



**inter** pipeline

*Management's Discussion and Analysis*

**For the three months ended March 31, 2008**

# Forward Looking Information

The following Management Discussion and Analysis (MD&A) highlights significant business results and statistics for Inter Pipeline Fund's (Inter Pipeline) three months ended March 31, 2008. This MD&A contains certain forward-looking statements or information (collectively referred to in this note as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements regarding Inter Pipeline's belief that it is well positioned to maintain its current annual cash distributions of \$0.84 per unit to its unitholders in 2011 and beyond.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the expectations, plans or intentions upon which they are based will occur. Inter Pipeline in no manner represents that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Pipeline Management Inc., the general partner of Inter Pipeline (General Partner) at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements are subject to various risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its subsidiaries; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and NGL extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; the ability to access sufficient capital from internal and external sources; product supply and demand; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection and instability affecting countries in which Inter Pipeline and its subsidiaries operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; potential delays and costs of overruns on construction projects, including, but not limited to the Corridor pipeline system expansion project; Inter Pipeline's ability to make capital investments and the amounts of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its subsidiaries; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; political and economic conditions in the countries in which Inter Pipeline and its subsidiaries operate; difficulty in obtaining necessary regulatory approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities.

Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled **Risk Factors** included in Inter Pipeline's **Annual Information Form (AIF)** and **MD&A** for the year ended December 31, 2007, which can be reviewed at [www.sedar.com](http://www.sedar.com).

The forward-looking statements contained in this MD&A are made as of the date of this document, and, except to the extent required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary note.

# *Management's Discussion and Analysis*

## **For the three months ended March 31, 2008**

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period ended March 31, 2008 as compared to the three month period ended March 31, 2007. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and MD&A of Inter Pipeline for the quarterly periods ended March 31, June 30, September 30, 2007, the audited consolidated financial statements for the year ended December 31, 2007, MD&A for the year ended December 31, 2007, the AIF and other information filed by Inter Pipeline at [www.sedar.com](http://www.sedar.com).

Financial information presented in this MD&A, with the exception of non-GAAP financial measures, is based on information in Inter Pipeline's consolidated financial statements. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A reports on certain non-GAAP financial measures that are used by management to evaluate the performance of Inter Pipeline and its business segments. 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 with their nearest GAAP measure. See the **NON-GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of consolidated non-GAAP financial measures. All amounts are in Canadian dollars unless otherwise specified.

Management considers whether information presented in this MD&A is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in Inter Pipeline would likely be influenced or changed if the information was omitted or misstated.

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## **FIRST QUARTER HIGHLIGHTS**

- Funds from operations\* increased 38.3% to \$75.8 million, compared to the same quarter a year ago
- Attractive first quarter payout ratio before sustaining capital\* of 61.3%, compared to 77.4% in the first quarter of 2007
- Generated net income of \$60.1 million, representing an increase of 145% compared to first quarter results of last year
- Cash distributions to unitholders totalled \$46.5 million, or \$0.21 per unit during the quarter
- Throughput on Inter Pipeline's oil sands transportation and conventional oil pipeline systems averaged over 775,000 barrels per day (b/d), or roughly 230,000 b/d higher than the same period in 2007
- The Corridor capacity expansion project remains on schedule and on budget with approximately 431 kilometers or 93% of 42-inch line pipe installed

## **SUBSEQUENT EVENT**

- Standard & Poor's increased Inter Pipeline (Corridor) Inc.'s long-term investment grade rating to A-

\*Please refer to the **NON-GAAP FINANCIAL MEASURES** section

**PERFORMANCE OVERVIEW**  
**THREE MONTHS ENDED MARCH 31, 2008**

	Three Months Ended March 31	
<i>(millions, except per unit and % amounts)</i>	2008	2007
Revenues		
Oil sands transportation <sup>(1)</sup>	\$ 37.3	\$ 14.0
NGL extraction	214.7	196.8
Conventional oil pipelines	33.9	30.9
Bulk liquid storage	32.1	42.4
	<b>\$ 318.0</b>	<b>\$ 284.1</b>
Funds from operations <sup>(2)</sup>		
Oil sands transportation <sup>(1)</sup>	\$ 18.5	\$ 9.3
NGL extraction	43.2	26.9
Conventional oil pipelines	24.4	23.0
Bulk liquid storage	9.3	12.1
Corporate costs	(19.6)	(16.5)
	<b>\$ 75.8</b>	<b>\$ 54.8</b>
Per unit <sup>(1)(2)</sup>	<b>\$ 0.34</b>	<b>\$ 0.27</b>
Net income <sup>(1)</sup>	<b>\$ 60.1</b>	<b>\$ 24.5</b>
Per unit <sup>(1)</sup>	<b>\$ 0.27</b>	<b>\$ 0.12</b>
Per unit - diluted <sup>(1)</sup>	<b>\$ 0.27</b>	<b>\$ 0.12</b>
Cash distributions <sup>(4)</sup>	<b>\$ 46.5</b>	<b>\$ 42.4</b>
Per unit <sup>(4)</sup>	<b>\$ 0.21</b>	<b>\$ 0.21</b>
Growth capital	<b>\$ 230.5</b>	<b>\$ 15.6</b>
Sustaining capital	<b>1.6</b>	<b>1.5</b>
	<b>\$ 232.1</b>	<b>\$ 17.1</b>
Units outstanding <sup>(4)</sup>		
Weighted average	221.2	202.0
End of period <sup>(4)</sup>	221.6	202.3
Payout ratio before sustaining capital <sup>(1)(2)</sup>	61.3%	77.4%
Payout ratio after sustaining capital <sup>(1)(2)</sup>	62.6%	79.6%

	March 31 2008	December 31 2007
Total assets <sup>(1)</sup>	<b>\$ 3,773.4</b>	<b>\$ 3,549.8</b>
Long-term debt <sup>(1)(3)</sup>	<b>\$ 2,020.8</b>	<b>\$ 1,878.8</b>
Total partners' equity <sup>(1)</sup>	<b>\$ 1,098.9</b>	<b>\$ 1,064.2</b>
Total enterprise value <sup>(1)(2)</sup>	<b>\$ 4,151.7</b>	<b>\$ 3,984.0</b>
Total debt to total capitalization <sup>(2)</sup>	64.9%	64.0%
Total recourse debt to capitalization <sup>(2)</sup>	41.8%	44.3%

- (1) The incremental change in the first quarter of 2008 is primarily due to the acquisition of Inter Pipeline (Corridor) Inc. on June 15, 2007.
- (2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
- (3) Long-term debt in the March 31, 2008 financial statements is \$2,020.8 million, which consists of total debt of \$2,035.7 million net of discounts and deferred debt transaction costs of \$14.9 million.
- (4) Cash distributions are calculated based on the number of units outstanding at each record date.

Inter Pipeline achieved excellent financial results for the three months ended March 31, 2008. Funds from operations increased \$21.0 million or 38.3% when compared to the first quarter of 2007 resulting in a very strong payout ratio before sustaining capital of 61.3%. These positive results were driven primarily by

favourable commodity prices in the natural gas liquids (NGL) extraction business as well as the addition of the Corridor pipeline operations to the oil sands transportation business segment.

Net income for the first three months of 2008 increased \$35.6 million to \$60.1 million from net income of \$24.5 million in 2007. In addition to the favourable operating results noted above, Inter Pipeline's net income benefited from a \$14.7 million unrealized change in the mark-to-market value of its derivative financial instruments outstanding during the period. Recent changes in commodity market prices and interest rates resulted in the favourable change in this mark-to-market valuation. See **RESULTS OF OPERATIONS** section for further discussion of each business segment's operating results.

Total cash distributed to unitholders in the first quarter of 2008 increased \$4.1 million or 9.7% to \$46.5 million compared to the \$42.4 million distributed in 2007. This increase is primarily attributable to a 15.3 million increase in class A limited partnership units issued pursuant to an equity unit offering in December 2007. Monthly cash distributions on a per unit basis have remained consistent since September 2006.

Outstanding long-term debt increased \$147.9 million to \$2,035.7 million at March 31, 2008 up from \$1,887.8 million outstanding at December 31, 2007 primarily due to the ongoing funding of the Corridor expansion project. As a result, Inter Pipeline's consolidated debt to total capitalization ratio at March 31, 2008 was 64.9%. Adjusting for the impact of Inter Pipeline (Corridor) Inc.'s (Corridor) non-recourse debt of \$1,245.9 million, Inter Pipeline's recourse debt to capitalization ratio was a favourable 41.8% at March 31, 2008.

## **OUTLOOK**

Inter Pipeline continues its strategy of investing in long-life, high quality energy infrastructure assets that generate stable, predictable and sustainable cash flows. Consistent with this goal, Inter Pipeline recently announced an approximate \$1.0 billion growth capital budget for 2008, which is the largest in its history. The underlying organic growth projects involve all four business segments with the majority of the investment in the oil sands transportation business segment, and in particular the Corridor pipeline system.

When Inter Pipeline acquired the Corridor pipeline system from an affiliate of Kinder Morgan Inc. in June, 2007, it assumed an obligation to complete a \$1.8 billion expansion of this pipeline system. This project remains on schedule and on budget, with an expected in-service date in 2010. Upon completion of this expansion, bitumen blend capacity on the Corridor pipeline system is expected to increase from 300,000 b/d to 465,000 b/d. This additional capacity will accommodate increased shipments of oil sands production from the Athabasca Oil Sands Project (AOSP). The AOSP is a joint venture between Shell Canada Energy (Shell), Chevron Canada Limited (Chevron) and Marathon Oil Canada Corporation (Marathon). Inter Pipeline will receive stable and predictable payments from these shippers on the expanded pipeline system, utilizing the same cost-of-service commercial principles that exist currently on the original Corridor pipeline system. Approximately \$834.1 million of Inter Pipeline's total 2008 growth capital expenditures will be expended on this major pipeline expansion project. A total of \$835.3 million has been spent to date on the expansion, including \$213.8 million in the first quarter of 2008. Approximately 93% or 431 kilometres of the 42-inch pipeline has been successfully installed leaving 33 kilometres of the 42-inch pipeline and 43 kilometres of 20-inch pipeline to be installed during the upcoming summer construction season. Progress on the facilities is proceeding well with civil and structural activities nearing completion on four new pump stations. Mechanical construction will commence in the second quarter of 2008.

The NGL extraction business segment is expected to continue to benefit from a strong frac-spread pricing environment. Propane-plus sales at the Cochrane extraction facility are exposed to frac-spread, or the difference between the average price of propane-plus products and AECO natural gas. Generally, frac-spreads increase in commodity environments when NGL prices rise (which traditionally follow crude oil prices) relative to natural gas prices. Inter Pipeline has hedged a portion of its future propane-plus production in order to enhance the sustainability and predictability of cash flow from the NGL extraction business segment.

The Alberta Energy and Utilities Board is conducting an inquiry into matters related to NGL extraction from the common natural gas streams transported through Alberta Utilities Commission regulated pipeline transmission systems. Of significance to Inter Pipeline is a public interest criterion used to determine the need and timing of NGL processing capacity additions, the review of business and regulatory practices relating to the acquisition of NGL extraction rights from the common stream, and the potential for NGL content dilution of the common stream caused by increases in non-conventional gas production. A second phase of the oral portion of the inquiry is scheduled to begin May 27, 2008 in Calgary. Following the oral portion of the inquiry, written arguments will be submitted which are expected to be concluded by mid August. Once oral testimony and the submission of arguments has been completed, the Board panel will consider their decision and recommendations which we anticipate will be released in the first quarter of 2009. Inter Pipeline remains an active participant in the inquiry into NGL extraction matters.

Last year, as part of Bill C-52, the federal government introduced into legislation its Tax Fairness Plan. Under the plan, all publicly traded flow-through entities such as royalty trusts, income funds and limited partnerships will be required to pay income taxes at rates similar to corporations commencing January 1, 2011.

Inter Pipeline believes it is well positioned to maintain its current level of cash distributions to unitholders through 2011 and beyond, despite becoming a taxable entity. This view is based on Inter Pipeline's continuing strong financial performance, attractive fundamentals in each of its business segments and the expected increase in cash flow following completion of the current capacity expansion project on the Corridor pipeline system.

It is also important to note that the Tax Fairness Plan will create more favourable tax treatment on cash distributions paid by flow through entities. Today the vast majority of Inter Pipeline's cash distributions are classified as business or interest income for tax purposes. Distributions paid after January 1, 2011 will be treated as eligible Canadian dividends, resulting in a lower effective tax rate in the hands of the taxable investor. For example, using 2007 enacted tax rates, a Canadian resident in the highest marginal tax bracket would have their effective tax rate on taxable distributions reduced by approximately 16% to 25% depending on their province of residence. Investors should be advised that income tax rates are continually subject to future legislative changes, and unitholders are advised to consult their own tax advisors regarding tax-related matters. This more favourable tax treatment will apply to the taxable portion of Inter Pipeline's distributions, excluding a minor amount of interest income sourced from foreign operations.

Both Standard & Poor's and DBRS have assigned an investment grade, long-term corporate credit rating of BBB to Inter Pipeline. Inter Pipeline's 100% owned subsidiary, Corridor has been assigned investment grade credit ratings of A (low), A3 and A- from DBRS, Moody's and Standard & Poor's, respectively.

## RESULTS OF OPERATIONS

### OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2008	2007	% change
Cold Lake (100% basis)	372.3	324.9	14.6
Corridor <sup>(1)</sup>	197.4	-	100.0
	569.7	324.9	75.3
<i>(millions, except % amounts)</i>			
Revenue <sup>(1)(2)</sup>	\$ 37.3	\$ 14.0	166.4
Operating expenses <sup>(1)(2)</sup>	\$ 12.8	\$ 4.6	178.3
Funds from operations <sup>(1)(2)(3)</sup>	\$ 18.5	\$ 9.3	98.9
Capital expenditures <sup>(1)(2)</sup>			
Growth <sup>(3)</sup>	\$ 219.3	\$ 7.6	
Sustaining <sup>(3)</sup>	0.4	0.1	
Total capital expenditures	\$ 219.7	\$ 7.7	

- (1) The significant incremental change in the first quarter of 2008 is primarily due to the acquisition of Corridor on June 15, 2007.  
(2) The proportion of the Cold Lake pipeline system's revenue, operating expenses, funds from operations and capital expenditures are recorded on the basis of Inter Pipeline's 85% ownership interest.  
(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

#### Volumes

Total volumes (100% basis) in the oil sands transportation business increased by approximately 244,800 b/d in the first quarter of 2008 as a result of new volumes from the Corridor pipeline system and increased volumes transported on the Cold Lake pipeline system.

Throughput on the Corridor pipeline system consists of volumes transported on the bitumen blend and supplemental feedstock pipelines. Volumes on the Corridor pipeline system have almost recovered to expected levels since a fire at Shell's Scotford Upgrader in the fourth quarter of 2007 hampered production. In addition, extremely cold weather curtailed some production at the Muskeg River mine which also impacted first quarter volumes.

Volumes on the Cold Lake pipeline system increased approximately 14.6% or 47,400 b/d in the first quarter of 2008 over the comparable period in 2007, as production volumes from the Cold Lake founding shippers, Imperial Oil Ltd., Canadian Natural Resources Ltd. and EnCana Corporation continue to increase.

#### Revenue

The newly acquired Corridor pipeline operations contributed approximately \$21.5 million of the \$23.3 million growth in revenues in the first quarter of 2008. Corridor's revenue is governed by the terms of a long-term Firm Service Agreement (Corridor FSA), which is based on traditional cost-of-service principles; therefore any change in volumes transported does not impact revenue, cash flow or earnings. The Corridor FSA utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of all operating costs, rate base depreciation, taxes, debt financing costs and provides a return on equity.

The Cold Lake Transportation Services Agreement (Cold Lake TSA) provides Inter Pipeline with a structured return on capital invested in all of the facilities that comprise the Cold Lake pipeline system and provides for the recovery of operating costs over the term of the agreement. The annual minimum ship-or-pay commitment under the Cold Lake TSA is \$27.8 million to the end of December 2011 based on Inter Pipeline's 85% ownership interest (\$32.7 million - 100% basis). Capital fees under this commitment are collected in excess of actual volumes shipped until certain ship-or-pay thresholds are achieved by each shipper. Pursuant to the terms of the Cold Lake TSA, Inter Pipeline generally receives additional capital fees for volumes shipped over and above the take-or-pay amounts. Additional facility construction on the

Cold Lake pipeline system produces an additional return on the capital invested and recovery of associated operating costs, under the terms of the Cold Lake TSA.

Revenues attributable to the Cold Lake pipeline system increased approximately \$1.8 million to \$15.8 million in the first quarter of 2008 when compared to the same period in 2007. Approximately \$1.4 million of the revenue increase was a result of increases in capital fee revenue due to the volume increases discussed above. The remaining \$0.4 million revenue increase was attributed to operating cost recoveries.

### **Operating Expenses**

Substantially all operating costs are flowed through to the shippers on the Corridor and Cold Lake pipeline systems; therefore, most of these costs have limited impact on Inter Pipeline's earnings.

Similar to the discussion in the revenue section, the addition of Corridor operations accounted for approximately \$7.0 million of the \$8.2 million increase in operating costs during the first quarter of 2008. Power costs were approximately \$1.2 million lower than expected due to lower volumes.

Cold Lake's fuel, power and other operating expenses increased \$1.2 million to \$5.8 million in 2008 compared to the same period last year. Increases in both pipeline volumes and average power pool prices resulted in an approximate \$0.8 million increase in fuel and power costs during the first quarter of 2008. Average power pool prices<sup>1</sup> were \$76.95 per megawatt hour (MWh) compared to \$63.29/MWh in 2007. The remaining \$0.4 million of the increase related primarily to annual increases in employee costs, property tax and other operating expenses.

### **Capital Expenditures**

In the first quarter of 2008, approximately \$213.8 million of growth capital expenditures was expended on the Corridor expansion project for a total of \$835.3 million spent to date on the project. Significant progress was made on the Corridor expansion project in the first quarter, which remains on schedule and on budget. Approximately 93% or 431 kilometers of the 42-inch pipeline has been successfully installed. Inter Pipeline is planning to construct the remaining 33 kilometers of the 42-inch pipe and 43 kilometers of 20-inch pipe during the upcoming summer construction season. Progress on the facilities has also been proceeding well with the civil and structural activities nearing completion on the four new pump stations. Mechanical construction is expected to commence in the second quarter of 2008.

The \$1.8 billion Corridor expansion project is comprised of two distinct cost components. The first is a pipeline and facility component wherein Inter Pipeline is exposed to potential cost overruns. At March 31, 2008, approximately 86% of the pipeline and facilities costs have either been expended or committed which demonstrates Inter Pipeline's limited construction price risk. The second cost component is for items such as additional storage tanks, interest during construction, line fill requirements and certain contingency cost factors. There is no price risk exposure to Inter Pipeline for these cost components as these items will be included in the rate base at their actual cost.

Inter Pipeline intends to invest a total of approximately \$55.0 million on the installation of quarter point pump stations on the south leg of the Cold Lake pipeline system. This will increase Cold Lake's capacity from its current capacity of 460,000 b/d to over 560,000 b/d by the end of 2008. Approximately \$3.9 million was expended on the expansion in the first quarter of 2008 for a total of \$9.1 million expended on this project to date. Expenditures related to expansion of miscellaneous pumping facilities on the Cold Lake pipeline accounted for the remaining \$1.6 million of growth capital expenditures during the quarter.

Sustaining capital expenditures during the quarter primarily consisted of Corridor transition expenditures.

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<sup>1</sup> Weighted average price calculated from monthly average Alberta power pool prices per the *Alberta Electric System Operator Operations Reports*.

## NGL EXTRACTION BUSINESS SEGMENT

	Three Months Ended March 31							
	2008				2007			
	Mmcf/d		(000s b/d)		Mmcf/d		(000s b/d)	
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	2,080	54.0	30.6	84.6	1,985	51.7	30.7	82.4
Empress V (100% basis)	1,039	15.5	12.2	27.7	1,059	15.4	12.2	27.6
Empress II	1,105	21.4	13.0	34.4	1,615	29.6	18.6	48.2
<b>Total</b>	<b>4,224</b>	<b>90.9</b>	<b>55.8</b>	<b>146.7</b>	<b>4,659</b>	<b>96.7</b>	<b>61.5</b>	<b>158.2</b>

(millions, except % amounts)	Three Months Ended March 31		
	2008	2007	% change
Revenue <sup>(1)</sup>	\$ 214.7	\$ 196.8	9.1
Shrinkage gas <sup>(1)</sup>	\$ 132.1	\$ 130.8	0.1
Operating expenses <sup>(1)</sup>	\$ 39.4	\$ 39.1	0.8
Funds from operations <sup>(1) (2)</sup>	\$ 43.2	\$ 26.9	60.6
Capital expenditures <sup>(1)</sup>			
Growth <sup>(2)</sup>	\$ 2.1	\$ 0.7	
Sustaining <sup>(2)</sup>	(0.2)	0.6	
Total capital expenditures	\$ 1.9	\$ 1.3	

(1) Revenue, shrinkage, operating expenses, funds from operations and capital expenditures of the Empress V NGL extraction facility are recorded on a 50% ownership basis.

(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

### Volumes

Inter Pipeline's three NGL extraction plants processed a combined 4,224 million cubic feet per day (mmcf/d) of natural gas for the three months ended March 31, 2008. This is approximately 435.0 mmcf/d lower than in the comparative period of 2007 due to decreased gas throughput at the Empress II plant, somewhat offset by a 95 mmcf/d increase at the Cochrane plant. Natural gas volumes exported out of the province at the Empress area eastern gate were lower in the first quarter of 2008 when compared to the same period in 2007, resulting in an overall lower gas supply availability for all NGL extraction plants in that area. The decline in volumes does not have a significant impact on revenue due to the cost-of-service arrangements at the Empress II plant.

### Revenue

The NGL extraction business segment earns revenue from a combination of cost-of-service, fee-based and commodity based contracts. Cost-of-service contracts provide a structured return on new capital invested utilizing a rate base approach. These contracts provide a fixed capital charge, plus recovery of operating costs, including shrinkage gas costs. Fee-based contracts provide a fixed fee associated with each barrel of NGL produced, plus recovery of operating costs, including shrinkage gas costs. Commodity based contracts provide for a sharing of profits from the sale of NGL between the NGL extraction business and the purchaser. Included in the profit share calculation are costs of bringing the NGL to market, including extraction, shrinkage gas, fractionation and marketing costs. The return to Inter Pipeline from profit sharing contracts is affected by frac-spread and volume. Under cost-of-service and fee-based contracts, there is minimal volume risk and no commodity price risk exposure. Inter Pipeline's only frac-spread risk applies to its commodity based contract for propane-plus volumes sold at the Cochrane plant.

The NGL extraction business generated \$17.9 million more revenue when compared to the first quarter of 2007. Higher natural gas throughput at the Cochrane extraction plant combined with higher frac-spreads led the revenue increase, which was partially offset by lower cost recoveries under the cost-of-service and

fee-based contracts, due to lower natural gas prices. Inter Pipeline recovers a significant portion of its shrinkage and fuel gas costs through its cost-of-service or fee-based contracts, which is recognized as revenue.

### **Frac-spread**

<i>(actual)</i>	Three Months Ended March 31			
	2008		2007	
	USD/USG	CDN/USG	USD/USG	CDN/USG
Market frac-spread	\$ 0.940	\$ 0.944	\$ 0.432	\$ 0.506
Realized frac-spread	\$ 0.741	\$ 0.745	\$ 0.375	\$ 0.439

Market frac-spread is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the price of AECO natural gas purchased for shrinkage calculated in US dollars per US gallon (USD/USG). This price is converted to Canadian dollars per US gallon (CDN/USG) based on the average monthly Bank of Canada CDN/USD rate. Inter Pipeline hedges a portion of its anticipated cash flow to mitigate exposure to frac-spread volatility. The realized frac-spread is defined in a similar manner and is calculated on a weighted average basis using the market frac-spread for unhedged production and the fixed-priced frac-spread for hedged production. See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for further discussion of the hedged frac-spreads at March 31, 2008.

Comparatively, the realized frac-spreads indicated in the table above are significantly higher than the 15-year and the 3-year annual historical simple average market frac-spreads to December 31, 2007 of \$0.275 USD/USG and \$0.511 USD/USG, respectively.

### **Shrinkage**

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of the liquids extracted from the natural gas processed at the NGL extraction plants. The price for shrinkage gas is based on a combination of daily and monthly index AECO prices for natural gas.

The increase in shrinkage gas expense of approximately \$1.3 million in the first quarter of 2008 was directly associated with the increase in throughput and associated NGL production at the Cochrane facilities. This increase was partially offset by a decline in the Alberta natural gas price for shrinkage gas purchased at all of the NGL extraction plants. The weighted average monthly AECO price<sup>1</sup> was \$6.76 per gigajoule (GJ) in the first quarter of 2008, which was approximately 4.4% lower than the weighted average price<sup>1</sup> of \$7.07 per GJ in the same period in 2007.

### **Operating Expenses**

Operating expenses increased approximately \$0.3 million in the first three months of 2008 when compared to 2007. Maintenance expenses increased approximately \$0.5 million or 6.1% to \$8.7 million in the first quarter which was partially offset by a slight decline in fuel and power costs of approximately \$0.3 million.

### **Capital Expenditures**

An additional \$1.3 million was expended on the Empress V ethane recovery improvement project during the quarter for a total of \$9.3 million to date.

<sup>1</sup> Weighted average price calculated from one-month spot prices at AECO as reported in the *Canadian Gas Price Reporter*.

## CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2008	2007	% change
Bow River	131.9	148.1	(10.9)
Central/Valley/Mid Saskatchewan	73.8	73.3	0.7
	205.7	221.4	(7.1)
<hr/>			
<i>(millions, except per barrel and % amounts)</i>			
Revenue	\$ 33.9	\$ 30.9	9.7
Operating expenses	\$ 10.4	\$ 9.3	11.8
Funds from operations <sup>(1)</sup>	\$ 24.4	\$ 23.0	6.1
Revenue per barrel	\$ 1.81	\$ 1.55	16.8
Capital expenditures			
Growth <sup>(1)</sup>	\$ 0.3	\$ 2.9	
Sustaining <sup>(1)</sup>	0.9	0.3	
Total capital expenditures	\$ 1.2	\$ 3.2	

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

### Volumes

Conventional oil pipeline volumes declined by approximately 15,700 b/d in the first quarter of 2008 when compared to the same period in 2007. The declines are primarily a result of natural volume declines and new oil blending practises on the Bow River pipeline system which resulted in heavier, more viscous oil blends being shipped from Hardisty, Alberta to refining markets in the northwest United States. New connections and increased truck terminal activity resulted in an increase in volumes on the other conventional oil pipeline systems. Reduction in throughput has been offset by tariff increases as noted in the **Revenue** section.

### Revenue

Revenue in the first quarter of 2008 increased approximately \$3.0 million or 9.7% when compared with the same period in 2007. Volume declines discussed above were offset by mainline toll increases averaging 6% and 3% effective January 1, 2008 and July 1, 2007, respectively and other gathering toll increases.

### Operating Expenses

Operating expenses increased approximately \$1.1 million in the first quarter of 2008 when compared to 2007 due to increases in routine pipeline integrity and remediation projects, employee and other routine maintenance expenses.

### Capital Expenditures

Growth capital expenditures in the first quarter of 2008 related to construction associated with third party connections and flow control enhancements to the Central Alberta and Bow River pipelines.

Sustaining capital expenditures of \$0.9 million during the quarter included spending to replenish equipment spares and other normal maintenance activities.

## BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended March 31		
<i>(millions, except % amounts)</i>	2008	2007	% change
Utilization	95.5%	97.5%	(2.1)
Revenue	\$ 32.1	\$ 42.4	(24.3)
Operating expenses	\$ 19.8	\$ 27.2	(27.2)
Funds from operations <sup>(1)</sup>	\$ 9.3	\$ 12.1	(23.1)
Capital expenditures			
Growth <sup>(1)</sup>	\$ 8.8	\$ 4.4	
Sustaining <sup>(1)</sup>	0.5	0.5	
Total capital expenditures	\$ 9.3	\$ 4.9	

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

### Utilization

Utilization rates continued to be strong in the first quarter of 2008 as demand for oil and chemical product storage across Northwest Europe continues to be strong. This is further supported in the United Kingdom by the continued development of the biofuels sector. Utilization of 95.5% is consistent with historical utilization rates, however is lower than utilization realized in the first quarter of 2007 whereby the storage and handling business experienced exceptionally high demand.

### Revenue

The bulk liquid storage business activities of Simon Storage Limited consist of storage and handling services, plus a range of complementary services to its customers through its bulk liquid trucking, engineering, training and facilities management divisions. Revenue in the first quarter of 2008 decreased approximately \$10.3 million when compared to 2007. The decrease is driven by a combination of a \$6.5 million decline in Simon Storage's ancillary businesses due to lower activity levels within certain contracts when compared to the prior year, and a \$5.6 million decline due to foreign currency translation. Additional revenues of approximately \$1.8 million generated by the core storage and handling business partially offset the overall decline in revenue. Revenue associated with the biofuel industry sector increased from 14% in the first quarter of 2007 to approximately 20% in the first quarter of 2008 largely attributable to two tank refurbishment projects for Greenergy Biofuels Limited.

### Operating Expenses

Operating expenses in the first quarter of 2008 decreased by approximately \$7.4 million when compared to 2007. Lower activity levels in Simon Storage's ancillary businesses contributed approximately \$5.6 million to the decline and foreign exchange translation contributed another \$3.6 million. Operating expenses related to the core storage and handling business increased approximately \$1.8 million, of which approximately \$0.6 million relates directly to additional Greenergy storage services and the remaining \$1.2 million is a result of higher overall labour and other operating costs.

### Capital Expenditures

In response to growing demand for biofuel storage and handling facilities, Inter Pipeline has commenced construction of an additional 313,000 barrels of tankage at its Immingham terminals. The capital investment is estimated to be \$23.0 million with facilities to be operational in 2009. Approximately \$2.9 million of the \$8.8 million of growth capital expenditures in the first quarter relates to these projects. Another \$2.2 million of growth capital expenditure relates to a second biofuel project at Immingham for Greenergy which is on schedule for completion in the second quarter of 2008. The remaining \$3.7 million of growth capital expenditures are related to a number of other smaller modification projects at Immingham and other terminals.

Sustaining capital expenditures consisted of a variety of small projects relating to improvements in health and safety, and infrastructure maintenance.

## OTHER EXPENSES

<i>(millions, except % amounts)</i>	Three Months Ended March 31		
	2008	2007	% change
Depreciation and amortization	\$ 22.8	\$ 18.3	24.6
Financing charges	16.4	9.7	69.1
General and administrative	8.4	8.2	2.4
Unrealized change in fair value of derivative financial instruments	(14.7)	8.8	(267.0)
Management and acquisition fees to General Partner	1.9	1.3	46.2
Income taxes	8.6	2.3	273.9

### Depreciation and Amortization

Increases in depreciation and amortization of operating and intangible assets are primarily attributable to the addition of Corridor assets in June 2007 and Inter Pipeline's 2007 capital expenditure programs.

### Financing Charges

<i>(millions)</i>	Three Months Ended March 31	
	2008	2007
Interest on credit facilities	\$ 16.3	\$ 3.6
Interest on loan payable to General Partner	6.0	5.8
Interest on debentures	3.6	0.3
Cash related financing charges	25.9	9.7
Capitalized interest	(9.5)	-
Total financing charges	\$ 16.4	\$ 9.7

Financing the acquisition of Corridor and its ongoing pipeline expansion project in the first quarter of 2008 resulted in a significant increase in interest expense. Approximately \$9.5 million of the interest cost attributable to the pipeline expansion was capitalized along with other related capital expenditures. The weighted average principal outstanding on the credit facilities during the quarter increased approximately \$1,011.4 million from \$297.8 million in 2007 to \$1,309.2 million in 2008.

Interest expense of \$6.0 million on the \$379.8 million loan payable to the General Partner is approximately \$0.2 million or 3.4% higher in the first quarter of 2008 due to a change of 25 basis points in the fixed rate of interest on the loan. This change is in effect until the end of 2009.

Debenture interest expense increased approximately \$3.3 million in the first quarter of 2008 with the assumption of \$300.0 million of 4.240% and 5.033% fixed rate Series A and B debentures in the Corridor acquisition. While the interest rates on these debentures are fixed rates, Inter Pipeline also assumed interest rate swap agreements that exchange the fixed rates to variable rates. The remaining outstanding 10% convertible debentures issued in 2002 matured on December 31, 2007.

See the **LIQUIDITY AND CAPITAL RESOURCES** section for further information about Inter Pipeline's debt facilities and the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for further information about Inter Pipeline's interest rate swaps.

## General and Administrative

<i>(millions)</i>	Three Months Ended March 31	
	2008	2007
Canada	\$ 6.0	\$ 5.2
Europe	2.4	3.0
Total general and administrative	\$ 8.4	\$ 8.2

In Canada, general and administrative expenses increased approximately \$0.8 million in the first quarter of 2008 primarily due to normal increases in employee costs when compared to the same period in 2007. Inter Pipeline also added to its complement of employees and incurred additional administrative costs as a result of the acquisition of Corridor in the latter part of 2007.

In Europe, general and administrative expenses declined approximately \$0.6 million in the first quarter of 2008 when compared to the same period in 2007. Approximately \$0.4 million of the variance relates to a foreign currency translation adjustment for reporting these operations in Canadian currency.

### Unrealized Change in Fair Value of Derivative Financial Instruments

Recent changes in forward commodity prices contributed to most of the \$14.7 million favourable change in the mark-to-market valuation of Inter Pipeline's derivative financial instruments and net income during the first quarter of 2008. As per note 14 of the March 31, 2008 consolidated financial statements, the change in natural gas and NGL forward prices between December 31, 2007 and March 31, 2008, combined with changes in the volumes of NGL and natural gas under purchase and sale swap contracts during the period, resulted in a favourable \$19.2 million change in the mark-to-market value of contracts during the period. These favourable changes were offset by approximately \$4.5 million of unrealized changes in the mark-to-market valuation of USD / CDN currency rate swaps and interest rate swaps during the same period.

### Management and Acquisition Fees

The General Partner was paid a management fee of \$1.9 million (Q1 2007 - \$1.3 million) in the first quarter of 2008. This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (Partnership Agreement).

### Income Taxes

In the first quarter of 2008, income tax expense increased by approximately \$6.3 million to \$8.6 million when compared to the same period in 2007. Inter Pipeline increased its future tax provision as a result of the enactment of the SIFT tax legislation in June 2007. Future income tax expense in 2008 includes the additional future income tax impact on temporary differences relating to Canadian partnership income.

The federal government's 2008 budget announced in February 2008 proposed that the provincial component of the SIFT tax be determined based on general provincial corporate income tax rates for each province in which the SIFT has a permanent establishment, rather than applying a "provincial SIFT factor" of 13%. If enacted, this would lower Inter Pipeline's effective tax rate by approximately 3% to 26.5% and 25% in 2011 and 2012 respectively. Since this legislation has not been substantively enacted at March 31, 2008, the impact of this reduction on future tax rates has not been recognized in the March 31, 2008 consolidated financial statements.

## SUMMARY OF QUARTERLY RESULTS

	2006				2007			2008
(millions, except per unit and % amounts)	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
<b>Revenue</b>								
Oil sands transportation <sup>(1)</sup>	\$ 15.3	\$ 14.9	\$ 14.7	\$ 14.0	\$ 17.8	\$ 39.2	\$ 38.0	\$ 37.3
NGL extraction	133.0	177.1	186.1	196.8	178.5	176.2	205.2	214.7
Conventional oil pipelines	27.1	30.2	30.7	30.9	29.8	30.2	31.9	33.9
Bulk liquid storage	34.3	34.1	43.7	42.4	39.4	38.9	35.7	32.1
	\$ 209.7	\$ 256.3	\$ 275.2	\$ 284.1	\$ 265.5	\$ 284.5	\$ 310.8	\$ 318.0
<b>Funds from operations<sup>(2)</sup></b>								
Oil sands transportation <sup>(1)</sup>	\$ 10.6	\$ 9.2	\$ 8.1	\$ 9.3	\$ 11.0	\$ 18.2	\$ 20.2	\$ 18.5
NGL extraction	25.4	36.4	25.6	26.9	29.7	38.4	50.7	43.2
Conventional oil pipelines	18.3	21.1	20.8	23.0	20.5	20.7	22.3	24.4
Bulk liquid storage	9.4	10.2	9.9	12.1	11.4	11.5	9.0	9.3
Corporate costs	(14.9)	(15.4)	(17.2)	(16.5)	(27.6)	(21.2)	(22.7)	(19.6)
	\$ 48.8	\$ 61.5	\$ 47.2	\$ 54.8	\$ 45.0	\$ 67.6	\$ 79.5	\$ 75.8
Per unit <sup>(1)(2)</sup>	\$ 0.24	\$ 0.31	\$ 0.24	\$ 0.27	\$ 0.22	\$ 0.34	\$ 0.39	\$ 0.34
<b>Net income (loss)<sup>(3)</sup></b>	\$ 30.8	\$ 42.4	\$ 28.3	\$ 24.5	\$ (215.5)	\$ 35.1	\$ 75.9	\$ 60.1
Per unit – basic <sup>(3)</sup>	\$ 0.15	\$ 0.21	\$ 0.14	\$ 0.12	\$ (1.06)	\$ 0.18	\$ 0.37	\$ 0.27
Per unit – diluted <sup>(3)</sup>	\$ 0.15	\$ 0.21	\$ 0.14	\$ 0.12	\$ (1.06)	\$ 0.18	\$ 0.37	\$ 0.27
<b>Cash distributions<sup>(4)</sup></b>	\$ 39.2	\$ 40.3	\$ 42.3	\$ 42.4	\$ 42.6	\$ 42.7	\$ 44.0	\$ 46.5
Per unit <sup>(4)</sup>	\$ 0.195	\$ 0.200	\$ 0.210	\$ 0.210	\$ 0.210	\$ 0.210	\$ 0.210	\$ 0.210
<b>Units outstanding</b>								
Weighted average	200.7	201.2	201.6	202.0	202.6	203.1	205.8	221.2
End of period	200.9	201.4	201.7	202.3	202.8	203.3	220.9	221.6
<b>Capital expenditures</b>								
Growth <sup>(2)</sup>	\$ 15.2	\$ 11.4	\$ 14.8	\$ 15.6	\$ 16.1	\$ 164.6	\$ 167.6	\$ 230.5
Sustaining <sup>(2)</sup>	2.5	3.8	5.6	1.5	3.1	2.4	5.2	1.6
	\$ 17.7	\$ 15.2	\$ 20.4	\$ 17.1	\$ 19.2	\$ 167.0	\$ 172.8	\$ 232.1
<b>Payout ratio before sustaining capital<sup>(2)</sup></b>	80.2%	65.4%	89.7%	77.4%	94.5%	63.1%	55.4%	61.3%
<b>Payout ratio after sustaining capital<sup>(2)</sup></b>	84.6%	69.7%	101.7%	79.6%	101.5%	65.5%	59.3%	62.6%
<b>Long-term debt<sup>(5)</sup></b>	\$ 670.6	\$ 684.4	\$ 687.0	\$ 665.5	\$ 1,774.4	\$ 1,891.0	\$ 1,887.8	\$ 2,035.7
<b>Partners' equity</b>	\$ 1,172.7	\$ 1,181.3	\$ 1,198.4	\$ 1,178.2	\$ 910.5	\$ 892.5	\$ 1,064.2	\$ 1,098.9
<b>Total enterprise value<sup>(2)</sup></b>	\$ 2,661.4	\$ 2,745.9	\$ 2,510.1	\$ 2,543.2	\$ 3,678.5	\$ 3,822.1	\$ 3,984.0	\$ 4,151.7
<b>Total debt to total capitalization<sup>(2)</sup></b>	36.4%	36.7%	36.4%	36.1%	66.1%	68.0%	64.0%	64.9%
<b>Total recourse debt to capitalization<sup>(2)</sup></b>	36.4%	36.7%	36.4%	36.1%	51.9%	53.0%	44.3%	41.8%

(1) Inter Pipeline acquired Corridor on June 15, 2007.

(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

(3) The net loss for the second quarter of 2007 was primarily due to the recognition of non-cash expense for future income taxes recognized as a result of the substantive enactment of Bill C-52 Budget Implementation Act, 2007, associated with the federal government's Tax Fairness Plan effective June 2007. The second quarter net loss and per unit amounts have been restated. During the fourth quarter of 2007, Inter Pipeline recalculated the estimate for the "specified investment flow-through" (SIFT) tax reported in the second quarter of 2007. The recalculation resulted in a \$7.6 million increase in the SIFT tax liability at June 30, 2007 resulting in a \$7.6 million decrease in net income in the second quarter of 2007 and increase in net income in the fourth quarter of 2007.

(4) Cash distributions are calculated based on the number of units outstanding at each record date.

- (5) Long-term debt excludes discounts, deferred debt transaction costs and equity portion of convertible debentures that matured December 31, 2007.

## LIQUIDITY AND CAPITAL RESOURCES

<i>(millions, except for % amounts)</i>	March 31 2008	December 31 2007
Adjusted working capital (deficiency) <sup>(1)</sup>	\$ (77.4)	\$ (21.0)
<b>Credit facilities available</b>		
Corridor syndicated facility (non recourse tranches)	\$ 1,654.0	\$ 1,654.0
Corridor syndicated facility (recourse tranches)	488.0	488.0
Total Corridor syndicated facility	2,142.0	2,142.0
Inter Pipeline revolving facility (recourse)	750.0	750.0
Inter Pipeline demand loan facility (recourse)	20.0	20.0
Corridor demand loan facility (non recourse)	40.0	40.0
Total credit facilities available	2,952.0	2,952.0
<b>Unutilized credit facilities</b>	(1,596.1)	(1,744.0)
Credit facilities outstanding <sup>(2)</sup>	1,355.9	1,208.0
Corridor debentures (non-recourse)	300.0	300.0
Less variable rate debt swapped to fixed rate	(44.0)	(44.0)
<b>Total outstanding variable rate debt</b>	1,611.9	1,464.0
<b>Fixed rate debt</b>		
Loan payable to General Partner (recourse)	379.8	379.8
Add variable rate debt swapped to fixed	44.0	44.0
<b>Total outstanding fixed rate debt</b>	423.8	423.8
<b>Total debt</b> <sup>(1)(3)</sup>	\$ 2,035.7	\$ 1,887.8
Total debt to total capitalization <sup>(1)</sup>	64.9%	64.0%
Total recourse debt to capitalization <sup>(1)</sup>	41.8%	44.3%

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

(2) Outstanding letters of credit were approximately \$3.7 million which are not included in the total credit facilities outstanding at March 31, 2008.

(3) Long-term debt in the March 31, 2008 consolidated financial statements was \$2,020.8 million, which consists of total debt of \$2,035.7 million net of discounts and deferred debt transaction costs of \$14.9 million.

Inter Pipeline's consolidated debt balance increased by \$147.9 million overall since December 2007 as a result of the ongoing funding of the Corridor pipeline expansion project net of reduction of debt with funds contributed from operating activities. In 2007, Inter Pipeline entered into a new \$2,142.0 million syndicated credit facility and \$40.0 million demand operating facility to finance Corridor's operations and its pipeline expansion project.

Of the \$2,035.7 million of total debt outstanding at March 31, 2008, \$1,611.9 million or 79.2% was exposed to a period ending variable interest rate (including respective fees) of 4.24%. The remaining \$423.8 million or 20.8% is fixed term debt with rates ranging from 6.10% to 6.40%.

Inter Pipeline projects its funding requirements to ensure appropriate sources of financing are available to meet future financial obligations. Financial liabilities may be funded through cash from operations or through other capital strategies as discussed in note 13 in the March 31, 2008 consolidated financial

statements. As noted above, Inter Pipeline had access to unutilized credit facilities of approximately \$1.6 billion to fund a portion of the foreseeable obligations noted in the following table.

The following table summarizes Inter Pipeline's contractual maturity and commitment profile at March 31, 2008.

<i>(millions)</i>	Total	Less than one year	1 to 5 years	After 5 years
Long-term debt				
Credit facilities	\$ 1,355.9	\$ -	\$ 1,355.9	\$ -
Loan payable to General Partner	379.8	-	91.2	288.6
Corridor debentures	300.0	-	150.0	150.0
Capital expenditure projects				
Corridor expansion project	966.6	698.9	267.7	-
Cold Lake quarter point pump stations project	46.4	37.9	8.5	-
Empress V optimization project	9.2	9.2	-	-
Operating leases <sup>(1)</sup>	83.2	6.7	28.4	48.1
Derivative financial instruments	24.5	21.3	3.2	-
Working capital <sup>(2)</sup>	77.4	77.4	-	-
	<b>\$ 3,243.0</b>	<b>\$ 851.4</b>	<b>\$ 1,904.9</b>	<b>\$ 486.7</b>

(1) Operating lease maturities are based on contract terms as presented at December 31, 2007.

(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

As discussed in the **OUTLOOK** section, including the three capital projects noted in the table above, Inter Pipeline announced that it plans to invest approximately \$1.0 billion in capital projects in 2008.

On June 15, 2007, pursuant to the Corridor FSA, Inter Pipeline entered into a guarantee in favour of the Corridor shippers for the payment and performance of all obligations of Corridor, the General Partner or the operator (if the operator was not Inter Pipeline). This guarantee does not include those obligations for repayment of borrowed money or similar financial obligations incurred by these entities (except for funding certain cost overruns). The guarantee may be exercised in the event that Corridor, the General Partner or the operator (if the operator was not Inter Pipeline) fails to pay or perform such obligations for any reason.

## CASH DISTRIBUTIONS TO UNITHOLDERS

	Three Months Ended March 31	
<i>(millions, except per unit and % amounts)</i>	2008	2007
Cash provided by operating activities	\$ 122.3	\$ 79.7
Net change in non-cash working capital	(46.6)	(24.9)
Less sustaining capital expenditures <sup>(1)</sup>	(1.6)	(1.5)
Cash available for distribution <sup>(1)</sup>	74.1	53.3
Change in discretionary reserves	(27.6)	(10.9)
Cash distributions	\$ 46.5	\$ 42.4
Cash distributions per unit <sup>(2)</sup>	\$ 0.21	\$ 0.21
Payout ratio before sustaining capital <sup>(1)</sup>	61.3%	77.4%
Payout ratio after sustaining capital <sup>(1)</sup>	62.6%	79.6%
Growth capital expenditures <sup>(1)</sup>	\$ 230.5	\$ 15.6
Sustaining capital expenditures <sup>(1)</sup>	1.6	1.5
Total capital expenditures	\$ 232.1	\$ 17.1

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

(2) Cash distributions are calculated based on the number of units outstanding at each record date.

It is the policy of the General Partner to provide unitholders with stable cash distributions over time. As a result, not all cash available for distribution is distributed to unitholders. Rather, a portion of cash available for distribution is reserved and reinvested in the business to effectively manage its capital structure, and in particular, debt levels. The General Partner makes its cash distribution decisions based on the underlying assumptions in each year's annual operating and capital budget and the long-term forecast, consistent with its policy to provide unitholders with stable cash distributions.

"Cash available for distribution" is a non-GAAP financial measure that the General Partner uses in managing Inter Pipeline's business and in assessing future cash requirements that impact the determination of future distributions to unitholders. Inter Pipeline defines cash available for distribution as cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. The impact of net change in non-cash working capital is excluded in the calculation of "Cash available for distribution" primarily to compensate for the seasonality of working capital throughout the year. Certain Inter Pipeline revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the generation of revenue. Within a 12 month calendar year, there is no variation between revenue generated and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of cash available for distribution to mitigate the quarterly impact this difference has on cash available for distribution. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, but to focus the results on cash that is generated in any reporting period.

In addition, in determining actual cash distributions, Inter Pipeline applies a discretionary reserve to cash available for distribution, which is designed to ensure stability of distributions over economic and industry cycles and to enable Inter Pipeline to absorb the impact of material one-time events. Therefore, not all cash available for distribution is necessarily distributed to unitholders. The reconciliation is prepared using reasonable and supportable assumptions, reflecting Inter Pipeline's planned courses of action in light of management and the board of directors' judgment regarding the most probable set of economic conditions. Investors should be aware that actual results may vary, possibly materially, from such forward-looking adjustments.

The discretionary reserve increased approximately \$27.6 million in the first quarter of 2008 due to the positive 2008 business performance, primarily driven by the addition of Corridor operations and favourable commodity prices in the NGL extraction business. Business performance was more favourable than anticipated and as such, did not form part of management's 2008 distribution decision. Inter Pipeline will continue to manage the discretionary reserve and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

The tables below show Inter Pipeline's cash distributions paid relative to cash provided by operating activities and net income (loss) for the periods indicated. See also the **OUTLOOK** section of this report and **RISK FACTORS** section of the **2007 ANNUAL INFORMATION FORM** for further information regarding the sustainability of cash distributions.

<i>(millions)</i>	Three Months Ended March 31			Years Ended December 31	
	2008	2007	2007	2006	2005
Cash provided by operating activities	\$ 122.3	\$ 79.7	\$ 234.1	\$ 201.6	\$ 171.8
Cash distributions	(46.5)	(42.4)	(171.7)	(160.8)	(137.7)
Excess	\$ 75.8	\$ 37.3	\$ 62.4	\$ 40.8	\$ 34.1

<i>(millions)</i>	Three Months Ended March 31			Years Ended December 31	
	2008	2007	2007	2006	2005
Net income (loss)	\$ 60.1	\$ 24.5	\$ (80.0)	\$ 130.6	\$ 89.3
Cash distributions	(46.5)	(42.4)	(171.7)	(160.8)	(137.7)
Excess (shortfall)	\$ 13.6	\$ (17.9)	\$ (251.7)	\$ (30.2)	\$ (48.4)

Cash distributions in all periods are less than cash provided by operating activities but are in excess of net income (loss) except for the first quarter of 2008. Cash distributions are generally more than net income because Inter Pipeline, as a flow-through entity, distributes a cash return of capital in addition to a cash return on capital. Thus the cash distributions will generally always be higher than net income as it will include certain non-cash expenses such as depreciation, future income taxes, unrealized changes in the fair value of derivative financial instruments, etc.

The overall cash distributions of Inter Pipeline are governed by the Partnership Agreement, specifically section 5.2 of the Partnership Agreement requires that Inter Pipeline make distributions of cash as defined in the Partnership Agreement (Distributable Cash) on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the Partnership Agreement, cash distributed to unitholders is always equal to Distributable Cash.

## OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at March 31, 2008 are as follows:

<i>(millions)</i>	Class A	Class B	Total
Units outstanding	221.4	0.2	221.6
Units reserved for issuance upon exercise of vested Unit Incentive Options	1.0	-	1.0

At May 6, 2008, Inter Pipeline had 221.5 million Class A units and 0.2 million Class B units for a total of 221.7 million units outstanding.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Inter Pipeline utilizes derivative financial instruments to manage its exposure to changes in commodity prices, foreign currencies and interest rates. Risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price and foreign exchange risk and to assist with stabilizing funds from operations. Inter Pipeline attempts to accomplish this primarily through the use of financial instruments. Inter Pipeline is prohibited from using financial instruments for speculative

purposes. All hedging policies are authorized and approved by the board of directors through Inter Pipeline's risk management policy.

Inter Pipeline has four types of financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price swap agreements and interest rate swap agreements. The mark-to-market or fair value of these financial instruments are recorded as an asset or liability and any change in the fair value recognized as an unrealized change in fair value of these derivative financial instruments in the calculation of income. When the financial instrument matures, the realized gain or loss is recorded in net income.

### **NGL EXTRACTION BUSINESS**

The following commodity and foreign currency swaps are used collectively to mitigate the frac-spread risk on propane-plus volumes at the Cochrane extraction facility. At March 31, 2008, Inter Pipeline had hedged approximately 29% of forecast propane-plus volumes at the Cochrane NGL extraction plant for the period April 1 to December 31, 2008 at an average price of \$0.44 CDN/USG. This average price would approximate \$0.43 USD/USG based on the average USD/CDN forward curve at March 31, 2008.

At May 6, 2008, Inter Pipeline hedged approximately 29% and 10% of forecast propane-plus volumes for the period April 1, 2008 to December 31, 2008 and January 1, 2009 to December 31, 2009, respectively at average prices of \$0.44 CDN/USG and \$0.77 CDN/USG. These average prices would approximate \$0.44 USD/USG and \$0.76 USD/USG, respectively based on the average USD/CDN forward curve at May 6, 2008.

### **Commodity Prices**

#### **NGL**

Inter Pipeline established a hedging program to sell certain quantities of NGL products at fixed prices to third party counterparties and buy related quantities of natural gas at fixed prices from third party counterparties in order to manage frac-spread risk. Contracts outstanding at March 31, 2008 to hedge NGL revenues fixed NGL prices at average prices for the following periods:

Contract Period	2008	
	April to December 2008	
	Average Price (USD/USG)	Average Quantity (b/d)
Propane	\$ 1.050	2,665
Normal butane	1.218	458
Iso butane	1.254	284
Pentanes plus	1.642	227

The mark-to-market value of these contracts resulted in an unrealized loss of CDN \$20.1 million (USD \$19.6 million) at March 31, 2008.

Contracts outstanding at March 31, 2007 to hedge NGL revenue fixed NGL prices at average prices for the following periods:

Contract Period	2007		2008	
	April to December 2007		January to December 2008	
	Average Price (USD/USG)	Average Quantity (b/d)	Average Price (USD/USG)	Average Quantity (b/d)
Propane	\$ 0.993	4,053	\$ 0.980	1,000
Normal butane	1.152	697	1.140	172
Iso butane	1.167	431	1.190	107
Pentanes plus	1.696	345	1.583	85

The mark-to-market value of these contracts resulted in an unrealized loss of USD \$9.5 million at March 31, 2007.

### Natural Gas

Contracts outstanding at March 31, 2008 to hedge natural gas purchases fixed natural gas prices at average prices for the following periods:

Contract Period	2008	
	April to December 2008	
	Average Price (CDN/GJ)	Average Quantity (GJ/day)
AECO natural gas	\$ 7.83	16,000

The mark-to-market value of the natural gas contracts at March 31, 2008 resulted in an unrealized gain of \$5.2 million.

Contracts outstanding at March 31, 2007 to hedge natural gas purchases fixed natural gas prices at average prices for the following periods:

Contract Period	2007		2008	
	April to December 2007		January to December 2008	
	Average Price (CDN/GJ)	Average Quantity (GJ/day)	Average Price (CDN/GJ)	Average Quantity (GJ/day)
AECO natural gas	\$ 7.66	22,691	\$ 8.19	5,246

The mark-to-market value of the natural gas contracts at March 31, 2007 resulted in an unrealized gain of \$1.9 million.

### FOREIGN CURRENCY

The NGL price swap agreements are calculated based on US dollar prices. At March 31, 2008, Inter Pipeline had the following foreign exchange contracts outstanding:

Contract Period	2008	
	April to December 2008	
	Average Price (USD/CDN)	Average Monthly Notional Amount (USD thousands)
Foreign exchange	\$ 0.915	\$ 5,241

The mark-to-market value of these contracts at March 31, 2008 resulted in an unrealized gain of \$3.1 million.

At March 31, 2007, Inter Pipeline had the following foreign exchange contracts outstanding:

Contract Period	2007		2008	
	April to December 2007		January to December 2008	
	Average Price (USD/CDN)	Average Monthly Notional Amount (USD thousands)	Average Price (USD/CDN)	Average Monthly Notional Amount (USD thousands)
Foreign exchange	\$ 0.888	\$ 7,595	\$ 0.874	\$ 1,842

The mark-to-market value of these contracts at March 31, 2007 resulted in an unrealized loss of \$1.6 million.

## CONVENTIONAL OIL PIPELINES BUSINESS

### Power Prices

Inter Pipeline entered into the following electricity price swap agreements:

Contract Period	2008		2007	
	Average Price (CDN/MWh)	Average Quantity (MW)	Average Price (CDN/MWh)	Average Quantity (MW)
2007	\$ -	-	\$ 52.75	5.0
2008	\$ 54.00	2.5	\$ 54.00	2.5

The mark-to-market value of these contracts at March 31, 2008 resulted in an unrealized gain of \$0.5 million compared to an unrealized gain of \$1.4 million at March 31, 2007.

## CORPORATE

### Interest Rates

A portion of the outstanding variable rate debt at March 31, 2008 is subject to a continuing swap agreement, whereby the variable rate debt has been exchanged for fixed rates as follows:

Maturity date	2008		2007	
	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (CDN millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (CDN millions)
December 30, 2011	6.30%	\$ 29.0	6.30%	\$ 30.0
December 31, 2011	6.31%	15.0	6.31%	15.0
		\$ 44.0		\$ 45.0

The fair market value of the remaining portion of the interest rate swap agreements aggregates to an unrealized loss of \$4.2 million at March 31, 2008 compared to an unrealized loss of \$3.7 million at March 31, 2007. The notional principal balance of the \$29.0 million interest rate swap is reduced by \$1.0 million each year for the term of the arrangement.

The following Corridor debentures at March 31, 2008 are also subject to interest rate swap agreements, in which the fixed rate debentures have been exchanged for a variable rate.

Maturity date	2008		2007	
	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (CDN millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (CDN millions)
February 2, 2010	4.240%	\$ 150.0	-	-
February 2, 2015	5.033%	\$ 150.0	-	-

The fair market value of the Corridor interest rate swap agreements aggregates to an unrealized gain of \$7.5 million at March 31, 2008.

## TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the quarter ended March 31, 2008 or 2007.

Upon acquisition of the General Partner in 2002, Pipeline Assets Corp. (PAC), the sole shareholder of the General Partner, assumed the obligations of the former general partner of Inter Pipeline under a support agreement. The support agreement obligates the affiliates controlled by PAC to provide certain personnel and services if requested by the General Partner, to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts have been paid under the terms of the support agreement since PAC acquired its interests in the General Partner.

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied, in part, to the continuing employment or service as a director or officer of the General Partner. These officers and directors of the General Partner received a total of \$0.4 million (Q1 2007 - \$0.3 million) in dividends during the first quarter of 2008 from PAC pursuant to their ownership of non-voting shares.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the Partnership Agreement in excess of \$1.01 per unit to \$1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline. See the **Other Expenses** section of **RESULTS OF OPERATIONS** for details of management and acquisition fees paid to the General Partner during the year.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for \$379.8 million. At the same time, the General Partner had received \$379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At March 31, 2008, interest payable to the General Partner on the loan was \$10.1 million (2007 - \$9.9 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for a nominal interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 basis points over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At March 31, 2008, there were amounts owed to the General Partner by Inter Pipeline of \$0.7 million (March 31, 2007 - \$0.4 million).

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management made no material changes to the design of Inter Pipeline's internal controls over financial reporting during the first quarter of 2008.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of Inter Pipeline's Consolidated Financial Statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should also refer to Note 1 of the December 31, 2007 Consolidated Financial Statements for a list of Inter Pipeline's significant accounting policies.

There were no changes in Inter Pipeline's critical accounting estimates as disclosed in its annual 2007 MD&A, that affected the disclosure or the accounting for its operations for the quarter ended March 31, 2008.

## **CHANGES IN ACCOUNTING POLICIES**

### **FUTURE**

#### **International Financial Reporting Standards (IFRS)**

In 2006, the Accounting Standards Board (AcSB) adopted a new strategic plan for financial reporting in Canada, "Accounting Standards in Canada: New Directions." For publicly reported enterprises, the AcSB will converge Canadian GAAP with IFRS over a period from 2006 to 2011. After this time period, Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises. Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve. Inter Pipeline is currently evaluating the impact of adopting IFRS.

### **2008**

On January 1, 2008, Inter Pipeline adopted the following Canadian Institute of Chartered Accountants (CICA) accounting standards on a prospective basis:

#### **Capital Disclosures**

Section 1535 - Capital Disclosures establishes standards for the disclosure of quantitative and qualitative information intended to enable users of the financial statements to evaluate an entity's objectives, policies and processes for managing capital. Qualitative information requirements include a description of "capital", the nature of any externally imposed capital requirements and how an entity manages these requirements and meets its objectives for managing capital. Quantitative disclosure includes a summary of the components of capital. An entity must disclose any changes in the qualitative or quantitative disclosure from the previous period and whether the entity has complied with externally imposed capital requirements during the period. If an entity has not complied with any externally imposed capital requirements, it must disclose any consequences of non-compliance. See note 13 in the March 31, 2008 consolidated financial statements for Inter Pipeline's Capital Disclosures.

#### **Financial Instruments – Disclosures and Financial Instruments - Presentation**

Sections 3862 - Financial Instruments - Disclosure and section 3863 - Financial Instruments - Presentation replace Section 3861 Financial Instruments - Disclosure and Presentation adopted by Inter Pipeline in 2007. Section 3862 establishes standards for the disclosure of quantitative and qualitative information intended to enable users of the financial statements to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risk associated with both recognized and unrecognized financial instruments to which the entity is exposed during the period and at the balance sheet date and how the entity manages those risks. Section 3863 carries forward the presentation requirements of the former section 3861 with no significant changes to the requirements. See notes 14 and 15 in the March 31, 2008 consolidated financial statements for the disclosures adopted by Inter Pipeline.

#### **Inventories**

Section 3031 - Inventories replaces section 3030 of the same name, and includes additional measurement and disclosure requirements. Inter Pipeline adopted this standard, however, the adoption of it did not have an impact on Inter Pipeline's financial statements.

## **RISK FACTORS**

During the first quarter of 2008, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as disclosed in its 2007 annual MD&A.

## **NON-GAAP FINANCIAL MEASURES**

Certain financial measures referred to in this MD&A, namely "adjusted working capital (deficiency)", "cash available for distribution", "enterprise value", "funds from operations", "funds from operations per unit", "payout ratio after sustaining capital", "payout ratio before sustaining capital", "growth capital

expenditures”, “sustaining capital expenditures”, “total debt to total capitalization” and “total recourse debt to capitalization” are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

The following non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund the monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

**Adjusted working capital (deficiency)** is calculated by subtracting current liabilities from current assets including cash and excluding the fair value of derivative financial instruments and current portion of convertible debentures.

	March 31	December 31
<i>(millions)</i>	2008	2007
Total current assets	\$ 179.8	\$ 191.9
Total current liabilities	(269.6)	(240.9)
Working capital (deficiency) before exclusions	(89.8)	(49.0)
Exclusions:		
Net fair value of derivative financial instruments	12.4	28.0
Adjusted working capital (deficiency)	\$ (77.4)	\$ (21.0)

**Cash available for distribution** includes cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. This measure is used by the investment community to calculate the annualized yield of the units.

**Enterprise value** is calculated by multiplying the period-end closing unit price by the total number of units outstanding and adding debt before deferred transaction costs related to debt plus the debt portion of the convertible debentures (matured December 31, 2007). This measure, in combination with other measures, is used by the investment community to assess the overall market value of the business. Enterprise value is calculated as follows:

	March 31	December 31
<i>(millions, except per unit amounts)</i>	2008	2007
Closing unit price	\$ 9.55	\$ 9.49
Total closing number of Class A and B units outstanding	221.6	220.9
	2,116.0	2,096.2
Long-term debt	2,035.7	1,887.8
Enterprise value	\$ 4,151.7	\$ 3,984.0

**Funds from operations** are reconciled from the components of net income as noted below and are expressed before changes in non-cash working capital. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions.

<i>(millions)</i>	Three Months Ended March 31	
	2008	2007
Operating revenue	\$ 318.0	\$ 284.1
Shrinkage gas expense	(132.1)	(130.8)
Cash operating expense	(81.7)	(78.9)
Cash general and administrative expense	(9.4)	(8.2)
Management and acquisition fees expense	(1.9)	(1.3)
Credit facility interest expense	(6.8)	(3.6)
Loan payable to General Partner interest expense	(6.0)	(5.8)
Interest on debentures	(3.6)	(0.3)
Current income taxes	(0.7)	(0.4)
<b>Funds from operations</b>	<b>\$ 75.8</b>	<b>\$ 54.8</b>

**Funds from operations per unit** are calculated on a weighted average basis using basic units outstanding during the period.

**Growth capital expenditures** are generally defined as expenditures that are related to system capacity expansions, business growth, volume or revenue increases and/or sustainable operating efficiencies. This measure is used by the investment community to assess the extent of discretionary capital spending.

**Sustaining capital expenditures** are generally defined as new assets that provide support to operations and/or expenditures that involve an enhancement to existing assets without the associated benefits characteristic of growth capital expenditures. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

<i>(millions)</i>	Three Months Ended March 31			
	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 219.3	\$ 0.4	\$ 219.7	\$ 7.7
NGL extraction	2.1	(0.2)	1.9	1.3
Conventional oil pipelines	0.3	0.9	1.2	3.2
Bulk liquid storage	8.8	0.5	9.3	4.9
<b>Total</b>	<b>\$ 230.5</b>	<b>\$ 1.6</b>	<b>\$ 232.1</b>	<b>\$ 17.1</b>

**Payout ratio after sustaining capital** is calculated by expressing cash distributions declared for the period as a percentage of cash available for distribution after deducting sustaining capital expenditures for the period. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

**Payout ratio before sustaining capital** is calculated by expressing cash distributions paid for the period as a percentage of cash available for distribution before deducting sustaining capital. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

**Total debt to total capitalization** is calculated by dividing the sum of total long-term debt excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of long-term debt (excluding discounts and debt transaction costs) and partners' equity (excluding the equity portion of the convertible debentures that matured December 31, 2007). Similarly, **total recourse debt to capitalization** is calculated by dividing the sum of long-term debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding

long-term debt facilities with no recourse to Inter Pipeline. These measures, in combination with other measures, are used by the investment community to assess the financial strength of the entity.

### **ELIGIBLE INVESTORS**

Only persons who are residents of Canada, or if partnerships, are Canadian partnerships, in each case for purpose of the Income Tax Act (Canada) are entitled to purchase and own Class A units of Inter Pipeline.

### **ADDITIONAL INFORMATION**

Additional information relating to Inter Pipeline, including Inter Pipeline's AIF, is available on SEDAR at [www.sedar.com](http://www.sedar.com). Inter Pipeline's Statement of Corporate Governance is included in Inter Pipeline's AIF.

The MD&A has been reviewed and approved by the Audit Committee and the Board of Directors of the General Partner.

**Dated at Calgary, Alberta this 8<sup>th</sup> day of May, 2008.**

**Inter Pipeline Fund**

# Consolidated Balance Sheets

(unaudited) (thousands of dollars)	As at March 31 2008	As at December 31 2007
<b>ASSETS</b>		
Current Assets		
Cash	\$ 16,191	\$ 12,818
Accounts receivable	141,596	156,790
Fair value of derivative financial instruments (note 14b)	8,794	6,808
Prepaid expenses and other deposits	13,222	15,532
<b>Total Current Assets</b>	<b>179,803</b>	<b>191,948</b>
Long-term receivable	-	2,324
Fair value of derivative financial instruments (note 14b)	7,499	-
Intangible assets (note 4)	354,565	357,337
Property, plant and equipment (note 5)	3,005,519	2,775,419
Goodwill	226,059	222,796
<b>Total Assets</b>	<b>\$ 3,773,445</b>	<b>\$ 3,549,824</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current Liabilities		
Cash distributions payable (note 6)	\$ 15,510	\$ 15,482
Accounts payable and accrued liabilities	200,029	181,393
Fair value of derivative financial instruments (note 14b)	21,200	34,811
Deferred revenue	32,869	9,181
<b>Total Current Liabilities</b>	<b>269,608</b>	<b>240,867</b>
Long-term debt (note 7)	2,020,837	1,878,849
Long-term payable	7,499	-
Fair value of derivative financial instruments (note 14b)	3,093	4,594
Asset retirement obligation (note 8)	13,839	13,519
Environmental liabilities	12,453	10,923
Pension liabilities	3,145	2,903
Long-term incentive plan (note 10)	1,337	2,841
Future income taxes	342,708	331,137
<b>Total Liabilities</b>	<b>2,674,519</b>	<b>2,485,633</b>
Commitments (notes 5 and 14)		
Partners' Equity		
Partners' equity (note 9)	1,100,495	1,082,485
Accumulated other comprehensive loss	(1,569)	(18,294)
<b>Total Partners' Equity</b>	<b>1,098,926</b>	<b>1,064,191</b>
<b>Total Liabilities and Partners' Equity</b>	<b>\$ 3,773,445</b>	<b>\$ 3,549,824</b>

See accompanying notes to the interim consolidated financial statements.

**Inter Pipeline Fund**

## Consolidated Statements of Partners' Equity

(unaudited) (thousands of dollars)	Three Months Ended March 31			
			2008	2007
	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Total	Total
Balance, beginning of period	\$ 1,081,404	\$ 1,081	\$ 1,082,485	\$ 1,167,093
Opening adjustment on adoption of new accounting standards	-	-	-	87
Net income for the period	60,046	60	60,106	24,512
Cash distributions declared (note 6)	(46,409)	(47)	(46,456)	(42,440)
Issuance of Partnership units (note 9)				
Equity issuances, net of issue costs and future income taxes	(105)	-	(105)	-
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	3,367	3	3,370	1,901
Issued under Unit Incentive Option Plan	1,094	1	1,095	628
Conversion of Debentures	-	-	-	1,039
Unit incentive options	-	-	-	10
Balance, end of period	\$ 1,099,397	\$ 1,098	\$ 1,100,495	\$ 1,152,830

## Consolidated Statements of Accumulated Other Comprehensive (Loss) Income

(unaudited) (thousands of dollars)	Three Months Ended March 31	
	2008	2007
Balance, beginning of period	\$ (18,294)	\$ 30,779
Opening adjustment on adoption of new accounting standards	-	(7,971)
Other comprehensive income	16,725	2,116
Balance, end of period	\$ (1,569)	\$ 24,924

See accompanying notes to the interim consolidated financial statements.

Inter Pipeline Fund

## Consolidated Statements of Net Income

(unaudited) (thousands of dollars)	Three Months Ended March 31	
	2008	2007
<b>REVENUES</b>		
Operating revenue	\$ 318,018	\$ 284,138
	<b>318,018</b>	<b>284,138</b>
<b>EXPENSES</b>		
Shrinkage gas	132,087	130,792
Operating	82,350	80,248
Depreciation and amortization (note 11)	22,817	18,313
Financing charges (note 12)	16,430	9,736
General and administrative	8,396	8,179
Unrealized change in fair value of derivative financial instruments (note 14c)	(14,687)	8,765
Management fee to General Partner	1,927	1,307
Unit incentive options	-	10
	<b>249,320</b>	<b>257,350</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>68,698</b>	<b>26,788</b>
<b>Provision for income taxes</b>		
Current	742	375
Future	7,850	1,901
	<b>8,592</b>	<b>2,276</b>
<b>NET INCOME</b>	<b>\$ 60,106</b>	<b>\$ 24,512</b>
<b>Net income per Partnership unit</b> (note 9)		
Basic and diluted	<b>\$ 0.27</b>	<b>\$ 0.12</b>

## Consolidated Statements of Comprehensive Income

(unaudited) (thousands of dollars)	Three Months Ended March 31	
	2008	2007
<b>NET INCOME</b>	<b>\$ 60,106</b>	<b>\$ 24,512</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	16,638	(1,547)
Transfer of gains on derivatives previously designated as cash flow hedges to net income	87	3,663
	<b>16,725</b>	<b>2,116</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 76,831</b>	<b>\$ 26,628</b>

See accompanying notes to the interim consolidated financial statements.

**Inter Pipeline Fund**

# Consolidated Statements of Cash Flows

(unaudited) (thousands of dollars) Three Months Ended March 31  
**2008** 2007

**OPERATING ACTIVITIES**

Net income	\$ 60,106	\$ 24,512
Depreciation and amortization (note 11)	22,817	18,313
Amortization of transaction costs on long-term debt (note 12)	28	45
Unit incentive options	-	10
Non-cash operating expense	645	1,324
Non-cash general and administrative expense	(980)	(72)
Unrealized change in fair value of derivative financial instruments (note 14c)	(14,687)	8,765
Future income tax expense	7,850	1,901
<b>Funds from operations</b>	<b>75,779</b>	<b>54,798</b>
Net change in non-cash working capital (note 16)	46,567	24,880
<b>Cash provided by operating activities</b>	<b>122,346</b>	<b>79,678</b>

**INVESTING ACTIVITIES**

Expenditures on property, plant and equipment	(238,609)	(17,085)
Proceeds on sale of assets	-	10
Net change in non-cash investing working capital (note 16)	12,768	889
<b>Cash used in investing activities</b>	<b>(225,841)</b>	<b>(16,186)</b>

**FINANCING ACTIVITIES**

Cash distributions declared	(46,456)	(42,440)
Increase in (repayment of) long-term debt	148,527	(20,000)
Issuance of Partnership units, net of issue costs	4,325	2,530
Net change in non-cash financing working capital (note 16)	28	43
<b>Cash provided by (used in) financing activities</b>	<b>106,424</b>	<b>(59,867)</b>

Effect of foreign currency translation on foreign denominated cash	444	(10)
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<b>Increase in cash</b>	<b>3,373</b>	<b>3,615</b>
<b>Cash, beginning of period</b>	<b>12,818</b>	<b>16,294</b>
<b>Cash, end of period</b>	<b>\$ 16,191</b>	<b>\$ 19,909</b>

See accompanying notes to the interim consolidated financial statements.

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
March 31, 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These unaudited interim consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles (“GAAP”) and have been prepared by management following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2007, except as discussed in note 2 below. The disclosures provided in these interim consolidated financial statements are incremental to those included with the annual consolidated statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Inter Pipeline Fund’s (“Inter Pipeline”) annual report for the year ended December 31, 2007.

**2. CHANGES IN ACCOUNTING POLICY**

On January 1, 2008, Inter Pipeline adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook Sections on a prospective basis:

**a) Capital Disclosures**

Section 1535 “Capital Disclosures” establishes standards for the disclosure of quantitative and qualitative information intended to enable users of the financial statements to evaluate an entity’s objectives, policies and processes for managing capital. Qualitative information requirements include a description of “capital”, the nature of any externally imposed capital requirements and how an entity manages these requirements and meets its objectives for managing capital. Quantitative disclosure includes a summary of the components of capital. An entity must disclose any changes in the qualitative or quantitative disclosure from the previous period and whether the entity has complied with externally imposed capital requirements during the period. If an entity has not complied with any externally imposed capital requirements, it must disclose any consequences of non-compliance. See note 13 for Inter Pipeline’s Capital Disclosures.

**b) Financial Instruments – Disclosure**

Section 3862 “Financial Instruments - Disclosures” replaces the disclosure recommendations of the former Section 3861 “Financial Instruments – Disclosure and Presentation”. Section 3862 establishes standards for the disclosure of quantitative and qualitative information intended to enable users of the financial statements to evaluate the significance of financial instruments for the entity’s financial position and performance and the nature and extent of risk associated with both recognized and unrecognized financial instruments to which the entity is exposed during the period and at the balance sheet date and how the entity manages those risks. See notes 14 and 15 for the required financial instruments disclosures adopted by Inter Pipeline.

**c) Financial Instruments – Presentation**

Section 3863 “Financial Instruments – Presentation” carries forward the presentation requirements of the former Section 3861 with no significant changes to the requirements. Inter Pipeline has adopted the presentation requirements in its financial instruments presentation.

**d) Inventories**

Section 3031 “Inventories” replaces section 3030 of the same name, and includes additional measurement and disclosure requirements. Inter Pipeline has adopted this standard, however, the adoption of it did not have an impact on Inter Pipeline’s financial statements.

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
**March 31, 2008**

**3. SEGMENT REPORTING**

Inter Pipeline operates its business under the following principal business segments:

	Canada					Europe		Total Canadian and European Operations
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipeline Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business		
	<b>Three Months Ended March 31, 2008</b>							
<b>Revenues</b>	\$ 37,264	\$ 214,745	\$ 33,912	\$ -	\$ 285,921	\$ 32,097	\$ 318,018	
<b>Expenses</b>								
Shrinkage gas	-	132,087	-	-	132,087	-	132,087	
Operating	12,835	39,355	10,376	-	62,566	19,784	82,350	
Depreciation and amortization	8,806	6,233	4,326	-	19,365	3,452	22,817	
Financing charges	4,952	-	-	11,564	16,516	(86)	16,430	
General and administrative	951	-	-	5,085	6,036	2,360	8,396	
Unrealized change in fair value of derivative financial instruments	-	(15,890)	(189)	1,392	(14,687)	-	(14,687)	
Management fee to General Partner	-	-	-	1,927	1,927	-	1,927	
<b>Total expenses</b>	27,544	161,785	14,513	19,968	223,810	25,510	249,320	
<b>Income (loss) before income taxes</b>	9,720	52,960	19,399	(19,968)	62,111	6,587	68,698	
Provision for income taxes	1,051	-	-	6,521	7,572	1,020	8,592	
<b>Net income (loss)</b>	\$ 8,669	\$ 52,960	\$ 19,399	\$ (26,489)	\$ 54,539	\$ 5,567	\$ 60,106	
Expenditures on property, plant and equipment	\$ (219,682)	\$ (1,852)	\$ (1,142)	\$ -	\$ (222,676)	\$ (9,367)	\$ (232,043)	
	<b>As at March 31, 2008</b>							
Total assets	\$ 2,113,225	\$ 752,212	\$ 458,044	\$ -	\$ 3,323,481	\$ 449,964	\$ 3,773,445	
Goodwill	\$ 156,938	\$ -	\$ -	\$ -	\$ 156,938	\$ 69,121	\$ 226,059	

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**Three Months Ended March 31, 2007**

	Canada					Europe		Total Canadian and European Operations
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipeline Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business		
<b>Revenues</b>	\$ 13,978	\$ 196,794	\$ 30,929	\$ -	\$ 241,701	\$ 42,437	\$ 284,138	
<b>Expenses</b>								
Shrinkage gas	-	130,792	-	-	130,792	-	130,792	
Operating	4,632	39,109	9,294	-	53,035	27,213	80,248	
Depreciation and amortization	4,054	6,375	4,644	-	15,073	3,240	18,313	
Financing charges	-	-	-	9,950	9,950	(214)	9,736	
General and administrative	-	-	-	5,185	5,185	2,994	8,179	
Unrealized change in fair value of derivative financial instruments	-	9,171	(296)	(110)	8,765	-	8,765	
Management fee to General Partner	-	-	-	1,307	1,307	-	1,307	
Unit incentive options	-	-	-	10	10	-	10	
<b>Total expenses</b>	8,686	185,447	13,642	16,342	224,117	33,233	257,350	
<b>Income (loss) before income taxes</b>	5,292	11,347	17,287	(16,342)	17,584	9,204	26,788	
Provision for income taxes	44	-	-	-	44	2,232	2,276	
<b>Net income (loss)</b>	\$ 5,248	\$ 11,347	\$ 17,287	\$ (16,342)	\$ 17,540	\$ 6,972	\$ 24,512	
Expenditures on property, plant and equipment	\$ (7,733)	\$ (1,352)	\$ (3,150)	\$ -	\$ (12,235)	\$ (4,850)	\$ (17,085)	

**As at December 31, 2007**

Total assets	\$ 1,897,347	\$ 765,802	\$ 464,391	\$ -	\$ 3,127,540	\$ 422,284	\$ 3,549,824
Goodwill	\$ 157,401	\$ -	\$ -	\$ -	\$ 157,401	\$ 65,395	\$ 222,796

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**4. INTANGIBLE ASSETS**

			March 31 2008	December 31 2007
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Transportation Services Agreement	\$ 93,548	\$ (16,924)	<b>\$ 76,624</b>	\$ 77,430
NGL extraction business				
Customer contracts	287,612	(35,158)	<b>252,454</b>	254,851
Patent	8,727	(2,286)	<b>6,441</b>	6,597
	296,339	(37,444)	<b>258,895</b>	261,448
Bulk liquid storage business				
Customer contracts and relationships	15,509	(1,291)	<b>14,218</b>	13,781
Tradename	5,265	(437)	<b>4,828</b>	4,678
	20,774	(1,728)	<b>19,046</b>	18,459
	<b>\$ 410,661</b>	<b>\$ (56,096)</b>	<b>\$ 354,565</b>	<b>\$ 357,337</b>

**5. PROPERTY, PLANT AND EQUIPMENT**

			March 31 2008	December 31 2007
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Facilities and equipment	\$ 986,476	\$ (79,634)	<b>\$ 906,842</b>	\$ 906,450
Construction work in progress	857,796	-	<b>857,796</b>	646,063
Pipeline linefill	74,033	(1,404)	<b>72,629</b>	73,072
	1,918,305	(81,038)	<b>1,837,267</b>	1,625,585
NGL extraction business				
Facilities and equipment	429,469	(51,361)	<b>378,108</b>	379,841
Construction work in progress	21,304	-	<b>21,304</b>	21,181
Spare parts	4,208	-	<b>4,208</b>	4,265
	454,981	(51,361)	<b>403,620</b>	405,287
Conventional oil pipeline business				
Facilities and equipment	783,408	(351,376)	<b>432,032</b>	434,960
Construction work in progress	1,868	-	<b>1,868</b>	2,052
Deferred receipt facilities expenditures	6,138	(6,067)	<b>71</b>	142
	791,414	(357,443)	<b>433,971</b>	437,154
Bulk liquid storage business				
Facilities and equipment	342,803	(25,484)	<b>317,319</b>	286,554
Construction work in progress	13,342	-	<b>13,342</b>	20,839
	356,145	(25,484)	<b>330,661</b>	307,393
	<b>\$ 3,520,845</b>	<b>\$ (515,326)</b>	<b>\$ 3,005,519</b>	<b>\$ 2,775,419</b>

Inter Pipeline has committed to additional expenditures on property, plant and equipment totaling approximately \$1,022.1 million at March 31, 2008.

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**6. CASH DISTRIBUTIONS PAYABLE**

Section 5.2 of the Limited Partnership Agreement (LPA) requires that Inter Pipeline make distributions of LPA Distributable Cash on a monthly basis, provided that Inter Pipeline has cash available for such payment (excluding any cash withheld as a reserve). LPA Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash.

For the three months ended March 31, 2008, Inter Pipeline declared cash distributions totaling \$46.5 million (three months ended March 31, 2007 - \$42.4 million). As at March 31, 2008, distributions of \$15.5 million are payable to 221.4 million outstanding Class A units and 0.2 million outstanding Class B units at \$0.07 per unit (December 31, 2007 - \$15.5 million payable to 220.7 million outstanding Class A units and 0.2 million outstanding Class B units at \$0.07 per unit).

**7. LONG-TERM DEBT**

	March 31 2008	December 31 2007
\$2,142 million Unsecured Revolving Credit Facility (a)	\$ 945,900	\$ 740,000
\$750 million Unsecured Revolving Credit Facility (b)	410,000	468,000
Loan Payable to General Partner	379,800	379,800
Corridor Debentures	300,000	300,000
	<b>2,035,700</b>	<b>1,887,800</b>
Transaction Costs	(13,065)	(5,467)
Accumulated amortization of transaction costs	2,707	1,738
Discount, net of accumulated amortization	(4,505)	(5,222)
	<b>\$ 2,020,837</b>	<b>\$ 1,878,849</b>

- (a) In 2008, Inter Pipeline had a net increase of \$147.9 million in its long-term debt. \$205.9 million was drawn on the \$2,142 million Unsecured Revolving Credit Facility, while \$58.0 million was repaid on the \$750 million Unsecured Revolving Credit Facility.
- (b) In 2008, \$90 million of the \$750 million Unsecured Revolving Credit Facility was extended to September 29, 2012. Combined with the \$660 million that had been extended to this date in 2007, the entire facility now has a maturity date of September 29, 2012.
- (c) At March 31, 2008, outstanding letters of credit of \$3.7 million have been issued by Inter Pipeline.

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**8. ASSET RETIREMENT OBLIGATIONS**

The following table shows the movement in the liability for asset retirement obligations:

	<b>Three Months Ended March 31 2008</b>	Year ended December 31 2007
Obligation, beginning of period	\$ 13,519	\$ 20,530
Revision in estimated amount of liabilities	-	(8,003)
Accretion expense	204	1,338
Foreign currency adjustments	116	(346)
Obligation, end of period	\$ 13,839	\$ 13,519

There were no liabilities settled during the three months ended March 31, 2008 and 2007.

**9. PARTNERS' EQUITY**

***Units issued and outstanding***

**Authorized**

Unlimited number of Class A limited liability units  
 Unlimited number of Class B unlimited liability units

**Issued and Outstanding**

	Class A Units	Class B Units	Total
Balance as at December 31, 2007	220,659,122	221,017	220,880,139
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	374,252	377	374,629
Issued under Unit Incentive Option Plan	318,500	328	318,828
<b>Balance as at March 31, 2008</b>	<b>221,351,874</b>	<b>221,722</b>	<b>221,573,596</b>

	Class A Units	Class B Units	Total
Balance as at December 31, 2006	201,526,608	201,754	201,728,362
Issued on conversion of Debentures	172,995	180	173,175
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	221,248	224	221,472
Issued under Unit Incentive Option Plan	220,336	230	220,566
Balance as at March 31, 2007	202,141,187	202,388	202,343,575

***Calculation of Net Income per Partnership unit***

Partnership units share equally on a pro rata basis in the allocation of net income. The number of diluted units outstanding is calculated using the Treasury Stock method based on the weighted-average number of units outstanding for the year as follows:

	<b>Three Months Ended March 31 2008</b>	2007
Net income attributable to unitholders – Basic and Diluted	\$ 60,106	\$ 24,512
Weighted-average units outstanding - Basic	221,178,999	201,985,021
Effect of unit options	441,832	989,883
Weighted-average units outstanding – Diluted	221,620,831	202,974,904
Net income per Partnership unit – Basic and Diluted	\$ 0.27	\$ 0.12

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**10. LONG-TERM INCENTIVE PLAN AND UNIT INCENTIVE OPTIONS**

The following table summarizes the status of Inter Pipeline's Option Plan and DURs as at March 31, 2008, and changes during the three months then ended:

	Unit Options			DURs
	Number	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Balance outstanding, December 31, 2007	1,353,236	\$ 8.23	\$ 5.99	1,029,929
Granted	-	\$ -	\$ -	684,974
Exercised	(318,500)	\$ 6.97	\$ 3.48	(53,486)
Cancelled	(1)	\$ 6.20	\$ 1.44	(24,479)
<b>Balance outstanding, March 31, 2008</b>	<b>1,034,735</b>	<b>\$ 8.62</b>	<b>\$ 6.76</b>	<b>1,636,938</b>

\* The weighted-average exercise price based on the exercise price on the date of grant.

\*\* The weighted-average exercise price adjusted for the incentive reduction to March 31, 2008.

**11. DEPRECIATION AND AMORTIZATION**

	Three Months Ended March 31	
	2008	2007
Depreciation of facilities and equipment	\$ 18,571	\$ 14,389
Depreciation of Corridor linefill	443	-
Amortization of deferred receipt facilities expenditures	71	71
Amortization of intangible assets	3,528	3,554
Gain on disposal of property, plant and equipment	-	(7)
Accretion of asset retirement obligation	204	306
<b>Total depreciation and amortization</b>	<b>\$ 22,817</b>	<b>\$ 18,313</b>

**12. FINANCING CHARGES**

	Three Months Ended March 31	
	2008	2007
Interest expense on credit facilities	\$ 16,274	\$ 3,639
Interest on Loan Payable to General Partner	6,009	5,771
Interest on Corridor Debentures	3,620	-
Interest on Debentures	-	281
	<b>25,903</b>	9,691
Capitalized interest	(9,501)	-
Amortization of transaction costs on long-term debt	28	45
<b>Total financing charges</b>	<b>\$ 16,430</b>	<b>\$ 9,736</b>

The average interest rate on credit facilities for the three months ended March 31, 2008, equated to 4.67% on average borrowings of \$1,309.2 million (three months ended March 31, 2007 - 5.30% on \$297.8 million). The effective interest rate on the Corridor Debentures with the impact of the interest rate swaps was 4.53%.

At March 31, 2008, \$10.1 million in interest payable was included in accounts payable and accrued liabilities related to the Loan Payable to the General Partner (December 31, 2007 - \$9.9 million).

**13. CAPITAL DISCLOSURES**

Financial objectives are aligned with Inter Pipeline's commercial strategies and its long-term outlook for the business. Inter Pipeline's capital management objectives are to maintain (i) stable cash distributions to unitholders over economic and industry cycles; (ii) a flexible capital structure which optimizes the cost of capital within an acceptable level of risk; and (iii) an investment grade credit rating. Management manages the capital structure and makes adjustments based on changes in

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economic conditions and the risk characteristics of the underlying assets. In order to maintain or modify the capital structure, Inter Pipeline may adjust the level of cash distributions paid to unitholders, issue new partnership units or new debt, or renegotiate the terms of or repay existing debt.

Capital under management includes long-term debt (excluding discounts and transaction costs) and partners' equity. Inter Pipeline monitors capital on a number of bases, including total recourse debt to capitalization and recourse debt to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). Inter Pipeline's current objectives, policies and processes for managing capital remain consistent with the prior year and are currently at the level to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating.

	<b>March 31 2008</b>	December 31 2007
Long-term debt (excluding transaction costs and discounts, per note 7)		
Recourse debt	<b>\$ 789,800</b>	\$ 847,800
Non-recourse debt	<b>1,245,900</b>	1,040,000
	<b>2,035,700</b>	1,887,800
Partners' equity	<b>1,098,926</b>	1,064,191
Total capitalization	<b>\$ 3,134,626</b>	\$ 2,951,991
Capitalization (excluding non- recourse debt)	<b>\$ 1,888,726</b>	\$ 1,911,991
Total recourse debt to capitalization	<b>41.8%</b>	44.3%
	<b>Twelve months ended March 31 2008*</b>	Twelve months ended December 31 2007
Net income	<b>\$ (44,428)</b>	\$ (80,022)
Add:		
Depreciation and amortization	<b>91,640</b>	87,136
Financing charges	<b>68,634</b>	61,940
Non-cash operating and general and administrative expenses	<b>1,723</b>	3,310
Unrealized change in fair value of derivative financial instruments	<b>4,048</b>	27,500
Acquisition fee to General Partner**	<b>10,883</b>	10,883
Provision for income taxes	<b>217,209</b>	210,893
EBITDA**	<b>\$ 349,709</b>	\$ 321,640
Recourse debt to EBITDA**	<b>2.3</b>	2.6

\* EBITDA for the twelve months ended March 31, 2008, is compiled from Inter Pipeline's Consolidated Statements of Net Income (Loss) for the three months ended June 30, 2007, September 30, 2007, December 31, 2007 and March 31, 2008.

\*\* EBITDA is a non-GAAP measure whose nearest GAAP measure is net income. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

Inter Pipeline's credit facilities are unsecured and contain customary terms and conditions including covenants with respect to financial leverage and coverage. Recourse debt to EBITDA and total recourse debt to capitalization measures above are substantially the same as the coverage ratio terms contained in Inter Pipeline's credit facilities. Inter Pipeline's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum coverage ratios stipulated in the terms of Inter Pipeline's credit facilities. Over the next two years, Inter Pipeline's Recourse debt to EBITDA ratio will change to accommodate the financing of the Corridor expansion project.

Inter Pipeline was compliant with all covenants throughout the period.

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**14. FINANCIAL INSTRUMENTS**

**a) Classification of Financial Assets and Financial Liabilities**

The carrying value of Inter Pipeline's financial assets and liabilities recorded on the balance sheet are classified as follows:

	<b>At March 31, 2008</b>					
	Held for trading	Loans and receivables	Other financial liabilities	Carrying value of financial asset (liability)	Non financial asset or liability*	Balance sheet
<b>Assets**</b>						
Cash	\$ 16,191	\$ -	\$ -	\$ 16,191	\$ -	\$ 16,191
Accounts receivable		123,421	-	123,421	18,175	141,596
Prepaid expenses and other deposits	3,732	-	-	3,732	9,490	13,222
Derivative financial instruments***	16,293	-	-	16,293	-	16,293
<b>Liabilities</b>						
Cash distributions payable	-	-	15,510	15,510	-	15,510
Accounts payable and accrued liabilities	-	-	181,642	181,642	18,387	200,029
Long-term payable	7,499	-	-	7,499	-	7,499
Derivative financial instruments***	24,293	-	-	24,293	-	24,293
Deferred revenue	-	-	21,924	21,924	10,945	32,869
Long-term debt (note 7)****	-	-	2,035,700	2,035,700	-	2,035,700

\* Not all components of assets and liabilities meet the definition of a financial asset or liability.

\*\* Inter Pipeline does not have any assets that meet the definition of "available-for-sale" or "held-to-maturity."

\*\*\* Derivative financial instruments are recorded at fair value using a discounted cash flow methodology.

\*\*\*\* Carrying values exclude discounts and transaction costs with the respective accumulated amortization.

**b) Fair Value of Financial Instruments**

Fair value of long-term debt, derivative financial instruments, long-term payable and long-term receivable are discussed in the following paragraphs. The carrying value of all other financial assets and liabilities approximate their fair value due to the relatively short-term maturity of these financial instruments.

On account of the short-term nature of financial instruments drawn on long-term debt facilities with variable interest rates, it is assumed that the carrying amounts of these financial instruments are virtually the same as their fair values. At March 31, 2008, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value *	Fair Value
Loan Payable to General Partner	\$ 379,800	\$ 398,776
Corridor Debentures	\$ 300,000	\$ 302,285

\* Carrying values exclude transaction costs, discount and accumulated amortization.

The estimated fair value of the fixed rate debt has been determined based on available market information and appropriate valuation methods, including the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The actual amounts realized may differ from these estimates.

Fair value of derivative financial instruments represents a reasonable approximation of settlement

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values receivable or payable to counterparties if Inter Pipeline were to settle these financial instruments on March 31, 2008.

The fair values of derivative financial instruments used for risk management activities are recorded in the consolidated balance sheets as follows:

	March 31 2008	December 31 2007
Current asset	\$ 8,794	\$ 6,808
Long-term asset	7,499	-
Current liability	(21,200)	(34,811)
Long-term liability	(3,093)	(4,594)
	<b>\$ (8,000)</b>	<b>\$ (32,597)</b>

Derivative financial instruments carried at fair value are as follows:

	March 31 2008	December 31 2007
Frac-spread risk management		
NGL swaps	\$ (20,076)	\$ (26,217)
Natural gas swaps	5,197	(7,837)
Foreign exchange swaps	3,072	6,357
	<b>(11,807)</b>	<b>(27,697)</b>
Interest rate risk management		
Interest rate swaps	3,282	(5,351)
	<b>3,282</b>	<b>(5,351)</b>
Power price risk management		
Electricity price swaps	525	451
	<b>525</b>	<b>451</b>
	<b>\$ (8,000)</b>	<b>\$ (32,597)</b>

The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are not actively traded. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place.

**c) Net Gains or Losses**

**Realized and Unrealized Gain (Loss) on Derivative Instruments - Held-for-Trading**

The realized gains (losses) on derivative financial instruments recognized in income were:

	Three Months Ended March 31	
	2008	2007
Revenues		
NGL swaps	\$ (9,552)	\$ 1,911
Foreign exchange swaps	1,676	(1,797)
	<b>(7,876)</b>	<b>114</b>
Shrinkage gas expense		
Natural gas swaps	(1,695)	(3,644)
	<b>(1,695)</b>	<b>(3,644)</b>
Operating expenses		
Electricity price swaps	122	96
	<b>122</b>	<b>96</b>
Financing charges		
Interest rate swaps	(355)	(220)
	<b>(355)</b>	<b>(220)</b>
Net realized loss on derivative financial instruments	<b>\$ (9,804)</b>	<b>\$ (3,654)</b>

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Realized gains (losses) represent actual settlements under derivative contracts during the period.

The unrealized change in fair value related to derivative financial instruments recognized in income was:

	Three Months Ended March 31	
	2008	2007
Frac-spread risk management		
NGL swaps	\$ 6,141	\$ (19,569)
Natural gas swaps	13,034	11,890
Foreign exchange swaps	(3,285)	2,239
	15,890	(5,440)
Interest rate risk management		
Interest rate swaps	(1,190)	312
	(1,190)	312
Power price risk management		
Electricity price swaps	74	81
	74	(55)
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	(87)	26
Unrealized change in fair value of derivative financial instruments	\$ 14,687	\$ (8,765)

Unrealized changes in fair value are attributable to contracts in place at the beginning of the year that settled during the period and market price and other market changes. No new contracts were entered into during the three months entered March 31, 2008.

**Realized and Unrealized Gain (Loss) on Other Classes of Financial Instruments**

Inter Pipeline had no significant gains (losses) or impairment losses on other classes of financial instruments.

**15. RISK MANAGEMENT**

Inter Pipeline is exposed to a number of inherent financial risks arising in the normal course of operations which include market price risk related to commodity prices, foreign currency exchange rates and interest rates, credit risk and liquidity risk.

**a) Market Risk**

Market risk is the risk or uncertainty that the fair value of financial instruments, future cash flows and net earnings of Inter Pipeline will fluctuate due to movements in market rates. Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices, power prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy in place that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (crude oil, natural gas, NGLs and power) as well as changes within financial markets relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's policy is not to utilize derivative financial instruments for speculative purposes.

Section 3862 requires sensitivity analyses that show the effect of reasonably possible changes in risk variables on after-tax income and comprehensive income. As discussed in note 15 of Inter Pipeline's 2007 Financial Statements, prior to 2011, Inter Pipeline is only taxable on entities within its corporate structure that are corporations, therefore the analyses in the sections below (except Interest Rate Risk Management) assume nil income tax impact. In the following sections, sensitivity analyses are presented based on derivative financial instruments and long-term debt outstanding at March 31, 2008. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify

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or counteract the impact of another variable which may result in a significantly different conclusion.

**Frac-Spread Risk Management**

Inter Pipeline is exposed to frac-spread risk which is the relative price differential between the sale of NGL produced and the purchase of shrinkage gas used to replace the heat content removed during the extraction of the NGL from the natural gas stream. Derivative financial instruments are utilized to manage frac-spread risk. Inter Pipeline transacts with third party counterparties to sell a notional portion of its NGL products and purchase related notional quantities of natural gas at fixed prices. NGL price swap agreements are transacted in US currency therefore Inter Pipeline also enters into foreign exchange contracts to sell US dollars to convert notional US dollar amounts in the NGL swaps.

Contracts outstanding at March 31, 2008, represent approximately 29% of forecast volumes at the Cochrane extraction plant for the period April to December 2008 at average net prices of approximately \$0.44 Cdn/US gallon. These average prices would approximate \$0.43 US/US gallon based on the average US\$/Cdn\$ forward curve as at March 31, 2008. See the FINANCIAL INSTRUMENTS section of MANAGEMENT'S DISCUSSION AND ANALYSIS for a summary of the contracts outstanding at March 31, 2008.

Contracts outstanding at December 31, 2007, represented approximately 33% of forecast volumes at the Cochrane extraction plant for the period January to December 2008 at average net prices of approximately \$0.48 Cdn/US gallon. These average prices approximated \$0.48 US/US gallon based on the average US\$/Cdn\$ forward curve as at December 31, 2007.

The following table illustrates how a 10% change in NGL and AECO natural gas commodity prices or foreign exchange rates in isolation could individually impact the mark-to-market valuation of Inter Pipeline's derivative financial instruments and consequently after-tax income and comprehensive income assuming rates associated with each of the other components and all other variables remains constant:

	Fair value of Derivative Financial Instruments	Net income based on 10% increase in prices**	Net income based on 10% decrease in prices**
NGL*	\$ (20,076)	\$ (6,849)	\$ 6,849
AECO natural gas	5,197	3,963	(3,963)
Foreign exchange	3,072	(4,850)	4,850
<b>Frac-spread risk management</b>	<b>\$ (11,807)</b>		

\* Assumes that a commodity price change will impact all propane, normal butane, iso butane and pentanes plus products linearly.

\*\* Negative amounts represent a liability increase or asset decrease.

**Interest Rate Risk Management**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of a change in market interest rates. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure.

In 2004, Inter Pipeline entered into a series of floating-to-fixed interest rate swap agreements maturing in December 2011 with a Canadian chartered bank to manage the interest rate risk exposure on its unsecured revolving credit facility. At March 31, 2008, the swap agreements have a total notional value of \$44 million.

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
**March 31, 2008**

In 2007, Inter Pipeline assumed fixed-to-floating interest rate swap agreements with a Canadian chartered bank to manage its interest rate cash flow exposure on the entire \$300 million balance of its 5 and 10 year fixed rate Corridor debentures.

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of floating-to-fixed interest rate swap agreements. Since fixed rate long-term debt is carried at amortized cost rather than at fair value, this debt is not subject to interest rate risk. Since the fair value gains and losses on the fixed-to-floating interest rate swap agreements are offset by the long-term receivable or long-term payable, there is no interest rate risk on these agreements.

Based on the variable rate debt obligations outstanding at March 31, 2008, a 1% change in interest rates at this date could affect interest expense on credit facilities and the mark-to-market valuation of Inter Pipeline's derivative financial instruments and consequently after-tax income and comprehensive income by approximately \$3.4 million and \$1.4 million, respectively, for the three months ending March 31, 2008, assuming all other variables remain constant.

**Power Price Risk Management**

Inter Pipeline uses derivative financial instruments to manage commodity price risk in its conventional oil pipelines business segment. A 10% change in Alberta power pool commodity prices in isolation with all other variables held constant, could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments and consequently after-tax income by approximately \$0.1 million.

**Foreign Exchange Risk Management**

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future.

**b) Credit Risk**

Credit exposure on financial instruments arises from a counter-party's inability or unwillingness to fulfill its obligations to Inter Pipeline. Inter Pipeline's credit risk exposure relates primarily to customers (accounts receivable) and financial counterparties holding cash and derivative financial instruments. Inter Pipeline's exposure to credit risk arises from default of a customer or counterparty's obligations, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and monitoring procedures.

With respect to credit risk arising from cash and derivative financial instruments, Inter Pipeline believes the risks of non-performance of counterparties are minimal as cash and derivative financial instruments outstanding are held with major financial institutions and investment grade corporations.

At March 31, 2008, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval and ongoing monitoring procedures and historical experience. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to lien or take product in kind and / or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis.

At March 31, 2008, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
**March 31, 2008**

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are investment grade corporations in the energy and chemical industry sectors. At March 31, 2008, accounts receivable associated with these two business segments were \$103.6 million or 73% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business units and customers.

**c) Liquidity Risk**

Liquidity risk is the risk that suitable sources are not available to fund business operations, commercial strategies or meet financial obligations. The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at March 31, 2008 on an undiscounted basis.

	Total	Less than one year	1 to 5 years	After 5 years
Cash distributions payable	\$ 15,510	\$ 15,510	\$ -	\$ -
Accounts payable and accrued liabilities	181,462	181,462	-	-
Long-term payable	8,287	2,079	5,422	786
Derivative financial instruments*	24,509	21,295	3,214	-
Deferred revenue	21,924	21,924	-	-
Long-term debt	2,035,700	-	1,597,100	438,600
Commitments	1,022,143	745,991	276,152	-
	\$ 3,309,535	\$ 988,261	\$ 1,881,888	\$ 439,386

\* Derivative financial instruments are shown on a net basis and represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at March 31, 2008, based upon contractual maturity dates. Fair value of derivative financial instruments reported on the balance sheet are shown on a discounted basis.

Inter Pipeline projects its funding requirements to ensure appropriate sources of finances are available to meet future financial obligations. Financial liabilities may be funded through cash from operations or through other capital strategies as discussed in note 14 - Capital Management. At March 31, 2008, Inter Pipeline had access to unutilized credit facilities of approximately \$1,596.1 million to fund a portion of the foreseeable obligations noted in the table above, with certain amounts of those unutilized facilities available to specific subsidiaries of Inter Pipeline which are included in these consolidated financial statements.

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
 March 31, 2008

**16. SUPPLEMENTAL CASH FLOW INFORMATION**  
**Changes in Non-Cash Working Capital**

	Three months ended March 31	
	2008	2007
Accounts receivable	\$ 15,194	\$ 15,281
Prepaid expense and other deposits	2,310	1,610
Cash distributions payable	28	43
Accounts payable and accrued liabilities	18,636	(3,051)
Deferred revenue	23,688	11,957
Impact of foreign exchange rate differences and other	(493)	(28)
<b>Changes in non-cash working capital</b>	<b>\$ 59,363</b>	<b>\$ 25,812</b>
These changes relate to the following activities:		
Operating	\$ 46,567	\$ 24,880
Investing	12,768	889
Financing	28	43
<b>Changes in non-cash working capital</b>	<b>\$ 59,363</b>	<b>\$ 25,812</b>

**Other Cash Flow Information**

	Three months ended March 31	
	2008	2007
Cash taxes paid	\$ 345	\$ 374
Cash interest paid	\$ 23,288	\$ 3,081