

## **Inter Pipeline Fund Announces Record 2008 Financial and Operating Results**

**CALGARY, ALBERTA, FEBRUARY 19, 2009:** Inter Pipeline Fund (Inter Pipeline) (TSX: IPL.UN) announced today its financial and operating results for the three and twelve month periods ended December 31, 2008.

- 2008 Highlights**
- Funds from operations\* increased to a record \$280.5 million, up \$33.6 million or 14% from 2007
  - Record low annual payout ratio before sustaining capital\* of 66.5%
  - Cash distributions to unitholders totalled \$186.6 million or \$0.84 per unit, up from \$171.7 million in 2007
  - Successfully completed the installation of line pipe for the Corridor pipeline system expansion project; construction phase is nearly complete and the project remains on schedule and on budget
  - Growth capital expenditures in 2008 of over \$600 million
  - Cold Lake pipeline system capacity expansion is substantially complete; throughput capacity will be increased by approximately 100,000 barrels per day (b/d) in 2009
  - Throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems averaged 753,400 b/d during the year, an increase of 86,800 b/d over 2007
  - Standard & Poor's upgraded the outlook on Inter Pipeline's investment grade BBB corporate credit rating to positive from negative
  - Inter Pipeline remains well positioned to maintain cash distributions to unitholders through 2010 and beyond, despite becoming taxable in 2011
  - Conservative year end recourse debt to capitalization ratio of approximately 42%
- Fourth Quarter Highlights**
- Funds from operations\* decreased \$27.4 million to \$52.1 million in the fourth quarter of 2008
  - Payout ratio before sustaining capital\* of 89.7% for the fourth quarter
  - Cash distributions to unitholders were \$46.8 million or \$0.21 per unit during the quarter
  - Inter Pipeline's oil sands and conventional oil pipeline systems transported 755,800 b/d during the quarter, 24,700 b/d more than in the fourth quarter of 2007

*\* Please refer to the "Non-GAAP Financial Measures" section of the MD&A.*

## **Funds From Operations**

Inter Pipeline achieved record financial results in 2008. Funds from operations generated during the year totalled \$280.5 million, or \$1.26 per unit, an increase of 14% or \$33.6 million over funds from operations generated in 2007. Key factors contributing to Inter Pipeline's record performance included a strong frac-spread price environment for propane-plus sales within the NGL extraction business segment and a full-year contribution from the Corridor pipeline system acquired in 2007.

In 2008, each of Inter Pipeline's four business segments contributed significantly to our record results. The oil sands transportation, NGL extraction, conventional oil pipelines and bulk liquid storage businesses contributed \$69.8 million, \$134.0 million, \$106.5 million and \$41.6 million, respectively, to funds from operations. Corporate costs, including interest and general and administrative charges, totalled \$71.4 million, down significantly from 2007 levels due to lower management fees and interest costs.

Funds from operations totalled \$52.1 million in the fourth quarter of 2008, a decrease of \$27.4 million from the comparable period in 2007. Reduced frac-spreads and lower volumes in the NGL extraction business in the last quarter of 2008 accounted for much of the decrease.

In the fourth quarter, Inter Pipeline's oil sands transportation, NGL extraction, conventional oil pipelines and bulk liquid storage businesses contributed \$17.3 million, \$13.1 million, \$26.3 million and \$11.3 million, respectively, to funds from operations. Corporate charges totalled \$15.9 million.

## **Cash Distributions**

Cash distributions to unitholders during the year totalled \$186.6 million, or \$0.84 per unit. Strong 2008 financial results led to a record low annual payout ratio of 66.5% before sustaining capital. This payout ratio compares favourably with the 69.5% annual payout ratio before sustaining capital realized in 2007.

During the fourth quarter, Inter Pipeline distributed \$46.8 million to unitholders, or \$0.21 per unit, representing a quarterly payout ratio before sustaining capital of 89.7%. The increase in Inter Pipeline's payout ratio compared to recent quarterly results reflects anomalously low frac-spreads realized within the NGL extraction business segment in the fourth quarter.

In 2007, Inter Pipeline announced that it was well positioned to maintain its current level of cash distributions to unitholders through 2010 and beyond, despite becoming a taxable entity in 2011. Attractive fundamentals within each of Inter Pipeline's four business segments combined with a strong inventory of organic growth opportunities continue to support this positive outlook.

## **Oil Sands Transportation**

Volumes transported within the oil sands transportation business segment averaged 555,000 b/d in 2008, an increase of 97,300 b/d over 2007. Of this total, Cold Lake system volumes averaged 347,400 b/d and Corridor system volumes averaged 207,600 b/d. Corridor volumes for 2008 reflect a full year of operations compared to 2007, which only included volumes for the 199 day period that Inter Pipeline owned the system.

During the fourth quarter of 2008, throughput volumes on the Cold Lake system averaged 353,900 b/d and Corridor volumes averaged 209,600 b/d. Cold Lake system volumes decreased by 16,800 b/d compared to the same period in 2007 as the timing of steam injection cycles impacted production levels. Corridor system volumes increased by 55,400 b/d reflecting the recovery of production rates following a fire at the Shell Scotford upgrader last year. Cash flow on Corridor is derived from a 25-year ship-or-pay contract with Shell, Chevron and Marathon. This contract includes

provisions for the recovery of all operating costs, depreciation, taxes and interest, and provides a structured return on the equity component of Corridor's rate base. Corridor's cash flow is therefore not dependant on transportation volumes or commodity prices.

Work continues on the Cold Lake system capacity expansion project. Quarter-point pump stations and associated upgrades are substantially complete and will be available for service in early 2009. As a result of this expansion, bitumen blend capacity on the Cold Lake pipeline system is expected to increase from 460,000 b/d today to approximately 560,000 b/d.

### **Corridor Expansion Project**

The \$1.8 billion capacity expansion project currently under construction on the Corridor pipeline system represents Inter Pipeline's single largest organic growth investment to date. When complete, bitumen blend capacity on the Corridor system will increase by 165,000 b/d to approximately 465,000 b/d. The project remains on schedule and on budget with delivery service expected to be available in 2010.

During 2008, Inter Pipeline successfully completed the construction and installation of all major pipeline segments. This included the installation of 467 kilometres (km) of 42-inch line pipe between the Muskeg River mine site near Fort McMurray and the Scotford upgrader near Edmonton, and the installation of 43 km of 20-inch line pipe between the Scotford upgrader and the Edmonton oil storage hub. Remaining work consists of instrumentation and electrical installations at pump stations and related facilities as well as final tie-in activities.

As at December 31, 2008, Inter Pipeline has incurred approximately \$1,133 million in capital costs related to the Corridor expansion. Approximately 90% of the estimated pipeline and facility costs under Inter Pipeline's control have either been expended or committed. Inter Pipeline's capital cost escalation risk has therefore been largely mitigated. Remaining costs, including line fill, interest during construction and storage tank costs, will be added to Corridor's rate base at their actual cost. Inter Pipeline does not have price exposure on these components.

### **NGL Extraction**

Inter Pipeline's NGL extraction business contributed significantly to financial results in 2008. Revenue in 2008 increased to \$794 million, while funds from operations were 8% lower than in 2007, totalling \$134 million in 2008. Reductions in throughput volumes in the year and weaker commodity prices in the last quarter were primarily responsible for the decrease in funds from operations.

Energy commodity markets in 2008 were extremely volatile, which impacted sales of propane-plus from the Cochrane extraction facility. Propane-plus sales are exposed to frac-spread, or the difference between prices received for the sale of propane-plus and the cost of natural gas purchased to offset the heating content of product extracted from the natural gas stream. Propane-plus prices tend to track movements in crude oil prices. The pricing environment shifted during the latter part of the year from one of rising crude oil prices relative to natural gas prices, a combination which is favourable to frac-spreads, to one of declining oil prices relative to natural gas prices. This change in market dynamics led to a significant reduction in frac-spreads during the fourth quarter. Overall however, frac-spreads realized during the year were 69 US cents per US gallon, which is in line with prices realized in 2007 and 3 year historical averages. Average frac-spreads for the year significantly exceeded the 15-year historical average of approximately 32 US cents per US gallon.

Inter Pipeline's three NGL extraction facilities processed 3.3 billion cubic feet per day (bcf/d) of natural gas during 2008, 22% less than in 2007 due to a decline in volumes exported from Alberta. This reduction was primarily due to decreased natural gas

production levels and increased consumption within the province, and led to reductions in volumes extracted. Ethane and propane-plus volumes extracted in 2008 were 76,200 b/d and 45,700 b/d respectively, down from 2007 levels of 90,000 b/d and 57,500 b/d due to reduced natural gas throughput levels.

In the fourth quarter of 2008, average frac-spread prices fell near the 15-year historical average. The impact of lower frac-spreads was partially mitigated through Inter Pipeline's hedging program. For the fourth quarter, realized frac-spreads were 33 US cents per US gallon, down 56% from the comparable period of 2007. Inter Pipeline's NGL extraction facilities processed 3.4 billion cubic feet per day of natural gas in the fourth quarter, compared to an average of 4.2 bcf/d of natural gas processed in the fourth quarter of 2007. Ethane volumes extracted fell to 72,400 b/d in the quarter from fourth quarter 2007 levels of 86,800 b/d, and propane-plus volumes extracted in the quarter fell to 45,300 b/d from 55,800 b/d extracted in the fourth quarter of 2007.

### **Conventional Oil Pipelines**

The conventional oil pipeline segment generated strong results in 2008, with funds from operations increasing 23% over 2007 results. This increase was generated despite a year-over-year decrease in volumes transported of approximately 5% on Inter Pipeline's four conventional oil pipeline systems. Strong average revenue per barrel on these systems increased by more than 26% in 2008 to \$2.04 from \$1.61 in 2007. Higher revenues were achieved through mainline toll increases and incremental marketing and storage revenues.

Conventional oil volumes averaged 192,300 b/d during the fourth quarter, approximately 7% lower than the same period in 2007. Lower volumes were primarily the result of natural reservoir declines and a refinery turnaround that impacted Bow River pipeline system volumes. Average revenue per barrel increased significantly, reaching \$2.23 in the fourth quarter of 2008 compared to \$1.68 for the same quarter in 2007 for the reasons noted above.

### **Bulk Liquid Storage**

In 2008, the bulk liquid storage business continued to benefit from strong demand for its services. Utilization rates were once again strong throughout the year with 95.5% utilization achieved, compared to 96.2% in 2007. In addition, more than half of bulk liquid storage revenues were generated through the lease of capacity under fixed term storage contracts. Term lease arrangements add stability to revenue streams during business cycles as they are not dependent on throughput volumes.

In the fourth quarter, utilization rates were very strong, averaging 97.2% compared to 95.5% in the fourth quarter of 2007. During the fourth quarter of 2008 construction continued on new storage facilities at the Immingham terminal, which will increase capacity by 318,000 barrels. Incremental storage capacity is expected to be available in 2009.

**Financing  
Activity**

In 2008, Standard & Poor's revised its outlook on Inter Pipeline's investment grade BBB rated long-term corporate credit rating to positive from negative, and also raised the credit rating on Inter Pipeline (Corridor) Inc. to A- from BBB+. Inter Pipeline remains in a strong credit position, with over \$1.2 billion in unutilized capacity at the end of 2008 on existing credit facilities. These facilities have been syndicated with a lending group of 16 major institutions and committed terms that extend through 2012.

At December 31, 2008, Inter Pipeline had a conservative recourse debt to capitalization ratio of 42%, which has strengthened from 44% at the end of 2007.

**Conference  
Call & Webcast**

Inter Pipeline will hold a conference call and webcast today at 2:30 p.m. (Mountain Time) / 4:30 p.m. (Eastern Time) to discuss fourth quarter and 2008 annual financial and operating results.

To participate in the conference call, please dial 800-952-4972 or 403-537-9608. A recording of the call will be available for replay until February 26, 2009, by dialling 800-408-3053 or 416-695-5800. The pass code for the replay is 3281785.

A webcast of the conference call can be accessed on Inter Pipeline's website at [www.interpipelinefund.com](http://www.interpipelinefund.com) by selecting "Investor Relations" then "Webcasts". An archived version of the webcast will be available for approximately 90 days.

## Selected Financial and Operating Highlights

(millions of dollars, except where noted)	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Extraction production <sup>1</sup> (000 b/d)				
Ethane	72.4	86.8	76.2	90.0
Propane plus	<u>45.3</u>	<u>55.8</u>	<u>45.7</u>	<u>57.5</u>
Total extraction	117.7	142.6	121.9	147.5
Pipeline volumes (000 b/d)				
Conventional oil pipelines	192.3	206.2	198.4	208.9
Oil sands transportation <sup>1</sup>	<u>563.5</u>	<u>524.9</u>	<u>555.0</u>	<u>457.7</u>
Total pipeline	755.8	731.1	753.4	666.6
Revenue				
Oil sands transportation	\$35.1	\$38.0	\$146.0	\$109.0
NGL extraction	\$149.8	\$205.2	\$794.3	\$756.7
Conventional oil pipelines	\$39.4	\$31.9	\$148.0	\$122.8
Bulk liquid storage	<u>\$35.5</u>	<u>\$35.7</u>	<u>\$136.3</u>	<u>\$156.5</u>
Total revenue	\$259.8	\$310.8	\$1,224.6	\$1,145.0
Net income (loss)	\$102.5	\$75.9	\$249.7	\$(80.0)
Per unit (basic & diluted)	\$0.46	\$0.37	\$1.12	\$(0.39)
Funds From Operations <sup>2</sup>	\$52.1	\$79.5	\$280.5	\$246.9
Per unit	\$0.23	\$0.39	\$1.26	\$1.21
Cash Distributions <sup>2</sup>	\$46.8	\$44.0	\$186.6	\$171.7
Per unit	\$0.21	\$0.21	\$0.84	\$0.84
Payout ratio before sustaining capital <sup>2</sup>	89.7%	55.4%	66.5%	69.5%
Payout ratio after sustaining capital <sup>2</sup>	99.7%	59.3%	69.9%	73.2%
Capital expenditures <sup>2</sup>				
Growth	\$101.0	\$167.6	\$601.7	\$363.9
Sustaining	<u>\$5.2</u>	<u>\$5.2</u>	<u>\$13.4</u>	<u>\$12.2</u>
Total capital expenditures	\$106.2	\$172.8	\$615.1	\$376.1

1. *Empress V NGL production and Cold Lake volumes reported on a 100% basis. Corridor was acquired on June 15<sup>th</sup>, 2007. Corridor 2007 volumes represent 199 days of operations and have been prorated over the twelve month period.*

2. *Please refer to the "Non-GAAP Financial Measures" section of the MD&A.*

### MD&A, Financial Statements & Notes

The Management, Discussion and Analysis (MD&A), consolidated financial statements and notes provide a detailed explanation of Inter Pipeline's operating results for the three month period and year ended December 31, 2008 as compared to the three month period and year ended December 31, 2007. These documents are posted at [www.interpipelinefund.com](http://www.interpipelinefund.com) and at [www.sedar.com](http://www.sedar.com).

## **Inter Pipeline Fund**

Inter Pipeline is a major petroleum transportation, bulk liquid storage and natural gas liquids extraction business based in Calgary, Alberta, Canada. Structured as a publicly traded limited partnership, Inter Pipeline owns and operates energy infrastructure assets in western Canada, the United Kingdom, Germany and Ireland. Additional information about Inter Pipeline can be found at [www.interpipelinefund.com](http://www.interpipelinefund.com).

Inter Pipeline is a member of the S&P/TSX Composite Index. Class A Units trade on the Toronto Stock Exchange under the symbol IPL.UN.

## **Eligible Investors**

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

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## **Disclaimer**

Certain information contained herein may constitute forward-looking statements that involve risks and uncertainties. Forward-looking statements in this news release include, but are not limited to, statements regarding Inter Pipeline's belief that it is well positioned to maintain its current level of cash distributions to unitholders through 2011 and beyond. Readers are cautioned not to place undue reliance on forward-looking statements. Such information, although considered reasonable by the General Partner of Inter Pipeline at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expects" and similar expressions. Such risks and uncertainties include, but are not limited to, risks associated with operations, such as loss of markets, regulatory matters, environmental risks, industry competition, potential delays and cost overruns of construction projects, including the Corridor pipeline system expansion project, and the ability to access sufficient capital from internal and external sources. You can find a discussion of those risks and uncertainties in Inter Pipeline's securities filings at [www.sedar.com](http://www.sedar.com). The forward-looking statements contained in this news release 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.

All dollar values are expressed in Canadian dollars unless otherwise noted.