

## **Inter Pipeline Fund Announces Record First Quarter 2011 Financial and Operating Results**

**CALGARY, ALBERTA, MAY 5, 2011:** Inter Pipeline Fund (Inter Pipeline) (TSX: IPL.UN) announced today its financial and operating results for the three month period ended March 31, 2011.

### **Highlights**

- Funds from operations\* increased to a record \$100.3 million, up \$14.7 million or 17% over first quarter 2010 results despite becoming a taxable entity in 2011
- Low quarterly payout ratio before sustaining capital\* of 61.8%
- Cash distributions to unitholders totalled \$62 million or \$0.24 per unit
- Set a new record for quarterly throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems, averaging 948,400 barrels per day (b/d)
- Oil sands transportation volumes averaged 777,600 b/d, an increase of 143,500 b/d or 23% over first quarter 2010 levels
- Began receiving revenue from the recently completed \$1.85 billion expansion of the Corridor pipeline system
- Successfully completed a \$325 million Canadian public debt offering of senior unsecured medium-term notes
- Conservative quarter end recourse debt to capitalization ratio of only 42%

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

### **Funds From Operations**

Inter Pipeline generated record funds from operations of \$100.3 million or \$0.39 per unit in the first quarter of 2011. Current quarter results represent an increase of \$14.7 million, or 17%, above the first quarter of 2010. Inter Pipeline's record performance was driven by strong results across the organization, with all four business segments exceeding results from the comparable period of 2010.

Cash flow within the oil sands transportation business segment was particularly strong in the first quarter. Funds from operations increased from \$18.6 million to \$43.1 million. Strong financial performance is attributable to revenue commencement on January 1, 2011 for the Corridor pipeline expansion project and significantly higher throughput volumes on the Cold Lake pipeline system.

Strong frac-spread prices during the quarter also benefited propane-plus sales in the NGL extraction business segment.

The oil sands transportation, NGL extraction, conventional oil pipelines and bulk liquid storage businesses contributed \$43.1 million, \$53.0 million, \$32.6 million and \$10.5 million, respectively, to funds from operations. Corporate costs, including interest and general and administrative charges, totalled \$38.9 million.

## **Cash Distributions**

Cash distributions to unitholders during the first quarter totalled \$62 million, or \$0.24 per unit, up from \$57.6 million or \$0.225 per unit paid in the first quarter of 2010. Distributions paid were higher primarily due to a \$0.06 per unit annualized increase in cash distributions effective with Inter Pipeline's payment in January. Strong financial results in the quarter resulted in a low payout ratio of only 61.8% before sustaining capital.

Inter Pipeline is well positioned to maintain its current level of cash distributions to unitholders despite becoming taxable in 2011. This view is supported by the results of Inter Pipeline's long-range planning models which take into account projected cash flow increases from major organic growth projects currently under development. All four of Inter Pipeline's business segments continue to display very attractive fundamentals.

## **Oil Sands Transportation**

Inter Pipeline's oil sands transportation business segment, comprised of the Cold Lake and Corridor pipeline systems, forms the largest oil sands gathering business in Canada. Volumes transported on these systems in the first quarter averaged a quarterly record 777,600 b/d, a significant increase of 143,500 b/d or 23% over 2010 levels. Funds from operations totalled \$43.1 million for the quarter, more than double the \$18.6 million generated in the first quarter of 2010.

Cold Lake system volumes increased to 508,200 b/d, up 60,600 b/d or 14% over the comparable period of 2010. Throughput increases were primarily the result of production growth at the Cenovus Foster Creek, CNRL Wolf Lake and Imperial Cold Lake in-situ oil sands developments. Inter Pipeline continues to develop plans to install additional mainline and gathering capacity on the Cold Lake system to handle future growth in producer volumes.

Corridor pipeline system volumes increased to 269,400 b/d, up 45% or 82,900 b/d over the first quarter of 2010. Higher pipeline volumes are the result of production increases at the Athabasca Oil Sands Project. This major oil sands development recently commenced bitumen production from its Jackpine mine expansion project. Cash flow on the Corridor system is generated under 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, regardless of volumes shipped.

Construction activities within Inter Pipeline's oil sands transportation business segment are currently focused on the development of the Polaris pipeline system. When in service, Polaris will become the primary diluent transportation system servicing the Athabasca oil sands region. Diluent products transported on Polaris will be blended with bitumen production from the Imperial Kearl and Husky Sunrise oil sands projects.

Inter Pipeline has secured long-term contracts for the transportation of 90,000 b/d of diluent products for the Kearl and Sunrise projects. Reconfiguration of the Polaris system will require capital expenditures of approximately \$150 million over the next two years. These investments are expected to generate approximately \$67 million in annual EBITDA, once new facilities are fully in commercial service. Both long term contracts do not expose Inter Pipeline to commodity price or throughput risks, and all operating costs will be recovered from shippers on a flow through basis.

Inter Pipeline anticipates that the Kearl and Sunrise connection projects will begin generating revenue in 2012 and 2013 respectively. Additionally, Inter Pipeline is

pursuing new third party connections to the Polaris system.

### **Corridor Expansion Project**

The \$1.85 billion Corridor pipeline expansion project has been fully commissioned and is now operational. The expansion entered commercial service on January 1, 2011. Bitumen blend capacity on the Corridor system has been initially expanded by 165,000 b/d to approximately 465,000 b/d. Ultimate capacity on the pipeline system is approximately 1.4 million b/d, if additional pump station capacity is installed.

Overall, the Corridor expansion was completed on schedule and on budget. In the first quarter of 2011, Inter Pipeline placed into service the final component of the expansion, a 20-inch diameter products pipeline linking Shell's Scotford upgrader with the Edmonton market hub.

Costs incurred on the project to December 31, 2010 have been added to Corridor's rate base and began generating incremental revenue for Inter Pipeline on January 1, 2011. Remaining minor costs associated with the completion of the Corridor expansion will be added to the rate base in the near future.

### **NGL Extraction**

Inter Pipeline's NGL extraction business generated very strong results in the first quarter of 2011. Funds from operations totalled \$53.0 million, exceeding first quarter 2010 results of \$47.6 million by 11%. First quarter 2011 results were positively impacted by a very strong frac-spread price environment.

Propane-plus sales at the Cochrane NGL extraction plant are exposed to frac-spread, which is the difference between prices received on the sale of propane-plus production and the cost of natural gas purchased to replace the heat content of products extracted from the natural gas stream through the NGL extraction process. In the first quarter of 2011, average realized frac-spread prices reached 99 US cents per US gallon. For perspective, the 15-year average frac spread price is 38.6 US cents per US gallon.

Inter Pipeline's NGL extraction plants at Cochrane and Empress, Alberta processed an average of 3.2 billion cubic feet of natural gas per day in the first quarter of 2011, yielding production of 84,200 b/d of ethane and 40,100 b/d of propane-plus products. Natural gas throughput volumes were similar to levels processed in the first quarter 2010, while ethane yields increased marginally due to higher recovery rates. Various efficiency projects completed recently at the Cochrane and Empress V facilities have enhanced recovery rates for ethane.

### **Conventional Oil Pipelines**

Inter Pipeline's conventional oil pipeline segment generated strong results in the first quarter of 2011. Funds from operations were \$32.6 million, up \$4.3 million or 15% over the first quarter of 2010. Higher revenues resulted from transportation toll increases and increased throughputs. Average revenue per barrel on the Bow River, Central Alberta and Mid Saskatchewan systems increased by 14% in the first quarter of 2011 to \$2.85 from \$2.51 in the first quarter of 2010.

Conventional crude oil volumes averaged 170,800 b/d in the first quarter of 2011, up 4,600 b/d from 166,200 b/d transported in the first quarter of 2010. Increased throughput resulted primarily from higher drilling activity in areas serviced by Inter Pipeline's conventional oil systems. Strong horizontal drilling activity in the Viking and Pekisko resource plays has resulted in growing production volumes, which has positively impacted revenues.

**Bulk Liquid Storage**

In the first quarter of 2011, Inter Pipeline's European bulk liquid storage business contributed \$10.5 million to funds from operations, up slightly from results realized in the first quarter of 2010. Results were impacted positively by increased storage rates and higher storage and handling activity.

Tank utilization rates for the first quarter averaged a very strong 98.7%, up from the 95.4% achieved in the first quarter of 2010. Strong performance resulted from new storage contracts and continuing high demand for petroleum and petrochemical product storage.

**Financing Activity**

In the first quarter, Inter Pipeline successfully closed a \$325 million Canadian public debt offering of senior unsecured medium-term notes. The offering was more than five times oversubscribed and was issued at an attractive coupon rate of 4.967%. The notes have a ten year term and will pay interest semi-annually. Net proceeds were used to reduce Inter Pipeline's existing bank indebtedness.

At March 31, 2011, Inter Pipeline had a conservative recourse debt to capitalization ratio of 42%. At the end of March, Inter Pipeline had approximately \$674 million of available capacity on existing bank credit facilities.

Inter Pipeline continues to maintain investment grade credit ratings. After several upgrades in 2010, Inter Pipeline is currently rated BBB (high) by DBRS and BBB+ by Standard & Poor's (S&P). Inter Pipeline (Corridor) Inc.'s credit ratings are A3, A- , and A as assigned by Moody's Investor Services, S&P, and DBRS, respectively.

**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 first quarter 2011 financial and operating results.

To participate in the conference call, please dial 866-226-1792 or 416-340-2216. A recording of the call will be available for replay until May 12, 2011, by dialling 800-408-3053 or 905-694-9451. The pass code for the replay is 8118572.

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 & Conference Calls". 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 March 31,	
	2011	2010
Pipeline volumes (000 b/d)		
Conventional oil pipelines	170.8	166.2
Oil sands transportation <sup>1</sup>	<u>777.6</u>	<u>634.1</u>
Total pipeline volumes	948.4	800.3
Extraction production <sup>1</sup> (000 b/d)		
Ethane	84.2	75.1
Propane plus	<u>40.1</u>	<u>41.9</u>
Total extraction production	124.3	117.0
Revenue		
Oil sands transportation	\$72.8	\$34.9
NGL extraction	\$159.9	\$173.0
Conventional oil pipelines	\$43.7	\$37.6
Bulk liquid storage	<u>\$26.6</u>	<u>\$26.0</u>
Total revenue	\$303.0	\$271.5
Net income (loss)	\$64.5	\$61.3
Per unit (basic & diluted)	\$0.25	\$0.24
Funds from operations <sup>2</sup>	\$100.3	\$85.6
Per unit <sup>2</sup>	\$0.39	\$0.33
Cash distributions	\$62.0	\$57.6
Per unit	\$0.24	\$0.225
Payout ratio before sustaining capital <sup>2</sup>	61.8%	67.3%
Payout ratio after sustaining capital <sup>2</sup>	63.6%	69.3%
Capital expenditures		
Growth <sup>2</sup>	\$40.8	\$31.2
Sustaining <sup>2</sup>	<u>\$2.8</u>	<u>\$2.5</u>
Total capital expenditures	\$43.6	\$33.7

1. *Empress V NGL production and Cold Lake volumes reported on a 100% basis.*

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

### MD&A, Financial Statements & Notes

The Management's Discussion and Analysis ("MD&A") and consolidated financial statements provide a detailed explanation of Inter Pipeline's operating results for the three month period ended March 31, 2011 as compared to the three month period ended March 31, 2010. These documents are available 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 known and unknown risks, assumptions, uncertainties and other factors. Forward-looking statements in this news release include, but are not limited to, statements regarding timing and completion of, and EBITDA Inter Pipeline expects to generate from, the Polaris pipeline projects servicing the Kearn and Sunrise projects, and statements regarding Inter Pipeline's belief that it is well positioned to maintain its current level of cash distributions to unitholders throughout 2011 and beyond. Readers are cautioned not to place undue reliance on forward-looking statements, as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements 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 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 assumptions, risks, uncertainties and other factors include, but are not limited to, assumptions, risks and uncertainties associated with: operations, such as loss of markets, regulatory matters, environmental matters, industry competition, potential delays and cost overruns of construction projects, including the Polaris pipeline system projects, the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its subsidiaries, 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.

**Non-GAAP Financial Measures**

Certain financial measures referred to in this news release 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.