PEMBINA

PEMBINA PIPELINE INCOME FUND

2010 INTERIM REPORT Q2

Increased revenue boosts Pembina Pipeline's quarterly results

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 23 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 21.

Pembina Pipeline Income Fund ("Pembina" or the "Fund") generated increased revenue, net operating income, net earnings and cash flow from operating activities during the second quarter of 2010 compared to the second quarter of 2009. While Pembina's Gas Services business, which was acquired in 2009, was the primary driver of the improved financial results, diligent cost control in Conventional Pipelines also contributed to increased net earnings and cash flow from operations.

"Our focus on operational excellence is paying off," said Bob Michaleski, President and Chief Executive Officer. "We're boosting revenue through expansion and providing customers with reliable and highly competitive services. Safe work practices and a comprehensive integrity management system enable us to operate responsibly."

Revenue, net of product purchases, during the second quarter of 2010 was $129.9 million, compared to $121.1 million during the same period in 2009. During the first six months of 2010, Pembina generated revenue, net of product purchases, of $261.4 million, compared to $237.2 million in the first six months of 2009.

Operating expenses were $39.1 million during the second quarter of 2010, compared to $35.8 million during the same period in 2009. The increase reflects Pembina's expanded operations – the addition of Gas Services – as well as higher power costs in the Oil Sands & Heavy Oil business. Reduced maintenance and labour costs in the Conventional Pipelines business offset this increase. During the first six months of 2010, operating expenses were $77.4 million, compared to $79.9 million during the first half of 2009.

Net operating income was $90.8 million during the second quarter of 2010, compared to $85.3 million during the same time period in 2009. Year-to-date net operating income totaled $184.0 million, up from $157.3 million generated during the six months ended June 30, 2009.

Net earnings were $41.2 million ($0.25 per Trust Unit) in the second quarter of 2010, compared to $36.2 million ($0.25 per Trust Unit) during the second quarter of 2009. The increase in net earnings reflects higher revenues and decreased depreciation and amortization offset by higher operating expenses. For the six months ended June 30, 2010, net earnings totaled $92.2 million, compared to $64.5 million during the same period in 2009.

Cash flow from operating activities during the second quarter of 2010 was $68.1 million, compared to $49.2 million the year before. Year-to-date cash flow from operating activities was $135.4 million, compared to $90.4 million during the same six months in 2009.

Distributable cash per Trust Unit during the second quarter of 2010 was $0.39, compared to $0.41 during the second quarter of 2009. On a year-to-date basis for 2010, distributable cash per Trust Unit was $0.81, an increase over the $0.78 generated during the first six months of 2009.

Distributed cash was $63.7 million during the second quarter of 2010, representing a quarterly payment of $0.39 per Trust Unit ($0.13 per Trust Unit monthly), compared to $57.5 million in the second quarter of 2009 (no change in per Trust Unit payments). Distributed cash year-to-date in 2010 totaled $126.6 million, compared to $110.7 million during the first six months of 2009. At its annual general and special meeting held May 7, 2010, unitholders voted in favour of the recommendation to convert Pembina from an income trust to a corporation. Following corporate conversion, Pembina expects to maintain its current cash distributions in the form of a dividend of $1.56 per share per year ($0.13 per share monthly) through 2013 (see "Forward-Looking Statements and Information" on page 23).

Growth Update

Strong operational performance during the first half of the year is expected to provide a firm financial foundation to support Pembina's growth strategy. "We're on track to expand our service offering to customers and invest in new assets which support and enhance long-term value for our investors," said Michaleski.

Nipisi and Mitsue Pipeline Projects

On July 13, 2010, Pembina announced it had received approval from the Energy Resources Conservation Board ("ERCB") to construct and operate the Nipisi and Mitsue Pipelines. Approval to proceed with construction of the pipeline projects was granted by the ERCB without a public hearing, as all stakeholder objections were resolved through the consultation process.

The Nipisi Pipeline, designed to initially transport 100,000 barrels per day ("bbls/d") of diluted heavy oil, will originate north of the Town of Slave Lake, Alberta and run south to Judy Creek, Alberta. From there it will connect to Pembina's existing pipeline system that delivers products to the Edmonton area. The Nipisi Pipeline is designed such that it can be expanded to a capacity of approximately 200,000 bbls/d. The Mitsue Pipeline is designed to transport approximately 20,000 bbls/d of condensate (a light hydrocarbon used to dilute heavy oil) from Whitecourt, Alberta to producers operating north of the Town of Slave Lake, Alberta. The Mitsue Pipeline is designed such that it can be expanded to a capacity of approximately 45,000 bbls/d.

Piping fabrication for the pump stations will commence in August and pump station construction is expected to begin in September. Right-of-way clearing is also anticipated to start in September in preparation for pipeline construction, which is planned to begin in early December. Approximately 800 to 1,000 temporary positions are expected to be created during construction. All engineering, construction and procurement contracts have been awarded.

Both projects, which Pembina estimates to cost a combined total of $440 million, are scheduled to be completed in 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 (see "Forward-Looking Statements and Information" on page 23).

Enhanced NGL Extraction at Cutbank Complex

Pembina is negotiating long-term fee-for-service agreements to provide producers with enhanced natural gas liquids ("NGL") processing at its Cutbank natural gas gathering and processing facility. Assuming such long-term commitments are obtained, Pembina plans to expand the Cutbank Complex to extract up to 15,000 bbls/d of incremental NGL (primarily ethane).

Regulatory approval for the project, which includes constructing an ethane extraction facility as well as a 10-kilometre pipeline that will deliver the product to Pembina's Peace Pipeline system, has been granted. Project engineering is approximately 35 percent complete and pending the completion of customer agreements, construction is scheduled to begin in the fall of 2010. Commissioning is expected to begin in mid-2011.

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 ("mmcf/d") (of which 305 mmcf/d is net to Pembina).

"Pembina's priority is to pursue investments that are located near long-life economic hydrocarbon reserves that can generate strong returns in both the near-term and the long-term," said Michaleski. "This region has significant supply potential and new technologies are driving production costs down and recovery rates up, while multi-year, fee-for service contracts increase cash flow certainty for Pembina and further reduces our exposure to commodity price risk."

"This is a good project on a standalone basis but there is additional integration value as well. Our Conventional Pipelines business will transport the NGL, while there may be future opportunity for our Midstream & Marketing operations to provide terminal, storage and hub services," added Michaleski.

Corporate Conversion

Pembina's Board of Directors plans to complete the conversion of the Fund into a dividend-paying corporate entity on October 1, 2010 and the Toronto Stock Exchange ("TSX") has conditionally approved the listing of the common shares and convertible debentures of Pembina Pipeline Corporation ("PPC") following conversion. As a result, Pembina expects the common shares and convertible debentures of PPC will commence trading on the TSX on or about Tuesday, October 5, 2010 under the symbols "PPL" and "PPL.DB.B", respectively. The Fund's Trust Units and convertible debentures are expected to be de-listed by the TSX that same day.

The decision to convert to a corporate entity results from a Government of Canada decision in 2006 that introduced legislation designed to change the taxation of income trusts. By converting to a corporation, Pembina can avoid the imposition of specified-investment flow through ("SIFT") tax applicable beginning in 2011. Pembina expects corporate conversion to provide greater access to capital markets, improved liquidity and greater flexibility to pursue growth and expansion.

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 August 5, 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 and six months ended June 30, 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 21 for further information. This MD&A contains certain forward-looking statements and information: see "Forward-Looking Statements and Information" on page 23. 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 June 30, 2010**	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Revenue	**391.8**	185.5	**686.4**	343.5
Less: product purchases	**261.9**	64.4	**425.0**	106.3
Net revenue [1]	**129.9**	121.1	**261.4**	237.2
Operating expenses	**39.1**	35.8	**77.4**	79.9
Net operating income [1]	**90.8**	85.3	**184.0**	157.3
EBITDA [1]	**79.1**	73.1	**162.3**	134.1
Net earnings	**41.2**	36.2	**92.2**	64.5
Net earnings per Trust Unit – basic (dollars)	**0.25**	0.25	**0.57**	0.45
Cash flow from operating activities	**68.1**	49.2	**135.4**	90.4
Distributed cash [1]	**63.7**	57.5	**126.6**	110.7
Distributed cash per Trust Unit [1] (dollars)	**0.39**	0.39	**0.78**	0.78
Capital expenditures	**20.3**	308.2	**40.8**	341.1
Total enterprise value[1]	**4,011.9**	3,397.6	**4,011.9**	3,397.6
Total assets	**2,514.7**	2,454.7	**2,514.7**	2,454.7
Average throughput – conventional (thousands of bbls/d)	**370.4**	406.8	**379.8**	414.3
Contracted capacity – oil sands (thousands of bbls/d)	**775.0**	775.0	**775.0**	775.0
Average processing volume – gas services [2] (mmcf/d net to Pembina)	**221.6**		**219.2**	

[1] Refer to "Non-GAAP Measures" on page 21. 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 second quarter of 2009 can be made.

Fund Description

The 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 ("NGL"), 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 ("TSX") 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 expected to generate increased cash flow and are located in close proximity to long-life, economic hydrocarbon reserves.
- Maintain a strong balance sheet through the application of prudent financial management to all business decisions.

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

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 NGL 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, system expansion, revenue management and operating expense discipline. As of June 30, 2010, throughput for the year averaged 379,800 barrels per day ("bbls/d"), consisting of an average of 267,600 bbls/d of crude oil and 112,200 bbls/d of NGL.

Oil Sands & Heavy Oil

With three oil sands pipelines, Pembina plays an important role in supporting Alberta's oil sands industry. Pembina is the sole transporter of crude oil for Syncrude Canada Ltd. (via the Syncrude Pipeline) and Canadian Natural Resources Ltd.'s Horizon Project (via the Horizon Pipeline) to delivery points near Edmonton, Alberta. Pembina also owns and operates the Cheecham Lateral, which transports product to oil sands producers operating southeast of Fort McMurray, Alberta. In total, this business has approximately 1,000 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 is expanding this business through the Nipisi and Mitsue Pipeline projects, which will provide transportation support to producers operating in the Peace River heavy oil region of Alberta. See page 11 for further details.

Midstream & Marketing

This business consists of a network of terminals, storage and hub services operated on Pembina's Conventional Pipelines 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 throughput within the Conventional Pipelines business. Financial and operating results for Midstream & Marketing from June 1, 2009 to December 31, 2009 originally included the contribution of Pembina's Gas Services business. Commencing with the first quarter of 2010, Pembina began reporting 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. As of June 30, 2010, average processing volume net to Pembina was 219,200 mmcf/d. During the third and fourth quarters of 2009, Pembina reported the financial and operating results for this business under Midstream & Marketing. In 2010, Pembina began reporting the operating and financial results for Gas Services as a separate business unit.

Consolidated Financial Results
(unaudited)

($ millions, except where noted)	**3 Months Ended June 30, 2010**	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Revenue	**391.8**	185.5	**686.4**	343.5
Less: product purchases	**261.9**	64.4	**425.0**	106.3
Net revenue [1]	**129.9**	121.1	**261.4**	237.2
Operating expenses	**39.1**	35.8	**77.4**	79.9
Net operating income [1]	**90.8**	85.3	**184.0**	157.3
Deduct/(add)				
General and administrative	**12.2**	12.4	**21.6**	23.3
Depreciation and amortization	**16.9**	20.3	**34.2**	39.7
Accretion on asset retirement obligations	**1.8**	2.9	**3.5**	4.2
Interest on long-term debt	**14.3**	11.5	**28.7**	21.8
Interest on convertible debentures	**0.6**	0.8	**1.3**	1.5
Income tax expense (reduction)	**4.4**	1.5	**2.4**	2.5
Other	**(0.6)**	(0.3)	**0.1**	(0.2)
Net earnings	**41.2**	36.2	**92.2**	64.5
Net earnings per Trust Unit – basic (dollars)	**0.25**	0.25	**0.57**	0.45

[1] Refer to "Non-GAAP Measures" on page 21.

Revenue, net of product purchases, during the second quarter of 2010 was $129.9 million, compared to $121.1 million during the same period in 2009. The increase is largely due to a full quarter of revenue contribution from Gas Services in 2010, compared to one month of operations during the second quarter of 2009 (Gas Services was created in June 2009 when Pembina acquired the Cutbank Complex). During the first six months of 2010, Pembina generated revenue, net of product purchases, of $261.4 million, compared to $237.2 million in the first six months of 2009. This increase also primarily reflects gains generated by Gas Services.

Operating expenses were $39.1 million during the second quarter of 2010, compared to $35.8 million during the same period in 2009. The increase reflects costs associated with establishing the Gas Services business as well as higher power costs within Oil Sands & Heavy Oil. Diligent cost control, which reduced maintenance and labour costs in the Conventional Pipelines business, helped offset this increase. During the first six months of 2010, Pembina's operating expenses were $77.4 million, compared to $79.9 million during the first half of 2009.

To further manage operating expenses, provide cost certainty and stabilize tolls for customers, Pembina has hedged 16 megawatts ("MW") of power at an average price of $46.50 per megawatt hour ("MWh") through the end of 2010. For 2011, Pembina has hedged 15 MW at an average price of $45.65 per MWh. For 2012, Pembina has hedged 5 MW at an average price of $47.75 per MWh. The fair value of these contracts at June 30, 2010 was an unrealized gain of $2.2 million. Assuming a portion of the power was not hedged, every $5 change in the Alberta pool price would increase operating expenses by approximately $0.7 million. Since 2002, Pembina has passed power hedging savings of approximately $21 million through to customers.

Net operating income was $90.8 million during the second quarter of 2010, compared to $85.3 million during the same time period in 2009 due to higher revenues offset by higher operating expenses. Year-to-date net operating income in 2010 totaled $184.0 million, up from $157.3 million generated during the six months ended June 30, 2009.

Net earnings were $41.2 million ($0.25 per Trust Unit) in the second quarter of 2010, compared to $36.2 million ($0.25 per Trust Unit) during the second quarter of 2009. The increase in net earnings reflects higher revenues and decreased depreciation and amortization offset by higher operating expenses. See page 13 for further information. For the six months ended June 30, 2010, net earnings totaled $92.2 million, compared to $64.5 million during the same period in 2009.

Cash flow from operating activities during the second quarter of 2010 was $68.1 million, compared to $49.2 million the year before. Year-to-date cash flow from operating activities was $135.4 million, compared to $90.4 million during the same six months in 2009. For more information, see page 13.

Operating Results

(unaudited)

	3 Months Ended June 30, 2010		3 Months Ended June 30, 2009		6 Months Ended June 30, 2010		6 Months Ended June 30, 2009	
($ millions)	**Revenue**	**Net Operating Income [(1)]**	Revenue	Net Operating Income [(1)]	**Revenue**	**Net Operating Income [(1)]**	Revenue	Net Operating Income [(1)]
Conventional Pipelines	**64.0**	**42.5**	63.7	38.5	**128.7**	**85.0**	129.8	72.2
Oil Sands & Heavy Oil	**29.5**	**19.1**	27.5	20.9	**58.3**	**38.5**	57.3	41.8
Midstream & Marketing[(2)]	**20.6**	**18.2**	25.5	23.1	**44.1**	**39.1**	45.7	40.4
Gas Services[(3)]	**15.8**	**11.0**	4.4	2.8	**30.3**	**21.4**	4.4	2.8
Total	**129.9**	**90.8**	121.1	85.3	**261.4**	**184.0**	237.2	157.3

(1) Refer to "Non-GAAP Measures" on page 21.
(2) Midstream & Marketing revenue is net of $261.9 million and $425.0 million in product purchase expense for three and six months ended June 30, 2010 (three and six months ended June 30, 2009: $64.4 million and $106.3 million).
(3) Operating assets for Gas Services were acquired on June 2, 2009.

Conventional Pipelines

($ millions, except where noted)	**3 Months Ended June 30, 2010**	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Revenue	**64.0**	63.7	**128.7**	129.8
Operating expenses	**21.5**	25.2	**43.7**	57.6
Net operating income [(1)]	**42.5**	38.5	**85.0**	72.2
Capital expenditures	**5.3**	13.1	**8.5**	22.7
Average throughput (thousands bbls/d)	**370.4**	406.8	**379.8**	414.3
Operating expenses ($/bbl)	**0.60**	0.64	**0.60**	0.73
Average revenue ($/bbl)	**1.76**	1.60	**1.74**	1.61

(1) Refer to "Non-GAAP Measures" on page 21.

During the second quarter of 2010, Conventional Pipelines throughput averaged 370,400 bbls/d, which consisted of 200,700 bbls/d of crude oil and 169,700 bbls/d of NGL. The largest contribution to throughput volume was derived from Alberta-based systems which transported an average of 352,300 bbls/d during the quarter. During the same three-month period in 2009, Conventional Pipelines throughput averaged 406,800 bbls/d, consisting of 231,800 bbls/d of crude oil and 175,000 bbls/d of NGL. Of that total, Alberta pipelines transported an average of 387,700 bbls/d.

Year-to-date throughput of 379,800 bbls/d is lower than the 414,300 bbls/d over the same period in 2009. The decline in both quarterly and year-to-date averages is attributable to several factors. Pembina's December 2009 sale of the Cremona Pipeline system impacted average throughput by approximately 10,000 bbls/d. Further, a major pipeline connection ceased delivering to Pembina's Bonnie Glen system on March 31, 2010, which accounts for an average of approximately 12,000 bbls/d during the quarter and an average of about 7,000 bbls/d year-to-date. Pembina's Conventional Pipelines business also discontinued service on the Miscible Flood system on March 31, 2010, as this pipeline will be utilized by the Nipisi and Mitsue Pipeline projects. Finally, delivery constraints in May, along with annual spring break up, negatively impacted volumes during the quarter. Decreases related to these events were offset by rising volumes on Pembina's largest systems, Peace and Drayton Valley, and steady receipts on all other systems.

Management believes several factors may benefit throughput volumes going forward:

- The Alberta Government restructured its royalty system to attract additional investment by natural gas and conventional oil producers. In addition, the government's Emerging Resources and Technologies Initiative modified the royalty rate for unconventional and deep resource wells that require the use of high-cost technologies. This is expected to strengthen the ability of producers to invest in additional wells, research and development initiatives. Stimulating the application of new technologies in resources that have not yet fully been exploited is expected to increase conventional crude oil production.

- Technological advances are increasing recovery rates and reducing operating expenses for both natural gas and conventional crude producers and this in turn is attracting new investment in exploration and development. Horizontal drilling and multistage-fracturing technology show promise for rejuvenating production from the Cardium oil formation which underlies Pembina's Drayton Valley system and segments of the Peace system.

Pembina's existing pipeline assets are well situated to transport new volumes without material capital investment and Pembina is actively marketing its competitive advantages and working with producers to assess the transportation needs that are expected to arise from these opportunities.

For further information about management's outlook on Conventional Pipelines throughputs, see page 12.

Conventional Pipelines generated revenue of $64.0 million during the second quarter of 2010, compared to $63.7 million during the same time period in 2009. This increase, which occurred despite lower throughputs, was driven by changing receipt point dynamics and toll adjustments. For the first six months of 2010, revenue was $128.7 million, compared to $129.8 million during the same period in 2009. This decrease primarily reflects lower throughput volumes.

During the quarter, operating expenses were $21.5 million, compared to the second quarter of 2009 when operating expenses totaled $25.2 million. This decrease is the result of diligent cost management by the business which focused on reducing maintenance and labour costs while also optimizing its integrity dig program quarter-over-quarter. Lower throughput also reduced power expenses. Operating expenses for the first six months of 2010 were $43.7 million, compared to $57.6 million over the same period last year. This decrease is attributable to the same factors that impacted second quarter operating expenses. Pembina has implemented an enhanced integrity management system that helps ensure commitments to pipeline integrity, safety and reliability are maintained while also generating efficiencies and cost savings.

Net operating income for the three months ended June 30, 2010 was $42.5 million, compared to $38.5 million in 2009. On a year-to-date basis, net operating income was $85.0 million in 2010, compared to $72.2 million in 2009.

As of June 30, capital expenditures for the first half of 2010 within the Conventional Pipelines business totaled $8.5 million, compared to $22.7 million during the same time period the year before. Spending in 2010 has been focused on work to increase capacity at certain sites and improve the operating performance of the Peace and Drayton Valley pipeline systems and the Western system in British Columbia. Return on capital is expected to occur over varying periods of time, depending upon the pipeline system. However, capital expenditures in this business do not always result in increased revenue due to offsetting factors such as volume variability across the pipeline systems and depreciation of the underlying assets. For more information about Pembina's 2010 capital expenditure plan, see page 15.

Oil Sands & Heavy Oil

($ millions, except where noted)	**3 Months Ended June 30, 2010**	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Revenue	**29.5**	27.5	**58.3**	57.3
Operating expenses	**10.4**	6.6	**19.8**	15.5
Net operating income [(1)]	**19.1**	20.9	**38.5**	41.8
Capital expenditures	**9.0**	7.5	**19.8**	19.4
Capacity under contract (thousands of bbls/d)	**775.0**	775.0	**775.0**	775.0

[(1)] Refer to "Non-GAAP Measures" on page 21.

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. Agreements with customers provide Pembina with a contracted return on 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 agreement which expires in 2035. Net operating income generated by the Syncrude Pipeline during the second quarter of 2010 was $6.0 million compared to $8.4 million during the second quarter 2009. This decrease is largely due to a reduction in pipeline rate base that became effective in the second quarter of 2009 resulting from the sale of linefill. On a year-to-date basis, net operating income is $12.8 million, compared to $16.3 million generated during the first six months of 2009.

Cheecham Lateral

Pembina's Cheecham Lateral has a capacity of 136,000 bbls/d and is fully contracted to shippers under a contract which expires in 2032. Net operating income generated by the Cheecham Lateral was $1.1 million during the second quarter of 2010, compared to $0.8 million generated during the second quarter of 2009. During the first half of 2010, net operating income was $2.2 million, compared to $2.3 million generated during the first six months 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 agreement which expires in 2033. Net operating income generated by the Horizon Pipeline during the three months ended June 30, 2010 was $11.6 million, equal to the amount generated during the same time period in 2009. For the first six months of 2010, net operating income generated by Horizon Pipeline was $23.0 million, compared to $23.1 million during the same periods in 2009.

Net operating income for the business on a year-to-date basis also benefited from connection fees charged to various oil sands customers on a fee-for-service basis.

Operating expenses in Oil Sands & Heavy Oil were $10.4 million during the second quarter of 2010, compared to $6.6 million during the second quarter 2009. On a year-to-date basis, operating expenses in 2010 were $19.8 million in 2010, compared to $15.5 million in 2009. This increase in both quarter and year-to-date operating expenses is primarily due to higher power costs. These costs flow through to the customer.

As of June 30, 2010, capital expenditures within Oil Sands & Heavy Oil totaled $19.8 million, compared to $19.4 million during the same time period in 2009. The majority of the 2010 investment – $17.2 million – constitutes spending to progress the Nipisi and Mitsue Pipeline projects. For more information, see page 11.

Midstream & Marketing

($ millions)	3 Months Ended June 30, 2010	3 Months Ended June 30, 2009[1]	6 Months Ended June 30, 2010	6 Months Ended June 30, 2009[1]
Revenue	**282.5**	89.9	**469.1**	152.0
Less: product purchases	**261.9**	64.4	**425.0**	106.3
Net revenue[2]	**20.6**	25.5	**44.1**	45.7
Operating expenses	**2.4**	2.4	**5.0**	5.3
Net operating income [2]	**18.2**	23.1	**39.1**	40.4
Capital expenditures	**1.3**	15.8	**2.9**	29.4

[1] 2009 Midstream & Marketing results have been restated to exclude the contribution of Gas Services.
[2] Refer to "Non-GAAP Measures" on page 21.

Midstream & Marketing recorded revenue, net of product purchases, of $20.6 million during the second quarter of 2010, compared to $25.5 million during the second quarter of 2009. The decline is primarily due to changing market dynamics in the Alberta energy industry. On a year-to-date basis, revenue, net of product purchases was $44.1 million, comparable to $45.7 million in 2009.

During the three months ended June 30, 2010, operating expenses were $2.4 million, consistent with the second quarter of 2009. On a year-to-date basis, operating expenses were also comparable: $5.0 million in 2010 and $5.3 million in 2009. Net operating income was $18.2 million during the second quarter of 2010, compared to $23.1 million during the second quarter of 2009. The decline resulted from reduced revenue. Year-to-date net operating income totaled $39.1 million, comparable to the $40.4 million generated in the first half of 2009.

As of June 30, capital expenditures within Midstream & Marketing totaled $2.9 million, compared to $29.4 million during the first half of 2009 when work was underway to expand Alberta-based crude oil hubs and truck terminals. For more information, see page 15. The expanded crude oil hubs and truck terminals, completed to enhance customer service, resulted in higher product purchases in 2010 on both a quarterly and year-to-date basis.

Gas Services

($ millions, except where noted)	3 Months Ended June 30, 2010	3 Months Ended June 30, 2009	6 Months Ended June 30, 2010[2]	6 Months Ended June 30, 2009[2]
Revenue	**15.8**	4.4	**30.3**	4.4
Operating expenses	**4.8**	1.6	**8.9**	1.5
Net operating income [1]	**11.0**	2.8	**21.4**	2.8
Capital expenditures	**4.4**		**9.1**	
Cutbank acquisition[2]		274.0		274.0
Average processing volume (mmcf/d net to Pembina)	**221.6**		**219.2**	

[1] Refer to "Non-GAAP Measures" on page 21.
[2] Operating assets for Gas Services were acquired on June 2, 2009. In previous disclosure, the acquisition cost was reported in the Midstream & Marketing segment.

Gas Services recorded revenue of $15.8 million during the second quarter of 2010. This is an increase over the first quarter of 2010 when Gas Services generated revenue of $14.5 million. (Comparisons to the second quarter of 2009 cannot be made as Pembina acquired its Gas Services operating assets in June of that year). This increase in revenue is largely due to higher processing volume at the Cutbank Complex. Average processing volume, net to Pembina, was 221,600 mmcf/d during the second quarter of 2010, compared to 216,900 mmcf/d during the first quarter of 2010.

During the second quarter of 2010, operating expenses were $4.8 million, compared to $4.1 million in the first quarter of 2010. The increase is due to higher labour and maintenance costs associated with processing larger volumes. Gas Services contributed $11.0 million in net operating income during the second quarter of 2010, comparable to the $10.4 million generated in the first quarter of 2010.

Gas Services has received regulatory approval for a project to enhance NGL extraction at the Cutbank Complex. For details, see below. This project, along with work to upgrade the gas gathering system, has brought year-to-date spending on capital projects to $9.1 million. For more information about Pembina's 2010 capital expenditure plan, see page 15.

New Developments & Outlook

Nipisi and Mitsue Pipeline Projects

On July 13, 2010, Pembina announced it had received approval from the Energy Resources Conservation Board (the "ERCB") to construct and operate the Nipisi and Mitsue Pipelines. The approvals to proceed with construction of the pipeline projects were granted by the ERCB without a public hearing, as all stakeholder objections were resolved through the consultation process.

The Nipisi Pipeline, designed to initially transport 100,000 bbls/d of diluted heavy oil, will originate north of the Town of Slave Lake, Alberta and run south to Judy Creek, Alberta. From there it will connect to Pembina's existing pipeline system that delivers products to the Edmonton area. The Nipisi Pipeline is designed such that it can be expanded to a capacity of approximately 200,000 bbls/d. The Mitsue Pipeline is designed to transport approximately 20,000 bbls/d of condensate (a light hydrocarbon used to dilute the heavy oil) from Whitecourt, Alberta to producers operating north of the Town of Slave Lake, Alberta. The Mitsue Pipeline is designed such that it can be expanded to a capacity of 45,000 bbls/d.

Piping fabrication for the pump stations will commence in August and pump station construction is expected to begin in September. Right-of-way clearing is also anticipated to start in September in preparation for pipeline construction, which is planned to begin in early December. Approximately 800 to 1,000 temporary positions are expected to be created during construction. All engineering, construction and procurement contracts have been awarded.

Pembina estimates the cost of the projects to be $440 million. Engineering on the pipelines and pump stations is substantially complete. Procurement and construction contracts generated to date have provided cost certainty for about 80 percent of the projects. 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 23.

Enhanced NGL Extraction at Cutbank Complex

Pembina is negotiating long-term fee-for-service agreements with producers to provide enhanced NGL extraction. Assuming such long-term commitments are obtained, Pembina plans to expand its Cutbank natural gas gathering and processing facility to extract up to 15,000 bbls/d of a predominately ethane-based product from the new facility (included in that volume will also be residual amounts of butane and propane). Ethane is a colourless, odourless gas that is used as a petrochemical feedstock to make ethylene.

Regulatory approval for the project, which includes constructing an ethane extraction facility as well as a 10-kilometre pipeline that will deliver the product to Pembina's Peace Pipeline system, has been granted. Project engineering is approximately 35 percent complete and pending the completion of customer agreements, construction is scheduled to begin in the fall of 2010 with commissioning expected to begin in mid-2011.

Located approximately 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 mmcf/d (of which 305 mmcf/d is net to Pembina).

Corporate Conversion

At the annual general and special meeting of the Fund held May 7, 2010, unitholders overwhelmingly voted in favour of completing the corporate conversion of the Fund subject to receiving all necessary regulatory approvals, which have since been granted. On June 14, 2010, the Fund announced the planned date for completion of the corporate conversion will be October 1, 2010.

The TSX has conditionally approved the listing of the common shares and convertible debentures of PPC. As a result, Pembina expects the common shares and convertible debentures of PPC will commence trading on the TSX on or about Tuesday, October 5, 2010 under the symbols "PPL" and "PPL.DB.B", respectively. The Fund's Trust Units and convertible debentures are expected to be de-listed by the TSX that same day.

Under the conversion, investors will receive one common share in PPC for each Trust Unit they hold. This is expected to be a tax-deferred reorganization; however investors should consult with their financial and tax advisors regarding potential tax consequences of the exchange.

The decision to convert to a corporate entity results from a Government of Canada decision in 2006 that introduced legislation designed to change the taxation of income trusts. By converting to a corporation, Pembina can avoid the imposition of specified-investment flow through ("SIFT") tax applicable beginning in 2011. Pembina also expects corporate conversion to provide greater access to capital markets, improved liquidity and greater flexibility to pursue growth and expansion. Canadian investors will benefit from an enhanced dividend tax credit.

Following corporate conversion, Pembina expects to maintain its current cash distributions as a dividend of $1.56 per share per year ($0.13 per share monthly) through 2013 (see "Forward-Looking Statements and Information" on page 23).

Conventional Pipelines Throughputs

Recent economic growth, more stable crude oil and NGL prices, and action by the Alberta government to attract energy investment through a new royalty regime, is expected to result in increased throughputs on Pembina's Conventional Pipelines system over the long-term. Management believes the majority of throughput improvements will occur in Alberta, where the energy industry is expected to benefit from the government's new royalty structure and new technologies that are increasing recovery rates and reducing operating costs in mature basins. This view is supported by the Petroleum Services Association of Canada (PSAC) which in June forecasted drilling and well development to increase in Alberta by 31 percent in 2010 over 2009. Pembina believes its existing Conventional Pipelines assets are well situated to transport new production that may result from this industry activity.

Expenses

General and Administrative

General and administrative expenses ("G&A") of $12.2 million were incurred during the second quarter of 2010 (approximately 13.4 percent of net operating income). This compares to $12.4 million incurred during the second quarter of 2009 (approximately 14.5 percent of net operating income). The decrease primarily reflects reduced third-party consulting services offset by one-time legal and other costs primarily relating to corporate conversion and conversion to International Financial Reporting Standards ("IFRS") (see page 17). Year-to-date G&A totaled $21.6 million compared to $23.3 million incurred during the same period in 2009. This decrease is primarily due to the same factors that impacted G&A in the second quarter of 2010. Pembina expects G&A expenses to remain steady over the balance of the year and to approximate 12.7 percent of net operating income in 2010, compared to 15.2 percent in 2009.

Depreciation and Amortization

Depreciation and amortization was $16.9 million during the second quarter 2010, compared to $20.3 million during the same period of 2009. The decrease reflects the review completed during 2009 of the estimated remaining useful lives of all Pembina assets and the disposition of certain non-material assets. On a year-to-date basis, depreciation and amortization was $34.2 million in 2010, compared to $39.7 million over the first six months of 2009.

Accretion on Asset Retirement Obligations

Accretion on asset retirement obligations was $1.8 million during the three months ended June 30, 2010, compared to $2.9 million for the same period in 2009. For the six months ended June 30, 2010, accretion on asset retirement obligations was $3.5 million, compared to $4.2 million during the same period in 2009. The decrease year-over-year is due to revision of estimates made during 2009.

Interest Expense and Financial Instruments

Interest expense for long-term debt was $14.3 million during the second quarter of 2010, compared to $11.5 million during the same time period in 2009. Year-to-date interest expense for long-term debt was $28.7 million, higher than the $21.8 million incurred during the first half of 2009. This increase is primarily due to an increase in average debt outstanding and a higher proportion of fixed rate debt.

Distributed Cash

($ millions, except where noted)	**3 Months Ended June 30, 2010**	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Cash flow from operating activities	**68.1**	49.2	**135.4**	90.4
Add/(deduct):				
Employee future benefits expense	**(1.8)**	(1.6)	**(2.9)**	(3.3)
Employee future benefits contributions	**1.5**	2.7	**4.0**	5.4
Changes in non-cash working capital	**(3.9)**	10.7	**(4.1)**	18.7
Other	**0.3**	(0.2)	**(0.1)**	(0.4)
Distributable cash [(1)]	**64.2**	60.8	**132.3**	110.8
(Increase) decrease in distribution reserve	**(0.5)**	(3.3)	**(5.7)**	(0.1)
Distributed cash [(1)]	**63.7**	57.5	**126.6**	110.7
Distributable cash [(1)] per Trust Unit (dollars per Trust Unit)	**0.3937**	0.4124	**0.8132**	0.7805
Distributed cash per Trust Unit [(1)] (dollars per Trust Unit)	**0.3900**	0.3900	**0.7800**	0.7800
Diluted distributed cash per Trust Unit	**0.3861**	0.3847	**0.7679**	0.7688
Payout ratio[(1)]	**99.2%**	95.0%	**95.6%**	99.9%

(1) Refer to "Non-GAAP Measures" on page 21.

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

($ millions)	6 Months Ended June 30, 2010	2009	2008	2007
Cash flow from operating activities	**135.4**	224.6	219.9	189.5
Net earnings	**92.2**	162.1	161.8	142.3
Distributed cash[(1)]	**126.6**	232.3	198.8	178.9
Excess (shortfall) of cash flow from operating activities over distributed cash	**8.8**	(7.7)	21.1	10.6
Excess (shortfall) of net earnings over distributed cash	**(34.4)**	(70.2)	(37.0)	(36.6)

(1) Refer to "Non-GAAP Measures" on page 21.

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

Historical cash distributions compared to cash flow from operating activities shows excess cash flow in every period except in 2009 (see table above). The shortfall of $7.7 million in 2009 was primarily due to changes in non-cash working capital and the use of the Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan ("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 are expected to 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 June 30, 2010 was 99.2 percent, an increase from the same period in 2009 due to increased units outstanding and distributions. 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 21 and "Forward-Looking Statements and Information" on page 23.

Liquidity & Capital Resources

($ millions)	6 Months Ended June 30, 2010	December 31 2009
Working Capital[(1)]	**(70.8)**	(116.5)
Variable rate debt		
Bank debt	**268.1**	359.1
Variable rate debt swapped to fixed	**(200.0)**	(200.0)
Total variable rate debt outstanding (average rate of 4.03%)	**68.1**	159.1
Fixed rate debt		
Senior unsecured notes	**642.0**	642.0
Senior unsecured term debt	**75.0**	75.0
Senior secured notes	**69.7**	73.4
Variable rate debt swapped to fixed	**200.0**	200.0
Total fixed rate debt outstanding (average rate of 5.66%)	**986.7**	990.4
Convertible debentures	**30.1**	36.6
Total debt and debentures outstanding	**1,084.9**	1,186.1
Cash and unutilized debt facilities	**327.6**	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 $327.6 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 is sufficient and appropriate given the characteristics and operations of the underlying asset base.

Pembina's credit facilities at June 30, 2010 consisted of an unsecured $500 million revolving credit facility due July 2012 and an unsecured $50 million non-revolving credit facility due December 2010 (in May 2010, Pembina reduced the unsecured non-revolving credit facility when it paid $100 million towards the debt). In addition, Pembina has an operating facility of $50 million, which has been extended to July 2011. There are no repayments due over the term of either facility. As at June 30, 2010, Pembina had $268.1 million drawn on bank debt (including $9 million of letters of credit) leaving $327.6 million of cash and unutilized debt facilities on the $600 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 $69.7 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 June 30, 2010, Pembina had long-term debt (excluding deferred financing fees) of $1,045.7 million. This long-term debt, together with $30.1 million of outstanding convertible debentures (which mature December 31, 2010), resulted in a ratio of total debt to total enterprise value of 27.2 percent, compared to a ratio of 30.1 percent at December 31, 2009. See "Non-GAAP Measures" on page 21.

During the second quarter of 2010, $8.5 million in net debt financing costs were recorded, compared to $9.7 million in the second 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") rates PPC, the Fund's primary operating subsidiary, and has assigned a senior secured debt rating of 'BBB high' and a 'BBB' senior unsecured debt rating. These ratings were confirmed on November 3, 2009. On June 30, 2010, 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 of "A-", all with a stable outlook.

Capital Expenditures

($ millions)	**3 Months Ended June 30, 2010**	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Conventional Pipelines	**5.3**	10.9	**8.5**	18.3
Oil Sands & Heavy Oil	**0.7**	1.9	**2.6**	9.0
Nipisi & Mitsue Pipeline projects	**8.3**	5.6	**17.2**	10.4
Total Oil Sands & Heavy Oil	**9.0**	7.5	**19.8**	19.4
Midstream & Marketing	**1.3**	15.8	**2.9**	29.4
Gas Services	**4.4**	274.0	**9.1**	274.0
Corporate/other projects	**0.3**		**0.5**	
Total	**20.3**	308.2	**40.8**	341.1

(1) Operating assets for Gas Services were acquired on June 2, 2009.

On both a quarterly and year-to-date basis, capital expenditures were higher in 2009 as a result of: the creation of the Gas Services business through the acquisition of the Cutbank Complex; investments to expand Midstream & Marketing's Alberta-based crude oil hubs and truck terminals; and work to complete connections and upgrades in the Conventional Pipelines business.

The majority of Pembina's capital spending in 2010 is expected to be in support of the Nipisi and Mitsue Pipeline projects. Approximately $152 million is expected to be invested by Pembina this year, primarily during the latter part of 2010.

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	14.3	4.9	9.2	0.2	
Long-term debt	1,045.7	57.7	485.7	21.3	481.0
Convertible debentures	30.1	30.1			
Construction commitments	347.6	136.3	211.3		
Total contractual obligations	1,437.7	229.0	706.2	21.5	481.0

Pembina is, subject to certain conditions, contractually committed to the construction and the operation of the Nipisi and Mitsue Pipeline projects. Pembina expects the combined cost of these pipelines to total approximately $440 million. To date, $92.4 million has been spent and as mentioned above, significant spending on these projects is expected to begin in late 2010. Pembina anticipates utilizing its undrawn credit facilities to finance the costs of the Nipisi and Mitsue Pipelines. Pembina expects it will be able to access the debt and equity markets to finance other projects it may consider.

Pembina remains contractually obligated to complete the expansion of the Horizon Pipeline and once project timing is confirmed, the cost of this contractual obligation will be updated and disclosed to investors.

See "Forward-Looking Statements and Information" on page 23 of this report.

Trust Unit and Convertible Debenture Information

	August 3, 2010[1]	June 30, 2010	June 30, 2009
Trust Units Outstanding	**163,919,249**	163,569,557	152,561,854
Average Daily Volume (Units per day)	**227,484**	339,352	378,196
Unit Trading Price ($/Unit) [2]	**18.72**	17.86	14.86
Principal Amount of Debentures Outstanding ($ millions)	**30.4**	31.4	41.5
7.35% Convertible Debentures Trading Price [3]	**151.10**	143.00	118.60
Total Market Value of Securities Outstanding ($ millions)	**3,114.5**	2,966.3	2,303.1
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 22 trading days from July 2 to August 3, inclusive.
(2) End of Period.
(3) Full conversion to Trust Units of the remaining principal amount of the debenture issue as at August 3, 2010, would result in the issuance of 2.4 million Trust Units with an effective conversion price of $12.50 per Trust Unit.

As at June 30, 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

With the exception of the annual revision to the asset retirement obligation estimate and timing of payments, 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 June 30, 2010. All critical accounting estimates are presented in the Fund's MD&A 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 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.	Complete
	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
	Specified audit procedures of identified differences.	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 impacts of adopting IFRS will be reflected through opening balance sheet transitional entries as at January 1, 2010. These key differences and their qualitative description were disclosed in Pembina's Q1 2010 MD&A report and included the following:

1) Property, Plant and Equipment (componentization and impairment)
2) Goodwill Impairment
3) Asset Retirement Obligation
4) Employee Benefits
5) Investment in Associates
6) Unit Based Compensation
7) Leases
8) Trust Unit Classification

IFRS 1 "First time adoption of International Financial Reporting Standards"

In general, an entity is required to apply the principles under IFRS on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. However, IFRS 1 provides entities with a number of one-time exemptions on the full retrospective application of IFRS standards. Pembina expects to elect some of these exemptions and the most significant exemptions are described in the table below. Exemptions (mandatory or optional) that are not applicable, or where no accounting policy change or no significant impact is expected, have not been listed.

Estimates	At the date of transition, Pembina's estimates under IFRS will be consistent with estimates made for the same date under Canadian GAAP (after adjustments to reflect any difference in accounting policies).
Hedge accounting	Pembina will not apply hedge accounting on transition to IFRS.
Business combinations	IFRS 3 requires entities to retrospectively adjust business combinations that occurred prior to January 1, 2010. This exemption allows entities to apply IFRS 3 prospectively. Pembina will elect the exemption and not restate past business combinations occurring prior to January 1, 2010.
Borrowing Costs	This exemption allows entities to prospectively capitalize interest associated with projects for which construction / production / acquisition commences on or after the date of transition thereby avoiding the retrospective reconstruction of such amounts for periods prior to the IFRS transition date. Pembina's current accounting policy is considered to be aligned with IFRS and hence Pembina will not need to adopt this exemption.
Employee benefits (actuarial gains and losses)	Pembina will elect this exemption that allows no retrospective restatement of the cumulative actuarial gains and losses at December 31, 2009 and will elect to recognize the cumulative unrecognized actuarial losses at December 31, 2009 in retained earnings. Going forward, Pembina will not be applying the corridor method under IFRS, and therefore will recognize future actuarial gains and losses in Other Comprehensive Income.
Decommissioning liabilities included in the cost of PP&E	IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to, or deducted from, the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. First time adopters can elect not to comply with these requirements for changes in such liabilities that occurred before the date of IFRS transition. Pembina intends to elect this optional exemption and measure the liability as at the date of transition to IFRS in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Pembina continues to assess the standards and policy choices available under IFRS. At this time, Pembina is not able to quantify the impact of adopting IFRS. In addition, due to anticipated changes to certain international standards prior to the adoption of IFRS, accounting policy choices are subject to change based on new facts and circumstances that arise after the date of this MD&A. Additional information will be provided as Pembina moves toward the changeover date.

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 the MD&A 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)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Revenue	**391.8**	**294.6**	256.4	211.9	185.5	158.0	149.4	201.3	181.5
Less: product purchases	**261.9**	**163.1**	127.2	80.8	64.4	41.9	24.0	84.2	76.2
Net Revenue[(1)]	**129.9**	**131.5**	129.2	131.0	121.1	116.1	125.4	117.1	105.3
Operating expenses	**39.1**	**38.3**	39.7	39.6	35.8	44.1	42.4	40.1	33.3
Net operating income[(1)]	**90.8**	**93.2**	89.5	91.5	85.3	72.0	82.9	76.9	72.0
EBITDA[(1)]	**79.1**	**83.2**	72.2	62.2	70.2	59.8	66.8	85.0	77.1
Cash flow from operating activities	**68.1**	**67.3**	72.0	62.2	49.2	41.2	63.5	50.5	46.9
Cash flow from operating activities per Trust Unit ($ per Unit)	**0.42**	**0.42**	0.46	0.40	0.33	0.30	0.47	0.38	0.35
Net earnings	**41.2**	**51.1**	52.9	44.7	36.2	28.3	39.0	48.1	42.1
Net earnings per Trust Unit ($ per Unit):									
Basic	**0.25**	**0.32**	0.34	0.29	0.25	0.21	0.29	0.36	0.32
Diluted	**0.25**	**0.31**	0.33	0.29	0.24	0.21	0.29	0.35	0.31
Distributed cash[(1)]	**63.8**	**62.8**	61.4	60.2	57.5	53.2	52.3	50.7	47.9
Distributed cash per Trust Unit[(1)] ($ per Unit):									
Basic	**0.3900**	**0.3900**	0.3900	0.3900	0.3899	0.3900	0.3900	0.3800	0.3600
Diluted	**0.3861**	**0.3836**	0.3848	0.3849	0.3847	0.3843	0.3840	0.3729	0.3528
Trust Units outstanding (thousands):									
Weighted average (basic)	**163.2**	**161.8**	157.5	154.4	147.5	136.3	134.1	133.5	133.1
Weighted average (diluted)	**166.2**	**165.2**	160.9	157.8	150.9	139.8	137.7	137.6	137.6
End of period	**163.6**	**162.2**	158.6	155.4	152.6	137.3	134.7	133.6	133.3

[(1)] Refer to "Non-GAAP Measures" on page 21.

Selected Quarterly Operating Information

	2010		2009				2008		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Average throughput (thousands of barrels per day)									
Alberta	**352.3**	**370.2**	361.2	369.7	373.2	392.1	410.8	408.4	412.2
British Columbia	**18.1**	**19.1**	18.2	19.6	18.9	20.4	23.3	22.2	21.2
Total Conventional Throughput	**370.4**	**389.3**	379.4	389.3	392.1	412.5	434.1	430.6	433.4
Oil Sands & Heavy Oil	**775.0**	**775.0**	775.0	775.0	775.0	775.0	775.0	775.0	525.0
Total average throughput	**1,145.4**	**1,164.3**	1,154.4	1,164.3	1,167.1	1,187.5	1,209.1	1,205.6	958.4
Average daily Cutbank Complex (mmcf/d net to Pembina)	**221.6**	**216.9**	197.4	208.5					
Conventional Pipelines Revenue ($ per barrel)									
Alberta	**1.76**	**1.70**	1.62	1.58	1.62	1.59	1.44	1.53	1.46
British Columbia	**1.75**	**1.90**	2.23	1.84	1.91	2.29	2.46	2.25	1.91
Average Conventional Revenue	**1.76**	**1.72**	1.68	1.61	1.65	1.63	1.55	1.61	1.51
Operating Expenses ($ per barrel)									
Alberta	**0.56**	**0.57**	0.59	0.60	0.63	0.79	0.65	0.69	0.58
British Columbia	**0.95**	**0.86**	0.89	0.83	1.03	1.17	1.40	0.85	0.86
Average	**0.60**	**0.60**	0.62	0.63	0.67	0.81	0.73	0.71	0.60

Additional Information

Additional information relating to the Fund, including the Fund's Annual Information Form, financial statements and MD&A 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, net revenue, net operating income and payout ratio, 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;
- increased throughput potential due to increased activity and new connections and other initiatives on the Conventional Pipelines;
- future cash flows, potential revenue and cash flow enhancements across Pembina's businesses and the maintenance of operating margins;
- tolls and tariffs and transportation, storage and services commitments and contracts;
- cash 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 ability of the Fund to complete the corporate conversion as planned including the ability to receive all required approvals related thereto;
- prevailing commodity prices and exchange rates;
- the availability of capital to fund future capital requirements relating to existing assets and projects, including but not limited to future capital expenditures relating to expansion, upgrades and maintenance shutdowns;
- future operating costs;
- in respect of the estimated future net operating income contribution from the Nipisi and Mitsue Pipelines, the in-service date for the Nipisi and Mitsue pipelines will be in mid-2011; future tolls in respect of such pipelines will be consistent with internal projections; counterparties will comply with contracts in a timely manner; there are no unforeseen events preventing the performance of contracts by Pembina; there are no unforeseen construction costs related to the Nipisi and Mitsue Pipelines; and there are no unforeseen material costs relating to the pipeline systems which are not recoverable from shippers.
- the future exploration for and production of oil, NGL and natural gas in the capture area around Pembina's conventional and midstream and marketing assets, including new production from the Cardium formation in western Alberta, the demand for gathering and processing of hydrocarbons, and the corresponding utilization of Pembina's assets;
- prevailing regulatory, tax and environmental laws and regulations.

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

- the inability of the Fund to complete the corporate conversion as planned or at all;
- the regulatory environment and decisions;
- the impact of competitive entities and pricing;
- labour and material shortages;
- reliance on key alliances and agreements;
- the strength and operations of the oil and natural gas production industry and related commodity prices;
- non-performance or default by counterparties to agreements which 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)	June 30 2010	December 31 2009
Assets		
Current assets:		
Cash and short term investments		53,927
Accounts receivable and other	**77,628**	83,244
Inventory	**28,948**	18,998
	106,576	156,169
Property, plant and equipment (Note 3)	**2,030,225**	2,045,917
Goodwill and other (Note 4)	**377,943**	379,039
	2,514,744	2,581,125
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness	**4,277**	
Accounts payable and accrued liabilities	**64,084**	57,997
Distributions payable to Unitholders	**21,264**	20,616
Current portion of long-term debt	**57,697**	157,423
Convertible debentures	**30,061**	36,640
	177,383	272,676
Long-term debt	**979,471**	973,522
Derivative financial instruments (Note 9)	**8,726**	5,481
Asset retirement obligations (Note 6)	**79,781**	104,204
Future income taxes (Note 5)	**97,452**	95,870
	1,342,813	1,451,753
Unitholders' equity:		
Trust Units (Note 7)	**1,740,102**	1,660,795
Deficit	**(561,396)**	(527,082)
Accumulated other comprehensive income (loss)	**(6,775)**	(4,341)
	1,171,931	1,129,372
	2,514,744	2,581,125

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

(unaudited)

($ thousands, except per Trust Unit amounts)

	3 Months Ended June 30, 2010	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Revenues:				
Conventional Pipelines	**63,965**	63,701	**128,691**	129,845
Oil Sands & Heavy Oil	**29,486**	27,477	**58,323**	57,262
Midstream & Marketing	**282,525**	89,912	**469,108**	152,017
Gas Services	**15,806**	4,377	**30,317**	4,377
	391,782	185,467	**686,439**	343,501
Expenses:				
Operations	**39,074**	35,784	**77,353**	79,913
Product purchases	**261,904**	64,412	**425,048**	106,339
General and administrative	**12,249**	12,408	**21,645**	23,326
Depreciation and amortization (Note 3 and Note 4)	**16,924**	20,247	**34,180**	39,642
Accretion on asset retirement obligations (Note 6)	**1,750**	2,916	**3,500**	4,172
Other	**(588)**	(258)	**54**	(216)
	331,313	135,509	**561,780**	253,176
Earnings before interest and taxes	**60,469**	49,958	**124,659**	90,325
Interest on long-term debt	**14,277**	11,525	**28,747**	21,814
Interest on convertible debentures	**608**	777	**1,263**	1,542
Earnings before taxes	**45,584**	37,656	**94,649**	66,969
Future Income tax expense (Note 5)	**4,408**	1,483	**2,400**	2,515
Net earnings	**41,176**	36,173	**92,249**	64,454
Deficit, beginning of period	**(538,838)**	(481,749)	**(527,082)**	(456,856)
Distributed cash	**(63,734)**	(57,502)	**(126,563)**	(110,676)
Deficit, end of period	**(561,396)**	(503,078)	**(561,396)**	(503,078)
Earnings per Trust Unit - basic (Note 8)	**0.25**	0.25	**0.57**	0.45
Earnings per Trust Unit - diluted (Note 8)	**0.25**	0.24	**0.56**	0.45

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

($ thousands)

	3 Months Ended June 30, 2010	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Net earnings for the period	**41,176**	36,173	**92,249**	64,454
Other comprehensive income:				
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $0.9 million and $0.8 million, respectively	**(2,646)**	8,673	**(2,434)**	4,881
Total comprehensive income	**38,530**	44,846	**89,815**	69,335
Accumulated other comprehensive loss:				
Opening balance, net of tax of $0.1 million and $1.4 million, respectively	**(4,129)**	(14,400)	**(4,341)**	(10,608)
Change in unrealized gain (loss) on derivative instruments designated as cash flow hedges, net of tax of $0.9 million and $0.8 million, respectively	**(2,646)**	8,673	**(2,434)**	4,881
Accumulated other comprehensive loss	**(6,775)**	(5,727)	**(6,775)**	(5,727)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

($ thousands)

	3 Months Ended June 30, 2010	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Cash provided by (used in):				
Operating activities:				
Net earnings	**41,176**	36,173	**92,249**	64,454
Items not involving cash:				
Depreciation and amortization	**16,924**	20,247	**34,180**	39,642
Accretion on asset retirement obligations	**1,750**	2,916	**3,500**	4,172
Future income tax expense	**4,408**	1,483	**2,400**	2,515
Employee future benefits expense	**1,799**	1,641	**2,872**	3,272
Trust Unit based compensation expense (Note 7)	**67**	167	**230**	381
Other	**(392)**		**(95)**	45
Employee future benefits contributions	**(1,500)**	(2,708)	**(4,000)**	(5,420)
Changes in non-cash working capital	**3,878**	(10,678)	**4,105**	(18,662)
Cash flow from operating activities	**68,110**	**49,241**	**135,441**	**90,399**
Financing activities:				
Bank borrowings	**9,533**	142,989	**9,867**	161,325
Repayment of senior secured notes	**(1,839)**	(1,710)	**(3,644)**	(3,390)
Issue of senior debt		75,000		75,000
Debt repayment	**(100,000)**	(75,000)	**(100,000)**	(75,000)
Issue of Trust Units for cash		156,238		156,238
Issue of Trust Units on exercise of options (Note 7)	**4,095**	183	**16,599**	718
Issue of Trust Units under Distribution Reinvestment Plan (Note 7)	**14,061**	34,097	**55,898**	65,750
Distributions to Unitholders - current year	**(63,553)**	(55,511)	**(105,299)**	(90,843)
Distributions to Unitholders - prior year			**(20,617)**	(17,511)
Cash flow from financing activities	**(137,703)**	**276,286**	**(147,196)**	**272,287**
Investing activities:				
Capital expenditures	**(25,097)**	(34,137)	**(44,097)**	(67,149)
Acquisition of Cutbank assets		(296,306)		(296,306)
Changes in non-cash working capital	**(106)**	(3,771)	**(2,352)**	(21,732)
Cash flow from investing activities	**(25,203)**	(334,214)	**(46,449)**	(385,187)
Change in cash	**(94,796)**	(8,687)	**(58,204)**	(22,501)
Cash (bank indebtedness), beginning of period	**90,519**	(176)	**53,927**	13,638
Cash (bank indebtedness), end of period	**(4,277)**	(8,863)	**(4,277)**	(8,863)
Other cash disclosures:				
Interest on long-term debt paid	**(18,144)**	(10,343)	**(29,709)**	(19,790)
Interest capitalized	**(1,414)**	(144)	**(2,679)**	(528)

See accompanying notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Quarter ended June 30, 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 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 and has implemented a conversion plan to complete the transition by January 1, 2011, including the preparation of required comparative information. As the impacts on the Fund's Consolidated Financial Statements are determined they are being disclosed in the Fund's MD&A.

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 producers 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 June 30, 2010					
($ thousands)	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	63,965	29,486				93,451
Terminal, storage and hub services			282,525			282,525
Gas services				15,806		15,806
Revenue before expenses	63,965	29,486	282,525	15,806		391,782
Expenses:						
Operations	21,415	10,481	2,355	4,823		39,074
Product purchases			261,904			261,904
General and administrative	1,121	664	877	699	8,888	12,249
Depreciation and amortization	6,853	5,615	1,921	2,095	440	16,924
Accretion on asset retirement obligations	1,459	160		131		1,750
Other	(530)	(180)	(193)		315	(588)
	30,318	16,740	266,864	7,748	9,643	331,313
Earnings (loss) before interest and taxes	33,647	12,747	15,661	8,058	(9,643)	60,469
Property, plant and equipment[2]	730,626	806,875	198,481	286,445	7,798	2,030,225
Goodwill and other	194,370	28,300	114,067	22,281	18,925	377,943

(1) 10.2 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) Included in property, plant and equipment are assets under construction of $133.2 million, which includes $92.4 million for Nipisi and Mitsue Pipelines.

	Six months ended June 30, 2010					
($ thousands)	Conventional Pipelines[1]	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	128,691	58,323				187,014
Terminal, storage and hub services			469,108			469,108
Gas services				30,317		30,317
Revenue before expenses	128,691	58,323	469,108	30,317		686,439
Expenses:						
Operations	43,646	19,840	4,951	8,916		77,353
Product purchases			425,048			425,048
General and administrative	2,146	1,329	1,843	1,384	14,943	21,645
Depreciation and amortization	13,669	11,218	3,994	4,189	1,110	34,180
Accretion on asset retirement obligations	2,917	321		262		3,500
Other	(163)	(35)	338		(86)	54
	62,215	32,673	436,174	14,751	15,967	561,779
Earnings (loss) before interest and taxes	66,476	25,650	32,934	15,566	(15,967)	124,659
Property, plant and equipment[2]	730,626	806,875	198,481	286,445	7,798	2,030,225
Goodwill and other	194,370	28,300	114,067	22,281	18,925	377,943

(1) 10.5 percent of Conventional Pipelines revenue is under regulated tolling arrangements.

(2) Included in property, plant and equipment are assets under construction of $133.2 million, which includes $92.4 million for Nipisi and Mitsue Pipelines.

	Three months ended June 30, 2009					
($ thousands)	Conventional Pipelines	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	63,701	27,477				91,178
Terminal, storage and hub services			89,912			89,912
Gas services				4,377		4,377
Revenue before expenses	63,701	27,477	89,912	4,377		185,467
Expenses:						
Operations	25,179	6,640	2,404	1,561		35,784
Product purchases			64,412			64,412
General and administrative[(1)]	1,152	344	382	1	10,529	12,408
Depreciation and amortization	10,973	5,181	3,082	682	329	20,247
Accretion on asset retirement obligations	2,603	273		40		2,916
Other[(1)]	(123)		(136)		1	(258)
	39,784	12,438	70,144	2,284	10,859	135,509
Earnings (loss) before interest and taxes	23,917	15,039	19,768	2,093	(10,859)	49,958
Property, plant and equipment[(2)]	748,352	765,832	197,584	282,533	9,156	2,003,457
Goodwill and other	194,370	28,300	117,869	16,346	13,825	370,710

(1) General and Administrative expenses have been reclassified for comparison purposes.

(2) Included in property, plant and equipment are assets under construction for Nipisi and Mitsue Pipelines of $17.4 million.

	Six months ended June 30, 2009					
($ thousands)	Conventional Pipelines	Oil Sands & Heavy Oil	Midstream & Marketing	Gas Services	Corporate	Total
Revenue:						
Pipeline transportation	129,845	57,262				187,107
Terminal, storage and hub services			152,017			152,017
Gas services				4,377		4,377
Revenue before expenses	129,845	57,262	152,017	4,377		343,501
Expenses:						
Operations	57,602	15,493	5,257	1,561		79,913
Product purchases			106,339			106,339
General and administrative[(1)]	2,205	689	1,242	1	19,189	23,326
Depreciation and amortization	21,837	10,561	5,974	682	588	39,642
Accretion on asset retirement obligations	3,698	434		40		4,172
Other[(1)]	(123)		(136)		43	(216)
	85,219	27,177	118,676	2,284	19,820	253,176
Earnings (loss) before interest and taxes	44,626	30,085	33,341	2,093	(19,820)	90,325
Property, plant and equipment[(2)]	748,352	765,832	197,584	282,533	9,156	2,003,457
Goodwill and other	194,370	28,300	117,869	16,346	13,825	370,710

(1) General and Administrative expenses and other have been reclassified for comparison purposes.

(2) Included in property, plant and equipment are assets under construction for Nipisi and Mitsue Pipelines of $17.4 million.

3. PROPERTY, PLANT AND EQUIPMENT

($ thousands)	**June 30 2010 Cost[1]**	Dec. 31 2009 Cost	**June 30 2010 Accumulated Depreciation**	Dec. 31 2009 Accumulated Depreciation	**June 30 2010 Net**	Dec. 31 2009 Net
Conventional Pipelines	**1,336,379**	1,355,108	**(605,753)**	(598,906)	**730,626**	756,202
Oil Sands & Heavy Oil	**923,410**	909,028	**(116,535)**	(105,322)	**806,875**	803,706
Midstream & Marketing	**241,889**	243,828	**(43,408)**	(41,534)	**198,481**	196,789
Gas Services	**294,764**	285,281	**(8,319)**	(4,480)	**286,445**	280,801
Corporate	**10,709**	16,215	**(2,911)**	(7,796)	**7,798**	8,419
	2,807,151	2,809,460	**(776,926)**	(758,038)	**2,030,225**	2,045,917

[1] Included in the cost is Assets Under Construction of $133.2 million.

4. GOODWILL AND OTHER

($ thousands)	June 30, 2010 Cost	June 30, 2010 Accumulated Amortization	**June 30 2010 Net**	Dec. 31 2009 Net
Goodwill	287,670		**287,670**	287,670
Other intangibles	98,038	(26,690)	**71,348**	73,572
Pension asset	18,925		**18,925**	17,797
	404,633	(26,690)	**377,943**	379,039

5. FUTURE INCOME TAXES

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. 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 $97.5 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. ASSET RETIREMENT OBLIGATIONS

The Fund has estimated the net present value of its total asset retirement obligations based on a total future liability (with the current change in estimate adjusted for 2.7 percent inflation, based on the Alberta CPI inflation average) of $938 million (2009: $800 million). The new estimate includes a revision of the timing of the payments. The obligations are expected to be paid over the next 50 years with substantially all being paid between 37-42 years. The Fund used credit adjusted risk free rates ranging from 8.08 percent to 8.38 percent to calculate the present value of the asset retirement obligations.

The property, plant and equipment of the Fund consist primarily of underground pipelines, above ground equipment facilities and storage assets. No amount has been recorded relating to the removal of the underground pipelines or the storage assets as the potential obligations relating to these assets cannot be reasonably estimated due to the indeterminate timing or scope of the asset retirement. As the timing and scope of retirement become determinable for these assets, the fair value of the liability and the cost of retirement will be recorded.

($ thousands)	**June 30 2010**	December 31 2009
Obligations, beginning of period	**104,204**	84,158
Change in obligation estimate	**(27,923)**	13,410
Accretion expense	**3,500**	6,636
Obligations, end of period	**79,781**	104,204

7. 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	1,076,082	16,599
Debenture conversions	549,840	6,580
Distribution Reinvestment Plan	3,354,936	55,898
Contributed surplus		230
Balance, June 30, 2010	**163,569,557**	**1,740,102**

8. EARNINGS PER TRUST UNIT

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

($ thousands)	**3 Months Ended June 30, 2010**	3 Months Ended June 30, 2009	**6 Months Ended June 30, 2010**	6 Months Ended June 30, 2009
Net Earnings				
Numerator for basic earnings per Trust Unit	**41,176**	36,173	**92,249**	64,454
Numerator for diluted earnings per Trust Unit	**41,637**	36,721	**93,158**	65,541
Denominator:				
Weighted average denominator for basic Trust Units	**163,225**	147,487	**162,745**	141,946
Dilutive instruments				
Debentures	**2,618**	3,346	**2,824**	3,370
Employee options	**406**	60	**439**	60
Denominator for diluted earnings per Trust Unit	**166,249**	150,893	**166,008**	145,376
Basic earnings per Trust Unit (in dollars)	**0.25**	0.25	**0.57**	0.45
Diluted earnings per Trust Unit (in dollars)	**0.25**	0.24	**0.56**	0.45

9. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Liquidity and Capital Resources

($ thousands)	**June 30 2010**	Dec. 31 2009
Variable rate debt		
Bank debt	**268,114**	359,066
Variable rate debt swapped to fixed	**(200,000)**	(200,000)
Total variable rate debt outstanding (average rate of 4.03%)	**68,114**	159,066
Fixed rate debt		
Senior unsecured notes	**642,000**	642,000
Senior unsecured term debt	**75,000**	75,000
Senior secured notes	**69,738**	73,382
Variable rate debt swapped to fixed	**200,000**	200,000
Total fixed rate debt outstanding (average rate of 5.66%)	**986,738**	990,382
Convertible debentures	**30,061**	36,640
Total debt and debentures outstanding	**1,084,912**	1,186,088
Cash and unutilized debt facilities	**327,609**	394,861

Pembina's credit facilities at June 30, 2010 consisted of an unsecured $500 million revolving credit facility due July 2012 and an unsecured $50 million non-revolving credit facility due December 2010 (in May 2010, Pembina reduced the unsecured non-revolving credit facility when it paid $100 million towards the debt). In addition, Pembina has an operating facility of $50 million, which has been extended to July 2011. The unsecured $50 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 June 30, 2010, Pembina had approximately $268.1 million drawn on bank debt (including $9 million in letters of credit) leaving $327.6 million of unutilized debt facilities (bank indebtedness as at June 30, 2010: $4.3 million) on the $600 million of established bank facilities. At June 30, 2010, the Fund was exposed to changes in interest rates on $68.1 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 $11.3 million unrealized loss as at June 30, 2010 and are for terms of five to ten years. Including the interest swaps, interest rates on $986.7 million in senior secured and unsecured notes have been fixed, leaving roughly 6 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. To further manage operating expenses, provide cost certainty and stabilize tolls for customers, Pembina has hedged 16 megawatts ("MW") of power at an average price of $46.50 per megawatt hour ("MWh") through the end of 2010. For 2011, Pembina has hedged 15 MW at an average price of $45.65 per MWh. For 2012, Pembina has hedged 5 MW at an average price of $47.75 per MWh. The fair value of these contracts at June 30, 2010 was an unrealized gain of $2.2 million. Assuming a portion of the power was not hedged, every $5 change in the Alberta pool price would increase operating expenses by approximately $0.7 million. Since 2002, Pembina has passed power hedging savings of approximately $21 million through to customers.

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)	**June 30, 2010**		December 31, 2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Long-term debt				
Senior secured notes	**69,738**	**78,539**	73,382	86,169
Senior unsecured notes	**717,000**	**757,155**	717,000	742,946
Convertible debenture	**30,061**	**44,905**	36,640	53,585

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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

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