues, decreased operating expenses as well as lower depreciation costs, general and administrative expenses and a future income tax reduction, offset by higher interest on long-term debt. Cash flow from operating activities during the first quarter of 2010 was $67.3 million, compared to $41.2 million in the first quarter of the year before.

"We had a strong start to 2010 and we have every intention of building on this success through the remainder of the year," said Bob Michaleski, President and Chief Executive Officer. "We expect to generate additional value by continuing to deliver on our growth projects while also operating our businesses in a cost-effective, reliable and safe manner."

Cash distributions were $62.8 million during the quarter, compared to $53.2 million in the first three months of 2009, representing a quarterly payment of $0.39 per Trust Unit ($0.13 per Trust Unit monthly). Pembina intends to maintain this level of cash distribution through 2013. At its annual general and special meeting on May 7, 2010, unitholders will vote on a Board of Director recommendation to convert Pembina from an income trust to a corporation (for more information, see page 2). Following conversion, Pembina expects to maintain cash distributions to investors as a dividend (see "Forward Looking Statements and Information" on page 20).

Effective April 25, 2010, Pembina suspended its Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP"). The decision to suspend the DRIP was based on the strength of Pembina's balance sheet and the Fund's view that it does not require further equity investment at this time. Pembina believes it has the ability to fund currently planned capital expenditures with existing credit facilities and may resume the DRIP in the future should it be required to fund new investing or financing activities. Accordingly, cash distributions on the April 25, 2010 record date will not be reinvested through the DRIP.

Growth Update

Nipisi and Mitsue Pipeline Projects

The ERCB has issued notice that a public hearing on the Nipisi and Mitsue Pipeline projects will commence July 6, 2010 in Slave Lake, Alberta. Two stakeholders have filed interventions concerned with the potential impacts the projects may have on Aboriginal rights and the environment. Pembina believes its project plans, which include incorporating avoidance techniques to its routing strategy to protect environmental and Aboriginal cultural interests and identifying local employment and business opportunities, reflect the input received from stakeholders over a two-year consultation process.

The ERCB is expected to issue a hearing panel decision report within 90 days of the close of the hearing.

The Nipisi Pipeline, designed to initially transport 100,000 bbls/d of diluted heavy oil, is proposed to originate north of Slave Lake and run south to Swan Hills. From there, it would connect to an existing pipeline system that delivers products to the Edmonton area. The Mitsue Pipeline is being designed to transport approximately 20,000 bbls/d of condensate from Whitecourt, Alberta to producers operating north of Slave Lake. Both projects, which Pembina estimates to cost a combined total of $440 million, are scheduled to be completed in mid 2011.

Corporate Conversion

On March 4, 2010, Pembina's Board of Directors announced it had determined that the conversion of the Fund into a dividend paying corporate structure is in the best interests of unitholders and unanimously recommended that unitholders approve the corporate conversion at the annual general and special meeting on May 7, 2010. As part of the conversion process, unitholders will also vote on the adoption of a post-conversion shareholder rights plan and amended corporate bylaws. Pending a positive vote by unitholders and outstanding regulatory approvals, Pembina's conversion could become effective as early as July 1, 2010. Pembina's Board of Directors has the discretion to delay implementation of the corporate conversion to not later than December 31, 2010 if it believes such a delay is in the best interests of unitholders.

Examining Opportunities for Enhanced NGL Extraction at Cutbank Complex

Stakeholder consultation has begun on a potential project to extract approximately 10,000 bbls/d of NGLs (primarily ethane) from the natural gas currently processed at Pembina's Cutbank Complex. The project includes constructing an ethane extraction facility as well as 10-kilometres of pipeline that will deliver the product to Pembina's Peace Pipeline system. Pembina is currently in discussion with various customers in the area to utilize the facility's capacity on a fee for service basis.

Located about 100 kilometres southwest of Grande Prairie, the Cutbank Complex is a fully interconnected sweet gas gathering and processing complex consisting of three gas plants and 300 kilometres of gathering systems. Total gross processing capacity at the Cutbank Complex is 360 million cubic feet per day (of which 305 mmcf/d is net to Pembina).

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial and operating results of Pembina Pipeline Income Fund ("Pembina" or the "Fund") is dated May 6, 2010 and is supplementary to, and should be read in conjunction with, the unaudited comparative interim financial statements and notes of Pembina Pipeline Income Fund for the three months ended March 31, 2010, along with the Fund's MD&A and audited financial statements and notes for the year ended December 31, 2009. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars unless otherwise specified. See "Non-GAAP Measures" on page 18 for further information. This MD&A contains certain forward-looking statements and information: see "Forward-Looking Statements and Information" on page 20. This MD&A has been reviewed and approved by Pembina's Audit Committee of the Board of Directors and its Board of Directors.

Financial and Operating Highlights
(unaudited)

($ millions, except where noted)	**3 Months Ended March 31, 2010**	3 Months Ended March 31, 2009
Revenue	**294.6**	158.0
Less: product purchases	**163.1**	41.9
Net revenue [1]	**131.5**	116.1
Operating expenses	**38.3**	44.1
Net operating income [1]	**93.2**	72.0
EBITDA [1]	**83.2**	61.0
Net earnings	**51.1**	28.3
Net earnings per Trust Unit – basic (dollars)	**0.32**	0.21
Cash flow from operating activities	**67.3**	41.2
Distributed cash [1]	**62.8**	53.2
Distributed cash per Trust Unit [1] (dollars)	**0.39**	0.39
Capital expenditures	**20.5**	30.6
Total enterprise value[1]	**4,010.9**	2,904.0
Total assets	**2,620.2**	2,123.5
Average throughput – conventional (thousands of bbls/d)	**389.3**	412.5
Contracted capacity – oil sands (thousands of bbls/d)	**775.0**	775.0
Average processing volume – gas services [2] (mmcf/d net to Pembina)	**216.9**	

(1) Refer to "Non-GAAP Measures" on page 18. EBITDA in 2009 has been restated to be comparable to 2010.
(2) Operating assets for Gas Services were acquired on June 2, 2009; as a result, no comparison to the first quarter of 2009 can be made for this business.

Fund Description

Pembina Pipeline Income Fund's wholly-owned subsidiary, Pembina Pipeline Corporation ("PPC") is an energy transportation and service provider that owns and operates assets in Alberta and British Columbia. Pembina transports conventional crude oil, natural gas liquids (NGLs), synthetic crude and heavy oil and also serves customers through a network of terminals, storage facilities, hub services and natural gas gathering and processing facilities. The Fund, an unincorporated open-ended trust, pays monthly cash distributions to unitholders, if, as and when determined by the Board of Directors of PPC. Pembina's publicly-traded securities are listed on the Toronto Stock Exchange under the symbols: PIF.UN - Trust Units and PIF.DB.B - 7.35 percent convertible debentures. Pembina's corporate head office is located in Calgary, Alberta.

Business Objectives and Strategy

The Fund's principal objective is to provide reliable returns to investors through cash distributions while also enhancing the long-term financial value of Pembina's Trust Units. Pembina's strategy is to:

- Generate value by providing customers with cost-effective, reliable services.
- Diversify Pembina's asset base to enhance profitability. A diverse portfolio provides Pembina with the ability to respond to market conditions, reduce risk and increase opportunities to leverage existing businesses. A priority is placed on developing businesses that support Pembina's core competency – operating crude oil and NGL transportation systems – which allow for expansion, vertical integration and accretive growth.

- Implement growth in a safe and environmentally responsible manner. Growth is expected to occur through expansion of existing businesses, acquisition and the development of new services. Pembina's investment criteria includes pursuing projects or assets that are located in close proximity to long-life, economic hydrocarbon reserves that are expected to generate increased cash flow.
- Maintain a strong balance sheet through the application of prudent financial management to all business decisions.

Pembina's business is structured in four units: Conventional Pipelines, Oil Sands & Heavy Oil, Midstream & Marketing and Gas Services.

Conventional Pipelines

Pembina's Conventional Pipelines form a 7,500 kilometre network that extends across much of Alberta and British Columbia, transporting about 50 percent of Alberta's conventional crude oil production and approximately 20 percent of the NGLs produced in Western Canada. The primary objective of Pembina's Conventional Pipelines business is to generate sustainable operating margins while pursuing opportunities for increased throughput and revenue enhancement. Operating margins are maintained through incremental volume capture and system expansion, revenue management and operating expense discipline. During the first quarter of 2010, average throughput was 389,300 barrels per day (bbls/d), consisting of an average of 276,100 bbls/d of crude oil and 113,200 bbls/d of NGLs.

Oil Sands & Heavy Oil

With three oil sands pipelines, Pembina plays an important role in supporting Alberta's oil sands industry. Pembina transports crude oil for Syncrude Canada Ltd. (via the Syncrude Pipeline) and Canadian Natural Resources Ltd. (via the Horizon Pipeline) to delivery points near Edmonton, Alberta. Pembina also owns and operates the Cheecham Lateral, which transports product to oil sands producers operating southeast of Fort McMurray, Alberta. In total, this business has approximately 1,000 kilometres of pipeline with 775,000 bbls/d of transportation capacity. These assets operate under long-term extendible contracts that provide for the flow through of operating expenses to customers. As a result, net operating income from this business is primarily related to invested capital and is not generally sensitive to fluctuations in operating expenses or actual throughputs. Pembina plans to expand this business through the Nipisi and Mitsue Pipeline projects, which Pembina expects will provide transportation support to producers operating in the Peace River heavy oil region of Alberta. See page 9 for further details.

Midstream & Marketing

This business consists of a network of terminals, storage and hub services operated on Pembina's Conventional Pipelines business as well as a 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Facility located near Edmonton, Alberta. By vertically integrating services along the hydrocarbon value chain, this business has increased the range of services provided to customers and has contributed to conventional throughputs. Financial results for Midstream & Marketing from June 1, 2009 to December 31, 2009 included contribution of Pembina's Gas Services business. Commencing with the first quarter of 2010, Pembina will report operational and financial results generated by Gas Services as a separate business unit.

Gas Services

On June 2, 2009, Pembina expanded its business to include natural gas gathering and processing through the acquisition of the Cutbank Complex. Located approximately 100 kilometres south of Grande Prairie, Alberta, the Cutbank Complex includes 300 kilometres of gathering lines and ownership in three sweet gas processing plants with 360 million cubic feet per day (mmcf/d) of processing capacity (capacity of 305 mmcf/d is net to Pembina). These assets are connected to Pembina's Peace Pipeline system and serve an active exploration and production area in the Western Canadian Sedimentary Basin. During the first quarter of 2010, average processing volume net to Pembina was 216.9 mmcf/d.

Consolidated Financial Results

(unaudited)

($ millions, except where noted)	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Revenue	**294.6**	158.0
Less: product purchases	**163.1**	41.9
Net revenue [(1)]	**131.5**	116.1
Operating expenses	**38.3**	44.1
Net operating income [(1)]	**93.2**	72.0
Deduct/(add)		
General and administrative	**9.4**	10.9
Depreciation and amortization	**17.2**	19.4
Accretion on asset retirement obligations	**1.7**	1.3
Interest on long-term debt	**14.5**	10.3
Interest on convertible debentures	**0.7**	0.8
Income tax expense (reduction)	**(2.0)**	1.0
Other	**0.6**	
Net earnings	**51.1**	28.3
Net earnings per Trust Unit – basic (dollars)	**0.32**	0.21

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

Revenue, net of product purchases, during the first quarter of 2010 was $131.5 million, compared to $116.1 million during the same period in 2009. The increase is largely due to the contribution of Pembina's Gas Services business, which was acquired on June 2, 2009 as well as higher revenue generated by Midstream & Marketing. The increased revenue in Midstream & Marketing occurred as a result of higher commodity prices and nearly $36 million in expansion projects that were completed in late 2009, which broadened customer services at Alberta-based crude oil hubs and truck terminals. These increases were offset by decreased revenue in Pembina's Conventional Pipelines business, primarily a result of reduced throughput. During the first quarter of 2010, throughput averaged 389,300 bbls/d, compared to 412,500 bbls/d during the same time period in 2009. The decline is attributable to reduced crude oil and NGLs production in the upstream energy sector and the December 2009 sale of Pembina's Cremona Pipeline system, which reduced average throughput by approximately 10,000 bbls/d. Revenue generated by Pembina's Oil Sands & Heavy Oil business was down slightly from the first quarter of 2009. The decrease is mostly due to a reduction in pipeline rate base that became effective in the second quarter of 2009 resulting from the sale of linefill on the Syncrude Pipeline.

Operating expenses during the first quarter of 2010 were $38.3 million, compared to $44.1 million during the first quarter of 2009 primarily because of cost reductions in the Conventional Pipelines business of more than $10 million. This was offset by higher costs resulting from the acquisition of the Cutbank Complex and the creation of Pembina's Gas Services business. To further manage operating expenses, provide cost certainty and stabilize tolls for customers, Pembina hedged, during the first quarter of 2010, 15 megawatts per hour of power for 2011 at an average price of $45.65 and five megawatts per hour of power for 2012 at a price of $47.75. Additional power hedges are also being considered by Pembina. Since 2002, Pembina has passed power hedging savings of approximately $21 million through to customers. Company-wide, Pembina consumes between 20 and 38 megawatts per hour.

The combination of increased revenue and lower operating expenses had a positive impact on net operating income, which totaled $93.2 million during the first quarter of 2010 compared to $72 million generated during the same time period in 2009.

Net earnings were $51.1 million ($0.32 per Trust Unit) in the first quarter of 2010, compared to $28.3 million ($0.21 per Trust Unit) in the first quarter of 2009. The increase reflects higher revenues, decreased operating expenses as well as lower depreciation costs, general and administrative expenses and a future income tax reduction, offset by higher interest on long-term debt.

Cash flow from operating activities during the first quarter of 2010 was $67.3 million, compared to $41.2 million in the first quarter of the year before. For more information, see page 11.

Operating Results

(unaudited)

	3 Months Ended March 31, 2010		3 Months Ended March 31, 2009	
($ millions)	Revenue	Net Operating Income [1]	Revenue	Net Operating Income [1]
Conventional Pipelines	**64.7**	**42.5**	66.1	33.7
Oil Sands & Heavy Oil	**28.8**	**19.4**	29.8	20.9
Midstream & Marketing[2]	**23.5**	**20.9**	20.2	17.4
Gas Services[3]	**14.5**	**10.4**	N/A	N/A
Total	**131.5**	**93.2**	116.1	72.0

[1] Refer to "Non-GAAP Measures" on page 18.
[2] Midstream & Marketing revenue is net of $163.1 million in product purchase expense for three months ended March 31, 2010 (three months ended March 31, 2009: $41.9 million).
[3] Operating assets for Gas Services were acquired on June 2, 2009; as a result, no comparison to the first quarter of 2009 can be made for this business.

Conventional Pipelines

($ millions, except where noted)	**3 Months Ended March 31, 2010**	3 Months Ended March 31, 2009
Revenue	**64.7**	66.1
Operating expenses	**22.2**	32.4
Net operating income [1]	**42.5**	33.7
Capital expenditures	**3.2**	7.4
Average throughput (thousands bbls/d)	**389.3**	412.5
Operating expenses ($/bbl)	**0.60**	0.81
Average revenue ($/bbl)	**1.72**	1.63

[1] Refer to "Non-GAAP Measures" on page 18.

During the first quarter of 2010, Conventional Pipelines throughput averaged 389,300 bbls/d, which consisted of 370,200 bbls/d from Alberta-based systems and 19,100 bbls/d from B.C.-based operations. This compares to 412,500 bbls/d during the same three-month period in 2009, consisting of 392,100 bbls/d from Alberta pipelines and 20,400 bbls/d from B.C. systems. The decline primarily reflects reduced crude oil and NGL production in the upstream energy sector as well as Pembina's December 2009 sale of the Cremona Pipeline system, which reduced average throughput by approximately 10,000 bbls/d.

Comparing sequential quarterly results (see "Selected Quarterly Operating Information" on page 18) indicates Conventional Pipeline throughput has improved, predominantly due to higher crude oil and NGL prices, a stronger economy and more recently, the Alberta government's proposed changes to its royalty structure as a result of its competitiveness review. As a result, first quarter 2010 throughput showed an increase over the 379,400 bbls/d in the fourth quarter of 2009.

Conventional Pipelines generated revenue of $64.7 million during the first quarter of 2010, compared to $66.1 million during the same period in 2009. Revenue was down primarily as a result of decreased throughput, offset by toll increases.

During the quarter, operating expenses were $22.2 million, compared to the first quarter of 2009 when operating expenses totaled $32.4 million. This decrease reflects costs that were incurred during the first quarter of 2009 to complete integrity digs on Pembina's Peace Pipeline. In addition, Conventional Pipelines was also able to achieve reduced maintenance costs in the first quarter of 2010 while preserving commitments to pipeline integrity, safe and reliable operations. Lower throughput also contributed to the decline in operating expenses. Net operating income for the first quarter of 2010 was $42.5 million, compared to $33.7 million in the prior year, mostly due to lower operating expenses.

Oil Sands & Heavy Oil

($ millions, except where noted)	**3 Months Ended March 31, 2010**	3 Months Ended March 31, 2009
Revenue	**28.8**	29.8
Operating expenses	**9.4**	8.9
Net operating income [(1)]	**19.4**	20.9
Capital expenditures	**10.8**	11.9
Capacity under contract (thousands of bbls/d)	**775.0**	775.0

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

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

Syncrude Pipeline

The Syncrude Pipeline has a capacity of 389,000 bbls/d and is fully contracted to the owners of Syncrude Canada Ltd. under an extendible, long-term agreement, which expires at the end of 2035. Net operating income generated by the Syncrude Pipeline during the first quarter of 2010 was $6.7 million, compared to $7.9 million during the first quarter of 2009. The decrease is mostly due to a reduction in pipeline rate base that became effective in the second quarter of 2009 resulting from the sale of linefill on the Syncrude Pipeline.

Cheecham Lateral

Pembina's Cheecham Lateral has a capacity of 136,000 bbls/d and is fully contracted to shippers under a long-term extendible contract, which expires in 2032. Net operating income generated by the Cheecham Lateral was $1.1 million during the first quarter of 2010, compared to $1.5 million during the first quarter of 2009.

Horizon Pipeline

The Horizon Pipeline has a capacity of 250,000 bbls/d and is fully contracted to Canadian Natural Resources Ltd. under an extendible, long-term agreement, which expires in 2033. Net operating income generated by the Horizon Pipeline during the first quarter of 2010 was $11.6 million, comparable to the $11.5 million in the first quarter of 2009.

Operating expenses in Oil Sands & Heavy Oil during the first quarter of 2010 were $9.4 million, compared to $8.9 million during the same period in 2009. This increase is primarily due to higher quarter-over-quarter throughputs on the Horizon Pipeline.

Midstream & Marketing

($ millions)	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Revenue	**186.6**	62.1
Less: product purchases	**163.1**	41.9
Net revenue[1]	**23.5**	20.2
Operating expenses	**2.6**	2.9
Net operating income [1]	**20.9**	17.4
Capital expenditures	**1.6**	11.3

[1] Refer to "Non-GAAP Measures" on page 18.

Midstream & Marketing recorded revenue, net of product purchases, of $23.5 million during the first quarter of 2010, compared to $20.2 million during the same period in 2009. This increase reflects higher commodity prices in the first quarter of 2010 compared to the first quarter of 2009 and an increase in volumes due to the expansion of customer services at Alberta-based crude oil hubs and truck terminals.

During the quarter, operating expenses were $2.6 million, compared to the first quarter of 2009 when operating expenses totaled $2.9 million. The decrease was primarily the result of reduced operating expenses at the Fort Saskatchewan Ethylene Storage Facility where Pembina has a 50 percent non-operated interest. Net operating income was $20.9 million during the first quarter, compared to $17.4 million during the first quarter of 2009. The increase is attributable to increased revenue and decreased operating expenses.

Gas Services

($ millions, except where noted)	3 Months Ended March 31, 2010[2]
Revenue	**14.5**
Operating expenses	**4.1**
Net operating income [1]	**10.4**
Capital expenditures	**4.7**
Average processing volume (mmcf/d net to Pembina)	**216.9**

[1] Refer to "Non-GAAP Measures" on page 18.
[2] Operating assets for Gas Services were acquired on June 2, 2009; as a result, no comparison to the first quarter of 2009 can be made.

Gas Services recorded revenue of $14.5 million during the first quarter of 2010. This is an increase over the fourth quarter of 2009 when Gas Services generated revenue of $13.7 million. This increase primarily reflects higher processing volume at the Cutbank Complex. Average processing volume, net to Pembina, was 216.9 mmcf/d during the first three months of 2010, compared to 197.4 mmcf/d during the fourth quarter of 2009.

During the quarter, operating expenses were $4.1 million. This is an increase over the fourth quarter of 2009 when Gas Services had operating expenses of $3.8 million. The increase in operating expenses is mostly due to the carryover costs from the 2009 maintenance shutdown at the Cutbank Complex and increased costs associated with higher volume levels.

Gas Services contributed $10.4 million in net operating income during the first quarter of 2010. This is comparable to the fourth quarter of 2009 when Gas Services generated $9.9 million in net operating income.

New Developments & Outlook

Nipisi and Mitsue Pipeline Projects

The ERCB has issued notice that a public hearing on the Nipisi and Mitsue Pipeline projects will commence July 6, 2010 in Slave Lake, Alberta. Two stakeholders have filed interventions concerned with the potential impacts the projects may have on Aboriginal rights and the environment. Pembina believes its project plans, which include incorporating avoidance techniques to its routing strategies to protect environmental and Aboriginal cultural interests and identifying local employment and business opportunities, reflect the input received from stakeholders over a two-year consultation process.

The ERCB is expected to issue a hearing panel decision report within approximately 90 days of the close of the hearing.

The Nipisi and Mitsue Pipeline projects were initiated in response to industry demand for diluted heavy oil take-away from and reliable diluent supply to the Peace River, Alberta region. The Nipisi Pipeline, designed to initially transport 100,000 bbls/d of diluted heavy oil, is proposed to originate north of Slave Lake running south to Swan Hills. From there, it would connect to an existing pipeline system that delivers products to the Edmonton area. The Mitsue Pipeline is being designed to transport approximately 20,000 bbls/d of condensate from Whitecourt, Alberta to producers operating north of Slave Lake.

Pembina estimates the cost of the projects at $440 million. Engineering on the pipelines is substantially complete and engineering for the pump stations is about 95 percent complete. Procurement and construction contracts generated to date have provided cost certainty for about 75 percent of the project. Pending regulatory approval, Pembina expects construction to begin in late 2010, with the pipelines being placed into service by mid 2011. Based on certain assumptions, Pembina's internal projections estimate the two projects combined will generate approximately $45 million per annum in net operating income. Readers are cautioned this amount is based on assumptions, estimates, expectations and projections and actual results may differ materially. See "Forward-looking Statements and Information" on page 20.

Corporate Conversion

On March 4, 2010, Pembina announced that its Board of Directors had determined that the conversion of the Fund into a dividend paying corporate structure pursuant to a plan of arrangement (the "Arrangement") is in the best interests of Pembina and its unitholders and unanimously recommended that unitholders approve the corporate conversion at the annual general and special meeting to be held on May 7, 2010 (the "Meeting").

If approved, unitholders will receive, for each Trust Unit held, one common share of PPC (a "Common Share"), as of the effective date of the Arrangement (the "Effective Date"). In addition, under the Arrangement, PPC will assume all obligations of Pembina under the debenture indenture and supplemental indenture governing the terms and conditions of Pembina's outstanding 7.35 percent convertible unsecured subordinated debentures due December 31, 2010 (the "Convertible Debentures"), such that the Convertible Debentures will be valid and binding obligations of PPC following completion of the Arrangement.

Notice of the Meeting was given to unitholders pursuant to an interim order of the Court of Queen's Bench of Alberta dated March 31, 2010 (the "Interim Order"), a copy of which is included in the information circular and proxy statement of Pembina dated April 1, 2010 (the "Information Circular"), available under Pembina's profile at www.sedar.com. At the Meeting, unitholders will be asked to consider and vote upon the Arrangement, the adoption of a shareholder rights plan by PPC (following completion of the Arrangement), certain amendments to PPC's corporate by-laws, as well as annual meeting business, including the election of directors of PPC and the appointment of auditors. The resolution approving the Arrangement must be approved by not less than two thirds of the votes cast by unitholders, either in person or by proxy, at the Meeting.

The Arrangement is also subject to final approval of the Court of Queen's Bench of Alberta, scheduled for May 10, 2010 (the "Final Order") and receipt of all necessary regulatory and other third party approvals. If the Final Order is obtained on May 10, 2010 in form and substance satisfactory to Pembina, and all other conditions to the completion of the Arrangement are satisfied or waived, Pembina expects the earliest Effective Date will be July 1, 2010, provided

the Board of Directors has the discretion to delay implementation of the Arrangement to not later than December 31, 2010 if it believes such delay is in the best interests of the Fund and unitholders.

The Toronto Stock Exchange (the "TSX") has granted conditional approval for the listing of: (i) the Common Shares issuable pursuant to the Arrangement under the symbol "PPL"; (ii) the Convertible Debentures (assumed by PPC); (iii) the Common Shares issuable upon the exercise of the options after the Effective Date; and (iv) the Common Shares issuable upon conversion of the Convertible Debentures (assumed by PPC), under the symbol "PPL.DB.B". Listing will be subject to PPC fulfilling all of the requirements of the TSX. Upon completion of the Arrangement, application will be made to delist the trust units and Convertible Debentures of the Fund from the TSX.

The Arrangement will become effective upon the filing with the Registrar appointed under Section 263 of the *Alberta Business Corporations Act*, of the Articles of Arrangement and a copy of the Final Order, together with such other materials as may be required by the Registrar. Further background and reasons for the Arrangement are contained in the Information Circular, available www.pembina.com and at www.sedar.com.

Examining Opportunities for Enhanced NGL Extraction at Cutbank Complex

Stakeholder consultation has begun on a potential project to extract approximately 10,000 bbls/d of NGLs (primarily ethane) from the natural gas currently processed at Pembina's Cutbank Complex. The project includes constructing an ethane extraction facility as well as 10-kilometres of pipeline that will deliver the product to Pembina's Peace Pipeline system. Pembina is currently in discussion with various customers in the area to utilize the facility's capacity on a fee for service basis.

Located about 100 kilometres southwest of Grande Prairie, the Cutbank Complex is a fully interconnected sweet gas gathering and processing complex consisting of three gas plants and 300 kilometres of gathering systems. Total gross processing capacity at the Cutbank Complex is 360 million cubic feet per day (of which 305 mmcf/d is net to Pembina).

Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("DRIP")

Effective April 25, 2010 Pembina suspended its DRIP. The decision to suspend the DRIP was based on the strength of Pembina's balance sheet and the Fund's view that it does not require further equity investment at this time. Pembina believes it has the ability to fund currently planned capital expenditures with existing debt facilities and may resume the DRIP in the future should it be required to fund new investing or financing activities.

Alberta Government Competitiveness Review

In March, the Government of Alberta released the outcome of its competitiveness review of the province's natural gas and conventional oil industry. This competitiveness review included: a new royalty framework; extending existing incentives for new conventional oil and natural gas developments; a commitment to explore ways to recognize the high cost of employing new production technologies; and improving Alberta's regulatory process**.** The government took these steps to help attract new and additional oil and gas investment to the province. Pembina believes its assets are strategically located to leverage the potential increase in conventional oil and natural gas production that could result from this competitiveness review, utilizing existing mainline capacity with very little capital investment.

Expenses

General and Administrative

General and administrative expenses ("G&A") of $9.4 million were incurred during the first quarter of 2010 (approximately 10.1 percent of net operating income). This compares to $10.9 million incurred during the first quarter of 2009 (approximately 15.1 percent of net operating income). The decline in G&A primarily reflects reduced expenses associated with utilizing third-party products, services and consultants. Pembina expects G&A expenditures to approximate 12 percent of net operating income in 2010, compared to 15.2 percent in 2009.

Depreciation and Amortization

Depreciation and amortization expenses were $17.3 million during the first quarter of 2010, compared to $19.4 million during the first quarter of 2009. This decrease reflects the management review completed during 2009 of the estimated remaining useful lives of all Pembina's assets and the disposition of certain non-material assets.

Accretion on Asset Retirement Obligations

Accretion on asset retirement obligations was $1.8 million during the first three months of 2010, compared to $1.3 million during the first quarter of 2009. This increase is largely a result of the acquisition of the Cutbank Complex and the management review of the estimates of the ultimate retirement expenses in 2009.

Interest Expense and Financial Instruments

Interest expense for long-term debt was $14.5 million during the first three months of 2010, compared to $10.3 million during the same time period in 2009. This increase is primarily due to an increase in average debt outstanding and a higher proportion of fixed rate debt for the first quarter of 2010 compared to the first quarter of 2009.

Distributed Cash

($ millions, except where noted)	**3 Months Ended March 31, 2010**	3 Months Ended March 31, 2009
Cash flow from operating activities	**67.3**	41.2
Add/(deduct):		
Employee future benefits expense	**(1.0)**	(1.6)
Employee future benefits contributions	**2.5**	2.7
Changes in non-cash working capital	**(0.2)**	8.0
Other	**(0.5)**	(0.3)
Distributable cash [1]	**68.1**	50.0
(Increase) decrease in distribution reserve	**(5.3)**	3.2
Distributed cash [1]	**62.8**	53.2
Distributable cash [1] per Trust Unit (dollars per Trust Unit)	**0.4207**	0.3665
Distributed cash per Trust Unit [1] (dollars per Trust Unit)	**0.3900**	0.3900
Diluted distributed cash per Trust Unit	**0.3836**	0.3843
Payout ratio[1]	**92.3%**	106%

[1] Refer to "Non-GAAP Measures" on page 18.

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

($ millions)	**3 Months Ended March 31, 2010**	2009	2008	2007
Cash flow from operating activities	**67.3**	224.6	219.9	189.5
Net earnings	**51.1**	162.1	161.8	142.3
Distributed cash[1]	**62.8**	232.3	198.8	178.9
Excess (shortfall) of cash flow from operating activities over distributed cash	**4.5**	(7.7)	21.1	10.6
Excess (shortfall) of net earnings over distributed cash	**(11.7)**	(70.2)	(37.0)	(36.6)

[1] Refer to "Non-GAAP Measures" on page 18.

The continued growth in distributed cash reflects the growth in both Pembina's asset base and the unitholder base.

Historical cash distributions compared to cash flow from operating activities shows excess cash flow in every period except in 2009. The shortfall of $7.7 million in 2009 was primarily due to changes in non-cash working capital and the use of the DRIP to pre-fund the Nipisi and Mitsue Pipeline projects, which impacted distributed cash by $10.4 million. 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 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 the calculation of net earnings. Capital additions increase the earning capacity of the Fund and are financed in either the debt or equity markets and are not dependent on cash flow from operating activities.

The Fund's payout ratio for the three months ended March 31, 2010 was 92.3 percent, an improvement from the same period in the prior year due to increased cash flow from operating activities. Pembina calculates the payout ratio as the percentage of distributable cash (prior to distribution reserve adjustments) that is distributed to unitholders. See "Non-GAAP Measures" on page 18 and "Forward-Looking Statements and Information" on page 20.

Liquidity & Capital Resources

($ millions)	**3 Months Ended March 31, 2010**	December 31 2009
Working Capital[1]	**(74.7)**	(116.5)
Variable rate debt		
Bank debt	**359.2**	359.1
Variable rate debt swapped to fixed	**(200.0)**	(200.0)
Total variable rate debt outstanding (average rate of 2.59%)	**159.2**	159.1
Fixed rate debt		
Senior unsecured notes	**642.0**	642.0
Senior unsecured term debt	**75.0**	75.0
Senior secured notes	**71.6**	73.4
Variable rate debt swapped to fixed	**200.0**	200.0
Total fixed rate debt outstanding (average rate of 5.67%)	**988.6**	990.4
Convertible debentures	**32.8**	36.6
Total debt and debentures outstanding	**1,180.6**	1,186.1
Cash and unutilized debt facilities	**431.3**	394.9

[1] Current assets less current liabilities.

Pembina anticipates cash flow from operating activities will be more than sufficient to meet its short-term operating obligations and fund its targeted distribution level. In the medium-term, funds required for capital projects are expected to be sourced from existing cash and undrawn credit facilities of $431.3 million. In the event of additional significant projects or acquisitions, Pembina believes, based on its successful access to financing in the debt and equity markets during 2009, that it would likely continue to have access to funds at attractive rates. Management remains satisfied the leverage employed in Pembina's capital structure at the end of the first quarter of 2010 is sufficient and appropriate given the characteristics and operations of the underlying asset base.

Pembina's credit facilities at March 31, 2010 consisted of an unsecured $500 million revolving credit facility due July 2012 and an unsecured $150 million non-revolving credit facility due December 2010. In addition, Pembina has an operating facility of $50 million, which matures July 2010. There are no repayments due over the term of either facility. As at March 31, 2010, Pembina had $359.2 million drawn on bank debt (including $9 million of letters of credit) leaving $431.3 million of cash and unutilized debt facilities (cash as at March 31, 2010: $90.5 million) on the $700 million of established bank facilities. Borrowings bear interest at either prime lending rates or Bankers' Acceptances, plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of PPC and range from zero percent to 2.75 percent. Other debt includes $71.6 million in fixed rate Senior Secured Notes due 2017, $75 million in senior unsecured term debt due 2014, $175 million in fixed rate Senior Unsecured Notes due 2014, $267 million in Senior Unsecured Notes due 2019 and $200 million in fixed rate Senior Unsecured Notes due 2021. At March 31, 2010, Pembina had long-term debt (excluding deferred financing fees) of $1,138.6 million. This long-term debt, together with $32.8 million of outstanding convertible debentures, resulted in a ratio of total debt to total enterprise value of 29.6 percent, compared to a ratio of 30.1 percent at December 31, 2009. See "Non-GAAP Measures" on page 18.

During the first quarter of 2010, $9.1 million in net debt financing costs were recorded, compared to $6.4 million in the first quarter of 2009.

Pembina considers the maintenance of an investment grade credit rating as critical to its ongoing ability to access capital markets on attractive terms. The Dominion Bond Rating Service Ltd. (DBRS) has assigned Pembina Pipeline Income Fund a STA-2 (low) stability rating which was confirmed by DBRS on May 13, 2009. PPC, 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. These ratings were also confirmed on November 3, 2009. On August 11, 2009, Standard & Poor's (S&P) confirmed its long-term corporate credit and bank loan ratings on PPC of "BBB+", and its senior secured debt rating on the Fund of "A-", all with a stable outlook. S&P also rates the Fund and has a current rating of SR-2, which rating was last confirmed on November 20, 2009. See "Description of the Fund and the Trust Units - Credit Ratings" in the Fund's Annual Information Form for the year ended December 31, 2009.

Capital Expenditures

($ millions)	**3 Months Ended March 31, 2010**	**3 Months Ended March 31, 2009**
Conventional Pipelines	**3.2**	7.4
Oil Sands & Heavy Oil	**1.9**	7.1
Nipisi & Mitsue Pipeline projects	**8.9**	4.8
Total Oil Sands & Heavy Oil	**10.8**	11.9
Midstream & Marketing	**1.6**	11.3
Gas Services	**4.7**	N/A[1]
Corporate/other projects	**0.2**	
Total	**20.5**	30.6

[1] Operating assets for Gas Services were acquired on June 2, 2009; as a result, no comparison to the first quarter 2009 can be made.

The majority of Pembina's capital spending in 2010 will be in support of the Nipisi and Mitsue Pipeline projects. Approximately $152 million is expected to be invested by Pembina this year to advance these projects, subject to regulatory approval. As a result, Pembina expects a significant portion of its capital expenditure plan to be invested during the latter part of 2010. First quarter 2010 spending was lower than the prior year because of reduced spending in the Oil Sands & Heavy Oil business (related to the Horizon Pipeline) and reduced spending on maintenance projects in the Conventional Pipelines business, a reflection of cost reduction efforts and reduced throughput.

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	14.0	4.6	9.2	0.2	
Long-term debt	1,138.6	157.6	226.2	271.0	483.8
Convertible debentures	32.8	32.8			
Construction commitments	416.1	196.6	219.5		
Total contractual obligations	1,601.5	391.6	454.9	271.2	483.8

Pembina is, subject to certain conditions, contractually committed to the construction and the operation of the Nipisi and Mitsue Pipelines. Pembina currently expects the combined cost of these pipelines to total approximately $440 million. To date, $83.9 million has been spent and as mentioned above, significant spending on these projects is expected to begin in late 2010.

An additional $60 million in construction costs related to the Horizon Pipeline is also expected to be incurred in later years, to meet potential increased capacity requirements ($30 million is expected to be spent in each of 2011 and 2012). Pembina anticipates utilizing its cash and undrawn credit facilities to finance the costs of the Nipisi and Mitsue Pipelines. See "Forward-Looking Statements and Information" on page 20 of this report.

Trust Unit and Convertible Debenture Information

	May 5, 2010[1]	March 31, 2010	March 31, 2009
Trust Units Outstanding	**163,408,952**	162,212,619	137,246,119
Average Daily Volume (Units per day)	**323,793**	356,041	259,112
Unit Trading Price ($/Unit) [2]	**18.26**	17.41	13.98
Principal Amount of Debentures Outstanding ($ millions)	**33.4**	34.3	41.9
7.35% Convertible Debentures Trading Price [3]	**146.33**	140.63	115.89
Total Market Value of Securities Outstanding ($ millions)	**3,032.7**	2,872.3	1,967.2
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 24 trading days from April 1, 2010 to May 5, 2010, inclusive.
(2) End of Period.
(3) Full conversion to Trust Units of the remaining principal amount of the debenture issue as at May 5, 2010 would result in the issuance of 2.7 million Trust Units with an effective conversion price of $12.50 per Trust Unit.

As at March 31, 2010, non-resident holdings in the Fund were less than 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, Changes in Accounting Principles and Practices and Future Accounting Changes

There were no changes in Pembina's critical accounting estimates and practices that affected the disclosure of, or the accounting for, its operations for the quarter ended March 31 2010. All critical accounting estimates are presented in the Fund's Management's Discussion and Analysis for the year ended December 31, 2009, available under the Fund's profile at www.sedar.com.

International Financial Reporting Standards (IFRS)

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

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

Pembina has established an IFRS conversion plan, which includes regular progress reporting to the audit committee and the Board of Directors. The IFRS conversion plan consists of three phases. A description of each phase and a review of the current status in Pembina's plan to convert to IFRS standards are noted in the following table.

Phase	Key Development	Status
1. Impact Assessment Phase This phase includes an IFRS impact assessment identifying key areas that may be impacted by the transition to IFRS. This includes the impact on accounting policies, information technology, internal controls over financial reporting, disclosure controls and procedures, business activities and the resources required for the conversion.	Impact assessment identifying key areas "in principle" that may be impacted by the transition to IFRS.	Substantially complete
	Full information technology impact assessment.	Substantially complete
	Impact assessment of internal controls over financial reporting and disclosure controls and procedures.	In progress
	Business activity impact assessment including, but not limited to, cost of service agreements, debt agreements, compensation structures and other contracts.	In progress
	Identification of required resources.	Complete
2. Impact Analysis and Evaluation Phase In addition to a full GAAP analysis, each key area identified in the Impact Assessment Phase will be analyzed, with priority being placed on areas assessed with higher impact.	Draft IFRS financial statements.	In progress
	Assessment of impact on financial statement Note disclosure.	In progress
	Documentation of impact assessment of additional non-key area IFRS standards.	Substantially Complete
	Further analysis of impact on internal controls over financial reporting and disclosure controls and procedures.	In progress
	Information technology implementation of IFRS fixed asset subledger and general ledger to accommodate dual reporting in 2010.	Complete
	Initiation of necessary renegotiations of cost of service agreements, debt agreements, covenants, compensation structures and other agreements.	In progress
3. Implementation and Review Phase This phase involves formal authorization processes to approve the recommended accounting policy changes. Training will continue during this phase and an opening IFRS compliant draft balance sheet and financial statement note disclosure will be prepared.	Determination and documentation of IFRS 1 exemptions.	In progress
	Determination and documentation of IFRS Accounting Policies.	In progress
	Complete reconciliation from IFRS to Canadian GAAP equity and income and preparation and audit of the January 1, 2010 opening balance sheet.	In progress
	Preparation of IFRS financial statements for the quarter ending March 31, 2010.	In progress
	Training.	Ongoing

Pembina has identified a number of key differences between the current accounting policies and those Pembina expects to apply in preparation of IFRS statements. The final accounting policy decisions and quantified differences are yet to be finalized because they are subject to management's assessment of the impact, industry-wide interpretations of standards and approval from the Board of Director's Audit Committee.

Key areas identified:

1. Property, Plant and Equipment (PP&E):

    - IFRS requires that each component of an item of PP&E that is significant in relation to the total cost of the item be depreciated separately. Pembina has completed the review of PP&E for components and does not expect any material impact on transition.

- IFRS requires the impairment of PP&E be tested at an asset or cash generating unit (CGU) level which differs from Canadian GAAP requirements. A CGU is the lowest level of assets for which identifiable cash flows are largely independent of cash flows of other assets. Impairments are more likely to be recognized under IFRS than under Canadian GAAP, however, impairment losses can be reversed when circumstances change in future periods. Pembina is in the process of determining its cash generating units. When different levels of impairment testing are considered necessary, an impairment of PP&E might have to be recognized. These adjustments would impact PP&E and opening deficit.

2. Goodwill: IFRS requires goodwill to be tested for impairment at the level at which management monitors the goodwill. This can be different from the level of impairment testing used for Canadian GAAP and might therefore result in impairments recognized upon transition. Pembina is in the process of analyzing the level of goodwill impairment testing.

3. Asset Retirement Obligation (ARO): Pembina intends to apply the IFRS election as it pertains to the ARO liability and the related asset. As a result, Pembina will:

   - Measure the liability as at the date of transition to IFRS in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
   - Estimate the amount that would have been in PP&E when the liability first arose, by discounting the transition date liability to that date using its best estimate of the historical risk-free discount rate; and
   - Estimate accumulated depreciation that would have been recorded as at the date of transition.

   Differences in discount rates may result in an increase in the ARO obligation and a decrease in the related asset's net book value with the offset to the opening deficit. Pembina is in the process of quantifying the possible impact upon transition.

4. Employee Benefits: Pembina intends to apply the IFRS election as it pertains to recognizing the defined benefit pension plan unamortized actuarial loss in equity on transition to IFRS. As a result, the pension asset will be reduced and the opening deficit adjusted.

5. Investment in Associates: Under Canadian GAAP, Pembina proportionately consolidates its share of its joint venture, the Fort Saskatchewan Ethylene Storage Facility. Currently, jointly controlled entities may be accounted for either by proportionate consolidation or using the equity method in the consolidated financial statements. The IASB issued an Exposure Draft, which is expected to be effective in 2012, would require Pembina to apply the equity method of accounting. Therefore, Pembina is considering applying the equity accounting method upon transition. As a result, an equity accounted investee would be recognized along with a decrease in PP&E, intangibles and goodwill and an adjustment to the opening deficit.

6. Unit Based Compensation: Pembina concludes that the restricted trust unit plan is a cash settled share-based payment for IFRS and must be measured at fair value. As a result, an increased liability will be recognized and opening deficit will be adjusted for the difference that would have been previously expensed. In addition, IFRS requires graded vesting resulting in accelerated recognition of compensation expense for unit based option plans.

7. Leases: IFRS classifies a lease as either a finance lease or an operating lease. Lease classification depends on whether substantially all of the risks and rewards incidental to the leased asset have been transferred from the lessor to the lessee. Pembina is in the process of reviewing its vehicle lease contracts to determine whether it is required to classify previously recognized vehicle operating leases as finance leases. As a result, an asset and corresponding finance lease liability would be recognized and opening deficit would be adjusted.

8. Trust Unit Classification: IFRS may require Pembina's Trust Units to be classified as a financial liability. Given Pembina's intention to convert to a dividend-bearing Corporation, this issue would be isolated to the comparative figures for the 2010 quarterly reporting.

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, 2009 and in the Fund's Annual Information Form for the year ended December 31, 2009. These documents are available on www.pembina.com and on www.sedar.com.

Selected Quarterly Financial Information

	2010	2009				2008			
($ millions, except where noted)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue	**294.6**	256.4	211.9	185.5	158.0	149.4	201.3	181.5	142.7
Less: product purchases	**163.1**	127.2	80.8	64.4	41.9	24.0	84.2	76.2	36.5
Net Revenue[1]	**131.5**	129.2	131.0	121.1	116.1	125.4	117.1	105.3	106.3
Operating expenses	**38.3**	39.7	39.6	35.8	44.1	42.4	40.1	33.3	35.1
Net operating income[1]	**93.2**	89.5	91.5	85.3	72.0	82.9	76.9	72.0	71.2
EBITDA[1]	**83.2**	72.2	62.2	70.2	59.8	66.8	85.0	77.1	59.0
Cash flow from operating activities	**67.3**	72.0	62.2	49.2	41.2	63.5	50.5	46.9	59.0
Cash flow from operating activities per Trust Unit ($ per Unit)	**0.42**	0.46	0.40	0.33	0.30	0.47	0.38	0.35	0.44
Net earnings	**51.1**	52.9	44.7	36.2	28.3	39.0	48.1	42.1	32.6
Net earnings per Trust Unit ($ per Unit):									
Basic	**0.32**	0.34	0.29	0.25	0.21	0.29	0.36	0.32	0.25
Diluted	**0.31**	0.33	0.29	0.24	0.21	0.29	0.35	0.31	0.24
Distributed cash[1]	**62.8**	61.4	60.2	57.5	53.2	52.3	50.7	47.9	47.8
Distributed cash per Trust Unit[1] ($ per Unit):									
Basic	**0.3900**	0.3900	0.3900	0.3899	0.3900	0.3900	0.3800	0.3600	0.3600
Diluted	**0.3836**	0.3848	0.3849	0.3847	0.3843	0.3840	0.3729	0.3528	0.3530
Trust Units outstanding (thousands):									
Weighted average (basic)	**161.8**	157.5	154.4	147.5	136.3	134.1	133.5	133.1	132.8
Weighted average (diluted)	**165.2**	160.9	157.8	150.9	139.8	137.7	137.6	137.6	137.2
End of period	**162.2**	158.6	155.4	152.6	137.3	134.7	133.6	133.3	132.8

[1] Refer to "Non-GAAP Measures" on page 18.

Selected Quarterly Operating Information

	2010	2009				2008			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Average throughput (thousands of barrels per day)									
Alberta	**370.2**	361.2	369.7	373.2	392.1	410.8	408.4	412.2	435.3
British Columbia	**19.1**	18.2	19.6	18.9	20.4	23.3	22.2	21.2	23.7
Total Conventional Throughput	**389.3**	379.4	389.3	392.1	412.5	434.1	430.6	433.4	459.0
Oil Sands and Heavy Oil	**775.0**	775.0	775.0	775.0	775.0	775.0	775.0	525.0	525.0
Total average throughput	**1,164.3**	1,154.4	1,164.3	1,167.1	1,187.5	1,209.1	1,205.6	958.4	984.0
Average daily Cutbank Complex (mmcf/d net to Pembina)	**216.9**	197.4	208.5						
Conventional Pipelines Revenue ($ per barrel)									
Alberta	**1.70**	1.62	1.58	1.62	1.59	1.44	1.53	1.46	1.44
British Columbia	**1.90**	2.23	1.84	1.91	2.29	2.46	2.25	1.91	2.08
Average Conventional Revenue	**1.72**	1.68	1.61	1.65	1.63	1.55	1.61	1.51	1.51
Operating Expenses ($ per barrel)									
Alberta	**0.57**	0.59	0.60	0.63	0.79	0.65	0.69	0.58	0.59
British Columbia	**0.86**	0.89	0.83	1.03	1.17	1.40	0.85	0.86	0.83
Average	**0.60**	0.62	0.63	0.67	0.81	0.73	0.71	0.60	0.61

Additional Information

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

Non-GAAP Measures

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

Distributable cash

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

Distributed cash

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

Distributed cash per Trust Unit

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

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

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

Total enterprise value

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

Net revenue

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

Net operating income

Net operating income is calculated by subtracting operating expenses from revenue. Net operating income is used to assess the performance of specific business units before general and administrative expenses and other non-operating expenses. This measure, together with other measures, is used by management and the investment community to assess the source and sustainability of cash distributions.

Payout ratio

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

Management believes these supplemental non-GAAP measures facilitate the understanding of the Fund's results from operations, leverage, liquidity and financial position. Investors should be cautioned that distributable cash, distributed cash, EBITDA, total enterprise value and net operating income should not be construed as alternatives to net earnings, cash flow from operating activities or other measures of financial results determined in accordance with GAAP as an indicator of the Fund's performance. Furthermore, these non-GAAP measures may not be comparable to similar measures presented by other issuers.

Forward-Looking Statements and Information

Certain statements contained in this MD&A constitute "forward-looking statements" within the meaning of the *United States Private Securities Litigation Reform Act of 1995* and "forward-looking information" within the meaning of applicable Canadian securities legislation (collectively, "forward-looking statements").

All forward-looking statements are based on Pembina's current expectations, estimates, projections, beliefs and assumptions based on information available at the time the statement was made and in light of its experience and its perception of historical trends. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "plan", "intend", "design", "target", "undertake", "view", "indicate", "maintain", "explore", "entail", "schedule", "objective", "strategy", "likely", "potential" and similar expressions are intended to identify forward-looking statements.

By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Fund believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of the MD&A.

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

- the completion and timing of the conversion of the Fund's structure to a corporate structure and the ability of the Fund to maintain its current level of cash distributions to equity holders both prior to and after completion of the proposed corporate conversion through 2013 (in the form of dividends after the corporate conversion);
- the estimated future net operating income contributions from the Nipisi and Mitsue Pipelines, once such projects are completed;
- capital expenditure estimates, plans, schedules, rights and activities and the planning, development, construction, operations and costs of pipelines, including in relation to the Nipisi and Mitsue Pipeline projects, the proposed Cutbank expansion, facilities and other energy infrastructure;
- pipeline system operations and throughput levels;
- oil and gas industry exploration and development activity levels;
- the Fund's strategy and the development of new business initiatives;
- expectations regarding the Fund's ability to raise capital and to carry out acquisition, expansion and growth plans;
- treatment under governmental regulatory regimes including environmental regulations and related abandonment and reclamation obligations;
- future G&A expenses at Pembina;
- additional throughput potential on additional connections and other initiatives on the Conventional pipelines;
- future cash flows, potential revenue and cash flow enhancements across Pembina's businesses and the maintenance of operating margins;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash distributions and dividends and the tax treatment thereof;
- changes in legislation relating to the Fund and its structure, including income tax considerations and the treatment of income and mutual fund trusts;
- operating risks (including the amount of future liabilities related to environmental incidents) and related insurance coverage and inspection and integrity systems; and
- competitive conditions.

Various factors or assumptions are typically applied by the Fund in drawing conclusions or making the forecasts, projections, predictions or estimations set out in forward-looking statements based on information currently available to the Fund. These factors and assumptions include, but are not limited to:

- the success of the Fund's operations;
- the timely receipt of required regulatory approvals and the approval of the Fund's unitholders of the corporate conversion enabling the corporate conversion to be completed as planned;
- prevailing commodity prices and exchange rates;
- the availability of capital to fund future capital requirements relating to existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns;
- future operating costs;
- the future exploration for and production of oil, NGLs and natural gas in the capture area around Pembina's conventional and midstream and marketing assets, including new production from the Cardium formation in western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina's assets;
- prevailing regulatory, tax and environmental laws and regulations; and the certain assumptions and other factors disclosed below under "Additional Assumptions Relating to Future Distributions/Dividends and Incremental Operating Income from the Nipisi and Mitsue Pipelines" and elsewhere in the MD&A.

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

- the inability of the Fund to obtain the necessary unitholder, Court, regulatory and other third-party approvals in respect of the corporate conversion, in a timely fashion, or at all;
- the corporate conversion may not be completed when planned or at all;
- the regulatory environment and decisions and the inability to obtain required regulatory and other stakeholder approvals (including in respect of the Nipisi and Mitsue Pipeline projects and the proposed Cutbank expansion);
- the impact of competitive entities and pricing;
- labour and material shortages;
- reliance on key alliances and agreements;
- the strength and operations of the oil and natural gas production industry and related commodity prices;
- non-performance or default by counterparties to agreements which the Fund or one or more of its affiliates has entered into in respect of its business;
- actions by governmental or regulatory authorities including changes in tax laws and treatment, changes in royalty rates or increased environmental regulation;
- fluctuations in operating results;

- continued adverse general economic and market conditions and further changes thereto in Canada, North America and elsewhere, including changes in interest rates, foreign currency exchange rates and commodity prices; and
- the other factors discussed under "Risk Factors" in the Fund's Management's Discussion and Analysis for the year ended December 31, 2009 and in the Fund's current Annual Information Form available under the Fund's profile at www.sedar.com.

These factors should not be construed as exhaustive. Unless required by law, the Fund does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements contained herein are expressly qualified by this cautionary statement.

Management of the Fund approved the financial outlook contained herein as of the date of this document. The purpose of the financial outlook contained herein is to give the reader an indication of the potential effects to unitholders of a possible conversion to corporate form and the possible impact that the proposed Nipisi and Mitsue pipelines may have on Pembina's operating results, once completed.

Readers should be aware that the information contained in the financial outlook contained herein may not be appropriate for other purposes.

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

CONSOLIDATED BALANCE SHEETS

(unaudited)

($ thousands)	March 31 2010	December 31 2009
Assets		
Current assets:		
Cash and short term investments	**90,519**	53,927
Accounts receivable and other	**80,190**	83,244
Inventory	**21,350**	18,998
	192,059	156,169
Property, plant and equipment (Note 3)	**2,048,774**	2,045,917
Goodwill and other (Note 4)	**379,353**	379,039
	2,620,186	2,581,125
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**55,276**	57,997
Distributions payable to Unitholders	**21,083**	20,616
Current portion of long-term debt	**157,559**	157,423
Convertible debentures	**32,820**	36,640
	266,738	272,676
Long-term debt	**971,915**	973,522
Derivative financial instruments (Note 8)	**5,505**	5,481
Asset retirement obligations	**105,954**	104,204
Future income taxes (Note 5)	**93,921**	95,870
	1,444,033	1,451,753
Unitholders' equity:		
Trust Units (Note 6)	**1,719,120**	1,660,795
Deficit	**(538,838)**	(527,082)
Accumulated other comprehensive income (loss)	**(4,129)**	(4,341)
	1,176,153	1,129,372
	2,620,186	2,581,125

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

(unaudited)

($ thousands, except per Trust Unit amounts)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Revenues:		
Conventional Pipelines	**64,726**	66,144
Oil Sands & Heavy Oil	**28,836**	29,785
Midstream & Marketing	**186,583**	62,105
Gas Services	**14,511**	
	294,656	158,034
Expenses:		
Operations	**38,280**	44,129
Product purchases	**163,144**	41,927
General and administrative	**9,395**	10,918
Depreciation and amortization (Note 3 and Note 4)	**17,255**	19,395
Accretion on asset retirement obligations	**1,750**	1,256
Other	**643**	42
	230,467	117,667
Earnings before interest and taxes	**64,189**	40,367
Interest on long-term debt	**14,470**	10,289
Interest on convertible debentures	**655**	765
Earnings before taxes	**49,064**	29,313
Income tax (reduction) expense (Note 5)	**(2,009)**	1,032
Net earnings	**51,073**	28,281
Deficit, beginning of period	**(527,082)**	(456,856)
Distributed cash	**(62,829)**	(53,174)
Deficit, end of period	**(538,838)**	(481,749)
Earnings per Trust Unit - basic (dollars) (Note 7)	**0.32**	0.21
Earnings per Trust Unit - diluted (dollars) (Note 7)	**0.31**	0.21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

($ thousands)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Net earnings for the period	**51,073**	28,281
Other comprehensive income (loss):		
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $0.06 million and $1.3 million, respectively	**212**	(3,792)
Total comprehensive income	**51,285**	24,489
Accumulated other comprehensive income (loss):		
Opening balance, net of tax of $1.4 million and $3.4 million, respectively	**(4,341)**	(10,608)
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $0.06 million and $1.3 million, respectively	**212**	(3,792)
Accumulated other comprehensive income (loss)	**(4,129)**	(14,400)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

($ thousands)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Cash provided by (used in):		
Operating activities:		
Net earnings	**51,073**	28,281
Items not involving cash:		
Depreciation and amortization	**17,255**	19,395
Accretion on asset retirement obligations	**1,750**	1,256
Future income tax expense (reduction)	**(2,009)**	1,032
Employee future benefits expense	**1,046**	1,631
Trust Unit based compensation expense (Note 6)	**163**	213
Other	**298**	45
Employee future benefits contributions	**(2,500)**	(2,712)
Changes in non-cash working capital	**254**	(7,986)
Cash flow from operating activities	**67,330**	41,155
Financing activities:		
Bank borrowings	**334**	18,336
Repayment of senior secured notes	**(1,806)**	(1,679)
Issue of Trust Units on exercise of options (Note 6)	**12,504**	536
Issue of Trust Units under Distribution Reinvestment Plan (Note 6)	**41,838**	31,653
Distributions to Unitholders - current year	**(41,746)**	(35,332)
Distributions to Unitholders - prior year	**(20,617)**	(17,511)
Cash flow from financing activities	**(9,493)**	(3,997)
Investing activities:		
Capital expenditures	**(19,000)**	(33,011)
Changes in non-cash working capital	**(2,245)**	(17,961)
Cash flow from investing activities	**(21,245)**	(50,972)
Change in cash	**36,592**	(13,814)
Cash, beginning of period	**53,927**	13,638
Cash (bank indebtedness), end of period	**90,519**	(176)
Other cash disclosures:		
Interest on long-term debt paid	**(11,565)**	(9,447)
Interest capitalized	**(1,265)**	(384)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of Pembina 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, 2009. The disclosure provided below is incremental to that included with the annual consolidated financial statements. The interim consolidated financial statements should be read in conjunction with the Fund's consolidated financial statements and the notes for the year ended December 31, 2009. Certain of the prior period's comparative figures have been reclassified to conform to the current period's presentation.

Future Accounting Changes

International Financial Reporting Standards

The CICA Accounting Standards Board (AcSB) confirmed in February 2008 that Canadian publicly accountable enterprises will adopt International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective January 1, 2011. The Fund has developed a conversion plan to complete the transition by January 1, 2011, including the preparation of required comparative information. The full impact of IFRS on the Fund's Consolidated Financial Statements is not reasonably determinable at this time.

2. BUSINESS SEGMENTS

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

Conventional Pipelines consist of the tariff-based operation of pipelines and related facilities to deliver crude oil and natural gas liquids in Alberta and British Columbia.

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

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

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

The financial results of the business segments are as follows:

	Three months ended March 31, 2010					
($ thousands)	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	64,726	28,836				93,562
Terminal, storage and hub services			186,583			186,583
Gas services				14,511		14,511
Revenue before expenses	64,726	28,836	186,583	14,511		294,656
Expenses:						
Operations	22,231	9,359	2,597	4,093		38,280
Product purchases			163,144			163,144
General and administrative	1,025	665	966	685	6,054	9,395
Depreciation and amortization	6,815	5,603	2,073	2,094	670	17,255
Accretion on asset retirement obligations	1,458	161		131		1,750
Other	367	146	531		(401)	643
	31,896	15,934	169,311	7,003	6,323	230,467
Earnings (loss) before interest and taxes	32,830	12,902	17,272	7,508	(6,323)	64,189
Property, plant and equipment[2]	755,348	803,919	198,011	283,604	7,892	2,048,774
Goodwill and other	194,370	28,300	115,004	22,456	19,223	379,353

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

(2) Included in property, plant and equipment are assets under construction of $123.8 million, which includes $84.5 million for Nipisi and Mitsue Pipelines.

The financial results of the business segments are as follows:

	Three months ended March 31, 2009					
($ thousands)	Conventional Pipelines	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services [1]	Corporate	Total
Revenues:						
Pipeline transportation	66,144	29,785				95,929
Terminal, storage and hub services			62,105			62,105
Revenue before expenses	66,144	29,785	62,105			158,034
Expenses:						
Operations	32,423	8,853	2,853			44,129
Product purchases			41,927			41,927
General and administrative[3]	1,053	345	860		8,660	10,918
Depreciation and amortization	10,864	5,380	2,892		259	19,395
Accretion on asset retirement obligations	1,095	161				1,256
Other					42	42
	45,435	14,739	48,532		8,961	117,667
Earnings (loss) before interest and taxes	20,709	15,046	13,573		(8,961)	40,367
Property, plant and equipment[2]	793,556	710,787	187,525		8,060	1,699,928
Goodwill and other	194,370	28,300	118,780		12,750	354,200

(1) Pembina acquired its Gas Services assets in June 2009 therefore no results are reported for the three months ended March 31, 2009.
(2) Included in property, plant and equipment are assets under construction for Nipisi and Mitsue Pipelines of $11.1 million.
(3) General and Administrative expenses have been reclassified for comparison purposes.

3. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	March 31 2010 Cost[1]	Dec. 31 2009 Cost	March 31 2010 Accumulated Depreciation	Dec. 31 2009 Accumulated Depreciation	March 31 2010 Net	Dec. 31 2009 Net
Conventional Pipelines	**1,361,068**	1,355,108	**(605,721)**	(598,906)	**755,348**	756,202
Oil Sands & Heavy Oil	**914,845**	909,028	**(110,926)**	(105,322)	**803,919**	803,706
Midstream & Marketing	**240,681**	243,828	**(42,670)**	(41,534)	**198,011**	196,789
Gas Services	**290,003**	285,281	**(6,399)**	(4,480)	**283,604**	280,801
Corporate	**16,358**	16,215	**(8,466)**	(7,796)	**7,892**	8,419
	2,822,955	2,809,460	**774,181**	(758,038)	**2,048,774**	2,045,917

[1] Included in the cost are Assets Under Construction of $123.8 million.

4. GOODWILL AND OTHER

($ thousands)	March 31, 2010 Cost	March 31, 2010 Accumulated Amortization	2010 Net	Dec. 31 2009 Net
Goodwill	287,670		**287,670**	287,670
Other intangibles	98,038	(25,578)	**72,460**	73,572
Pension asset	19,223		**19,223**	17,797
	404,931	(25,578)	**379,353**	379,039

5. INCOME TAXES

The components of the subsidiaries' future income tax liability are as follows:

($ thousands)	March 31 2010	December 31 2009
Difference between book values and tax values of:		
Property, plant and equipment	**129,958**	125,692
Intangibles	**9,785**	9,942
Taxable limited partnership income deferral	**52,210**	54,058
Benefit of loss carry-forwards	**(76,533)**	(73,852)
Asset retirement obligation	**(26,489)**	(26,051)
Financial instruments designated as hedges	**(1,381)**	(1,440)
Other	**6,371**	7,521
	93,921	95,870

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Fund's earnings before taxes. This difference results from the following items:

($ thousands)	**March 31 2010**	March 31 2009
Earnings before taxes	**49,064**	29,313
Combined statutory rate	**28%**	29%
Income taxes at the statutory rate	**13,738**	8,501
Increase (decrease) resulting from:		
Interest deductions of subsidiaries arising from intercorporate debt	**(13,992)**	(11,594)
Tax rate changes on future income tax balances	**(1,336)**	(2,095)
Interest on convertible debentures	**183**	222
Non-deductible items	**(155)**	211
Other	**(447)**	5,787
Income tax expense (reduction)	**(2,009)**	1,032

On October 31, 2006, the Federal Government announced a proposed trust taxation of 31.5 percent, subsequently reduced to 29 percent, of distributions which may be effective January 31, 2011, that may impact the Fund's current and future income taxes. The enactment of Bill C-52 relating to trust tax has no additional impact on the future income tax liability. The Fund has no timing differences other than those of its subsidiaries that are fully reflected in the future income tax liability of $93.9 million and as the tax basis of the Fund's investment in its subsidiaries far exceeds the cost basis, it is not appropriate to record the benefit of a future tax asset of this nature.

6. TRUST UNITS

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

	Trust Units	Amount ($ thousands)
Balance, January 1, 2010	158,588,699	1,660,795
Exercise of Trust Unit options	794,779	12,504
Debenture conversions	319,280	3,820
Distribution Reinvestment Plan	2,509,861	41,838
Contributed surplus		163
Balance, March 31, 2010	**162,212,619**	**1,719,120**

7. EARNINGS PER TRUST UNIT

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

($ thousands)	March 31 2010	March 31 2009
Net Earnings		
Numerator for basic earnings per Trust Unit	**51,073**	28,281
Numerator for diluted earnings per Trust Unit	**51,601**	28,820
Denominator:		
Weighted average denominator for basic Trust Units	**161,809**	136,344
Dilutive instruments		
Debentures	**2,887**	3,375
Employee options	**454**	58
Denominator for diluted earnings per Trust Unit	**165,150**	139,777
Basic earnings per Trust Unit (in dollars)	**0.32**	0.21
Diluted earnings per Trust Unit (in dollars)	**0.31**	0.21

8. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Liquidity and Capital Resources

($ thousands)	March 31 2010	Dec. 31 2009
Variable rate debt		
Bank debt	**359,169**	359,066
Senior unsecured notes		
Variable rate debt swapped to fixed	**(200,000)**	(200,000)
Total variable rate debt outstanding (average rate of 2.59%)	**159,169**	159,066
Fixed rate debt		
Senior unsecured notes	**642,000**	642,000
Senior unsecured term debt	**75,000**	75,000
Senior secured notes	**71,576**	73,382
Variable rate debt swapped to fixed	**200,000**	200,000
Total fixed rate debt outstanding (average rate of 5.67%)	**988,576**	990,382
Convertible debentures	**32,820**	36,640
Total debt and debentures outstanding	**1,180,565**	1,186,088
Cash and unutilized debt facilities	**431,350**	394,861

The Fund's credit facilities as at March 31, 2010, consisted of an unsecured $500 million revolving credit facility, an unsecured $150 million non-revolving credit facility and an operating facility of $50 million. The unsecured $150 million non-revolving credit facility is due December 2010 and bears interest at either prime lending rates plus 1.75 percent or Bankers' Acceptances plus 2.75 percent. Borrowings on the revolving credit facilities bear interest at either prime lending rates or based on bankers' acceptances rates plus applicable margins. The margins are based on the credit rating of the senior unsecured debt of PPC and range from zero percent to 2.75 percent. At March 31, 2010, Pembina had approximately $359.2 million drawn on bank debt (including $9 million in letters of credit) leaving $431.3 million of cash and unutilized debt facilities (cash as at March 31, 2010: $90.5 million) on the $700 million of established bank facilities. At March 31, 2010, the Fund was exposed to changes in interest rates on $159.2 million of

bank borrowings. The Fund has fixed the interest rate on $200 million of variable rate bank borrowings through interest rate swaps. The interest rate swaps had a fair value of $5.3 million unrealized loss as at March 31, 2010 and are for terms of five to ten years. Including the interest swaps, interest rates on $988.6 million in senior secured and unsecured notes have been fixed, leaving roughly 14 percent of Pembina's outstanding debt exposed to interest rate fluctuations. The Fund is also exposed to changes in the cost of power and has entered into financial hedges for power in order to manage operating costs, provide cost certainty and stabilize tolls charged to customers. For 2010, Pembina has hedged 16 megawatts (MW) of power per hour at an average cost of $46.50 (these swaps expire December 31, 2010). For 2011, Pembina has hedged 15 MW per hour at an average price of $45.65 (these swaps expire December 31, 2011). And for 2012, Pembina has hedged 5 MW of power per hour at an average price of $47.75 (these swaps expire December 31, 2012). The fair value of these contracts at March 31, 2010 was an unrealized loss of $0.2 million. 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.

Fair values

The Fund classifies its financial instruments as follows: cash and short-term investments are 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 measured at fair value using market rates (interest rate and foreign exchange derivatives) or using quoted market prices (power and commodity derivatives) where available. In the absence of quoted market prices, third-party broker quotes or other valuation techniques are used. Credit risk has been taken into consideration when calculating the fair value of derivatives. Accounts payable and accrued liabilities, distributions payable, long-term debt and convertible debentures are designated as "other liabilities" and recorded at amortized cost. The fair values for the long-term debt are determined by discounting the future contractual cash flows under the note agreements at discount rates which represent borrowing rates available for loans with similar terms and conditions. The fair value of debentures is determined based on available market information. There are no material differences in the carrying amounts of the financial instruments reported on the balance sheet compared to the estimated fair values except as follows:

($ thousands)	**March 31, 2010**		December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Long-term debt				
Senior secured notes	**71,576**	**79,451**	73,382	86,169
Senior unsecured notes	**717,000**	**676,170**	717,000	742,946
Convertible debenture	**32,820**	**48,214**	36,640	53,585

CORPORATE INFORMATION

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STOCK EXCHANGE

Pembina Pipeline Income Fund
Trust Units are listed on the Toronto Stock
Exchange under the symbol PIF.UN
7.35% Convertible Debentures symbol PIF.DB.B

INVESTOR INQUIRIES

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