

**The
Best
Pick**
Organically Grown
Strong Yields
Highly Productive



An outstanding record of distribution growth and value-creation.

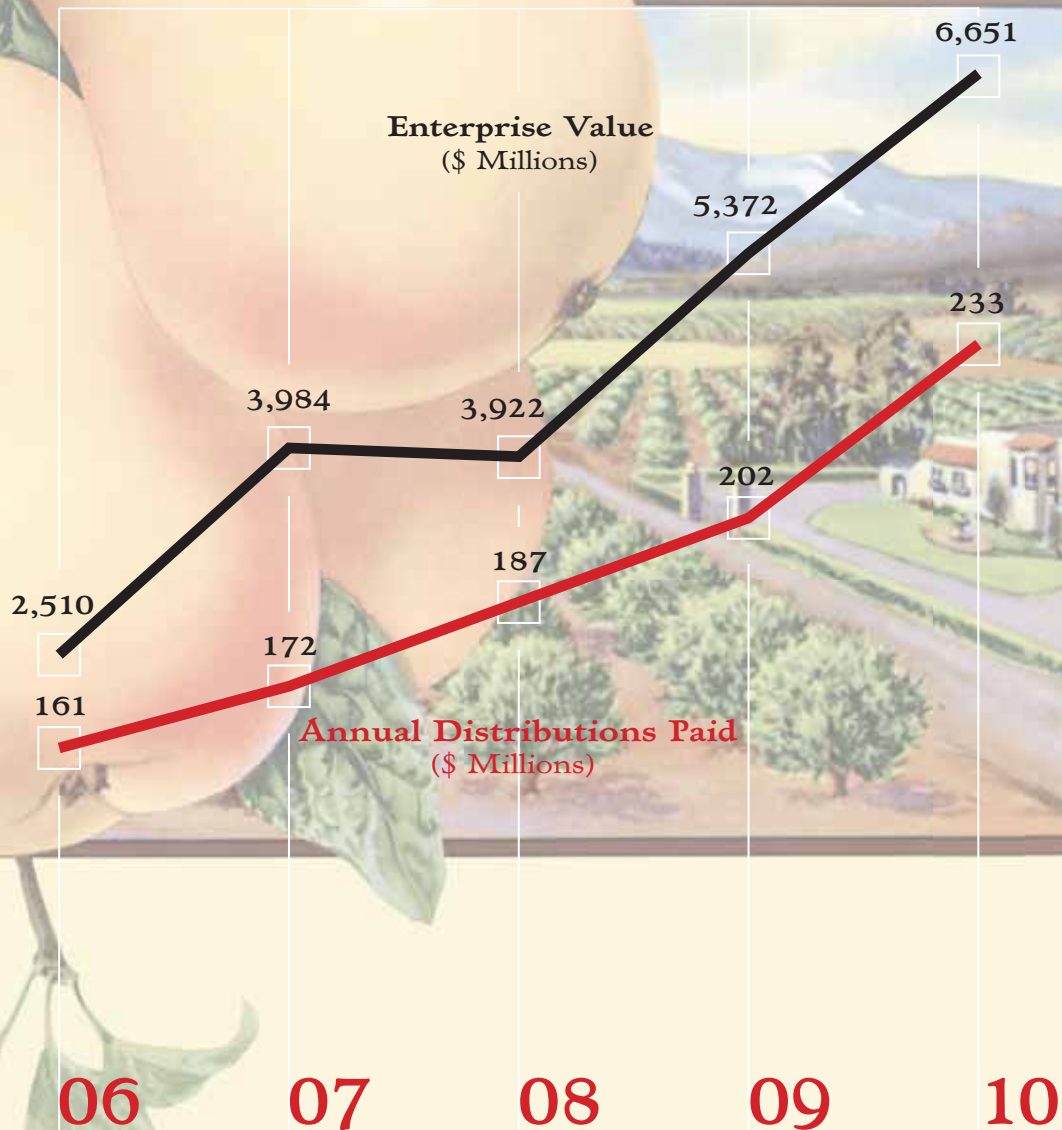
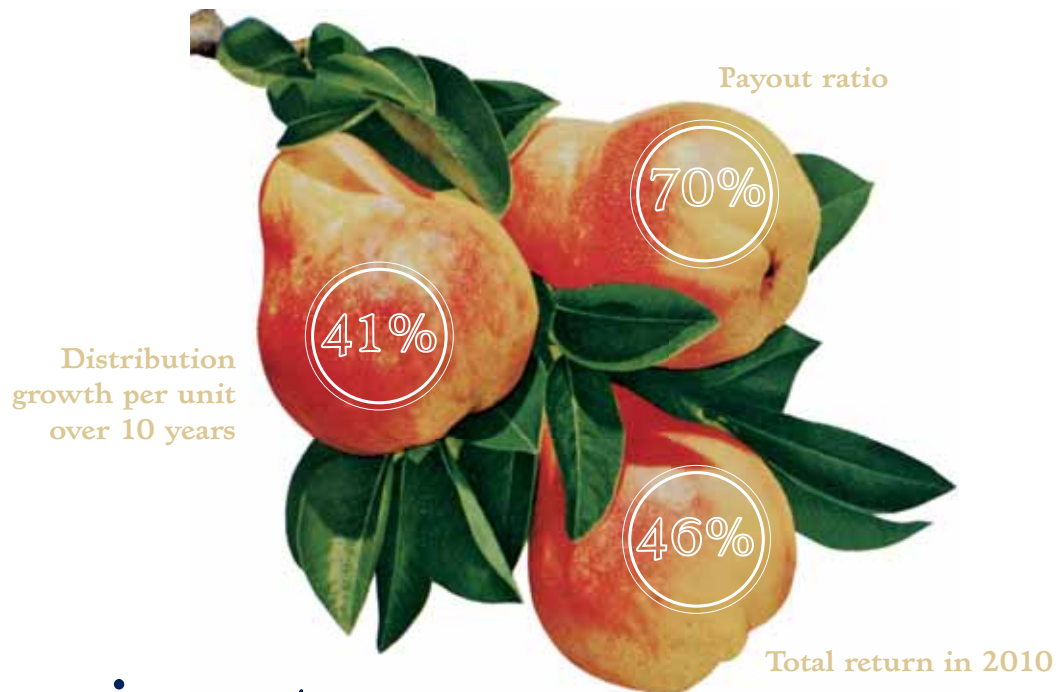


Table of Contents

08	Financial and Operating Highlights	14	Management's Discussion and Analysis	123	Five-Year Historical Summary
09	Five-Year Growth Summary	83	Consolidated Financial Statements	124	Board of Directors
10	President's Letter	87	Notes to Consolidated Financial Statements	126	Officers and Corporate Information



Why are investors picking Inter Pipeline for their portfolio?

It's simple, really.


We've generated outstanding total returns over the past decade, and have steadily increased cash distributions.

We've done it by focusing our investments on long-life energy infrastructure assets that deliver sustainable and predictable cash flow. Our assets are managed safely and efficiently by strong operational teams, and are primarily supported by long-term contracts with blue-chip customers. We're well positioned to capture further opportunities by leveraging our competitively positioned infrastructure assets. We have a large inventory of organic growth projects under development which will provide steady cash flow in the years to come.

That's the investment value we create.

Average Annual Total Return Unit price appreciation plus distributions

1 year	46.4%
3 year	31.6%
5 year	21.4%
7 year	21.8%
10 year	22.2%



Our presence in the Canadian oil sands is unmatched, with three key petroleum transportation systems serving the heart of the Athabasca and Cold Lake oil sands regions.

Our NGL extraction facilities are strategically located on major export pipelines, which deliver natural gas from the province of Alberta.

Diversified, strategically located assets

Our conventional oil pipeline systems form a strong regional gathering franchise, and are positioned to benefit from future advances in oil recovery technology.

Eight large-scale bulk liquid storage terminals provide petroleum and petrochemical handling services to major European markets.

Four core businesses generated \$1 billion in revenues in 2010



Oil Sands Transportation

Inter Pipeline operates two major oil sands pipelines in Alberta: the Cold Lake and Corridor pipeline systems. We are also developing a third oil sands asset, the Polaris pipeline system. In 2010, Inter Pipeline transported 638,000 barrels per day of oil sands products. With nearly 2,500 kilometres of pipeline, Inter Pipeline operates the largest oil sands gathering business in Canada. The Polaris pipeline is destined to become the largest diluent transportation system serving the Athabasca oil sands region.



NGL Extraction

As the largest NGL extraction business in Canada, Inter Pipeline is a major supplier of natural gas liquids to Alberta's petrochemical industry and other key markets. Inter Pipeline's facilities, with a total processing capacity of 6.2 billion cubic feet per day, produced 109,000 barrels per day of natural gas liquids in 2010. These facilities are strategically located on the TransCanada natural gas transmission system near export points from the province of Alberta.



Conventional Oil Pipelines

Inter Pipeline's conventional oil pipelines, comprised of the Bow River, Central Alberta and Mid Saskatchewan systems, include over 3,600 kilometres of gathering and transmission pipelines. In 2010, these systems transported 165,000 barrels per day. Geographically located in southern Alberta and western Saskatchewan, our conventional oil pipelines provide oil gathering service to over 150 oil producers and marketers.



Bulk Liquid Storage

Inter Pipeline's wholly owned subsidiary, Simon Storage Ltd., operates eight bulk liquid storage terminals in the United Kingdom, Germany and Ireland. With a combined capacity of eight million barrels, these facilities provide critical product handling, blending and storage services to the petroleum, petrochemical and biofuel sectors. Product loading and unloading operations are fully integrated with ship, rail and road tanker networks.



Branching out through organic growth

Through \$2.5 billion in acquisitions over the past eight years, Inter Pipeline has established four distinct lines of business to diversify cash flow and create multiple growth platforms.

Our pipeline, NGL extraction and bulk liquid storage businesses continue to generate attractive new opportunities for organic growth.

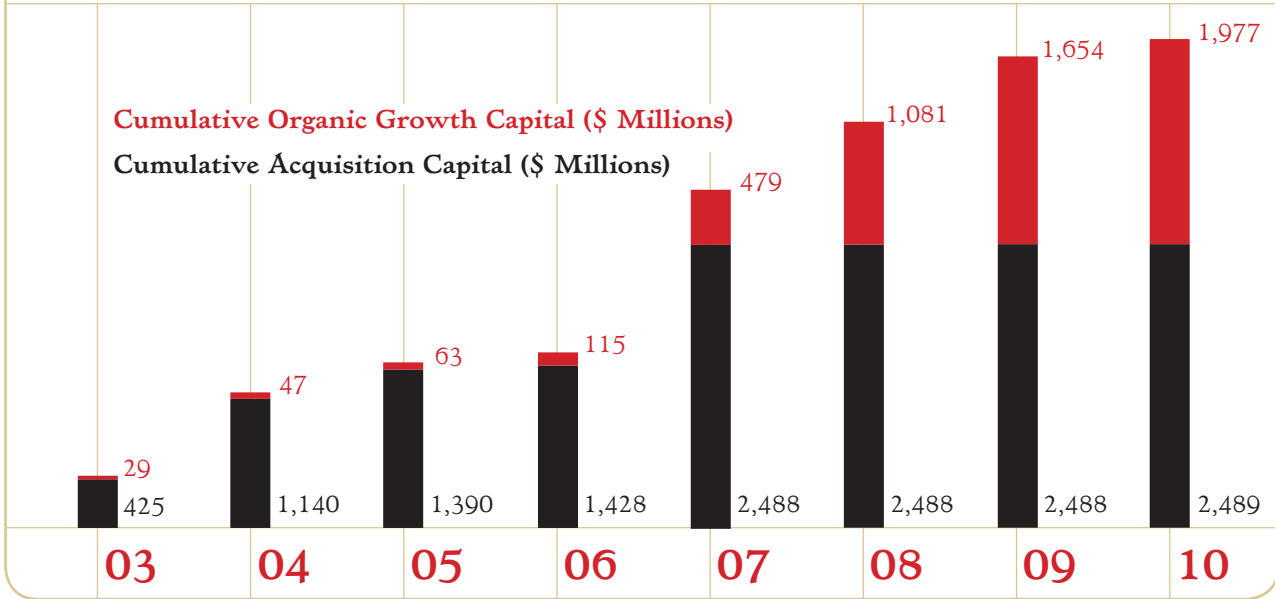
In the past eight years Inter Pipeline has invested \$2 billion in development projects to expand and enhance our assets.

Capital projects totalling almost \$200 million are currently under development to expand Inter Pipeline's Cold Lake and Polaris pipeline systems.

Oil sands infrastructure investments, including the recently completed Corridor pipeline expansion, are expected to increase EBITDA by over \$200 million per year, representing an increase of more than 50% over Inter Pipeline's EBITDA in 2010.

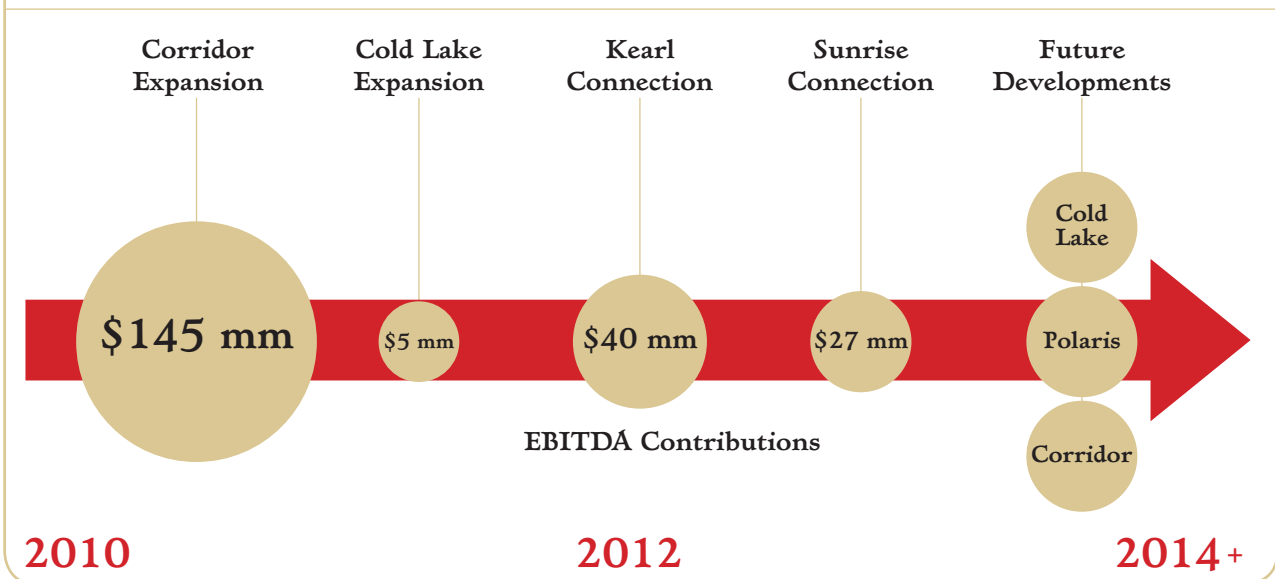
Channelling capital to fertile platforms

Inter Pipeline has grown through accretive acquisitions and investments in major organic development projects.



Sowing the seeds of our future growth

The expansion of Inter Pipeline's oil sands transportation business will remain the focus of long-term growth plans.



Making every action count

Inter Pipeline maintains a solid track record of operational performance and holds a strong reputation as a prudent operator of large-scale energy infrastructure assets. We not only strive for operational excellence, but to also protect the environment and enhance the quality of the communities where we operate. The root of our success lies with our employees and their commitment to our core values. Inter Pipeline promotes a positive workplace with an emphasis on honesty, integrity, accountability, teamwork and the pursuit of excellence. The entrepreneurial spirit of our employees has allowed Inter Pipeline to profitably grow and respond to new challenges. Our corporate culture encourages decision making, moving quickly and minimizing bureaucracy.

In the environment

With over 6,100 kilometres of pipeline and interests in large-scale NGL extraction plants, Inter Pipeline's operations span vast tracts of natural habitat in western Canada. Accordingly, we are acutely aware of the need to safeguard the environment and minimize the impact of our operations.

Inter Pipeline routinely seeks out sponsorship opportunities that focus on protecting and enhancing the environment. For example, we recently sponsored projects to restore fish habitats at Gregoire Lake near Fort McMurray and rehabilitate the Millennium Creek near Cochrane. Both initiatives have been successful in returning fresh water ecosystems to thriving natural states.

*Aerial view of
Gregoire Lake, AB*



In the workplace

Inter Pipeline has nurtured a progressive and cohesive corporate culture. We encourage our employees to meet the highest standards of integrity, have pride in their work and grow both personally and professionally. Our employees extend these values into the community through a strong record of support for charitable initiatives, including the United Way, Adopt-a-Family, and the Inn from the Cold program.



*Roxanne James,
Senior Maintenance Scheduler
– Oil sands*



In the community

Inter Pipeline is a proud sponsor of Canadian Paralympic athlete Josh Cassidy, a top ranked international competitor. In 2010, Josh collected a first place finish at the Tyne Tunnel international wheelchair race hosted in northern England, near Inter Pipeline's Tyne terminal.

*Josh Cassidy,
Paralympic athlete*



Photo: Critical Tortoise Photography

Inter Pipeline supports numerous youth programs, including support of the Art Smith Aviation Academy in Cold Lake, Alberta. This school addresses the unique challenges faced by children of military families in the Cold Lake region.



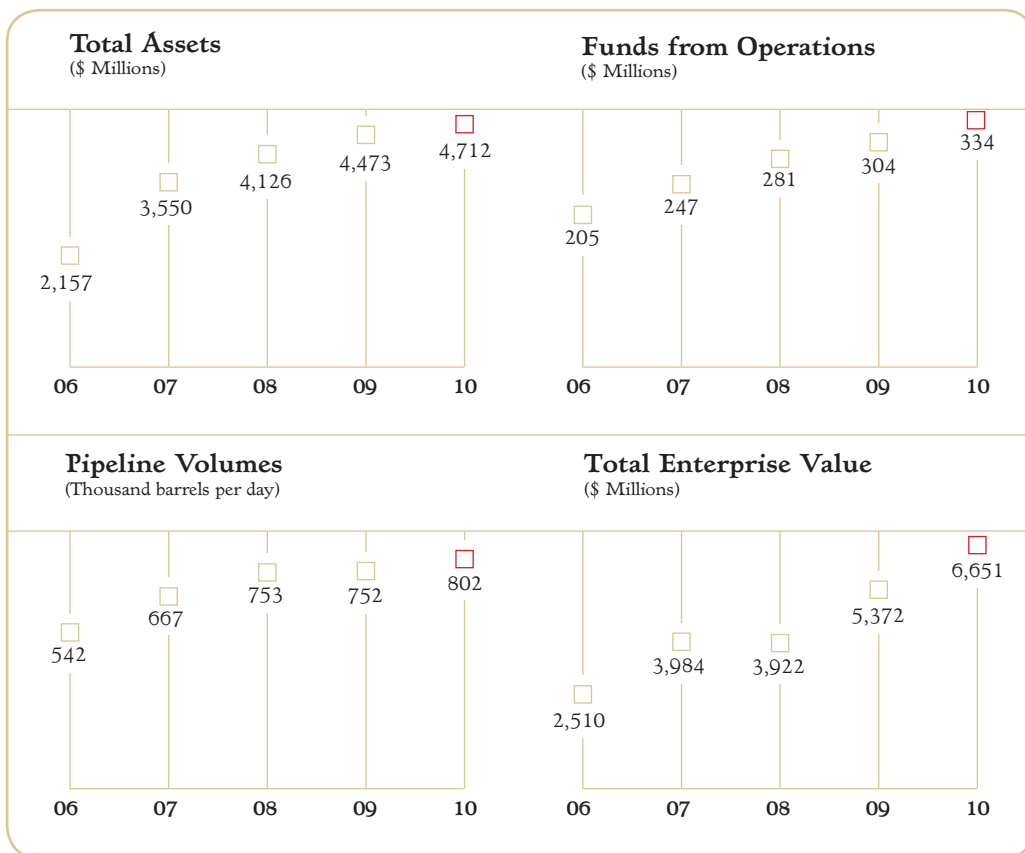
*Classroom at
Art Smith
Aviation Academy
Cold Lake, AB*

Financial and operating highlights

	2010	2009	% Change
Volume (thousands of barrels per day)			
Pipeline volume			
Conventional oil pipelines	164.5	169.2	(3)
Oil sands transportation*	637.6	582.6	9
Total pipeline	802.1	751.8	7
NGL extraction volumes			
Ethane*	71.1	69.6	2
Propane-plus*	37.7	39.3	(4)
Total extraction	108.8	108.9	0
Capacity utilization (%)			
Bulk liquid storage	96.3	96.4	0
(\$ millions, except where noted)			
Revenue	997.1	924.5	8
EBITDA	377.6	341.7	11
Funds from operations	333.7	304.1	10
Net income	234.8	157.7	49
Cash distributions	232.6	202.4	15
Cash distributions (per unit)	0.905	0.845	7
Payout ratio before sustaining capital (%)	69.7	66.6	5
Total assets	4,712.2	4,472.7	5
Partners' equity	1,333.0	1,320.1	1
Market capitalization	3,850.0	2,752.7	40
Total enterprise value	6,651.2	5,372.4	24

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

Five year growth summary



118%

Growth in total assets

63%

Growth in funds from operations

165%

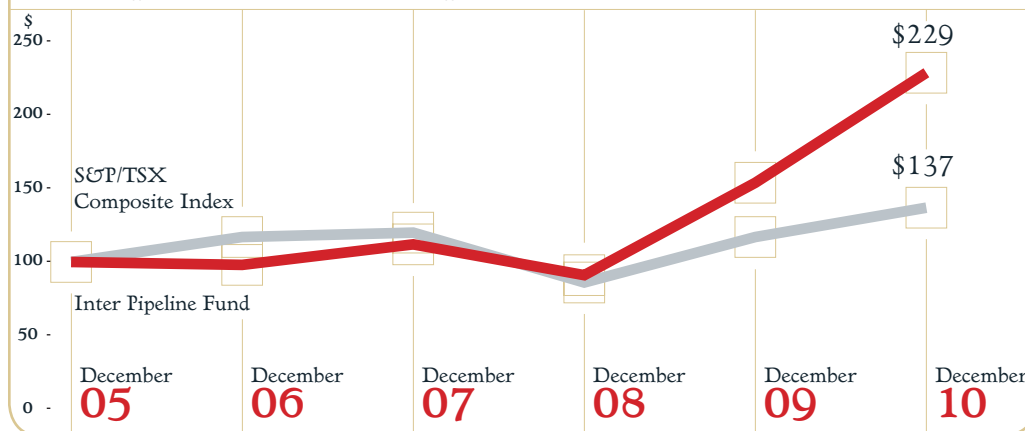
Growth in enterprise value

48%

Growth in pipeline volumes

Five year cumulative total return

Inter Pipeline vs. S&P/TSX Composite Index



President's letter



David Fesyk
President and Chief Executive Officer

The year 2010 proved to be another exceptional year at Inter Pipeline.

We again delivered record financial results, while significantly advancing our core commercial strategies and extending our track record of solid operational performance. Inter Pipeline's investors have clearly benefited from these efforts.

Our unit price reached record new highs and we announced our 7th consecutive increase to monthly cash distributions.

To create context for this year's annual report, we have chosen the theme of "Best Pick". An agrarian parallel can be drawn with many of Inter Pipeline's strengths and the way we manage our business. We are a highly productive enterprise with a strong focus on organic growth.

Our business model includes harvesting mature assets while planting seeds to establish new lines of business. We are a very attractive pick for yield-oriented investors.

Leading the market

Inter Pipeline's history of generating strong year-over-year returns is a key reason why we have emerged as a top pick in many investors' portfolios. In 2010 we generated an impressive 46% total return to our investors. That includes the annual increase in the market price of our

Inter Pipeline's unit price moved through the \$15.00 mark and established several all-time record highs in the fourth quarter of 2010.

The growth in our unit price is fully supported by Inter Pipeline's outstanding financial performance in 2010. We set records with respect to EBITDA at \$378 million, funds from operations at \$334 million and cash distributions to unitholders at \$233 million. At the same time, we maintained a very conservative payout ratio of only 70% before sustaining capital and 73% after sustaining capital.

Inter Pipeline's unit price moved through the \$15.00 mark and established several all-time record highs in the fourth quarter of 2010.

Class A Limited Partnership units, plus the cumulative value of our monthly cash distribution payments. Our strong performance in 2010 comes on the heels of a record year in 2009, in which we generated a stellar 65% total return for our investors.

Our track record of producing strong, repeatable results allowed Inter Pipeline to be recognized by the Financial Post Magazine as one of Canada's top 10 publicly traded businesses on the TSX. This survey, published in the November 2010 issue, took into account market price performance over a three year period. I am particularly proud that we achieved this recognition during a period which essentially straddles the onset of the global financial crisis and subsequent recovery in world markets. Our outstanding performance during turbulent times points to the quality of Inter Pipeline's asset base and the inherent stability of our cash flow streams.

Credit rating agencies also took note of Inter Pipeline's continuing strong financial results and the strength of our balance sheet. During 2010, Inter Pipeline received rating upgrades from both Standard & Poor's and DBRS. Maintaining high quality, investment grade credit ratings is integral to our long-term financing plans. A strong credit profile lowers our borrowing costs and helps provide access to a broader pool of capital.

Growing our business

Impressive financial results tell only part of Inter Pipeline's story in 2010. We also made significant progress in advancing our core commercial strategies. In particular, we signed two major commercial agreements to expand our Cold Lake and Polaris pipeline systems. We also commissioned a large-scale capacity expansion project on our Corridor pipeline system. The expansion and development of our oil sands transportation assets remain a central focus of our long-term growth strategy.

In August, Inter Pipeline announced a new \$40 million project to add approximately 180,000 barrels per day of bitumen blend gathering capacity on the Cold Lake pipeline system. This investment will accommodate planned production increases from the Foster Creek oil sands project under development by Cenovus Energy and ConocoPhillips. Cash flow is secured under a 20-year agreement that allows Inter Pipeline to earn a fixed return on invested capital with no volume throughput risk. All operating costs will be recovered on a flow through basis.

In October, Inter Pipeline announced a highly accretive \$15 million investment to connect the Sunrise oil sands project sponsored by Husky Energy and BP Canada to the Polaris pipeline system. This project is expected to generate

by over 55% to 465,000 barrels per day. Commencing in January 2011, Inter Pipeline began generating long-term annual EBITDA of approximately \$145 million under our shipping contracts with Shell, Chevron and Marathon. That represents almost 40% of Inter Pipeline's EBITDA of \$378 million in 2010.

The years ahead

Looking forward, I am confident in our ability to build further value in our business and extend Inter Pipeline's track record of profitable growth. In 2010 we achieved record annual throughputs of over 800,000 barrels per day on our pipeline systems. In December, Inter Pipeline shipped an impressive 907,000 barrels per day. We expect to see continuing strong volume growth over the next three years as current capacity expansion

In 2010 we achieved record annual throughputs of over 800,000 barrels per day on our pipeline systems.

approximately \$27 million per year in annual cash flow under a 20-year ship-or-pay contract. The new 30,000 barrels per day connection to the Sunrise project supplements a major agreement announced last year to provide 60,000 barrels per day of committed capacity to the Kearl oil sands project sponsored by Imperial Oil and Exxon Mobil. Inter Pipeline's Polaris pipeline system is the primary diluent transportation network to the Athabasca oil sands region.

Also in 2010, Inter Pipeline commissioned a major \$1.85 billion capacity expansion project on the Corridor pipeline system. This project involved the construction of 463 kilometres of 42" diameter pipeline from the Athabasca Oil Sands Project near Fort McMurray to Shell's Scotford upgrader near Edmonton. As a result, capacity on the Corridor system has increased

projects come on stream. We also have a large inventory of new investment opportunities under development. Inter Pipeline intends to retain our status as the largest oil sands gathering business and the second largest liquids pipeline business in Canada.

Financially, we are very well positioned to fund our future growth plans. Our balance sheet is strong, our debt levels are conservative, and the business continues to generate significant free cash flow. Given Inter Pipeline's recent credit rating upgrades and the strong appreciation in our unit price, our cost of capital is at an all-time low. That translates into lower costs for raising new capital, while enhancing our ability to complete new acquisitions and major development projects.

As you are aware, Inter Pipeline will become a taxable entity in 2011 under the Canadian

government's SIFT legislation. Many publicly traded income funds, trusts and limited partnerships have opted to convert to a corporate form in response to the government's policy decision. Many businesses have also announced their intention to reduce their cash distributions upon conversion. Inter Pipeline, on the other hand, intends to remain structured as a publicly traded limited partnership. Importantly, we do not intend to cut our current level of cash distributions to unitholders. Furthermore, a significant portion of our cash distributions in 2011 and beyond will be treated as eligible dividends and therefore attract a lower tax rate. As a limited partnership, Inter Pipeline also retains the ability to treat a portion of our annual distributions to unitholders as a tax-deferred return of capital.

Credit where credit is due

2010 was truly an outstanding year at Inter Pipeline. We accomplished a lot, and in the process we have grown to become a \$6.7 billion enterprise. We now rank among the top 100 businesses on the Toronto Stock Exchange.

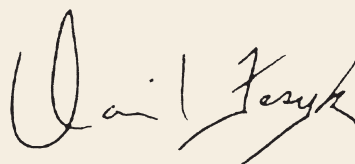
Our many successes would not have been possible if it weren't for the focus and dedication of our employees. Inter Pipeline's commercial groups captured attractive new investment opportunities and positioned the business for future growth. Our corporate finance groups strengthened our balance sheet and prudently managed our business through the global financial crisis. Our operations and project development groups again generated strong environmental, health and safety results, while seamlessly bringing the Corridor pipeline expansion into service and completing a major maintenance turnaround at the Cochrane NGL extraction plant. Our support groups, including human resources, information technology and office administration, kept things running smoothly during another very active year.



NGL Extraction Facilities, Cochrane, AB.

At the board level, I am very indebted to the directors for your strong stewardship of our business and your unwavering support of Inter Pipeline's management team. You consistently provide insightful guidance on key decisions and are always available on time-sensitive matters.

Finally, it is an honour as President and CEO to present another annual report to our unitholders, filled with so many good news stories. Thank you for supporting our business and helping establish Inter Pipeline as a top pick. We remain highly focused on protecting and enhancing the value we have created in our business in recent years. Our future continues to look extremely positive.



David Fesyk
President and Chief Executive Officer
January 4, 2011

Management's Discussion and Analysis

Performance vs. Objectives

1. Prudently manage our balance sheet

In 2010, Inter Pipeline achieved record financial results while maintaining capital discipline. As a result, our balance sheet is very strongly positioned. At year end, Inter Pipeline's total recourse debt represented only 41% of our balance sheet capitalization. Our strong financial performance and conservative use of leverage allows Inter Pipeline to maintain investment grade credit ratings. In fact, Inter Pipeline received corporate credit rating upgrades from both Standard & Poor's and DBRS in 2010. Our credit facilities have sufficient capacity to fund near term requirements, and are supported by a well diversified syndicate of major lending institutions.

2. Execute organic growth projects across all business segments

In 2010, Inter Pipeline made significant progress in advancing key commercial strategies. Again our focus was primarily on the development of large-scale expansion projects within the oil sands transportation business segment. Construction of the \$1.85 billion Corridor expansion project was successfully completed on schedule and on budget, commencing operations in early May. A \$40 million project to expand capacity on the Cold Lake system was completed on schedule and on budget. Inter Pipeline also began work on the reconfiguration of the Polaris pipeline to provide diluent transportation service to the Kearl and Sunrise oil sands projects. Several smaller-scale organic development projects were completed in Inter Pipeline's conventional oil pipelines, NGL extraction and bulk liquid storage business segments.

3. Acquire complementary infrastructure businesses

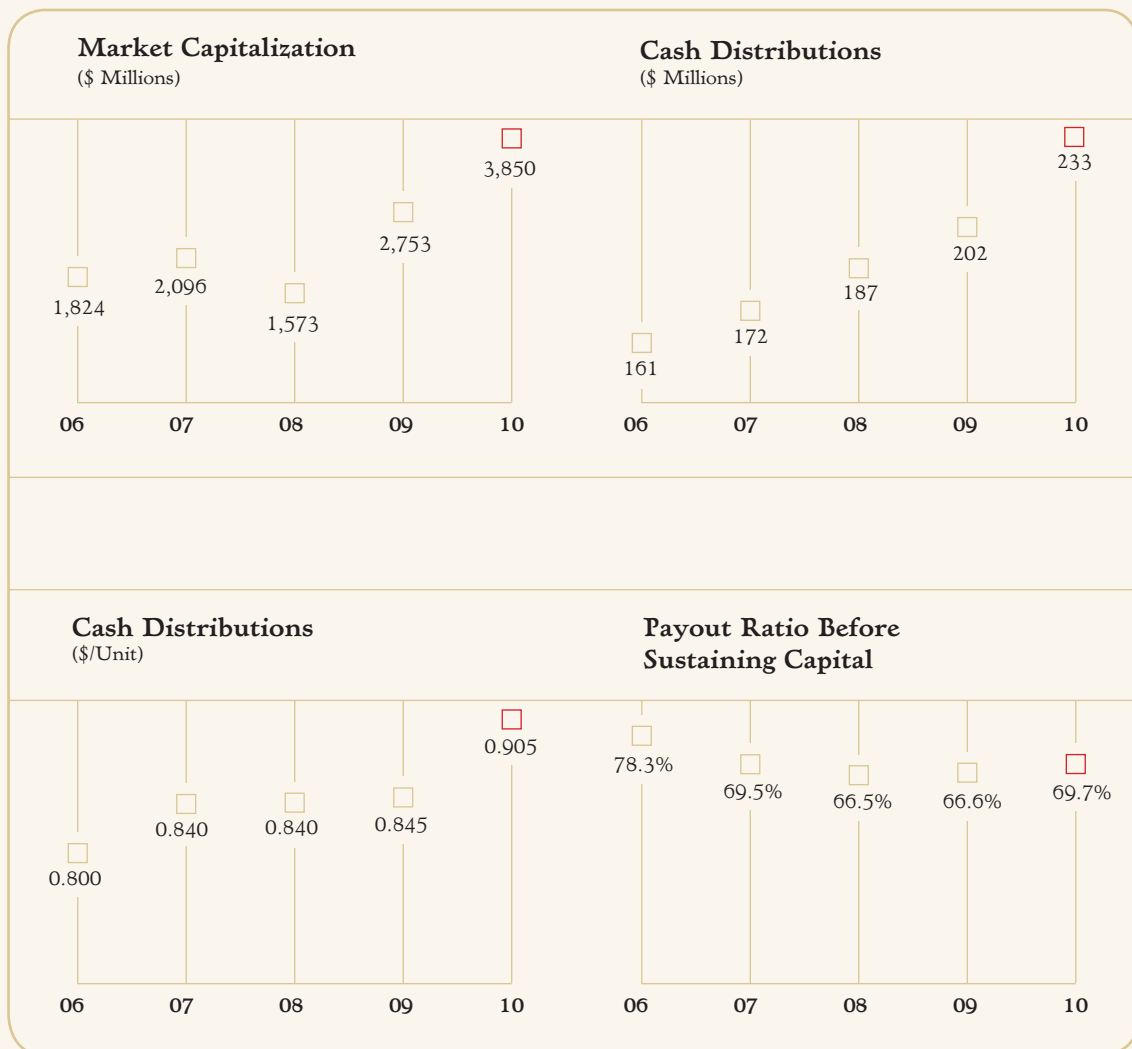
During 2010, Inter Pipeline completed a small acquisition in the United Kingdom, acquiring 145,000 barrels of storage adjacent to the Immingham terminal in September. Throughout the year, Inter Pipeline evaluated several additional acquisition opportunities in North America and western Europe. None were found to meet Inter Pipeline's stringent acquisition requirements. Under our commercial framework, potential acquisitions must be a good strategic fit, complement existing lines of business, provide stable long-term returns which are accretive to cash flow and afford opportunities for follow-on organic growth investments.

4. Ensure safe, reliable and compliant operations

Inter Pipeline maintains a strong track record of operational performance with a continuing focus on employee safety, protection of the environment and the integrity of our assets. In 2010, we achieved further improvement in our environmental performance, while recording zero lost time incidents within our Canadian operations. Our pipeline operations group reached a milestone of one million hours worked without a lost time incident.

5. Provide investors with attractive, long-term returns

Strong financial, commercial and operating performance resulted in attractive returns for Inter Pipeline's investors. Taking into account the appreciation in our unit price, plus cash distributions paid, Inter Pipeline generated an impressive 46% total return to investors. In late 2010, Inter Pipeline announced an increase to its monthly cash distribution rate from \$0.075 to \$0.08 per unit. This 7% increase represents Inter Pipeline's 7th consecutive increase to monthly cash payments to unitholders.



Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights significant business results and statistics for Inter Pipeline Fund's (Inter Pipeline) three month-period and year ended December 31, 2010 to provide Inter Pipeline's unitholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to 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", "forecast", "plan", "intend", "target" 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: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of cash distributions to its unitholders through 2011 and beyond; 2) the maintenance of Inter Pipeline's cash distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including its Corridor pipeline expansion project, the Polaris diluent pipeline project for the Kearl oil sands mining project (Kearl project) and new pipeline connection to the Sunrise oil sands project (Sunrise project) and Cochrane desulphurization facility; 6) capital forecasts; and, 7) Inter Pipeline's current estimate of the impact of International Financial Reporting Standards (IFRS) on the financial position of Inter Pipeline on transition to IFRS on January 1, 2010 based on Inter Pipeline's interpretation of IFRS standards in place as of December 31, 2010.

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 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 involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; assumptions concerning operational reliability; the availability and price of labour and construction materials; 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 natural gas liquids (NGL) extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; inflation; the ability to access sufficient capital from internal and external sources; 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 cost overruns on construction projects, including, but not limited to the Corridor project and other projects noted above; Inter Pipeline's ability to make capital investments and amount 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 maintenance of support of such approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. The impact of any one assumption, risk, uncertainty or other factor on a particular forward-looking statement is not determinable with certainty, as these are interdependent and Inter Pipeline's future course of action depends on management's assessment of all information available at the relevant time.

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 MD&A for the year ended December 31, 2010. The forward-looking statements contained in this MD&A are made as of the date of this document, and, except to the extent expressly 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 and all subsequent forward-looking statements, whether written or oral, attributable to Inter Pipeline or persons acting on Inter Pipeline's behalf are expressly qualified in their entirety by these cautionary statements.

For the Three Month Period and Year Ended December 31, 2010

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period and year ended December 31, 2010 as compared to the three month period and year ended December 31, 2009. 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 and September 30, 2010, the audited consolidated financial statements for the year ended December 31, 2010, the Annual Information Form and other information filed by Inter Pipeline at www.sedar.com.

Financial information presented in this MD&A is based on information in Inter Pipeline's consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A reports 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 non-GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

Management determines 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.

2010 Highlights	19	Risk Management and Financial Instruments	46
Fourth Quarter Highlights	19	Transactions with Related Parties	50
Subsequent Event	19	Controls and Procedures	51
Performance Overview	20	Critical Accounting Estimates	51
Outlook	22	Changes in Accounting Policies	57
Results of Operations	25	Risk Factors	62
Summary of Quarterly Results	38	Non-GAAP Financial Measures	77
Liquidity and Capital Resources	39	Eligible Investors	80
Cash Distributions to Unitholders	44	Additional Information	80
Outstanding Unit Data	46		

2010 Highlights

- Funds from operations* increased to a record \$334 million, up \$30 million or 10% from 2009
- Low annual payout ratio before sustaining capital* of 70%
- Cash distributions to unitholders totalled \$233 million or \$0.905 per unit, up from \$202 million distributed in 2009
- Net income increased 49% to \$235 million
- Annual throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems averaged a record 802,100 barrels per day (b/d)
- Increased monthly distributions by 6.7% to \$0.08 per unit, the 7th consecutive increase
- Corridor pipeline system expansion successfully constructed and entered commercial service on January 1, 2011
- Entered into a 20-year, 30,000 b/d ship-or-pay diluent transportation contract for the Sunrise oil sands project
- Completed \$40 million project to increase capacity on the Cold Lake pipeline system
- Investment grade credit ratings upgraded by DBRS Limited (DBRS) and Standard & Poor's (S&P)
- Conservative year end recourse debt to capitalization ratio of only 41%

Fourth Quarter Highlights

- Fourth quarter funds from operations* increased \$5 million, or 6%, over 2009 levels to \$83 million
- Payout ratio before sustaining capital* of 72% for the quarter
- Cash distributions to unitholders were \$59 million or \$0.23 per unit
- Inter Pipeline's oil sands and conventional oil pipeline systems transported 874,300 b/d, a new quarterly record

Subsequent Event

- Inter Pipeline successfully completed an inaugural \$325 million Canadian public debt offering of senior unsecured medium-term notes

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Performance Overview

(millions, except per unit and % amounts)	Three Months Ended December 31		Years Ended December 31		
	2010	2009	2010	2009	2008
Revenues					
Oil sands transportation	\$ 36.8	\$ 34.1	\$ 144.5	\$ 130.6	\$ 146.0
NGL extraction	149.1	160.5	594.3	529.1	794.3
Conventional oil pipelines	40.7	34.3	157.4	148.9	148.0
Bulk liquid storage	25.9	28.2	100.9	116.0	136.3
	\$ 252.5	\$ 257.1	\$ 997.1	\$ 924.6	\$ 1,224.6
Funds from operations⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾					
Oil sands transportation	\$ 17.9	\$ 19.4	\$ 73.8	\$ 73.9	\$ 69.8
NGL extraction	46.8	40.8	177.0	133.1	134.0
Conventional oil pipelines	27.0	23.1	113.0	110.8	106.5
Bulk liquid storage ⁽¹⁾⁽²⁾⁽³⁾	9.3	10.3	40.7	51.3	41.6
Corporate costs	(18.3)	(15.5)	(70.8)	(65.0)	(71.4)
	\$ 82.7	\$ 78.1	\$ 333.7	\$ 304.1	\$ 280.5
Per unit⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾					
Per unit	\$ 0.32	\$ 0.31	\$ 1.30	\$ 1.28	\$ 1.26
Net income					
Per unit – basic and diluted	\$ 0.22	\$ 0.08	\$ 0.91	\$ 0.66	\$ 1.12
Cash distributions⁽⁵⁾					
Per unit ⁽⁵⁾	\$ 0.230	\$ 0.215	\$ 0.905	\$ 0.845	\$ 0.840
Units outstanding (basic)					
Weighted average	257.8	252.8	256.9	238.1	222.0
End of period	258.0	254.6	258.0	254.6	223.1
Capital expenditures					
Growth ⁽⁴⁾	\$ 221.0	\$ 53.5	\$ 322.9	\$ 573.4	\$ 601.7
Sustaining ⁽⁴⁾	5.7	7.4	16.7	18.0	13.4
	\$ 226.7	\$ 60.9	\$ 339.6	\$ 591.4	\$ 615.1
Payout ratio before sustaining capital⁽⁴⁾					
	71.7%	69.8%	69.7%	66.6%	66.5%
Payout ratio after sustaining capital⁽⁴⁾					
	77.1%	77.1%	73.4%	70.8%	69.9%

(millions, except per unit and % amounts)	As at December 31		
	2010	2009	2008
Total assets	\$ 4,712.2	\$ 4,472.7	\$ 4,125.7
Total debt ⁽⁶⁾	\$ 2,801.2	\$ 2,619.7	\$ 2,349.2
Total partners' equity	\$ 1,333.0	\$ 1,320.1	\$ 1,130.2
Enterprise value ⁽⁴⁾	\$ 6,651.2	\$ 5,372.4	\$ 3,921.8
Total debt to total capitalization ⁽⁴⁾	67.8%	66.5%	67.5%
Total recourse debt to capitalization ⁽⁴⁾	40.9%	35.7%	41.6%

(1) In 2009, funds from operations in the bulk liquid storage business increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statement of cash flows, these proceeds were reclassified from "net change in non-cash working capital" to "proceeds from long-term deferred revenue" which is included in the calculation of funds from operations.

(2) In the second quarter of 2010, funds from operations in the bulk liquid storage business increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.

(3) In 2010, funds from operations for the bulk liquid storage business decreased \$4.1 million due to a special defined benefit pension plan contribution paid in the third quarter.

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

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

(6) Total debt reported in the December 31, 2010 consolidated financial statements include long-term debt of \$2,795.6 million inclusive of discounts and debt transaction costs of \$5.6 million.

Year Ended December 31, 2010

Inter Pipeline generated record financial results in 2010 as funds from operations grew to \$333.7 million, an increase of \$29.6 million or 9.7% over 2009. This resulted in a positive payout ratio before sustaining capital of 69.7% for 2010. Funds from operations in the NGL extraction business increased \$43.9 million to a record of \$177.0 million which is 33.0% over 2009 primarily due to higher realized frac-spread prices from propane-plus sales at the Cochrane NGL extraction facility. Strong business results from the conventional oil pipelines business also resulted in increased funds from operations of \$2.2 million while the oil sands transportation business decreased slightly by \$0.1 million. The bulk liquid storage business realized \$10.6 million lower funds from operations in 2010 as compared to 2009. This reduction was primarily due to lower advance revenue payments in 2010 as compared to 2009 of \$4.4 million, and a special contribution to a defined benefit pension plan of \$4.1 million. Corporate costs increased \$5.8 million to \$70.8 million primarily due to higher employee costs.

Net income increased substantially in 2010 to \$234.8 million from \$157.7 million in 2009 for an increase of \$77.1 million or 48.9%. Net income increased primarily due to the strong financial results from the NGL extraction business, as indicated above, and a more favourable unrealized change in mark-to-market value of derivative financial instruments as compared to 2009. Inter Pipeline incurred an unrealized loss of \$3.6 million on these financial instruments as at December 31, 2010 compared to an unrealized loss of \$65.2 million as at December 31, 2009. Depreciation and amortization expense was also lower in 2010 as compared to 2009 as a result of an increase in the estimate of the useful lives of certain pipeline assets. These favourable variances were partially offset by a future income tax recovery of \$16.7 million and a gain on disposal of assets of \$17.8 million recorded in 2009 compared to a future income tax expense of \$3.9 million and loss on disposal of assets of \$0.7 million recorded in 2010.

Total cash distributions to unitholders increased \$30.2 million or 14.9% to \$232.6 million compared to \$202.4 million distributed in 2009. Cash distributions increased due to an increase in monthly cash distributions of \$0.005 per unit in both December of 2009 and December of 2010 and a higher overall number of Class A units outstanding. The 6.7% distribution increase in December 2010 resulted in a new annualized cash distribution of \$0.96 per unit. The majority of new units were issued pursuant to a new distribution reinvestment plan adopted in May 2009 and a successful \$173 million public equity offering in June 2009.

Total debt increased to \$2,801.2 million at December 31, 2010 from \$2,619.7 million in 2009, an increase of \$181.5 million. The increase was primarily driven by Inter Pipeline's \$339.6 million capital program in 2010. Inter Pipeline's recourse debt to capitalization ratio increased from only 35.7% at December 31, 2009 to a favourable 40.9% at December 31, 2010. Adjusting for the inclusion of \$1,877.8 million of non-recourse debt held within the Corridor corporate entity, Inter Pipeline's consolidated debt to total capitalization ratio at December 31, 2010 was 67.8%, up slightly from 66.5% at year end 2009.

Three Months Ended December 31, 2010

Inter Pipeline also generated strong financial results in the fourth quarter as funds from operations increased \$4.6 million or 5.9% from \$78.1 million in 2009 to \$82.7 million in 2010. The strong cash flow resulted in an attractive payout ratio before sustaining capital of 71.7%. The increase in funds from operations was largely driven by higher frac-spreads in the NGL extraction business compared to the same period in 2009. The conventional oil pipelines business also contributed favourably to the increase in funds from operations due to higher tariff revenue. These increases were partially offset by lower operating results in the oil sands transportation and bulk liquid storage businesses and higher corporate costs.

Net income in the fourth quarter increased 153.7% from \$23.1 million in 2009 to \$58.6 million in 2010. In the fourth quarter of 2009, net income was unfavourably impacted by a \$24.7 million unrealized loss in the mark-to-market value of derivative financial instruments, compared to a \$5.4 million unrealized loss in the fourth quarter of 2010. Depreciation and amortization expense was also lower in the current quarter as compared to the same period in 2009 as a result of an increase in the estimate of the useful lives of certain pipeline assets.

Total cash distributed to unitholders in the fourth quarter of 2010 increased to \$59.3 million from \$54.5 million in 2009, an increase of \$4.8 million or 8.8%. As discussed in the annual results above this is primarily due an increase in monthly cash distributions of \$0.005 per unit in both December 2009 and December 2010, and to additional Class A units outstanding.

Inter Pipeline's consolidated debt increased to \$2,801.2 million at December 31, 2010 from \$2,603.1 million at September 30, 2010 an increase of \$198.1 million, during which time approximately \$226.7 million was spent on capital projects.

Outlook

Inter Pipeline's business strategy is to acquire and develop long-life, high-quality energy infrastructure assets that generate sustainable and predictable long-term cash flows. Throughout 2010, Inter Pipeline's investing and operational activities were consistent with this long-term framework. Through successful execution of this strategy, along with strong business fundamentals in all four business segments, Inter Pipeline is well positioned to sustain current levels of cash distributions to unitholders through 2011 and beyond. Inter Pipeline's recent decision to increase distribution levels confirms its strong financial position, despite becoming a taxable entity in 2011. In the near future, growth initiatives supporting Inter Pipeline's long-term strategy will be primarily focused on four fronts: expansion of the Corridor pipeline system, development of the Polaris diluent transportation system, phased expansion of the Cold Lake pipeline system and ongoing development of the bulk liquid storage business. The total growth capital forecast for 2011 is \$210 million, down from the \$323 million spent in 2010. Sustaining capital expenditures are forecast to be \$18 million in 2011.

The Corridor pipeline expansion project is nearly complete at an expected total cost of \$1.85 billion. Final costs are expected to moderately exceed earlier estimates by approximately \$50 million due to higher than anticipated non-controllable costs such as line fill and final tank construction cost adjustments. These costs will be added to the rate base at actual cost. As a result of the expansion, the bitumen blend capacity on the Corridor system has increased from 300,000 b/d to 465,000 b/d. This added capacity will facilitate transportation of increased oil sands production from the Athabasca Oil Sands Project (AOSP) which is owned by Shell, Chevron and Marathon. The expansion is governed by a cost-of-service contract that will generate stable long-term cash flows. The recently installed 463 kilometre mainline has been fully commissioned and was placed into service in 2010. In 2011 the final step in the project, the commissioning of a 43 kilometre products line from the Scotford upgrader returning to the Edmonton market hub, is expected to be completed. As per the contract terms, Inter Pipeline began receiving incremental revenue from the expansion on January 1, 2011.

The Polaris diluent transportation system is an important growth platform for Inter Pipeline, and will be a key focus of investment activity in 2011. The Polaris system is now supported by two major commercial agreements. The first transportation contract, a 25-year, 60,000 b/d cost-of-service agreement to transport diluent for the Kearl oil sands project, will anchor initial development of the Polaris system and is expected to commence service in late 2012. The Kearl project is owned indirectly by Imperial Oil Limited and ExxonMobil Canada. The second major long-term contract will transport diluent to the Sunrise oil sands project, under development by Husky Oil Operations Limited and BP Canada Energy Company. Starting in late 2013, Inter Pipeline will provide 30,000 b/d of committed diluent capacity to the Sunrise project under a 20-year cost-of-service contract. Construction on both projects, with a combined budget of approximately \$150 million, is expected to advance significantly in 2011, with both projects on schedule to meet planned in-service dates. Inter Pipeline does not have any commodity price or throughput risk associated with these cost-of-service contracts.

Together, the Kearl and Sunrise diluent transportation agreements will utilize 90,000 b/d on the Polaris system or roughly 75% of its initial capacity, and generate approximately \$67 million in incremental EBITDA annually when fully in service. Inter Pipeline will continue to pursue further opportunities to fully utilize the capacity of the Polaris system from further expansions of the Kearl and Sunrise projects or other third party opportunities.

In 2010, Inter Pipeline completed a \$40 million project to increase pipeline capacity on the Cold Lake system to enable transportation of increased production from the Foster Creek oil sands project, jointly owned by Cenovus and ConocoPhillips. A total of 27 kilometres of new pipeline extending north from the La Corey terminal was completed on schedule and on budget. The expansion was placed into service and began generating revenue for Inter Pipeline in December 2010. This strategic infrastructure development is consistent with Inter Pipeline's plans to extend the Cold Lake system further north to meet future production growth and transportation requirements.

Inter Pipeline's NGL extraction business segment posted very strong results in the fourth quarter as propane-plus frac-spreads remained at historically high levels. While strong commodity prices directly benefit overall financial performance through high frac-spreads, Inter Pipeline is shielded from the impact of weaker commodity prices as exposure is limited primarily to one revenue stream, the sale of propane-plus extracted at the Cochrane NGL extraction facility. In 2011 and beyond, Inter Pipeline's exposure to commodity price fluctuations will become a smaller proportion of Inter Pipeline's financial results as the current pipeline projects under development begin generating significant new cash flow.

In December 2010, the Energy and Resources Conservation Board approved an application by a subsidiary of AltaGas Ltd. ("AltaGas") to build a co-streaming project on the west leg of the TransCanada mainline system. The co-streaming project will allow AltaGas to extract natural gas liquids from the TransCanada natural gas stream upstream of Inter Pipeline's Cochrane NGL extraction facility. Inter Pipeline expects that once operational, the co-stream project could initially reduce natural gas throughput at the Cochrane extraction facility by up to 250 million cubic feet per day. However, Inter Pipeline believes that the overall impact on cash flow will not be material to its consolidated results.

From a longer term perspective Inter Pipeline's future cash flow profile is anticipated to remain stable and predictable. Cash flow is primarily underpinned by long-term contracts, many of which are cost-of-service in nature, and not subject to commodity price or volume risk. Cash flow under these types of contracts is expected to grow relative to fee-based or commodity price-sensitive cash flow as further oil sands-related projects develop.

Inter Pipeline's balance sheet remained very strong through the fourth quarter. At December 31, 2010, Inter Pipeline's total recourse debt to capitalization ratio was a low 40.9%. This financial strength allowed Inter Pipeline to easily fund its \$460 million equity contribution obligation associated with the Corridor expansion project. This amount was contributed to Inter Pipeline (Corridor) Inc. by drawing on Inter Pipeline's \$750 million revolving credit facility on January 4, 2011. Coincidental with this initial equity contribution to Inter Pipeline (Corridor) Inc., cumulative capital expenditures to date related to the Corridor expansion totaling \$1.84 billion at January 1, 2011, were added to the rate base and began generating incremental revenue.

On January 1, 2011, publicly traded flow-through entities such as income trusts and limited partnerships became taxable. The change to a taxable status led many organizations in this sector to change their business structure and adjust cash distribution levels to pay these new tax burdens. In contrast, Inter Pipeline's long-term business strategy led to a successful transition to the new taxation environment without making major changes to its business structure, or making any reductions to its cash distribution level. In fact, effective with the January 2011 distribution payment, Inter Pipeline raised annualized distributions by six cents per unit. Strong fundamentals in all four of our business segments support Inter Pipeline's position that it can maintain current distribution levels into the foreseeable future, in spite of the new income tax obligations.

In 2009, Inter Pipeline's board of directors engaged in a formal process to consider alternative business structures. After considering the impacts of all relevant variables such as the level of income taxes to be paid, corporate conversion costs, counterparty consent issues and sustainability of distributions, Inter Pipeline's governance committee and other independent directors concluded that no material tangible benefit to Inter Pipeline's unitholders would arise from changing the existing business structure. As a result, Inter Pipeline's board of directors determined that Inter Pipeline will remain structured as a publicly traded limited partnership into the foreseeable future. The board of directors will continue to monitor future events which could affect this decision.

The change to a taxable entity will also lead to a more favourable tax treatment of Inter Pipeline's cash distributions in the hands of a taxable investor in two ways. First, for distributions with a record date after January 1, 2011, the taxable portion of distributions, excluding a minor portion relating to foreign source income, will be eligible for the dividend tax credit resulting in a lower effective tax rate for taxable investors. For example, using currently enacted 2010 tax rates, a Canadian resident in the highest marginal tax bracket will have their effective tax rate on the eligible dividend portion of distributions reduced by approximately 16% to 24% depending on their province of residence. Previously, the entire taxable portion of Inter Pipeline's cash distributions was classified as either business or interest income for tax purposes and not eligible for the dividend tax credit. Second, a portion of distributions is expected to be treated as a return of capital. The return of capital will not be taxable to the unitholder and will reduce the adjusted cost base of investors' units, thereby effectively deferring payment of associated taxes until disposition of units.

Inter Pipeline's stable and diversified business segments continue to support strong investment grade credit ratings. During the fourth quarter, S&P increased Inter Pipeline's investment grade credit rating to BBB+ with a stable outlook, up from BBB. S&P recognized progress on the Corridor expansion project, cash flow stability, and sound operational performance as justifications for the upgrade. Earlier in 2010, DBRS upgraded Inter Pipeline's investment grade credit rating to BBB (high) with a stable trend, up from BBB. Inter Pipeline (Corridor) Inc. has been assigned investment grade credit ratings of A3 (stable outlook), A- (positive outlook), and A from Moody's Investor Services (Moody's), S&P and DBRS, respectively.

On February 2, 2011, Inter Pipeline successfully marketed and closed its inaugural medium-term note offering in the Canadian public debt market. An aggregate of \$325 million of 10-year senior unsecured medium-term notes were issued at an attractive rate of 4.967%. The offering was met with strong public demand and represents a new source of capital to support Inter Pipeline's future growth opportunities. Net proceeds from the issue have been used to reduce a portion

of bank indebtedness on Inter Pipeline's \$750 million revolving credit facility, which had increased in January, 2011 following an approximate \$460 million equity contribution to Corridor, pursuant to the terms of the Corridor Firm Service Agreement (Corridor FSA). With this debt offering, the percentage of Inter Pipeline's recourse debt exposed to floating interest rates has dropped from 54% to 28%, reducing exposure to market interest rate fluctuations.

Results of Operations

Oil Sands Transportation Business Segment

Volumes (000s b/d)	Three Months Ended December 31			Years Ended December 31		
	2010	2009	% change	2010	2009	% change
Cold Lake (100% basis)	469.1	378.4	24.0	447.6	370.0	21.0
Corridor	237.2	216.5	9.6	190.0	212.6	(10.6)
	706.3	594.9	18.7	637.6	582.6	9.4

(millions)						
	2010	2009	% change	2010	2009	% change
Revenue ⁽¹⁾	\$ 36.8	\$ 34.1	7.9	\$ 144.5	\$ 130.6	10.6
Operating expenses ⁽¹⁾	\$ 15.0	\$ 12.7	18.1	\$ 57.2	\$ 47.9	19.4
Funds from operations ⁽¹⁾⁽²⁾	\$ 17.9	\$ 19.4	(7.7)	\$ 73.8	\$ 73.9	(0.1)
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 214.1	\$ 21.5		\$ 295.9	\$ 476.4	
Sustaining ⁽²⁾	0.3	0.2		0.8	0.8	
	\$ 214.4	\$ 21.7		\$ 296.7	\$ 477.2	

⁽¹⁾ 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.

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

The oil sands transportation business segment is comprised of three pipeline systems that transport petroleum products and provide related blending and handling services in northern Alberta. The three pipeline systems include the Cold Lake, Corridor and Polaris pipeline systems.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in the Hardisty and Edmonton areas. Inter Pipeline owns an 85% interest in the Cold Lake pipeline system and operates the system pursuant to a long-term Transportation Services Agreement (Cold Lake TSA) with the Cold Lake founding shippers. The shippers have committed to utilizing these pipelines over the term of the agreement. The Cold Lake TSA provides for a structured return on capital invested including a defined capital fee that is applied to volumes transported through the pipelines and facilities that comprise the Cold Lake pipeline system and a recovery of substantially all operating costs. The founding shippers' annual minimum ship-or-pay commitment under the terms of 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). Inter Pipeline receives additional revenue based on the capital fee for volumes shipped over and above the defined ship-or-pay amounts. The terms of the Cold Lake TSA extend beyond 2011, however the founding shippers have the option to utilize alternative transportation options (if certain minimum volume levels are maintained) subject to Cold Lake Pipeline Limited Partnership's (Cold Lake LP) right to match the alternative option. In addition to the Cold Lake TSA, there are additional agreements between Cold Lake LP and the founding and third party shippers that result in additional returns on capital invested and recovery of associated operating costs.

The Corridor pipeline system is comprised of a bitumen blend pipeline, a diluent delivery pipeline, a feedstock pipeline and two products pipelines. It transports diluted bitumen produced from the Muskeg River and Jackpine Mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta as well as feedstock and upgraded products from the Scotford upgrader to pipeline terminals in Edmonton, Alberta. Corridor is the sole transporter of diluted bitumen produced by the AOSP. The Corridor pipeline system is operated pursuant to a long-term Corridor FSA. The Corridor FSA utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of debt financing costs, all operating costs, rate base depreciation and taxes in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's funds from operations are not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's funds from operations are changes to long-term Government of Canada bond rates, upon which the annual return on equity is determined, and changes to the Corridor rate base. The initial term of the agreement is 25 years, extending through 2028 with options for further extensions.

The Polaris pipeline system will provide diluent transportation service from a diluent receipt point in the Edmonton area to the Kearl and Sunrise oil sands projects. This new diluent pipeline system will be comprised of an existing 12-inch diameter pipeline that was previously servicing the Corridor pipeline system but was idled when the Corridor expansion project was placed into service. The Polaris pipeline system is expected to be ready for service late in 2012. Total costs to connect the existing pipeline to the Kearl and Sunrise oil sands projects and to diluent receipt points in the Edmonton area are currently estimated to be \$150 million.

See the **Description of the Business** section of the **Annual Information Form** for further information about the oil sands transportation business.

Volumes

Total volumes in the oil sands transportation business increased approximately 18.7% or 111,400 b/d in the fourth quarter to 706,300 b/d, and approximately 9.4% or 55,000 b/d on an annual basis to 637,600 b/d compared to the same periods in 2009.

Volume transported on the Cold Lake pipeline system averaged 469,100 b/d in the fourth quarter of 2010, an increase of 90,700 b/d or 24.0% over the fourth quarter of 2009 and averaged 447,600 b/d, an increase of 77,600 b/d or 21.0%, in 2010 as compared to 2009. These significant increases in volume transported are primarily the result of increased production by all three of the Cold Lake founding shippers. Inter Pipeline expects to see continued incremental volume growth on the system that is consistent with the shippers' long-term published forecasts.

The Corridor pipeline system averaged volumes of 237,200 b/d in the fourth quarter, an increase of 20,700 b/d or 9.6% over the fourth quarter of 2009 and averaged 190,000 b/d for the year ended 2010, a decrease of 22,600 b/d or 10.6% compared to 2009. Volume increases in the fourth quarter were primarily due to start-up of AOSP's Jackpine Mine while the full year volume decrease is largely attributable to major turnarounds at the Scotford upgrader and Albian mine facilities, which coincided with the commissioning of the Corridor pipeline expansion project.

Revenue

Revenue in the oil sands transportation business increased approximately \$2.7 million in the fourth quarter of 2010 and \$13.9 million for the year, compared to the same periods in 2009.

Revenue from Cold Lake increased \$1.3 million in the fourth quarter and \$12.8 million annually compared to the same periods in 2009. These increases in revenue were primarily due to increased volumes shipped together with higher power and operating cost recoveries. Over the long term, volumes transported in excess of the minimum ship-or-pay thresholds will add incremental revenue and cash flow to the Cold Lake pipeline system.

Corridor's revenue increased \$1.4 million and \$1.1 million in the fourth quarter and year ended 2010, respectively, compared to the same periods in 2009. Debt financing costs and related flow-through revenue increased in both periods as average blended short-term and long-term interest rates increased 183 basis points in the fourth quarter and 107 basis points for the year, compared to the same periods in 2009. Revenue in both periods was also impacted by increased operating cost recoveries which were more than offset by decreased power cost recoveries.

Operating Expenses

Operating expenses in the oil sands transportation business segment have a limited impact on Inter Pipeline's cash flow as substantially all expenditures are recovered from the shippers on both the Cold Lake and Corridor pipeline systems. This will also be the case for the Polaris pipeline system once it begins operation in late 2012. Operating expenses in the oil sands transportation business increased \$2.3 million in the fourth quarter and \$9.3 million for the year ended 2010, compared to the same periods in 2009.

Operating expenses on the Cold Lake pipeline system increased \$2.6 million in the fourth quarter compared to the same period in 2009. Power costs increased \$1.6 million due to an increase in consumption as a result of higher volumes, but were partially offset by decreased power prices. Other operating costs increased \$1.0 million primarily due to higher integrity, remediation and maintenance costs. For 2010, Cold Lake's operating expenses increased \$11.9 million compared to 2009. Annual power costs increased \$7.6 million due to increased consumption and an increase in power prices. Other operating costs increased \$4.3 million due to higher maintenance, integrity and remediation costs. Average Alberta power pool prices decreased 3.9% in the fourth quarter from \$47.81/MWh in 2009 to \$45.94/MWh in 2010 and increased 10.0% for the year from \$46.27/MWh in 2009 to \$50.88/MWh in 2010.

Operating expenses on the Corridor pipeline system decreased \$0.3 million in the fourth quarter compared to the same period in 2009. Power costs decreased \$1.7 million due to decreased consumption and decreased power prices. Other operating costs increased \$1.4 million due to higher maintenance and general operating costs. For 2010, Corridor's operating expenses decreased \$2.6 million compared to 2009. Power costs decreased \$3.6 million due to decreased consumption which was partially offset by increased power prices. Other operating costs increased \$1.0 million due to higher insurance, general operating and employee costs which were partially offset by lower right of way costs.

Capital Expenditures

In 2010, approximately \$249.6 million of growth capital was expended on the Corridor pipeline expansion project for a total of \$1,843.4 million spent to date.

Final commissioning of the Corridor pipeline expansion project is nearing completion. The new 42-inch diameter pipeline was completed and placed into service in 2010 while final commissioning of the new 20-inch diameter product pipeline has been scheduled for early 2011. The project is comprised of two distinct cost components. The first is a pipeline and facility construction component wherein Inter Pipeline was exposed to potential cost overruns. Inter Pipeline estimates that these costs are approximately \$90 million under budget. The second cost component includes items such as storage tanks, interest during construction, line fill requirements and certain contingency cost factors. Inter Pipeline has no cost overrun exposure for these components as they will be added to the rate base at their actual cost. The Corridor pipeline expansion project is nearing final commissioning completion at an expected total cost of \$1.85 billion. Final costs are expected to exceed earlier estimates by approximately \$50 million due to higher than anticipated non-controllable costs such as line fill and final tank cost adjustments. As indicated above, these components will be added to the rate base at their actual cost. Despite the 20-inch diameter product pipeline not being commissioned, Corridor started generating revenue from the expansion on January 1, 2011.

Detailed facility engineering and procurement for Inter Pipeline's Polaris diluent pipeline system continues, with approximately \$13.0 million of growth capital spent during 2010 for a total of \$15.4 million spent to date. Pipeline construction activity for the system began in late 2010. Beginning in late 2012 and 2013 the Polaris system will provide diluent transportation services for the Kearl and Sunrise oil sands projects respectively, utilizing the existing 12-inch diameter pipeline that has been idled as certain segments of the Corridor expansion project have been placed in service. The net book value of the Polaris pipeline will be deducted from Corridor's rate base, which is estimated to be in the latter half of 2012, prior to entering into diluent service for the Kearl project. Total cost to connect the Polaris pipeline to the Kearl and Sunrise projects and diluent receipt points in the Edmonton area is currently estimated to be \$150 million.

During the year, approximately \$31.1 million (85% share) was spent on the expansion project on the Cold Lake pipeline system to increase transportation capacity for the Foster Creek oil sands project. Construction has been completed and the expansion was placed into service in December 2010. The expansion included installation of 27 kilometers of pipeline and related facilities on the Cold Lake system. The new pipeline parallels an existing Cold Lake line north of the La Corey terminal and positions the Cold Lake system to meet near and longer term production targets from the Foster Creek project.

NGL Extraction Business Segment

	Three Months Ended December 31							
	2010				2009			
	mmcf/d		(000s b/d)		mmcf/d		(000s b/d)	
	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,942	50.3	26.4	76.7	2,173	52.0	29.6	81.6
Empress V (100% basis)	941	21.4	10.7	32.1	786	15.8	9.1	24.9
Empress II	81	–	0.8	0.8	26	0.5	0.3	0.8
	2,964	71.7	37.9	109.6	2,985	68.3	39.0	107.3

	Year Ended December 31							
	2010				2009			
	mmcf/d		(000s b/d)		mmcf/d		(000s b/d)	
	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,827	49.6	25.7	75.3	1,881	50.5	27.6	78.1
Empress V (100% basis)	946	19.6	10.5	30.1	466	9.4	5.5	14.9
Empress II	134	1.9	1.5	3.4	526	9.7	6.2	15.9
	2,907	71.1	37.7	108.8	2,873	69.6	39.3	108.9

(millions)	Three Months Ended December 31			Years Ended December 31		
	2010	2009	% change	2010	2009	% change
Revenue ⁽¹⁾	\$ 149.1	\$ 160.5	(7.1)	\$ 594.3	\$ 529.1	12.3
Shrinkage gas ⁽¹⁾	\$ 78.0	\$ 87.9	(11.3)	\$ 317.1	\$ 288.0	10.1
Operating expenses ⁽¹⁾	\$ 24.3	\$ 31.8	(23.6)	\$ 100.3	\$ 108.2	(7.3)
Funds from operations ^{(1) (2)}	\$ 46.8	\$ 40.8	14.7	\$ 177.0	\$ 133.1	33.0
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 0.1	\$ 0.3		\$ 3.5	\$ 8.8	
Sustaining ⁽²⁾	\$ 0.6	\$ 2.4		\$ 3.2	\$ 5.1	
	\$ 0.7	\$ 2.7		\$ 6.7	\$ 13.9	

⁽¹⁾ Revenue, shrinkage gas, operating expenses, funds from operations and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.

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

Inter Pipeline's NGL extraction business consists of a 100% ownership interest in the Cochrane and Empress II extraction facilities and a 50% ownership interest in the Empress V extraction facility. The Empress and Cochrane facilities are located on the eastern and western legs, respectively of the TransCanada Alberta pipeline system near export points from Alberta. NGL extraction facilities recover propane, butane and pentanes-plus ("propane-plus" collectively) and ethane from natural gas streams.

This business has three types of sales contracts with three primary counterparties: Dow Chemical, NOVA Chemicals and BP Canada. Contract types include cost-of-service, fee-based or commodity-based arrangements and have an overall average remaining term of approximately eight years.

Payments under cost-of-service contracts include a fixed capital charge and provision for recovery of shrinkage gas and all operating costs. This form of contract provides the most stable cash flow of the three contract types, as there is minimal volume risk and no commodity price exposure. This type of contract also provides a structured return on new capital invested using a rate base approach.

Fee-based contracts generate a fixed fee for each barrel of NGL produced, and recovery of shrinkage gas and operating costs. Fee-based contracts are exposed to volume risk but have no commodity price exposure.

Commodity-based contracts provide for a sharing of profit from the sale of NGL products between the NGL extraction business and purchaser. The profit share calculation includes revenue from the sale of NGL products less costs to bring the NGL product to market, including extraction, shrinkage gas, fractionation and marketing costs. Commodity-based contracts are exposed to commodity price, currency and volume risks.

See the **Description of the Business** section of the **Annual Information Form** for further information about the NGL extraction business.

Volumes

Natural gas volumes processed at Inter Pipeline's NGL extraction plants averaged 2,964 million cubic feet per day (mmcf/d) in the fourth quarter of 2010 and 2,907 mmcf/d for the year. Overall throughput volumes remained relatively consistent with the same periods in 2009.

Throughput volumes at the Cochrane facility decreased 231 mmcf/d in the fourth quarter and 54 mmcf/d for the year compared to the same periods in 2009 primarily due to lower US west-coast demand for natural gas.

At the Empress V and II facilities throughput volumes increased 155 mmcf/d and 55 mmcf/d, respectively, in the fourth quarter of 2010 primarily due to higher volumes of natural gas exported from Alberta's eastern border as compared to the same period in 2009. Throughput volumes for the year were higher than 2009 at the Empress V facility due to a construction related plant shut down from January to mid June 2009 to implement an ethane recovery improvement project. This shutdown of the Empress V facility resulted in a short-term increase to the gas supply available for processing at the Empress II facility. Volumes at the Empress II facility decreased approximately 392 mmcf/d for the year compared to 2009, due to the return to service of the Empress V facility. In the fourth quarter of 2010, operational issues at the Empress II facility resulted in the production of propane-plus only. The reduction in throughput volumes, including no ethane production, at the Empress II facility has not significantly impacted operating results due to the cost-of-service commercial arrangements related to this facility.

Revenue

In the fourth quarter revenue decreased \$11.4 million compared to the same period in 2009 due to lower propane-plus volumes at the Cochrane facility as a result of lower throughput volumes as discussed above. This was partially offset by increased ethane production at the Empress V facility and higher realized frac-spreads in 2010.

Revenue increased \$65.2 million for the year compared to 2009 primarily due to increased ethane production at the Empress V facility and higher realized frac-spreads.

Frac-spread

(dollars)	Three Months Ended December 31			
	2010		2009	
	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾
Market frac-spread	\$ 1.070	\$ 1.083	\$ 0.840	\$ 0.887
Realized frac-spread	\$ 0.909	\$ 0.920	\$ 0.799	\$ 0.844

(dollars)	Years Ended December 31			
	2010		2009	
	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾
Market frac-spread	\$ 0.918	\$ 0.944	\$ 0.608	\$ 0.677
Realized frac-spread	\$ 0.827	\$ 0.851	\$ 0.649	\$ 0.729

⁽¹⁾ The differential between USD/USG and CAD/USG frac-spreads is due to fluctuations in exchange rates between US and Canadian dollars.

Market frac-spread is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index 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 (CAD/USG) based on the average monthly Bank of Canada CAD/USD noon rate. Realized frac-spread is defined in a similar manner and is calculated on a weighted average basis using market frac-spread for unhedged production and fixed-price frac-spread prices for the remaining hedged production. Propane-plus market price differentials, natural gas transportation and extraction premium costs have not been significant historically, and therefore are not included in the calculation of realized frac-spread. See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for further discussion of frac-spread hedges.

In the fourth quarter of 2010, realized frac-spreads increased from \$0.80 USD/USG in 2009 to \$0.91 USD/USG and for the full year of 2010 increased from \$0.65 USD/USG in 2009 to \$0.83 USD/USG. Market frac-spreads in the three and twelve month periods ended December 31, 2010 were above the 5-year and 15-year simple average market frac-spread of \$0.70 USD/USG and \$0.39 USD/USG, respectively, calculated at December 31, 2010.

Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the Cochrane and Empress V facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. Shrinkage gas decreased \$9.9 million in the fourth quarter of 2010 compared to the same period in 2009 due to decreased AECO natural gas prices and lower throughput volumes as compared to 2009. The weighted average monthly AECO price¹ in the fourth quarter of 2010 was \$3.39 per gigajoule (GJ) which was approximately 15.5% lower than the weighted average price¹ of \$4.01/GJ in the same period in 2009. Shrinkage gas for the 2010 year increased \$29.1 million primarily due to increased throughput volumes at Empress V as compared to 2009. The weighted average monthly AECO price¹ for 2010 was consistent with 2009 at \$3.91/GJ.

Operating Expenses

Operating expenses decreased \$7.5 million in the fourth quarter and \$7.9 million for the year ending 2010 primarily due to a one time \$8.0 million charge in the fourth quarter of 2009 representing Inter Pipeline's share of certain BP downstream costs pursuant to an obligation to maintain propane-plus product specifications. Operating costs in the fourth quarter were also impacted by lower fuel costs due to decreased AECO natural gas prices. Higher general operating expenses and a major plant turnaround at the Cochrane facility partially offset the lower fuel costs.

Capital Expenditures

In 2010, growth capital expenditures of approximately \$2.3 million were spent at the Cochrane facility primarily relating to a liquid sweetening project and \$1.2 million at the Empress facilities relating to various projects. The Cochrane facility also expended \$3.2 million on various sustaining capital projects.

Conventional Oil Pipelines Business Segment

Volumes (000s b/d)	Three Months Ended December 31			Years Ended December 31		
	2010	2009	% change	2010	2009	% change
Bow River	109.5	103.9	5.4	109.6	112.6	(2.7)
Central/ Mid-Saskatchewan/Valley ⁽¹⁾	58.5	56.7	3.2	54.9	56.6	(3.0)
	168.0	160.6	4.6	164.5	169.2	(2.8)
(millions)						
Revenue	\$ 40.7	\$ 34.3	18.7	\$ 157.4	\$ 148.9	5.7
Operating expenses	\$ 13.5	\$ 11.2	20.5	\$ 44.2	\$ 38.9	13.6
Funds from operations ⁽²⁾	\$ 27.0	\$ 23.1	16.9	\$ 113.0	\$ 110.8	2.0
Revenue per barrel ⁽³⁾	\$ 2.63	\$ 2.33	12.9	\$ 2.62	\$ 2.41	8.7
Capital expenditures						
Growth ⁽²⁾	\$ 0.9	\$ 21.8		\$ 5.4	\$ 53.3	
Sustaining ⁽²⁾	0.6	0.5		1.7	2.1	
	\$ 1.5	\$ 22.3		\$ 7.1	\$ 55.4	

⁽¹⁾ Valley pipeline system was sold in April 2009.

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

⁽³⁾ Revenue per barrel represents total revenue of the conventional oil pipelines business segment divided by actual volumes.

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

The conventional oil pipelines business includes the Bow River, Central Alberta and Mid-Saskatchewan pipeline systems located in Alberta and Saskatchewan. The Valley pipeline system formed part of the conventional oil pipelines business until its sale in 2009. The majority of petroleum volumes transported on these conventional gathering systems are under short-term contracts with fixed tolling arrangements and no specific volume commitments. Inter Pipeline also has an agreement with Nexen Marketing which includes fees for crude oil storage and a profit sharing component on marketing services provided by Nexen utilizing Inter Pipeline's facilities.

See the **Description of the Business** section of the **Annual Information Form** for further information about the conventional oil pipelines business.

Volumes

Conventional oil pipeline volumes increased approximately 7,400 b/d in the fourth quarter compared to the same period of 2009. In the fourth quarter volumes on the Bow River pipeline system increased approximately 5,600 b/d primarily due to higher shipments south from the Hardisty market hub which were partially offset by natural volume declines. Volumes on the Central Alberta and Mid-Saskatchewan pipelines increased 1,400 b/d and 400 b/d, respectively as compared to the same period in 2009. Central Alberta volumes increased as trucked volumes increased due to wider heavy crude oil differentials. New horizontal wells drilled during 2010 in the Viking light oil play resulted in a volume increase on the Mid-Saskatchewan pipeline.

In 2010, conventional oil pipeline volumes decreased approximately 4,700 b/d compared to 2009. Volumes on the Bow River pipeline system decreased approximately 3,000 b/d from 2009. Increased transmission volumes transported south on the Bow River pipeline system from Hardisty, Alberta were offset by natural declines on gathering volumes and lower trucked volumes as heavy crude oil pricing differentials were less favourable in 2010. Central Alberta and Mid-Saskatchewan pipeline volumes were approximately 500 b/d and 800 b/d lower, respectively, than in 2009 largely due to natural volume declines. The remainder of the volume decrease is due to the sale of the Valley pipeline system in April 2009.

Revenue

Conventional oil pipeline revenue increased \$6.4 million in the fourth quarter and \$8.5 million for the year in 2010 compared to the same periods in 2009. The increase in revenue was primarily due to increased revenue from additional volumes on the Bow River Hardisty south pipeline as noted above, and from mainline toll increases averaging 6% in both January and July 2010. These revenue increases were partially offset by reduced revenue from a storage and marketing agreement with Nexen due to poorer blending economics in 2010 than in 2009.

Operating Expenses

In the fourth quarter, operating expenses were \$2.3 million higher compared to the same period in 2009. For the year ended 2010, operating expenses were \$5.3 million higher as compared to 2009. The increases are primarily due to higher power pool costs and employee compensation costs relating to a revaluation of Inter Pipeline's long-term deferred unit rights incentive plan due to a higher market value of Inter Pipeline's Class A units. Additional one time costs were incurred in 2010 associated with integrity and remediation activities, along with various supplies and materials for critical inventory.

Capital Expenditures

In 2010, growth capital expenditures were \$5.4 million primarily related to final costs for the Bow River pipeline crude oil stream segregation project as well as various smaller projects.

Bulk Liquid Storage Business Segment

	Three Months Ended December 31			Years Ended December 31		
	2010	2009	% change	2010	2009	% change
Utilization	97.2%	96.0%	1.3	96.3%	96.4%	(0.1)
(millions)						
Revenue	\$ 25.9	\$ 28.2	(8.2)	\$ 100.9	\$ 116.0	(13.0)
Operating expenses	\$ 14.7	\$ 15.1	(2.6)	\$ 54.1	\$ 64.9	(16.6)
Funds from operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$ 9.3	\$ 10.3	(9.7)	\$ 40.7	\$ 51.3	(20.7)
Capital expenditures						
Growth ⁽⁴⁾	\$ 5.9	\$ 9.9		\$ 18.1	\$ 34.9	
Sustaining ⁽⁴⁾	2.8	3.4		5.8	6.9	
	\$ 8.7	\$ 13.3		\$ 23.9	\$ 41.8	

⁽¹⁾ In 2009, funds from operations increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statements of cash flows, these proceeds were reclassified from “net change in non-cash working capital” to “proceeds from long-term deferred revenue” which is included in the calculation of funds from operations.

⁽²⁾ In the second quarter of 2010, funds from operations increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.

⁽³⁾ In 2010, funds from operations decreased \$4.1 million due to a special defined benefit pension plan contribution paid in the third quarter.

⁽⁴⁾ Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

Inter Pipeline, through its wholly-owned subsidiary Simon Storage Limited (Simon Storage), owns eight deep water bulk liquid storage terminals in the UK, Germany and Ireland with capacity of approximately 8.1 million barrels of storage. Business activities consist primarily of storage and handling services contracted through a combination of fixed storage rental fees and variable throughput fees. The business supports a wide range of activities, including refinery support, inland product distribution and raw material storage for regional manufacturing facilities and has a well diversified customer base, with key customers including ConocoPhillips, Greenergy, Mabanafit and BASF. Simon Storage also offers a range of ancillary services to its customers through its engineering and facilities management divisions.

See the **Description of the Business** section of the **Annual Information Form** for further information about the bulk liquid storage business.

Utilization

Despite the current uncertain European economic environment, demand for bulk liquid storage remains strong with tank utilization averaging 97.2% in the fourth quarter of 2010, compared to 96.0% in the same period of 2009. Overall in 2010, utilization rates were consistent with 2009 averaging 96.3% (2009 – 96.4%). Demand for storage fluctuates historically due to market conditions within industry sectors and Simon Storage manages these fluctuations through customer and product diversification.

Revenue

Revenue decreased approximately \$2.3 million in the fourth quarter compared to the same period in 2009. Foreign currency translation adjustments contributed \$2.3 million of the decrease as the average Pound Sterling/CAD exchange rate declined from 1.73 in the fourth quarter of 2009 to 1.60 in the fourth quarter of 2010. Revenue generated from ancillary activities decreased approximately \$1.6 million primarily due to the sale of the bulk liquid trucking business in the fourth quarter of 2009. Core storage and handling revenue increased approximately \$1.6 million due to new tanks constructed and in-service in the latter part of 2009, increases in storage rates and additional heating services.

Revenue for the year ended 2010 was \$15.1 million lower than in 2009. The decrease was primarily attributable to foreign currency translation adjustments of \$12.9 million and a decrease in ancillary activities of \$9.8 million mainly due to the sale of the bulk liquid trucking business. These decreases were partially offset by an increase of \$7.6 million in the core storage and handling business due to the reasons mentioned above. The average year to date Pound Sterling/CAD exchange rate fell from 1.78 in 2009 to 1.59 in 2010, a decline of 10.7%.

Operating Expenses

Operating expenses decreased approximately \$0.4 million and \$10.8 million in the fourth quarter and year ended 2010, respectively, compared to the same periods in 2009. The majority of the decline is due to foreign currency translation adjustments and the sale of the bulk liquid trucking business in 2009. These decreases were partially offset by an increase in general operating expenses in the core storage and handling business as a result of increased operating activity in 2010. Power costs also increased for total 2010, however were relatively consistent on a quarterly basis as compared to the same periods in 2009.

Capital Expenditures

In 2010, growth capital expenditures were \$18.1 million primarily relating to a number of tank replacements, tank life extensions and tank modification projects at Immingham and other terminals. Growth capital expenditures also included approximately \$1.2 million for the acquisition of additional tankage adjacent to the Immingham East terminal.

Other Expenses

(millions)	Three Months Ended December 31		Years Ended December 31	
	2010	2009	2010	2009
Depreciation and amortization	\$ 18.7	\$ 28.7	\$ 87.5	\$ 102.2
Gain on disposal of assets	0.7	0.1	0.7	(17.8)
Financing charges	10.4	8.5	39.3	36.9
General and administrative	12.8	10.9	45.1	41.4
Unrealized change in fair value of derivative financial instruments	5.4	24.7	3.6	65.2
Fees to General Partner	2.0	1.8	7.8	7.0
(Recovery of) provision for income taxes	(1.9)	0.5	5.3	(15.9)

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets in 2010 was lower than the same periods in 2009. Effective July 1, 2010, Inter Pipeline amended its useful life estimates for calculating depreciation on the Corridor, Cold Lake and Bow River pipeline systems. The estimated remaining service lives of these assets have been revised to 80 years to better reflect the number of years over which these pipeline systems will be in operation. The impact of this change for the twelve months ended December 31, 2010 is a decrease in depreciation and amortization expense by \$15.5 million. This decrease was partially offset by increased depreciation for assets now in service related to 2009 and 2010 capital expenditure programs.

Gain on Disposal of Assets

In 2009, Inter Pipeline recognized a gain of \$17.8 million primarily relating to the sale of the Valley pipeline system in April 2009 as well as the disposal of other non-core assets.

Financing Charges

(millions)	Three Months Ended December 31		Years Ended December 31	
	2010	2009	2010	2009
Interest on credit facilities	\$ 8.1	\$ 5.0	\$ 24.4	\$ 23.3
Interest on loan payable to General Partner	5.8	6.0	23.1	24.0
Interest on debentures	2.5	0.8	8.8	3.9
Total financing charges	16.4	11.8	56.3	51.2
Capitalized interest	(6.3)	(3.3)	(17.9)	(14.4)
Amortization of transaction costs on long-term debt	0.3	–	0.9	0.1
	\$ 10.4	\$ 8.5	\$ 39.3	\$ 36.9

Average short-term interest rates were higher in the fourth quarter of 2010 compared to 2009. The weighted average interest rate on Inter Pipeline's credit facilities has increased approximately 60 basis points from 0.9% in the fourth quarter of 2009 to approximately 1.5% in 2010. Inter Pipeline's weighted average credit facility debt outstanding increased approximately \$8.2 million to \$1,959.1 million in the fourth quarter of 2010 compared to \$1,950.9 million in the same period in 2009 primarily due to expenditures on the Corridor expansion project.

In 2010, average short-term interest rates declined compared to 2009. The weighted average interest rate on Inter Pipeline's credit facilities declined approximately 10 basis points from 1.2% in 2009 to approximately 1.1% in 2010. Inter Pipeline's weighted average credit facility debt outstanding increased approximately \$167.2 million to \$1,937.5 million in 2010 compared to \$1,770.3 million in 2009.

Interest expense on the loans payable to the General Partner decreased \$0.2 million in the fourth quarter and \$0.9 million for the year ended 2010 compared to the same periods in 2009. The decrease is due to the expiration on January 1, 2010 of a temporary interest rate increase that was added to the loans to accommodate the Corridor expansion. Fixed interest rates on each of the \$91.2 million and \$288.6 million loans outstanding decreased to 5.85% and 6.15%, respectively.

In 2010, debenture interest expense increased \$1.7 million in the fourth quarter and \$4.9 million for the year ended 2010 compared to the same periods in 2009. Interest rates on these debentures are fixed, however Inter Pipeline had swap agreements in place on each of the \$150.0 million series A and B debentures that exchanged the fixed rates for variable rates. On February 2, 2010, the series A debentures matured and the associated interest rate swap agreement was terminated. On the same day, Corridor issued \$150.0 million of 4.897% fixed rate series C senior, unsecured debentures that mature February 3, 2020 without acquiring a corresponding swap agreement.

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

General and Administrative

(millions)	Three Months Ended December 31		Years Ended December 31	
	2010	2009	2010	2009
Canada	\$ 11.3	\$ 8.4	\$ 39.3	\$ 32.7
Europe	1.5	2.5	5.8	8.7
	\$ 12.8	\$ 10.9	\$ 45.1	\$ 41.4

In the fourth quarter and year ended 2010, general and administrative expenses in Canada increased \$2.9 million and \$6.6 million, respectively, largely due to higher employee compensation expense and increased rent. Employee compensation expenses were higher primarily as a result of a revaluation of Inter Pipeline's long-term deferred unit rights incentive plan costs due to a higher market value of Inter Pipeline's Class A units.

General and administrative expenses were down in Europe approximately \$1.0 million in the fourth quarter and \$2.9 million in total for the year ended 2010 primarily due to the sale of the bulk liquid trucking business in 2009 and a decline in foreign exchange rates.

Unrealized Change in Fair Value of Derivative Financial Instruments

The mark-to-market valuation of derivative financial instruments for the year ended December 31, 2010 had an unfavourable impact on net income of \$3.6 million. The decrease in net income is primarily due to changes in NGL and natural gas forward prices between December 2009 and 2010 combined with changes in volumes of NGLs under purchase and sale swap contracts which resulted in an unfavourable impact of \$12.4 million. These adjustments were largely offset by \$8.8 million of favourable changes primarily relating to foreign exchange, heat rate and interest rate swaps.

In the fourth quarter of 2010, Inter Pipeline's mark-to-market valuation of its derivative financial instruments unfavourably impacted net income by \$5.4 million. The decrease in net income is primarily due to changes in NGL forward prices between October and December of 2010 combined with changes in volumes of NGLs under purchase and sale swap contracts which resulted in an unfavourable impact of \$17.1 million. This adjustment was largely offset by favourable changes in the mark-to-market natural gas hedges, foreign currency and interest rate swaps for the same period.

See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for additional information on Inter Pipeline's risk management initiatives.

Fees to General Partner

The General Partner earned management fees from Inter Pipeline of \$2.0 million in the fourth quarter of 2010 (Q4 2009 – \$1.8 million) for a total of \$7.8 million in 2010 (2009 – \$6.9 million). This fee is equivalent to 2% of “Operating Cash,” as defined in the Limited Partnership Agreement (Partnership Agreement). No acquisition or disposition fees were earned by the General Partner in the fourth quarter or year ended December 31, 2010, however, in the second quarter and year ended December 31, 2009 a divestiture fee of \$0.1 million was paid relating to the sale of the Valley pipeline system.

Income Taxes

Consolidated income tax expense for the three months ended December 31, 2010 decreased \$2.4 million compared to the same period in 2009. The variance results primarily from changes in temporary differences relating to non-taxable Canadian partnership income earned in the 2010 year.

Consolidated income tax expense for the year ended December 31, 2010 increased \$21.2 million from a net recovery of \$15.9 million in 2009 to an income tax expense of \$5.3 million in 2010. On March 4, 2009, the Government of Canada substantively enacted legislation that repealed the “provincial SIFT tax factor” and replaced it with a “provincial SIFT tax rate.” Inter Pipeline calculated the “provincial SIFT tax rate” based on the general provincial corporate income tax rate for each province where it has a permanent establishment. For Inter Pipeline, this legislation reduced the provincial income tax rate for non-corporate entities from 13.0% to approximately 10.0% effective January 1, 2011 onward. This also reduced Inter Pipeline’s estimated effective tax rate to 26.5% and 25.0% effective January 1, 2011 and January 1, 2012, respectively. As a result of this rate reduction, future income tax liabilities of non-corporate entities were reduced by \$24.0 million in 2009. In the UK, tax legislation has been passed which reduced the effective income tax rate from 28.0% to 27.0%, effective April 1, 2011. The effect of recognizing this change in UK income tax rates is a \$1.6 million reduction in future income tax liabilities recognized in the third quarter of 2010. The remainder of the variance results from changes in temporary differences relating to non-taxable Canadian partnership income earned in the 2010 year.

Summary of Quarterly Results

(millions, except per unit and % amounts)	2009				2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue								
Oil sands transportation	\$ 33.6	\$ 30.6	\$ 32.2	\$ 34.1	\$ 34.9	\$ 36.4	\$ 36.4	\$ 36.8
NGL extraction ⁽¹⁾	143.2	98.1	127.3	160.5	173.0	143.4	128.8	149.1
Conventional oil pipelines	38.7	39.8	36.1	34.3	37.6	37.7	41.4	40.7
Bulk liquid storage	30.1	28.8	28.9	28.2	26.0	23.9	25.1	25.9
	\$ 245.6	\$ 197.3	\$ 224.5	\$ 257.1	\$ 271.5	\$ 241.4	\$ 231.7	\$ 252.5
Funds from operations ⁽²⁾								
Oil sands transportation	\$ 18.0	\$ 17.9	\$ 18.6	\$ 19.4	\$ 18.6	\$ 18.9	\$ 18.4	\$ 17.9
NGL extraction ⁽¹⁾	26.2	25.2	40.9	40.8	47.6	42.2	40.3	46.8
Conventional oil pipelines	28.5	31.8	27.3	23.1	28.2	27.7	30.1	27.0
Bulk liquid storage ⁽³⁾⁽⁴⁾⁽⁵⁾	10.5	9.9	20.7	10.3	10.2	15.3	5.9	9.3
Corporate costs	(17.1)	(16.3)	(16.1)	(15.5)	(19.2)	(15.8)	(17.5)	(18.3)
	\$ 66.1	\$ 68.5	\$ 91.4	\$ 78.1	\$ 85.4	\$ 88.3	\$ 77.2	\$ 82.7
Per unit ⁽²⁾	\$ 0.30	\$ 0.30	\$ 0.37	\$ 0.31	\$ 0.33	\$ 0.34	\$ 0.30	\$ 0.32
Net income	\$ 43.4	\$ 39.3	\$ 51.9	\$ 23.1	\$ 61.7	\$ 67.9	\$ 46.6	\$ 58.6
Per unit – basic & diluted	\$ 0.19	\$ 0.18	\$ 0.21	\$ 0.08	\$ 0.24	\$ 0.27	\$ 0.18	\$ 0.22
Cash distributions ⁽⁶⁾	\$ 46.9	\$ 48.6	\$ 52.4	\$ 54.5	\$ 57.6	\$ 57.8	\$ 57.9	\$ 59.3
Per unit ⁽⁶⁾	\$ 0.210	\$ 0.210	\$ 0.210	\$ 0.215	\$ 0.225	\$ 0.225	\$ 0.225	\$ 0.230
Units outstanding (basic)								
Weighted average	223.4	227.0	248.7	252.8	255.8	256.6	257.2	257.8
End of period	223.7	246.5	250.8	254.6	256.3	256.9	257.5	258.0
Capital expenditures								
Growth ⁽²⁾	\$ 57.0	\$ 46.0	\$ 417.0	\$ 53.5	\$ 31.2	\$ 34.2	\$ 36.5	\$ 221.0
Sustaining ⁽²⁾	2.9	3.6	4.0	7.4	2.5	5.6	2.9	5.7
	\$ 59.9	\$ 49.6	\$ 421.0	\$ 60.9	\$ 33.7	\$ 39.8	\$ 39.4	\$ 226.7
Payout ratio before sustaining capital ⁽²⁾	71.0%	71.0%	57.3%	69.8%	67.5%	65.4%	75.0%	71.7%
Payout ratio after sustaining capital ⁽²⁾	74.3%	75.0%	60.0%	77.1%	69.5%	69.9%	77.9%	77.1%
Total debt ⁽⁷⁾	\$ 2,406.5	\$ 2,246.0	\$ 2,610.8	\$ 2,619.7	\$ 2,576.8	\$ 2,585.4	\$ 2,603.1	\$ 2,801.2
Total partners' equity	\$ 1,130.5	\$ 1,315.5	\$ 1,319.3	\$ 1,320.1	\$ 1,314.2	\$ 1,334.2	\$ 1,339.7	\$ 1,333.0
Enterprise value ⁽²⁾	\$ 4,064.0	\$ 4,392.9	\$ 5,038.2	\$ 5,372.4	\$ 5,611.4	\$ 5,655.7	\$ 6,134.0	\$ 6,651.2
Total recourse debt to capitalization ⁽²⁾	42.2%	32.3%	35.2%	35.7%	34.4%	34.3%	34.8%	40.9%
Total debt to total capitalization ⁽²⁾	68.0%	63.1%	66.4%	66.5%	66.2%	66.0%	66.0%	67.8%

⁽¹⁾ Significant changes in propane-plus commodity prices and foreign exchange rates resulted in lower funds from operations in the first and second quarter of 2009.

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

⁽³⁾ In the third quarter of 2009, funds from operations in the bulk liquid storage business increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statement of cash flows, these proceeds were reclassified from "net change in non-cash working capital" to "proceeds from long-term deferred revenue" which is included in the calculation of funds from operations.

⁽⁴⁾ In the second quarter of 2010, funds from operations in the bulk liquid storage business increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.

⁽⁵⁾ In the third quarter of 2010, funds from operations for the bulk liquid storage business decreased \$4.1 million due to a special defined benefit pension plan contribution.

⁽⁶⁾ Cash distributions are calculated based on the number of units outstanding at each record date.

⁽⁷⁾ Total debt includes long-term debt and short-term borrowings on demand loans before discounts and debt transaction costs.

Liquidity and Capital Resources

Inter Pipeline's capital management objectives are aligned with its commercial growth strategies and long-term outlook for the business. The primary 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 may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. 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, renegotiate new debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital and acquisition programs throughout market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At December 31, 2010, Inter Pipeline had access to committed credit facilities totaling \$2.9 billion, of which approximately \$770.6 million remains unutilized. On January 4, 2011, Inter Pipeline's access to committed credit facilities decreased to \$2.4 billion as a result of the repayment and cancellation of approximately \$460 million of recourse debt in the Corridor syndicated credit facility. Inter Pipeline also has access to unutilized demand facilities of approximately \$60 million. These facilities are available to fund foreseeable obligations, with certain amounts available to specific subsidiaries of Inter Pipeline.

Inter Pipeline also ensures a base of equity capital is available for some of its recently announced growth capital projects. Approximately \$38.1 million of equity was issued through the distribution reinvestment plan during the year ended December 2010.

Taking future market trends into consideration, Inter Pipeline regularly forecasts its operational requirements and expected funds from operations to ensure that sufficient funding is available for future sustaining capital programs and distributions to unitholders.

Inter Pipeline utilizes derivative financial instruments to minimize exposure to fluctuating commodity prices, foreign exchange and interest rates. Inter Pipeline's risk management policy defines and specifies the controls and responsibilities to manage market exposure to changing commodity prices (crude oil, natural gas, NGL and power) and changes within financial markets relating to interest rates and foreign exchange exposure. Further details of the risk management program are discussed in the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section.

In November 2010, Inter Pipeline filed a short form base shelf prospectus with Canadian regulatory authorities. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) Limited Partnership Units; (ii) debt securities and (iii) subscription receipts (collectively, the "Securities") of up to \$1.5 billion aggregate initial offering price of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. Subsequent to December 31, 2010, on January 19, 2011 Inter Pipeline filed a related prospectus supplement for the issuance of up to \$1.5 billion of senior unsecured medium-term notes (MTN). The prospectus supplement establishes Inter Pipeline with a MTN program that allows Inter Pipeline to issue MTNs in the Canadian market.

Subsequent to December 31, 2010, on February 2, 2011 Inter Pipeline issued \$325 million of senior unsecured medium-term notes (Notes) due February 2, 2021 in the Canadian public debt market. The Notes were issued under Inter Pipeline's short form base shelf prospectus dated November 30, 2010, a related prospectus supplement dated January 19, 2011 and a related pricing supplement dated January 28, 2011. The Notes bear interest at the rate of 4.967% per annum payable semi-annually. Net proceeds from the offering were used to pay down a portion of Inter Pipeline's \$750 million Unsecured Revolving Credit Facility which had increased in January 2011 following an approximate \$460 million equity contribution to Corridor, pursuant to the terms of the Corridor FSA. S&P and DBRS assigned the Notes investment grade credit ratings of BBB+ and BBB (high), respectively.

Capital Structure

(millions, except % amounts)	Recourse	Non-recourse	2010	December 31 2009
Credit facilities available				
Corridor syndicated facility	\$ 488.0	\$ 1,654.0	\$ 2,142.0	\$ 2,142.0
Inter Pipeline syndicated facility	750.0	–	750.0	750.0
	1,238.0	1,654.0	2,892.0	2,892.0
Demand facilities ⁽¹⁾	20.0	40.0	60.0	60.0
	\$ 1,258.0	\$ 1,694.0	\$ 2,952.0	\$ 2,952.0
Total debt outstanding				
Recourse				
Corridor syndicated facility			\$ 386.6	\$ 123.6
Inter Pipeline syndicated facility			157.0	230.0
Loan payable to General Partner			379.8	379.8
Non-recourse				
Corridor syndicated facility			1,577.8	1,586.3
Corridor debentures			300.0	300.0
Total debt ⁽¹⁾⁽²⁾			2,801.2	2,619.7
Total partners' equity			1,333.0	1,320.1
Total capitalization ⁽³⁾			\$ 4,134.2	\$3,939.8
Total debt to total capitalization ⁽³⁾			67.8%	66.5%
Total recourse debt to capitalization ⁽³⁾			40.9%	35.7%

⁽¹⁾ At December 31, 2009 and 2010, outstanding Corridor letters of credit were approximately \$0.3 million which are not included in the demand loan facilities or total debt outstanding in the table above.

⁽²⁾ At December 31, 2010, total debt includes long-term debt of \$2,795.6 million inclusive of discounts and debt transaction costs of \$5.6 million.

⁽³⁾ Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensure compliance with all debt covenants. Financial covenants on Inter Pipeline's credit facilities are based on the amount of recourse debt outstanding. Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum recourse debt to EBITDA* ratio of 4.25. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization ratio was a favourable 40.9% at December 31, 2010. Adjusting for the impact of non-recourse debt of \$1,877.8 million, Inter Pipeline's consolidated debt to total capitalization ratio was 67.8%.

At December 31, 2010, approximately \$2,230.4 million or 79.6% of Inter Pipeline's total consolidated debt was exposed to variable interest rates, however debt financing costs related to \$2,114.4 million of Corridor debt outstanding are directly recoverable through the terms of the Corridor FSA. Therefore, Inter Pipeline's direct interest rate risk associated with variable rate debt is only attributable to \$116.0 million or 4.1% of total outstanding debt. On February 2, 2011, Inter Pipeline's direct interest rate risk associated with variable rate debt increased to \$286.5 million or 10.1% of total outstanding debt following the Note offering and Corridor equity contribution discussed above. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2001, Inter Pipeline entered into two fixed interest rate swap agreements to manage a portion of its variable interest rate risk exposure. In 2007, Inter Pipeline acquired two variable interest rate swap agreements to manage fixed interest rate exposure on Corridor's 5 and 10-year debentures. The interest rate swap associated with Corridor's 5-year debentures was terminated when the underlying debenture matured on February 2, 2010.

	2010		December 31 2009	
	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
Maturity Date				
Corridor debentures – Fixed to floating rate swap				
Series A – February 2, 2010	4.240%	\$ –	4.240%	\$ 150.0
Series B – February 2, 2015	5.033%	150.0	5.033%	150.0
		\$ 150.0		\$ 300.0
Inter Pipeline syndicated facility –				
Floating to fixed rate swap				
December 30, 2011 ⁽¹⁾	6.300%	\$ 26.0	6.300%	\$ 27.0
December 31, 2011	6.310%	15.0	6.310%	15.0
		\$ 41.0		\$ 42.0

⁽¹⁾ The notional principal balance of the \$26.0 million interest rate swap is reduced by \$1.0 million each year for the term of the arrangement.

The following earnings coverage ratios are calculated on a consolidated basis for the twelve month periods ended December 31, 2010 and December 31, 2009.

(times)	Twelve Months ended December 31	
	2010	2009
Interest coverage on long-term debt ⁽¹⁾		
Net income ⁽²⁾	5.0	3.5

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

⁽²⁾ Net income plus income taxes and interest expense, divided by the sum of interest expense and capitalized interest.

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

Investment grade, long-term corporate credit ratings are maintained by Inter Pipeline Fund with DBRS and S&P, and by Corridor with DBRS, S&P and Moody's. On July 20, 2010, DBRS upgraded Inter Pipeline's corporate credit rating to BBB (high) from BBB, with a stable trend. Concurrent with DBRS' upgrade to Inter Pipeline's rating, on July 20, 2010, DBRS also upgraded Corridor's long-term corporate credit rating from A (low) to A, with a stable trend. On December 17, 2010, S&P upgraded the long-term corporate credit rating on Inter Pipeline Fund to BBB+ from BBB, with a stable outlook. Corridor's series B and C debentures have been assigned investment grade credit ratings of A, A3 and A- from DBRS, Moody's and S&P, respectively. Subsequent to December 31, 2010, on February 2, 2011, S&P and DBRS assigned Inter Pipeline's senior unsecured medium-term notes investment grade credit ratings of BBB+ and BBB (high), respectively.

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's commitment profile and future contractual obligations at December 31, 2010. Management intends to finance these commitments through existing credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management polices as discussed in the section above.

(millions)	Total	Less Than One Year	1 to 5 Years	After 5 Years
Capital expenditure projects ⁽¹⁾				
Oil sands transportation	\$ 177.1	\$ 147.5	\$ 29.6	\$ –
NGL extraction	54.2	46.0	8.2	–
Conventional oil pipelines	5.0	5.0	–	–
Bulk liquid storage	11.0	11.0	–	–
Growth capital ⁽²⁾	247.3	209.5	37.8	–
Sustaining capital ⁽²⁾	18.0	18.0	–	–
	265.3	227.5	37.8	–
Total debt ⁽³⁾				
Corridor syndicated facility	1,964.4	386.6	1,577.8	–
Inter Pipeline syndicated facility	157.0	–	157.0	–
Loan to General Partner	379.8	–	379.8	–
Corridor debentures	300.0	–	150.0	150.0
	2,801.2	386.6	2,264.6	150.0
Other obligations				
Derivative financial instruments	30.1	25.8	4.3	–
Operating leases	92.2	7.0	26.3	58.9
Purchase obligations	97.8	4.7	17.0	76.1
Long-term portion of incentive plan	7.2	–	7.2	–
Working capital deficit ⁽²⁾	18.8	18.8	–	–
	\$ 3,312.6	\$ 670.4	\$ 2,357.2	\$ 285.0

⁽¹⁾ Capital expenditure commitments in "less than one year" represent expected expenditures in 2011.

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

⁽³⁾ At December 31, 2010, outstanding Corridor letters of credit of approximately \$0.3 million were not included in the total \$2,801.2 million of debt outstanding in the table above.

Inter Pipeline plans to invest approximately \$247.3 million in organic growth capital projects over the 2011 to 2012 period which includes final costs on the Corridor pipeline expansion project, capital costs for the \$150 million Polaris oil sands diluent transportation project and \$50 million for a liquid sweetening project at the Cochrane NGL extraction facility. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of \$4.7 million to \$9.3 million phased over the next eight years.

Inter Pipeline's debt outstanding at December 31, 2010 matures at various dates up to February 2020. Corridor's series B debentures will mature in February 2015 and Corridor's series C debentures mature February 3, 2020. Amounts drawn on tranches A and B of Corridor's syndicated facility will mature in 2012. Amounts drawn on tranches C and D of this facility will mature the earlier of August 2012 and the commencement or suspension true-up date of the Corridor expansion project. Inter Pipeline's loan payable to the General Partner and Inter Pipeline syndicated facility mature in periods between 2012 and 2014.

The following future obligations resulting from normal course of operations would be primarily funded from operations in the respective periods that they become due or may be funded through long-term debt:

- (i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2010, based upon the various contractual maturity dates.
- (ii) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2090.
- (iii) Working capital deficiencies arise primarily from capital expenditures outstanding in accounts payable at the end of a period, and fluctuate with changes in commodity prices.
- (iv) Inter Pipeline has obligations of \$22.1 million under its employee incentive plan, of which \$14.9 million is included in the working capital deficit.
- (v) Undiscounted asset retirement obligations of \$53.7 million at December 31, 2010 represent an estimate of future obligations for the retirement of NGL extraction and bulk liquid storage assets. Similarly, long-term environmental liabilities of \$11.2 million represent an estimate of projects that Inter Pipeline is obligated to remediate in the future. Since there is no specified timing for payment of these obligations, they were excluded in the table above.

Cash Distributions to Unitholders

(millions)	Three Months Ended December 31		Years Ended December 31	
	2010	2009	2010	2009
Cash provided by operating activities ⁽¹⁾⁽²⁾⁽³⁾	\$ 63.1	\$ 85.2	\$ 349.6	\$ 281.8
Net change in non-cash working capital ⁽¹⁾	19.6	(7.0)	(15.9)	22.3
Less sustaining capital expenditures ⁽⁴⁾	(5.7)	(7.4)	(16.7)	(18.0)
Cash available for distribution ⁽⁴⁾	77.0	70.8	317.0	286.1
Change in discretionary reserves	(17.7)	(16.3)	(84.4)	(83.7)
Cash distributions	\$ 59.3	\$ 54.5	\$ 232.6	\$ 202.4
Cash distributions per unit ⁽⁵⁾	\$ 0.230	\$ 0.215	\$ 0.905	\$ 0.845
Payout ratio before sustaining capital ⁽⁴⁾	71.7%	69.8%	69.7%	66.6%
Payout ratio after sustaining capital ⁽⁴⁾	77.1%	77.1%	73.4%	70.8%
Growth capital expenditures ⁽⁴⁾	\$ 221.0	\$ 53.5	\$ 322.9	\$ 573.4
Sustaining capital expenditures ⁽⁴⁾	5.7	7.4	16.7	18.0
	\$ 226.7	\$ 60.9	\$ 339.6	\$ 591.4

⁽¹⁾ In 2009, funds from operations in the bulk liquid storage business increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statement of cash flows, these proceeds were reclassified from “net change in non-cash working capital” to “proceeds from long-term deferred revenue” which is included in the calculation of funds from operations.

⁽²⁾ In the second quarter of 2010, funds from operations in the bulk liquid storage business increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.

⁽³⁾ In 2010, funds from operations for the bulk liquid storage business decreased \$4.1 million due to a special defined benefit pension plan contribution paid in the third quarter.

⁽⁴⁾ Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

⁽⁵⁾ 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 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 recognition of revenue. Within a 12-month calendar year, there is minimal variation between revenue recognized 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 course 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 \$17.7 million in the fourth quarter of 2010 and \$84.4 million for the year ended 2010 due primarily to the strong operating results of Inter Pipeline's business segments. 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 the **OUTLOOK** section of this report and **RISK FACTORS** section for further information regarding the sustainability of cash distributions.

(millions)	Three Months Ended December 31		Years Ended December 31			
	2010	2009	2010	2009	2008	2007
Cash provided by operating activities	\$ 63.1	\$ 85.2	\$ 349.6	\$ 281.8	\$ 321.1	\$ 234.1
Cash distributions	(59.3)	(54.5)	(232.6)	(202.4)	(186.6)	(171.7)
Excess	\$ 3.8	\$ 30.7	\$ 117.0	\$ 79.4	\$ 134.5	\$ 62.4

(millions)	Three Months Ended December 31		Years Ended December 31			
	2010	2009	2010	2009	2008	2007
Net income (loss)	\$ 58.6	\$ 23.1	\$ 234.8	\$ 157.7	\$ 249.7	\$ (80.0)
Cash distributions	(59.3)	(54.5)	(232.6)	(202.4)	(186.6)	(171.7)
(Shortfall) excess	\$ (0.7)	\$ (31.4)	\$ 2.2	\$ (44.7)	\$ 63.1	\$ (251.7)

Cash distributions in all periods are less than cash provided by operating activities and for the years ended December 31, 2010 and 2008 were less than net income. Net income (loss) includes certain non-cash expenses such as depreciation and amortization, future income taxes and unrealized changes in the fair value of derivative financial instruments therefore cash distributions may exceed net income.

The overall cash distributions of Inter Pipeline are governed by the Partnership Agreement, specifically section 5.2 of the Partnership Agreement, that specifies the terms for Inter Pipeline to 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 December 31, 2010 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	257.7	0.3	258.0

At February 15, 2011 Inter Pipeline had 258.1 million Class A units and 0.3 million Class B units for a total of 258.4 million units outstanding.

Risk Management and Financial Instruments

Market Risk Management

Inter Pipeline utilizes derivative financial instruments to manage liquidity and market risk 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, foreign exchange and interest rate risk to assist with stabilizing funds from operations. Inter Pipeline endeavours to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline's policy prohibits the use of derivative 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 the following types of derivative financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price hedges and heat rate and interest rate swap agreements. The mark-to-market or fair value of these financial instruments is 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 net income. When the financial instrument matures, any realized gain or loss is recorded in net income.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt outstanding at December 31, 2010. 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 or counteract the impact of another variable which may result in a significantly different conclusion.

NGL Extraction Business

Frac-spread Risk Management

Inter Pipeline is exposed to frac-spread risk which is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. 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.

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at December 31, 2010. The CAD/USG average prices would approximate the following USD/USG prices based on the average USD/CAD forward curve at December 31, 2010.

	December 31, 2010		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
January to December 2011	48%	\$ 0.77	\$ 0.77
January to December 2012	26%	\$ 0.79	\$ 0.80

Based on propane-plus volume hedges outstanding at December 31, 2010, the following table illustrates how a 10% change in NGL and AECO natural gas commodity prices and 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 assuming rates associated with each of the other components and all other variables remain constant:

(millions)	Fair Value of Derivative Financial Instruments	Change in Net Income Based on 10% Increase in Prices/Rates ⁽¹⁾	Change in Net Income Based on 10% Decrease in Prices/Rates ⁽¹⁾
NGL ⁽²⁾	\$ (16.8)	\$ (13.2)	\$ 13.2
AECO natural gas	(10.9)	3.5	(3.5)
Foreign exchange	4.5	(12.1)	12.1
Frac-spread risk management	\$ (23.2)		

⁽¹⁾ Negative amounts represent a liability increase or asset decrease.

⁽²⁾ Assumes that a commodity price change will impact all propane, normal butane, isobutane and pentanes-plus products linearly.

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its NGL extraction and conventional oil pipelines business segments. Inter Pipeline enters into financial heat rate swap and power price swap contracts to manage power price risk exposure in these businesses.

Based on heat rate swaps outstanding in the NGL extraction business at December 31, 2010, 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 used to manage power price risk and consequently after-tax income by approximately \$0.4 million. A 10% change in AECO natural gas prices in isolation with all other variables held constant, could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately \$0.2 million.

Based on electricity price swap agreements outstanding in the conventional oil pipelines business at December 31, 2010, 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 used to manage power price risk and consequently after-tax income by approximately \$0.2 million.

Bulk Liquid Storage Business

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.

Corporate

Interest Rate Risk Management

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of its floating-to-fixed interest rate swap agreements. 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.

Based on the variable rate obligations outstanding at December 31, 2010, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately \$21.2 million for the year ending December 31, 2010, assuming all other variables remain constant. Of this amount, \$19.6 million relates to the \$2.1 billion Corridor credit facility and are recoverable through the terms of the Corridor FSA, therefore the after-tax income impact would be \$1.2 million. A 1% change in interest rates at December 31, 2010 could also affect the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage interest rate risk and consequently after-tax income by approximately \$0.3 million, assuming all other variables remain constant.

Realized and Unrealized Gains (Losses) on Derivative Instruments – Held-for-Trading

Derivative financial instruments designated as "held-for-trading" are recorded on the consolidated balance sheet at fair value. Any gain or loss upon settlement of these contracts is recorded as a realized gain or loss in net income. Prior to settlement, any change in the fair value of these instruments is recognized in net income as an unrealized change in fair value of derivative financial instruments.

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 less 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. Fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument.

Gains (losses) on derivative financial instruments recognized in the calculation of net income are as follows:

(millions)	Three Months Ended December 31		Years Ended December 31	
	2010	2009	2010	2009
Realized (loss) gain on derivative financial instruments				
Revenues				
NGL swaps	\$ (2.2)	\$ 6.5	\$ 0.3	\$ 54.9
Foreign exchange swaps (frac-spread hedges)	1.0	(1.0)	1.7	(13.9)
	(1.2)	5.5	2.0	41.0
Shrinkage gas expense				
Natural gas swaps	(6.6)	(7.3)	(19.3)	(30.1)
Operating expenses				
Electricity price swaps	–	–	0.1	–
Heat rate swaps	0.4	0.4	1.7	1.7
	0.4	0.4	1.8	1.7
Financing charges				
Interest rate swaps	0.7	2.1	3.7	7.6
Total realized (loss) gain on derivative financial instruments	(6.7)	0.7	(11.8)	20.2
Unrealized (loss) gain on derivative financial instruments				
NGL swaps	(17.1)	(32.7)	(7.5)	(102.7)
Natural gas swaps	6.4	5.5	(4.9)	11.5
Foreign exchange swaps (frac-spread hedges)	4.3	2.4	5.4	27.7
Electricity price swaps	0.3	–	0.3	–
Heat rate swaps	0.3	(0.4)	2.0	(2.8)
Interest rate swaps	0.6	0.7	1.9	1.9
Transitional transfers ⁽¹⁾	(0.2)	(0.2)	(0.8)	(0.8)
Total unrealized loss on derivative financial instruments	(5.4)	(24.7)	(3.6)	(65.2)
Total loss on derivative financial instruments	\$ (12.1)	\$ (24.0)	\$ (15.4)	\$ (45.0)

⁽¹⁾ Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income.

Credit Risk

Inter Pipeline's credit risk exposure relates primarily to customers and financial counterparties holding cash and derivative financial instruments, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and monitoring procedures. 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.

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 affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2010, accounts receivable associated with these two business segments were \$94.0 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.

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

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. At December 31, 2010, accounts receivable outstanding meeting the definition of past due and impaired is immaterial.

Transactions with Related Parties

No revenue was earned from related parties in the quarters ended December 31, 2010 or 2009.

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. Officers and directors of the General Partner received a cumulative total of \$0.7 million (2009 – \$0.8 million) in dividends in 2010 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 fees paid to the General Partner during the period.

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 December 31, 2010, interest payable to the General Partner on the loan was \$4.1 million (December 31, 2009 – \$4.3 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 an 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 bps 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 December 31, 2010, there were amounts owed to the General Partner by Inter Pipeline of \$0.8 million (December 31, 2009 – \$0.5 million).

Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal controls over financial reporting are a process designed to provide reasonable assurance regarding the reliability of financial reporting and compliance with Canadian GAAP in Inter Pipeline's consolidated financial statements.

Management has made no material changes to the design of Inter Pipeline's internal control over financial reporting during the fourth quarter of 2010.

At December 31, 2010, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2010.

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 refer to note 1 *Summary of Significant Accounting Policies* of the December 31, 2010 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

Financial Instruments

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risk relating to commodity prices, foreign exchange and interest rates. Inter Pipeline also reviews all significant agreements acquired, substantially modified or entered into for embedded derivatives.

Inter Pipeline has classified its financial instruments as follows. Cash and cash equivalents and certain components of prepaid expenses and other deposits are designated as “held-for-trading” and measured at carrying value, which approximates fair value due to the short-term nature of these instruments. The majority of accounts receivable are designated as “loans and receivables”. Cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue, and long-term debt are designated as “other liabilities”. Derivative financial instruments and the long-term payable are classified as “held-for-trading”. Inter Pipeline has chosen to designate the long-term payable as “held-for-trading” as it represents unrealized gains or losses on interest rate swaps that are also classified as “held-for-trading”.

All derivative financial instruments are measured at fair value. Estimates of the fair value of derivative contracts outstanding at the end of each financial reporting period are recognized on the consolidated balance sheets and any unrealized changes in these estimates are recognized in the consolidated statements of net income. These amounts are estimates of the fair value at a point in time and the final amount will be determined on the date or interim dates that the derivative contract is settled.

The fair values of derivative financial instruments are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding. The fair values are calculated using a discounted cash flow methodology with reference to actively quoted forward prices, internal valuation models and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. Forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. However, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and differences could be significant. A significant change in commodity prices, foreign exchange rates or interest rate assumptions underlying mark-to-market valuations of derivative financial instruments would change the fair value of derivative financial instruments reported in the consolidated balance sheets and unrealized change in fair value of derivative financial instruments in the consolidated statements of net income.

Corridor utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are either payable to or recoverable from the shippers; therefore any unrealized portion has been recorded as receivable or payable. Inter Pipeline has chosen to designate the long-term receivable or payable as held-for-trading as it represents unrealized gains or losses on interest rate swaps that are also classified as held-for-trading.

For further discussion on Inter Pipeline’s derivative financial instruments, see the **RISK MANAGEMENT AND FINANCIAL RESULTS** section.

Intangible Assets

Inter Pipeline’s intangible assets are amortized using an amortization method and term based on estimates of the useful lives of these assets. The carrying values of Inter Pipeline’s intangible assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. This review requires an estimate of future cash flows to be derived from the utilization of these assets based on assumptions about future events which may be subject to change depending on future economic or technical developments. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a charge against net income.

The Cold Lake TSA intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the Cold Lake TSA expires on December 31, 2011, the term of the Cold Lake TSA extends until the Cold Lake LP gives notice that it forecasts it will earn less than \$1.0 million of capital fees in the year. After December 31, 2011, the Cold Lake founding shippers may contract with a third party to transport their dedicated petroleum after giving the Cold Lake LP notice of at least 20 months prior to the effective date and meeting certain conditions. The Cold Lake LP has the right to match any new service offer from a third party. Therefore, this intangible asset is being amortized on a straight-line basis over a conservative estimate of 30 years.

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method. The patent is being amortized on a straight-line basis over the 14 year life of the patent. Should the useful life or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly.

The bulk liquid storage business intangible assets represent the estimated value of a customer contract, customer relationships and trade name as at October 4, 2005 when the bulk liquid storage business was first acquired. These intangible assets are being amortized over estimated useful lives ranging from three to 30 years. Should the likelihood of the renewal of the customer contract or estimated life of the customer relationships or trade name change, the amortization of the remaining balance would change accordingly.

Goodwill

Goodwill created upon the acquisition of Simon Storage, Tanklager-Gesellschaft mbH and Corridor represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write-down for impairment. If the carrying value of either of the reporting units exceeds its fair value, an impairment loss would be recognized to the extent that the carrying amount of the goodwill exceeds its fair value. Each fiscal year and as economic events dictate, management reviews the valuation of goodwill, taking into consideration any events or circumstances which might have impaired the value. Inter Pipeline assesses the fair value of the goodwill amount for impairment by discounting projected future cash flows generated by these assets at a weighted average cost of capital that reflects the relative risk of the asset. If it is determined that the fair value of the future cash flows is less than the carrying value of the assets at the time of assessment, an impairment amount would be determined by deducting the fair value of the cash flows from the carrying values and reducing the carrying value of goodwill. The fair value of the underlying assets and liabilities was assessed and it was determined that there was no impairment of goodwill in 2010. Projected future cash flows used in the goodwill assessment represented management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

Property, Plant and Equipment

Calculation of the net book value of property, plant and equipment requires estimates of the useful life of the assets, residual value at the end of the asset's useful life, method of depreciation and whether impairment in value has occurred. A change in any of the estimates would result in a change in the amount of depreciation and a charge to net income recorded in a period with a similar change in the carrying value of the asset on the consolidated balance sheet.

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which was 30 years for Cold Lake and 40 years for Corridor until July 1, 2010, when Inter Pipeline amended its estimates to 80 years for both Cold Lake and Corridor to better reflect the number of years over which these pipeline systems will be in operation following a comprehensive review by management. The cost of pipelines and facilities includes all direct expenditures for system construction, expansion, and betterments and operating costs incurred prior to the in-service date. Corridor pipeline system costs include an allocation of overhead costs, capitalized interest, and amortization of transaction costs on debt. Capitalization of interest, financing costs and operating costs ceases when the property, plant and equipment are substantially complete and ready for their intended productive use.

Pipeline line fill and tank working inventory for the Cold Lake and Corridor pipeline systems represent petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with an appropriate volume of petroleum products to enable commercial operation of the facilities and pipeline. The cost of line fill includes all direct expenditures for acquiring the petroleum based products. Cold Lake line fill is carried at cost. Corridor line fill is carried at cost less accumulated depreciation. Depreciation is calculated on the same basis as the related property, plant and equipment. These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system. Proceeds from the sale of Corridor's line fill will be used to fund the cost of any asset retirement obligations. To the extent the asset retirement obligations exceed the value of the line fill, Inter Pipeline will be obligated to fund the excess. To the extent the value of the line fill exceeds the asset retirement obligation the excess funds will be refunded to the shippers.

Property, plant and equipment of the NGL extraction business are comprised primarily of three extraction plants and associated equipment. Expenditures on plant expansions or betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the extraction plants and additions thereto is charged once the assets are placed in commercial operation, and is calculated on a straight-line basis over the 30 year estimated useful life of the assets.

Expenditures on conventional oil pipeline system expansions and betterments are capitalized. Maintenance and repair costs, as well as pipeline integrity verification and repair costs, are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 30 year service life of the Central Alberta and Mid-Saskatchewan pipeline systems and, effective July 1, 2010, the estimated service life was revised from 30 years to 80 years for the Bow River pipeline system following a comprehensive review by management. The service life is also connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

The bulk liquid storage business' property, plant and equipment consists of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from 25 to 30 years. Although the asset life could exceed 30 years as is typical with these types of assets, management considers 30 years to be a conservative time period.

Asset Retirement Obligation

Asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development and/or the normal operations of long-lived assets. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling.

An asset retirement obligation is recognized at fair value in the period incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to net income or until the obligation is settled. An amount equal to the estimated fair value of the asset retirement obligation is capitalized as a component of cost of the related long-lived asset and depreciated over the asset's estimated useful life. An asset retirement obligation is calculated based on an estimate of expenditures to be incurred to retire the asset at the end of its useful life. An inflation factor is utilized to project the cost of the asset retirement at the end of its useful life, which is then discounted back to its present value utilizing a credit-adjusted risk-free rate. A change in any of the underlying estimates for the retirement cost, inflation or discount factors would result in a change in the carrying values of the asset retirement obligation and related property, plant and equipment along with a residual charge to net income.

NGL extraction and bulk liquid storage business assets include three extraction plants and eight bulk liquid storage facilities, respectively. Inter Pipeline's asset retirement obligation related to the NGL extraction facilities and leased bulk liquid storage sites represents the net present value of the expected cost to be incurred upon termination of operations and closure of these facilities. Asset retirement obligations for the NGL extraction and bulk liquid storage business assets are being accreted over time at rates of 6.2% and 7.8% per annum, respectively, based on their respective estimated undiscounted future values of \$34.2 million and \$19.5 million.

Conventional oil pipelines and oil sands transportation business assets primarily consist of underground pipelines and above ground equipment and facilities. No significant amount has been recorded for asset retirement obligations relating to these assets as a reasonable estimate of fair value of the liability is not determinable due to the indeterminate timing and scope of the asset retirements. As timing and scope for retirement of these assets becomes determinable, the fair value of the liability and cost of retirement will be recorded at that time. Costs associated with future site restoration of the pipeline assets will be recorded as operating expense. Potential cost of future site restorations will be dependent upon several factors, including regulatory requirements at the time of abandonment, size and location of the pipeline. Abandonment requirements can vary considerably, ranging from purging the contents of the pipeline to complete removal of the pipeline and reclamation of the right of way.

Environmental Liabilities

Undiscounted liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Recoveries from third parties which are likely to be realized are separately recorded and are not offset against the related environmental liability. A number of projects have been identified that Inter Pipeline is obligated to remediate in future periods. Based on management's current knowledge of regulations, technology and current plans to remediate these sites, an estimated undiscounted liability of \$11.2 million has been recognized at December 31, 2010.

Obligations Relating to Employee Pension Plans

Inter Pipeline provides retirement benefits for its UK, Ireland and German employees under three separate defined benefit plans. These plans provide benefits based primarily on a combination of years of service and an estimate of final pensionable salary. Inter Pipeline's policy is to fund the amount of benefit as required by governing legislation. Independent actuaries perform the required calculations to determine the pension expense in accordance with GAAP. Statistical and other factors are used to anticipate future events to calculate the related plan expense and liabilities. Actuarial assumptions used may differ from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may affect the net pension expense and liability recorded. The most recent actuarial valuations of the UK and Ireland plans were carried out in 2010, and an actuarial valuation of the German plan was completed in 2009 and updated in 2010. The obligations were measured using a projected benefit method prorated on services and management's best estimate of expected plan investment performance, final pensionable salary, terminations, and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

Long-Term Incentive Plan and Unit Incentive Options

Under Inter Pipeline's long-term incentive plan (LTIP) awards are paid in cash, therefore a mark-to-market basis of accounting is used whereby changes in the liability are recorded in each period based on the number of awards outstanding and current market price of Inter Pipeline's units plus an amount equivalent to cash distributions declared to date. The expense is recognized over the vesting periods of the respective awards.

Unit incentive plan expense for Inter Pipeline's Unit Incentive Option Plan (Option Plan) is calculated using the fair value method, whereby the value of each of the unit incentive options (options) is determined on the date of grant using a binomial option pricing model, and that value is amortized over the vesting period of the options as a charge to net income, with a corresponding increase recorded in partners' equity. The consideration paid to Inter Pipeline upon the exercise of options is recorded as an increase in partners' equity to reflect the units issued.

Income Taxes

While Inter Pipeline will be subject to additional tax under new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of a future income tax liability. The amount and timing of reversals of temporary differences will also depend on Inter Pipeline's future operating results, acquisitions and dispositions of assets and liabilities and cash distribution policy. A significant change in any of the preceding assumptions could materially affect Inter Pipeline's estimate of the future tax liability. Inter Pipeline assesses these assumptions on a regular basis.

Changes in Accounting Policies

Future

International Financial Reporting Standards (IFRS)

All Canadian publicly accountable enterprises are required to adopt IFRS for interim and annual reporting periods for fiscal years beginning on or after January 1, 2011. For fiscal 2010, Inter Pipeline has presented its results using GAAP. For fiscal 2011, Inter Pipeline will present its results under the principles of IFRS, with fiscal 2010 results restated for comparative purposes beginning with the first quarter of 2011.

Inter Pipeline commenced its IFRS conversion project in 2008 and established a project team to successfully manage the transition to IFRS within the required timeframe. Inter Pipeline's project plan was designed to ensure full compliance with IFRS, considering the impact on business and accounting processes, contractual and financing arrangements, key metrics, information systems and control environment. The project team reports to a steering committee comprised of senior management with quarterly updates to the audit committee. Inter Pipeline's external auditors have also been involved throughout the process from the initial impact assessment phase to the review of position papers and preliminary transitional adjustments.

Financial Statement Compliance with IFRS	Milestones/Deadlines
<p>Initial impact assessment phase</p> <ul style="list-style-type: none"> Initial identification of the major differences between GAAP and IFRS and assessment of the impact of these differences into high, medium and low categories in terms of the complexity of implementation and prospective timelines. 	Completed.
<p>Research and planning phase</p> <ul style="list-style-type: none"> Research specific differences between GAAP and IFRS, long-term and transitional options available and prospective changes to IFRS prior to 2011. Identify potential implications for accounting policies and processes, business management, information systems, control environment and educational requirements. Develop a formal plan and timeline to meet project objectives. 	Research completed subject to monitoring updates as IFRS changes.
<p>Solution development phase</p> <ul style="list-style-type: none"> Quantify and evaluate transitional and long-term options available and select the most appropriate policies. 	Accounting policy options have been assessed and significant policies selected. Transitional adjustments have been quantified, however are subject to changes in IFRS standards or interpretation of those standards. Financial statements to be prepared in accordance with IFRS for the 2011 fiscal year.
<p>Implementation phase</p> <ul style="list-style-type: none"> Integrate solutions into the underlying financial processes and systems. 	Integration of transitional solutions for quarterly financial reporting is being completed.

Inter Pipeline's IFRS team made significant progress on its IFRS conversion project in 2010. Inter Pipeline has drafted its transitional opening statement of financial position at January 1, 2010, and 2010 interim financial statements based on the selection of accounting policies and preliminary quantification of the impact of certain elements of IFRS discussed below. This information has been provided to Inter Pipeline's external auditors for their review. As discussed below, Inter Pipeline's current estimates of the quantitative impact of IFRS on the January 1, 2010 opening statement of financial position may be subject to change, until all applicable IFRS policies are definitively determined and approved and Inter Pipeline's financial statements are audited and approved.

The application of IFRS could still impact Inter Pipeline's consolidated financial statements on transition and in the future. The International Accounting Standards Board (IASB) has a number of ongoing projects with the US Financial Accounting Standards Board (FASB) that could impact Inter Pipeline's consolidated financial statements. The Canadian Accounting Standards Board (AcSB) formed an IFRS Discussion Group to identify issues relating to the application of IFRS in Canada which continues to raise issues on the interpretation and application of IFRS that could impact Inter Pipeline's consolidated financial statements. Inter Pipeline's project team continues to monitor the progress of new standards, proposed amendments to existing accounting standards issued by the IASB and discussions on interpretations of the standards and cumulative impact of IFRS on its consolidated financial statements, debt covenants, significant agreements and key metrics.

Inter Pipeline's compliance group has been monitoring controls over the IFRS conversion project. Significant changes identified and quantified will be reassessed by Inter Pipeline's compliance group to ensure Inter Pipeline's internal controls over financial reporting and disclosure controls in 2011 comply with *NI 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators.

The adoption of IFRS will not have a significant impact on Inter Pipeline's information systems. Financial models have been revised and information system enhancements are complete for the maintenance of parallel information systems for the 2010 transitional year.

Although IFRS is based on a conceptual framework similar to GAAP, some standards result in significant differences in the recognition, measurement and/or disclosure of certain financial statement elements. A summary of IFRS identified to date, based on IFRS in place as of December 31, 2010, that have an impact on Inter Pipeline, and prospective standards in the exposure draft stage of development that could have an impact on Inter Pipeline's financial statements are discussed in the following sections. The following is a summary of these IFRS and prospective standards and not an exhaustive list of all actual or potential differences, which remain subject to change.

Provisions, Contingent Liabilities and Contingent Assets

IAS 37 – “*Provisions, contingent liabilities and contingent assets*” (IAS 37) currently requires a provision to be recognized when: (i) there is a present obligation (legal or constructive) as a result of a past transaction or event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The provision recognized should represent the entity's best estimate of the current value of the obligation using a discount rate that reflects the current market assessment of the time value of money and should not reflect risks for which future cash flow estimates have been adjusted. Provisions are to be reviewed at the end of each reporting period and adjusted accordingly to reflect the entity's best estimate. Changes in discount rates or current decommissioning cost estimates will result in changes to the amount of the provision recorded with an offsetting charge to the value of property, plant and equipment and corresponding changes to the respective accretion or financing charge and depreciation expenses.

IAS 37 suggests that an entity should be able to determine a range of possible outcomes, and therefore should be able to determine a 'best estimate' of the obligation using the mid-point of the range if each point in the range is as likely as any other. GAAP also requires an entity to recognize a contingent liability such as an environmental liability, using a best estimate; however requires an entity to record the obligation at the lowest point in the range if no point within the range was a better estimate than any other point.

IAS 37 has numerous differences in requirements compared to GAAP as noted below, with the resulting impact of these differences being an increase to Inter Pipeline's provisions of approximately \$15 million, net of tax, on the IFRS opening balance sheet. Inter Pipeline intends to elect under IFRS 1 to measure the present value of its decommissioning obligation in accordance with IAS 37 and recognize the impact of the cost to the related assets (approximately \$9 million) at the date the liability first arose with the residual amount, net of tax, recorded as a charge to partners' equity on the IFRS opening balance sheet.

- Inter Pipeline has not historically recorded decommissioning obligations for either its conventional oil pipelines or oil sands pipeline assets as the timing of settlement and magnitude of the future obligation was not determinable per the guidance in GAAP. Applying the more prescriptive rules of IFRS, Inter Pipeline will now recognize a decommissioning obligation for all capital assets, including conventional oil pipeline and oil sands pipeline assets on transition to IFRS.
- Under GAAP, Inter Pipeline uses a credit adjusted risk free discount rate to determine the fair value of the decommissioning obligations for its natural gas liquids extraction facilities and certain of its bulk liquid storage assets. Inter Pipeline intends to use a risk free rate to calculate the fair value of its decommissioning obligations which will result in a higher liability than would be calculated using a credit adjusted risk free discount rate.
- Certain assumptions underlying the historic calculation of asset retirement obligations under GAAP are specifically disallowed under IFRS which will result in an increase in Inter Pipeline's decommissioning obligation on transition to IFRS.
- Historically, Inter Pipeline estimated a high and low estimate of outcomes for the majority of its known environmental liabilities recognizing the lowest point of the estimate as no point within the range was determined to be a better estimate than any other point. Also under GAAP, there are no provisions to present value the obligation at each reporting date. Under IFRS, Inter Pipeline will increase its environmental liability to reflect the mid-point of the range of estimates and will discount the liability to its present value at January 1, 2010.

Employee Benefits

IAS 19 – "Employee Benefits" provides an entity with three options to recognize actuarial gains or losses. The "corridor approach" allows an entity to recognize actuarial gains or losses as income or expense over a defined amortization period. The second option allows an entity to adopt a more systematic method that would result in faster recognition of gains or losses in income. The third option allows an entity to recognize actuarial gains or losses in other comprehensive income in the period in which they occur providing it applies this policy to all of its defined benefit plans and all actuarial gains and losses. IFRS 1 provides transitional relief to recognize all unrealized actuarial gains or losses outstanding at the date of transition in other comprehensive income. Inter Pipeline intends to elect the third option of recognizing actuarial gains and losses and has retroactively restated the impact associated with immediate recognition of the actuarial gains and losses in comprehensive income at January 1, 2010. This will result in an increase of approximately \$7 million to Inter Pipeline's net pension obligation, with a corresponding decrease, net of tax, to total partners' equity on the IFRS opening balance sheet.

Share Based Payments

Similar to GAAP, IFRS 2 – “*Share Based Payments*” (IFRS 2) requires Inter Pipeline to estimate the number of share based payment awards under its deferred unit rights plan (DURs) expected to vest on maturity. Under IFRS 2, Inter Pipeline must include an estimate of awards that may be forfeited prematurely, with changes in the estimate to be accounted for prospectively. GAAP differs as it allows an entity to recognize the effect of actual forfeitures as they occur and does not require an entity to include an estimate of future forfeitures. This will result in a decrease to the total liability and increase to total partners’ equity on the IFRS opening balance sheet of approximately \$1 million. On full vesting of the DURs, total compensation expense will represent actual compensation expense under both IFRS and GAAP, however, over the vesting period there may be timing differences in the recognition of compensation expense.

Asset Impairment

IAS 36 – “*Impairment of Assets*” (IAS 36) is similar to GAAP as both standards require an entity to (i) perform a goodwill impairment test annually and (ii) assess whether there is an indication that its other tangible and intangible assets may be impaired taking into consideration both external and internal sources of information. GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36 requires assets to be assessed for impairment for each cash-generating unit defined as the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows from other assets or group of assets. IAS 36 uses a one-step approach for both testing for and measurement of impairment for each cash-generating unit. Asset carrying values are compared directly with the asset’s fair value or recoverable amount using the higher results from one of two asset valuation models: fair value less costs to sell and value in use. This may potentially result in more write downs where carrying values of assets were previously supported under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. Under IFRS, any write down of asset value (except goodwill) may be reversed in future periods when circumstances have changed such that the impairments have been reduced. GAAP prohibits reversal of impairment losses.

On transition to IFRS, an entity is required to reassess whether there would be impairment of its goodwill applying the requirements of IAS 36. Inter Pipeline assessed its goodwill for impairment in accordance with the requirements of IAS 36 and determined that no impairment existed as at the IFRS transition date of January 1, 2010.

Income Taxes

In transitioning to IFRS, Inter Pipeline’s deferred tax liability will be impacted by the tax effects resulting from the IFRS changes discussed previously in this section of the MD&A. Inter Pipeline expects to recognize a decrease in the deferred tax liability of approximately \$5 million with a corresponding increase to total partners’ equity on the IFRS opening balance sheet, which is included within the specific areas as they are shown net of tax.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (IFRS 1)

IFRS 1 provides a framework for the first time adoption of IFRS with a number of one-time optional exemptions and mandatory exceptions to retrospective application of certain IFRS policies. In general, an entity is required to apply the principles under IFRS on the basis that the entity has prepared its financial statements in accordance with IFRS since its formation. These one-time optional exemptions and mandatory exceptions are provided to assist entities overcome difficulties associated with reformulating historical accounting information from GAAP to IFRS. IFRS 1 also specifies that adjustments that arise on retrospective conversion to IFRS should be directly recognized in opening retained earnings or partners' equity in Inter Pipeline's case. Inter Pipeline has considered these transitional elections concurrent with the review of IFRS. In addition to the IFRS 1 elections discussed above, the following are additional elections Inter Pipeline intends to adopt on transition to IFRS.

- Inter Pipeline will elect to deem the \$52 million balance of its cumulative unrealized loss on translating financial statements of self-sustaining foreign operations to be zero at the date of transition. This requires Inter Pipeline to reclassify these cumulative unrealized losses from accumulated other comprehensive loss to partners' equity, which will have no net impact on Inter Pipeline's total partners' equity.
- Under IFRS 1, an entity may elect to fair value an item of property, plant and equipment at its fair value and use that value as its deemed cost prospectively. Inter Pipeline does not intend to elect under the deemed cost provision of IFRS 1 and will continue to use an historical cost asset valuation model on transition to IFRS as management considers historical cost to be a more consistent measure of value given the nature of its assets.
- Capitalization of directly attributable borrowing costs to the cost of property, plant and equipment is mandatory under IAS 23 – "*Borrowing Costs*" (IAS 23) but is optional under GAAP. Pursuant to the transitional provisions of IFRS 1, Inter Pipeline intends to apply the requirements of IAS 23 prospectively.
- Business combinations entered into prior to the date of transition will not be retrospectively restated using IFRS principles.

Exposure Draft – Joint Arrangements

Exposure Draft 9 – "*Joint Arrangements*" (ED 9) is now expected to become an IFRS in the first quarter of 2011 replacing IAS 31 "*Interests in Joint Ventures*". ED 9 sets out the basis of accounting required for arrangements whereby assets, operations or entities are under joint control. The exposure draft currently proposes that entities account for interests in jointly controlled entities using the equity method of accounting and proposes elimination of the option to proportionately consolidate these entities.

Currently, Inter Pipeline uses the proportionate consolidation method to account for its 85% interest in the Cold Lake LP and 50% interest in the assets of the Empress V facility. Under the proposed ED 9, Cold Lake LP may be considered a jointly controlled entity, therefore may be required to be accounted for under the equity method of accounting versus proportionate consolidation. Empress V assets would be considered jointly controlled assets, therefore would continue to be accounted for under an accounting method similar to proportionate consolidation. As this is an exposure draft, the full extent of the impact of applying ED 9 cannot be made at this time, pending further certainty as to the final standard on accounting for joint arrangements.

Other Exposure Drafts

Exposure drafts on revenue recognition, leases and financial instruments have been released which are expected to become IFRS in the second quarter of 2011. Inter Pipeline is currently assessing the impact of these exposure drafts.

Business Combinations

In January 2009, the CICA issued a new accounting standard, Section 1582 “*Business Combinations*”, which prospectively establishes principles and requirements of the acquisition method for business combinations and related disclosures that will be effective for Inter Pipeline’s 2011 reporting, replacing Section 1581. These recommendations are effective for business combinations occurring after January 1, 2011, although early adoption is permitted.

Consolidated Financial Statements

In January 2009, the CICA issued new accounting standards, Sections 1601 “*Consolidated Financial Statements*” and 1602 “*Non-Controlling Interests*”, which establish standards for the preparation of consolidated financial statements that will replace Section 1600 and be effective for Inter Pipeline’s 2011 reporting. The adoption of these recommendations is not expected to have a material impact on Inter Pipeline.

Risk Factors

Any of the risks discussed in the following sections may require Inter Pipeline to invest additional capital or could have a material adverse effect on the future business, financial condition and/or results of operations of Inter Pipeline and its future ability to make cash distributions to Class A unitholders.

Risks Associated with the Pipelines – The Oil Sands Transportation and Conventional Oil Pipelines Businesses

Throughput Risks

Demand Risks

Over the long term, Inter Pipeline’s business will depend, in part, on the level of demand for petroleum in the geographic areas in which deliveries are made by the pipelines and the ability and willingness of shippers having access or rights to utilize the pipelines to supply such demand. Inter Pipeline cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, government regulation (including those resulting from the ratification of greenhouse gas legislation, including the initiatives discussed below) or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for petroleum.

Supply Risks

Future throughput on the pipelines and replacement of petroleum reserves in their service areas is dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Reserve bases necessary to maintain long-term supply cannot be assured and petroleum price declines, without compensating reductions in costs of production, may reduce or eliminate the profitability of production and the supply of petroleum for the pipelines. While reserve additions and increased recovery rates historically have tended to offset natural declines in petroleum production in the areas serviced by the pipelines, reserve additions in recent years have not been sufficient to offset natural declines in produced volumes in certain service areas which reduces the likelihood that reserve additions and increased recovery rates will offset natural declines in petroleum production in the future. Sustained low petroleum prices could lead to a decline in drilling or mining activity and production levels or the shutting-in or abandonment of wells or oil sands operations. Drilling and mining activity, production levels and shut in or abandonment decisions may also be affected by the availability of capital to producers for drilling, allocation by producers of available capital to produce oil as compared to natural gas, current or projected petroleum price volatility, overall supply and demand expectations and light crude oil to heavy crude oil price differentials. The pipelines are dependent on producers’ continuing petroleum exploration and development activity and on technological improvements leading to increased recovery rates in order to offset natural declines in petroleum production in the areas serviced by the pipelines. Absent the continuation of such activities and improvements, the volumes of petroleum transported on the pipelines will decline over time as reserves are depleted.

The Cold Lake pipeline system services the Cold Lake oil sands region of Alberta and the Corridor and Polaris pipeline systems service the Athabasca oil sands region of Alberta. Both areas contain substantial oil sands deposits. Bitumen is produced in the Athabasca region using an open-pit mine operation. In addition, in-situ recovery techniques such as cyclical steam stimulation or “CSS” and steam-assisted gravity drainage or “SAGD” are utilized in both the Cold Lake and Athabasca regions. These techniques require higher levels of capital investment and, as a result, bitumen production in these areas is more sensitive to lower producer netback prices than crude oil production in the conventional oil pipeline business segment. Producer net-back prices are affected by several factors including bitumen prices, natural gas and diluent costs and light crude oil to heavy crude oil price differentials. Natural gas is required to either heat water or generate steam in order to extract bitumen from the oil sands deposits. As well, the viscosity of bitumen requires diluent, a light petroleum product to be blended with the bitumen to allow it to be transported through the pipeline. High natural gas prices or a shortage of diluent supply may increase the overall costs of producing bitumen, which may reduce production and/or delay development of new production in the Cold Lake and Athabasca oil sands regions.

Competition and Contracts

Except in the cases of the Cold Lake, Corridor and Polaris pipeline systems, Inter Pipeline’s transportation revenues have been and will continue to be derived primarily from contracts or arrangements of 30 days duration or less with producers in the geographic areas served by its pipelines. There can be no assurance that such contracts will continue to be renewed or, if renewed, will be renewed upon favourable terms to Inter Pipeline. Inter Pipeline’s supply contracts with producers in the areas served by the conventional oil pipelines business are based on market-based toll structures negotiated from time to time with individual producers, rather than the cost-of-service recovery or fixed rate of return structures applicable to certain other pipelines. The conventional oil pipelines business is, and will continue to be, subject to market competitive factors.

The pipelines are subject to competition for volumes transported by trucking or by other pipelines near the areas serviced by the pipelines. Competing pipelines could be constructed in areas serviced by the pipelines. There can be no assurance that competition from trucking and/or other pipelines will not result in a reduction in throughput on the pipelines.

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers who have committed to utilizing the Cold Lake pipeline system and who pay for such usage over the term of the contract. The minimum annual toll revenues from the Cold Lake pipeline system are derived from the ship-or-pay provisions of the Cold Lake TSA, which arrangements continue until the end of 2011. Although volumes that are shipped by the Cold Lake Founders from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline, the Cold Lake Founders may utilize alternative transportation methods after 2011 (if certain minimum volume levels are maintained) subject to the Cold Lake LP’s right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake Founders following the end of the ship-or-pay period will be sustained.

The Corridor pipeline system is operated pursuant to a long-term ship-or-pay contract with the Corridor shippers, who are contractually obligated to utilize the Corridor pipeline system for the transportation of all bitumen and diluent used or produced from the Athabasca oil sands project. The initial term of the agreement is 25 years, extending through 2028 with options for further extensions. However, there is no assurance that the Corridor shippers will be able to perform their obligations under the contract with Inter Pipeline, or that revenues received from the Corridor shippers following the expiry of the term of the contract will be sustained.

The Polaris pipeline system will be operated pursuant to long-term ship-or-pay contracts with various counterparties, who are contractually obligated to utilize the Polaris pipeline system. However, there is no assurance that these counterparties will be able to perform their obligations under the contracts with Inter Pipeline, or that revenues received from the counterparties following the expiry of the term of each contract will be sustained.

Inter Pipeline (Corridor) Inc., Cold Lake LP and Inter Pipeline can supplement revenues by marketing excess capacity on the Corridor, Cold Lake and Polaris pipeline systems, respectively, to third parties, but there can be no assurance that Inter Pipeline will be successful in doing so.

Operational Factors

The pipelines are connected to various third party mainline systems such as the Enbridge system, Express pipeline and the Trans Mountain pipeline, as well as refineries in the Edmonton area. Operational disruptions or apportionment on those third party systems or refineries may prevent the full utilization of the pipelines. The pipelines are reliant on electrical power for their operations. A failure or disruption within the local or regional electrical power supply and/or transmission systems could significantly affect ongoing pipeline operations.

Rights-of-Way and Access

Successful development of the pipelines through construction of new pipelines or extensions to existing pipelines depends in part on securing leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities allowing access for such purposes. In general, the process of securing rights-of-way or similar access is becoming more complex, particularly in more densely populated and other sensitive areas. The Cold Lake, Corridor, Polaris and Central Alberta pipeline systems operate in the Edmonton area, with the Cold Lake pipeline system also having operations in the Hardisty area and within the Cold Lake air weapons range. Although pipelines have been constructed in these areas in recent years, these are three of the more difficult areas in which to secure pipeline rights-of-way in the Province of Alberta.

Multi-Jurisdictional Regulation

The pipelines are subject to intra-provincial and multi-jurisdictional regulation, including regulation by the Energy Resources Conservation Board in Alberta, and Energy and Resources in Saskatchewan. As a result, Inter Pipeline's operations may be affected by changes directed by such regulatory authorities.

The Bow River, Central Alberta, Cold Lake, Corridor and Polaris pipeline systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the *Pipeline Act* (Alberta) and *Pipeline Regulation* (Alberta), and by the Energy Resources Conservation Board. The Mid-Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipelines Act* (Saskatchewan) and the *Pipelines Regulation* (Saskatchewan) and by Saskatchewan Energy and Resources. None of the pipelines is subject to regulation by the National Energy Board (NEB).

Oil pipelines in Alberta may be subject to rate regulation pursuant to the *Public Utilities Act* (Alberta). In Saskatchewan, oil pipelines may similarly be subject to rate regulation under the *Pipelines Act* (Saskatchewan).

Legislation in the Province of Alberta exists to ensure that shippers and producers have fair and reasonable opportunities to produce, transport, process and market their reserves. Under the *Oil and Gas Conservation Act* (Alberta), the Energy Resources Conservation Board may, on application and with the approval of the Lieutenant Governor in Council, declare the proprietor of a pipeline to be a common carrier of oil such that the proprietor must not discriminate among shippers and producers who seek access to the pipeline. The common carrier declaration can also include a provision to set tolls, which it determines to be just and reasonable. Transportation service on the pipelines has been made available on an open access, non-discriminatory basis and the pipelines' tolls have not been set or restricted by any regulatory agency. Should an application for access or for the setting of tolls be made, it could result in a toll reduction and decreased revenue for Inter Pipeline.

Risks Associated with the NGL Extraction Business

Natural Gas Availability and Composition

The volumes of natural gas processed by the NGL extraction business depend on the throughput of the Foothills and TransCanada Alberta systems from which the NGL extraction facilities source their natural gas supply. Without reserve additions or other new sources of gas supply, throughputs will decline over time as reserves are depleted in the areas these pipeline systems service. Natural gas producers in these service areas may not be successful in exploring for and developing additional reserves or commodity prices may not remain at a level that encourages gas producers to explore for and develop additional reserves or to produce existing marginally economic reserves. In addition, the pipeline systems that service the NGL extraction business may also face competition from other existing or proposed natural gas transmission systems that are not, or will not be, connected to the NGL extraction facilities, resulting in natural gas being unavailable for processing. Also, to continue to have the right to reprocess natural gas for the purpose of NGL extraction from gas being transported on the natural gas transmission systems, Inter Pipeline will be required to continue to negotiate extraction agreements with the various natural gas shippers and there is no assurance that Inter Pipeline will be able to renew contracts related to the NGL extraction business to extract NGL on economic terms or at all.

The production of NGL from the NGL extraction facilities is largely dependent on the quantity and composition of the NGL within the natural gas streams that supply the NGL extraction business. The quantity and composition of NGL may vary over time. Also, marketable natural gas on the Foothills and TransCanada Alberta systems contains contaminants such as carbon dioxide and various sulphur compounds that are concentrated in the NGL products through the extraction process. Increased content of these contaminants in the natural gas supply may require incurring additional capital and operating costs at the NGL extraction facilities. Other factors, such as an increased level of NGL recovery conducted at field processing plants upstream of the NGL extraction facilities (including the Harmattan Co-stream Project described below), increased intra-Alberta consumption of natural gas or processing completed at any new extraction plants constructed upstream of the NGL extraction facilities, or changes in the quantity and composition of the natural gas produced from the reservoirs that supply the NGL extraction facilities, could have a materially negative effect on NGL production from the NGL extraction business.

Operational Factors

The NGL extraction facilities are connected to various third party trunk line systems, including the TransCanada Alberta System, Foothills System, Kerrobert Pipeline, Co-Ed Pipeline and the Alberta Ethane Gathering System. Operational disruptions or apportionment on those third party systems and/or disruptions at the other facilities in the Empress area may prevent the full utilization of the NGL extraction facilities.

The NGL extraction facilities are reliant on electrical power for their operations. A failure or disruption within the local or regional electrical power supply and/or transmission systems could significantly affect ongoing NGL extraction operations.

Competition

The NGL extraction facilities are subject to natural gas markets and, as such, are subject to competition for gas supply from all natural gas markets served by the TransCanada Alberta System or the Foothills System. The NGL extraction facilities are subject to competition from other extraction plants that are in the general vicinity of the NGL extraction facilities or that may be constructed upstream of the NGL extraction facilities. The NGL extraction facilities are also subject to competition from field processing facilities that extract NGL from the natural gas streams before injection into the TransCanada Alberta System or the Foothills System. The NGL produced at the NGL extraction facilities or derivatives produced at downstream customer facilities must compete with similar products from other facilities on a local, regional or continental scale.

To the extent that (i) other gas market participants are willing to pay for gas supply, (ii) existing or newly constructed extraction or field processing plants are successful in securing natural gas supply currently processed at the NGL extraction facilities or are successful in removing significant amounts of NGL from the gas supply upstream of the NGL extraction facilities or (iii) products derived from the production at the NGL extraction facilities cannot be priced competitively, Inter Pipeline will be adversely affected.

Similarly, there is no assurance that new sources of natural gas supply that may be developed in frontier areas such as Alaska and the Mackenzie Delta in the Northwest Territories will be transported via the natural gas transmission systems straddled by the NGL extraction facilities or that new extraction plants will not be constructed upstream of the NGL extraction facilities to process that natural gas.

On December 7 2010, the Energy Resources Conservation Board approved the application concerning AltaGas Ltd.'s Harmattan Co-stream Project. The Harmattan Co-stream Project consists of modifications to the Harmattan facility and the construction of a bypass pipeline around the Cochrane plant for the purpose of extracting NGL from up to 490 mmcf/d of natural gas on the Foothills and TransCanada Alberta systems directly upstream of the Cochrane plant. This could result in a subsequent reduction in volumes available for processing at the Cochrane plant. Should the Harmattan Co-Stream Project be constructed, it would compete directly with the Cochrane plant for the right to reprocess gas volumes on the Foothills and TransCanada Alberta systems.

Commodity Price; Frac-spread

At the Cochrane plant, Inter Pipeline is exposed to frac-spread risk or the relative price differential between the propane-plus produced and the natural gas used to replace the heat content removed during extraction of the NGL from the natural gas stream. The level of profit obtained from this portion of the NGL extraction business will increase or decrease as the difference between the price of the applicable NGL and the price of natural gas varies.

Extraction Premiums

Further influencing the profitability of the NGL extraction business is the cost of natural gas feedstock in excess of the market price of natural gas. Extraction premiums are paid to gas suppliers in exchange for the ability to reprocess their natural gas for the purpose of NGL extraction. Historically, these premiums have been moderate relative to the selling price of NGL, but it is possible that they could increase, which would adversely affect the NGL extraction business.

Reliance on Dow Chemical, NOVA Chemicals and BP Canada

Dow Chemical, NOVA Chemicals and BP Canada are the principal customers of the NGL extraction business and represent the vast majority of the revenue from the NGL extraction business. BP Canada also operates the Empress II plant and the Empress V plant. If, for any reason, these parties were unable to perform their obligations under the various agreements with Inter Pipeline, the financial results of the NGL extraction business or the operations of the Empress II plant and the Empress V plant could be negatively impacted.

Regulatory Factors

The Alberta Energy and Utilities Board (EUB) concluded its Inquiry into NGL Extraction Matters (Inquiry) related to the common natural gas streams transported by the pipeline transmission systems in Alberta. Of significance to Inter Pipeline is the review of business and regulatory practices relating to the acquisition of NGL extraction rights from the common stream, public interest criteria used to determine the need and timing of NGL processing capacity additions and the potential for NGL content dilution of the common stream caused by increases in non-conventional gas production. Currently, straddle plants in Alberta are not commercially regulated and all such facilities operate under similar proprietary commercial arrangements known as the “NGL Extraction Convention”. The EUB’s recommendations and conclusions from the Inquiry were released on February 4, 2009. The EUB recommended that the current extraction convention be replaced with a receipt point contracting extraction convention, specifically, the NEXT model proposed by Nova Gas Transmission Ltd. (NGTL), within three years. This recommendation, if implemented, will require changes to commercial arrangements, and potentially business process changes to Inter Pipeline’s NGL extraction business segment. There is a risk that a change in convention, if implemented, could adversely affect the NGL extraction business. At this time, further consultation is required with NGTL and other stakeholders before NEXT can be implemented. Subsequent to the conclusion of the Inquiry, a jurisdictional application submitted by TransCanada Pipelines Limited (TCPL) was approved by the NEB which determined that the TransCanada Alberta system shall be regulated by the NEB. It is not yet known how federal jurisdiction of the NGTL system will impact recommendations from the provincial regulator.

TCPL has submitted to the NEB a revised rate design for the Foothills and TransCanada Alberta systems. Further revisions to the new proposed rate design and/or TCPL service offerings could result in additional costs to straddle plants. In addition, TCPL has experienced increased costs for service offerings, including tolling impacts, for the TransCanada Alberta system and TCPL mainline which could affect TCPL’s competitiveness in relation to other pipelines capable of providing transportation service from the Western Canadian Sedimentary Basin. These factors could result in additional costs or reduced gas volumes available for reprocessing at Inter Pipeline’s NGL extraction facilities.

Risks Associated with the Bulk Liquid Storage Business

Demand for Bulk Liquid Storage

Inter Pipeline’s bulk liquid storage business is primarily involved in the storage and handling of liquids for regional petroleum refining and petrochemical businesses. The products stored and handled at these storage terminals are generally either feedstock for petrochemical plants and refineries or are products produced from those facilities. As a result, a sustained slowdown in either the petroleum refining, biofuels or petrochemical sectors serviced by the bulk liquid storage business could adversely affect the bulk liquid storage business.

The Immingham storage terminals, Inter Pipeline’s largest European terminals, are highly integrated with two local refineries, the ConocoPhillips Humber refinery and the Total Lindsey refinery. The closure of one or both refineries, or amalgamation under ownership by a single party, could significantly reduce revenue from the bulk liquid storage business.

Post Buncefield Regulation

Following the Buncefield oil terminal incident in December 2005, the UK's regulatory authorities have been in the process of formulating policies which require additional integrity systems and controls on gasoline tanks and associated infrastructure. A report issued in December 2009 by the Process Safety Leadership Group details all of the required improvements and also contains a list of other hydrocarbon and petrochemical products to which these improvements are likely to be extended in future years. In accordance with the requirements in the report, steps are now being taken to agree on an improvement plan with the regulator for implementation in 2011 and beyond.

The UK's regulatory authorities issued a Containment Policy on February 20, 2008 which will require substantially enhanced tank and bund facilities both for new build tankage and for existing facilities at the Simon Storage terminals in the UK. The policy currently applies to storage of fuels and is being implemented. Although the policy states a 10 to 20 year timeline for improvements to be effected, the regulatory authorities have since declared a desired timeline for retrospective improvements of between two and five years for sites categorized by the regulator as higher risk, including the Seal Sands storage terminal. As a consequence, sustaining capital expenditures are likely to increase in the foreseeable future, although the timing of such increases is presently uncertain. However, based upon the policy as currently applied by the regulatory authorities, Simon Storage has estimated that it will incur between \$5 million to \$9 million on containment costs over the next eight years. The amount of such costs will depend in part on the acceptability to the regulatory authorities of innovative solutions which are being considered by Simon Storage.

Defined Benefit Pension Plan

A defined benefit pension plan exists for certain employees of the bulk liquid storage business. The plan holds interests in various securities and assets including equities, fixed income instruments and real estate. Fluctuations in the value of the plan's assets and the factors which are applied to calculate the plan's liabilities could result in a requirement for additional cash to be contributed by Inter Pipeline.

Competition

The bulk liquid storage business faces competition from other independent bulk liquid terminals which operate in several of the regions serviced by Inter Pipeline's terminals. Certain of the bulk liquid storage business' customers also have the option to store products at their own storage facilities or to adopt alternative logistics solutions. As a result, customers could elect in the future to make alternative arrangements for the storage and handling of their products resulting in a decline in the bulk liquid storage business' revenue.

Land Lease Renewals

Several key storage terminals are located on lands leased from third parties that must be renewed from time to time. Failure to renew the leases on terms acceptable to Inter Pipeline could significantly reduce the operations of the bulk liquid storage business.

Foreign Exchange Risk

The bulk liquid storage business' earnings and cash flows are subject to foreign exchange rate variability, primarily arising from the denomination of such earnings and cash flows in British Pounds and Euros.

Risks Common to the Oil Sands Transportation, NGL Extraction, Conventional Oil Pipelines and Bulk Liquid Storage Businesses

Execution Risk

Inter Pipeline's ability to successfully execute the development of its organic growth projects may be influenced by capital constraints, third party opposition, changes in customer support over time, delays in or changes to government and regulatory approvals, cost escalations, construction delays, shortages and in-service delays. Inter Pipeline's growth plans may strain its resources and may be subject to high cost pressures in the North American and European energy sectors. Early stage project risks include right-of-way procurement, special interest group opposition, Crown consultation, and environmental and regulatory permitting. Cost escalations may impact project economics. Construction delays due to slow delivery of materials, contractor non-performance, weather conditions and shortages may impact project development. Labour shortages, inexperience and productivity issues may also affect the successful completion of projects.

Federal Government Tax Fairness Plan

On October 31, 2006, the Government of Canada announced the Tax Fairness Plan which, upon implementation, would negatively impact most flow-through entities in Canada, including Inter Pipeline. The related tax rules received royal assent and became law on June 22, 2007. The implementation of the Tax Fairness Plan resulted in Inter Pipeline becoming taxable in 2011 at an effective income tax rate of 26.5% applied against taxable income, resulting in cash available for distribution being reduced by an amount approximating the new income tax payable. The impact on cash distributions will not be known until the time the relationship between cash available for distribution and actual Distributable Cash paid is known. As a result of the adoption of the Tax Fairness Plan, Inter Pipeline may, from time to time, evaluate its organizational and capital structure and its subsidiaries to ensure that it remains appropriate and efficient for its business. Such evaluation and review may result in a recommendation that Inter Pipeline convert to another structure, such as a corporation. In the event that such a recommendation were to be made, approved and implemented, Inter Pipeline's partnership structure would be reorganized and holders of Class A units would become securityholders of one or more new public entities. Such a reorganization could result in the winding-up of Inter Pipeline contemporaneous with, or following, such reorganization and could include transfers of certain inter-entity receivables owing by certain subsidiaries of Inter Pipeline to one or more new public entities. Such a reorganization would be subject to approval of the Class A unitholders and to such other approvals as may be required, including regulatory, stock exchange and court approvals. In connection with any such reorganization, Inter Pipeline's current distribution policies would be replaced by the dividend or distribution policy of the successor entity, if any, which may result in a decrease or increase in the cash distributed by such entity compared with the current distributions of Inter Pipeline.

New Alberta Royalty Regime

Inter Pipeline's pipeline and NGL extraction businesses may be impacted by changes to the oil and gas royalty regime in effect in Alberta. Future royalty regime modifications could have adverse impacts on production of oil and gas volumes. The Government of Alberta is undertaking an Investment Competitiveness Study (Study) that will review the current regulatory framework to identify potential impacts on investment competitiveness such as impacts on costs and resource recovery and to identify key enablers and barriers for future natural gas and conventional oil development in Alberta. The results of the Study could result in changes to the royalty regime, related programs or provincial regulations. Such changes may directly or indirectly impact Inter Pipeline in a materially different manner and/or in a manner that is more adverse to Inter Pipeline than the current royalty regime and regulatory framework.

Operational Factors

Inter Pipeline's operations are subject to the customary hazards of the petroleum transportation, storage, marketing and processing business. Inter Pipeline's operations could be interrupted by failures of pipelines (including pipeline leaks), power infrastructure, equipment, and information systems, the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation, design errors, or construction or manufacturing defects), failure to maintain an adequate inventory of supplies or spare parts, operator error, labour disputes, disputes with owners of interconnected facilities and carriers, and catastrophic events such as natural disasters, fires, explosions, chemical releases, fractures, or other events beyond the General Partner's control, including acts of terrorists, eco-terrorists and saboteurs, and other third party damage to Inter Pipeline's assets. Operational errors could cause a process safety incident that additionally results in reputational damage to the business. The occurrence or continuance of any of these events could increase the cost of operating facilities and/or reduce their processing, throughput or storage capacity. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance with respect to some, but not all, casualty occurrences and disruptions. However, such coverage may not be sufficient to compensate for all casualty occurrences.

Insurance of Inter Pipeline's operations is susceptible to appetite for risk within the insurance market. Either general market conditions or a poor claims record could result in significantly increased premiums or the impossibility of obtaining coverage for certain risks.

Inter Pipeline has extensive integrity management programs in all of its business segments. While Inter Pipeline believes its programs are consistent with industry practice, increasingly strict operational regulations or new data on the condition of Inter Pipeline's assets could result in repair or upgrading activities that are more extensive and costly than in the past. Such developments could contribute to higher operating costs for Inter Pipeline or the termination of operations on the affected portion of Inter Pipeline's assets.

A significant operating cost for Inter Pipeline is electrical power. Deregulation of the Alberta electrical power market has contributed to increased volatility in electrical power prices. Factors such as a shortage of electrical power supply or high natural gas prices could contribute to higher electrical power prices, which may result in higher operating costs for Inter Pipeline.

Regulatory Intervention and Changes in Legislation

Although fees charged to customers of the pipelines and the NGL extraction business have not been set or restricted by any regulatory agency, an application to the Alberta or Saskatchewan regulators for the setting of fees could result in a reduction of fees and revenue for Inter Pipeline.

Income tax laws relating to the oil and natural gas industry or Inter Pipeline, environmental and applicable operating legislation, and the legislation and regulatory framework governing the oil and natural gas industry, including rights to NGL and their extraction, may be changed in a manner which adversely affects Inter Pipeline.

Abandonment Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the abandonment of its assets at the end of their economic lives and all associated costs, which costs may be substantial. Abandonment costs are a function of regulatory requirements at the time of abandonment, and the characteristics (such as diameter, length and location) of the pipeline or the size and complexity of the NGL extraction or storage facility.

Abandonment requirements can vary considerably. For example, in the context of the pipelines, requirements can range from simply emptying the pipeline and capping all open ends, to the removal of the pipeline and reclamation of the related right-of-way. With respect to pipelines, the costs of abandonment have been limited primarily to the costs associated with the removal of petroleum from the lines, the removal of any associated surface facilities and surface reclamation of the disturbed site. However, future requirements are expected to be more stringent.

Abandonment and reclamation costs for the NGL extraction facilities are regulated by the Energy Resources Conservation Board pursuant to Directive 001 and Directive 024. The NGL extraction facilities are included in the Energy Resources Conservation Board's Large Facilities Liability and Reclamation regulations and have defined reclamation requirements and financial tests to ensure that end of life costs can be funded. However, future requirements may be more stringent.

In the future, the General Partner may determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the pipelines, the NGL extraction facilities, or the assets of the bulk liquid storage business, or the establishment of reserves for that purpose, would reduce Distributable Cash, and the timing of additions to, and distributions from, such reserves or trusts may result in the realization of taxable income by unitholders in a year prior to that in which funds resulting therefrom are distributed. See **The Partnership Agreement – Cash Reserves** in the 2010 **Annual Information Form**.

Environmental Costs and Liabilities

Inter Pipeline's operations are subject to the laws and regulations of the European Union, Germany, Ireland, the UK, Alberta, Saskatchewan and the Canadian federal government relating to environmental protection and operational safety. Inter Pipeline believes it is in material compliance with all required environmental permits and reporting requirements.

In order to continuously improve environmental performance and address regulatory requirements, Inter Pipeline routinely reviews systems and processes critical to protecting the environment, including integrity programs, leak detection systems, air monitoring systems, and maintenance standards. Improvement opportunities are implemented as deemed appropriate, with costs budgeted during Inter Pipeline's normal budget cycle in accordance with applicable accounting practices. Operation of certain of the pipelines, bulk liquid storage business assets and NGL extraction facilities has spanned several decades. While the remediation of releases or contamination during such period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and historical contamination may exist for which Inter Pipeline may be liable. Inter Pipeline has completed internal environmental reviews that have selectively attempted to identify locations of historical contamination and several locations have been remediated. As these reviews have not included all assets, all locations of historical contamination may not be currently identified. The remaining identified, but unremediated, sites will be addressed in a prioritized manner, utilizing industry practices, with some locations being subject to multi-year restoration plans.

It is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from Inter Pipeline's operations and previously undetected locations of historical contamination, could result in substantial costs and liabilities for Inter Pipeline. If, at any time, regulatory authorities deem any one of the NGL extraction facilities, oil sands transportation, conventional oil pipelines or bulk liquid storage business assets unsafe or not in compliance with applicable laws, they may order it shut down. Inter Pipeline could be adversely affected if it was not able to recover such resulting costs through insurance or other means.

While Inter Pipeline maintains insurance in respect of damage caused by seepage or pollution in amounts it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless such seepage or pollution is both sudden and unexpected, and discovered and reported within fixed time periods. If Inter Pipeline is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

Greenhouse Gas Regulations

In 1994, the United Nations' Framework Convention on Climate Change came into force, which three years later led to the Kyoto Protocol. The Kyoto Protocol requires nations to reduce their emissions of carbon dioxide and other greenhouse gases (GHG). The Copenhagen Summit on Climate Change (COP) in 2009 resulted in the Copenhagen Accord, which expresses the intention for global and national emissions to decline as soon as possible. Under the Copenhagen Accord, Canada has announced a commitment to reduce GHG emissions by 17% of the base year 2005 by 2020. The Government of Canada has also announced its intention to regulate GHG emissions in compliance with the Copenhagen Accord. The federal regulations required to achieve this commitment are not known at this time.

The Alberta government has introduced regulations to reduce GHG emissions intensity.¹ A provincial regulation entitled *Specified Gas Emitters* became effective as of July 2007. The federal government has not yet issued its related regulation. These two levels of government have indicated that they intend to harmonize their plans so that, when federal regulations are enforced, the Alberta regulations will either cede to or mirror the proposed federal regulations.

The Alberta government's *Specified Gas Emitters* regulation subjects large GHG emitters (meaning, facilities having direct emissions in excess of 100 kilotonnes per annum in 2003 or any subsequent year) to reduce GHG emissions intensity by 12% or to pay a penalty of \$15 per tonne. The base period against which emissions reductions are measured is 2003 to 2005 pursuant to the Alberta regulation.

The federal program is currently under review and it is anticipated to be more stringent in both reduction levels and costs of compliance. In addition, the federal government has announced that the Canadian GHG emission reduction regulations will attempt to harmonize with new requirements in the United States.

The Cochrane plant is the only asset of Inter Pipeline that is subject to provincial GHG regulations.

The proposed federal regulations also suggest that other air pollutant emissions will be regulated by the year 2015. At this time, sufficient detail necessary to evaluate Inter Pipeline's potential related compliance cost in this regard is unavailable.

The adoption of legislation or other regulatory initiatives designed to reduce GHG and air pollutants from oil and gas producers, refiners and petrochemical producers and electric generators in the geographic areas served by the pipelines, NGL extraction facilities and bulk liquid storage business could result in, among other things, increased operating and capital expenditures for those operators. This may make certain production of petroleum and gas by those producers uneconomic, resulting in reduced or delayed production, or reduced scope in planned new development or expansion projects. The operation of certain refineries and petrochemical plants may also become uneconomic. In addition, the adoption of new regulations concerning climate change and the reduction of GHG emissions and other air pollutants or other related federal or provincial legislation, including the *Specified Gas Emitters* regulation, may also result in higher operating and capital costs for the pipelines and NGL extraction facilities.

¹ "Emissions intensity" measures the ratio of GHG emissions to production. Use of "intensity" in GHG regulations allows emitters whose throughput is growing to increase net emissions without penalty; and ensures that emitters with declining throughput must reduce emissions at rates that exceed the throughput decline rate.

Dependence on Key Personnel

The success of Inter Pipeline is largely dependent on the skills and expertise of key personnel who manage Inter Pipeline's business. The continued success of Inter Pipeline will be dependent upon its ability to hire and retain such personnel. Inter Pipeline does not have any "key man" insurance.

International Operations

A portion of Inter Pipeline's operations are conducted in the UK, Germany, and Ireland. Operations outside of Canada are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; credit conditions; trade barriers; exchange controls; national and regional labour strikes; political risks and risks of increases in duties; taxes and changes in tax laws; and changes in laws and policies governing operations of foreign based companies.

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions, including the acquisition of the Corridor pipeline system in 2007, and, as part of its business plan, anticipates making additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks, including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, increased credit risks through the assumption of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

Capital Maintenance Levels

Inter Pipeline maintains and periodically replaces portions of its assets to sustain facility performance, provide a high level of asset integrity and ensure reliable operations. The funds associated with these efforts may be in the form of sustaining capital or maintenance expenses. Maintenance expenses are a subset of "operating expenses" and are not reported separately.

Inter Pipeline typically maintains its assets with reasonable levels of sustaining capital and maintenance expenditures. However, both sustaining capital and maintenance expenditures may vary considerably from current and forecast amounts as a result of a number of factors, including high equipment failure rates, more stringent government regulations and any additional efforts deemed necessary by Inter Pipeline to improve the reliability of its assets. An increase in capital and/or maintenance expenditures could result in significant additional costs to Inter Pipeline.

Possible Downgrade of Investment Grade Credit Rating

Inter Pipeline's long-term corporate credit rating is currently confirmed by S&P to be investment grade BBB+ and by DBRS to be investment grade BBB (high). Corridor's series B and C debentures have been assigned an investment grade long-term corporate credit rating of A, A3 and A- by DBRS, Moody's and S&P, respectively. Should these ratings fall below investment grade, Inter Pipeline or Corridor may have to provide security, pay additional interest or pay in advance for goods and services. The perceived creditworthiness of Inter Pipeline and changes in its credit ratings may also affect the value of Inter Pipeline's Class A units. There is no assurance that any credit rating assigned to Inter Pipeline will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering or withdrawal of such rating may have an adverse effect on the market value of Inter Pipeline's Class A units.

Credit Risk

Inter Pipeline's earnings and cash flows could be exposed to the risk of payment default by its shippers, customers or other counterparties.

Litigation

Inter Pipeline is not a party to any material litigation. However, if any legitimate cause of action arose which was successfully prosecuted against Inter Pipeline, Inter Pipeline's operations or results of operations could be adversely affected.

Risks Inherent in the Nature of the Partnership

Fluctuating Distributions; Cash Distributions Are Not Guaranteed

Distributions of Distributable Cash by Inter Pipeline will fluctuate and the amount thereof is not guaranteed. The actual amount of cash distributions to Class A unitholders will depend upon numerous factors, including operating cash flow, cash reserves established by the General Partner, general and administrative costs, capital expenditures, dispositions, principal repayments and debt service costs. The General Partner has broad discretion in, among other things, establishing, maintaining and decreasing cash reserves, and its decisions regarding reserves and other matters could have a significant impact on the amount of Distributable Cash. The amount of cash distributed may be less than or greater than the amount of income allocated to limited partners for tax purposes.

Nature of the Class A Units

Securities such as Class A units are often associated with investments that provide for returns arising from the flow through of income tax deductions associated with partnership activities and a distribution of Distributable Cash. Inter Pipeline is not expected to allocate any tax deductions.

The Class A units do not have a guaranteed rate of return and represent a fractional interest in Inter Pipeline. The prices at which the Class A units will trade cannot be predicted. The annual yield on the Class A units as compared to annual yield on other financial instruments may also influence the price of Class A units in the public trading markets.

One of the factors that may influence the market price of the Class A units is the level of prevailing interest rates relative to the yield achieved by Class A unitholders based on annual distributions on the Class A units. Accordingly, an increase in market interest rates may lead purchasers of Class A units to expect a higher effective yield, which could adversely affect the market price of the Class A units. In addition, the market price for the Class A units may be affected by changes in general market or economic conditions, legislative changes, fluctuations in the markets for equity securities, interest rates and numerous other factors beyond the control of Inter Pipeline.

Responsibility of the General Partner

The General Partner must exercise good faith and integrity in administering the assets and affairs of Inter Pipeline. However, the Partnership Agreement contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the General Partner to Inter Pipeline and the limited partners, and waiving or consenting to conduct by the General Partner that might otherwise raise issues as to compliance with fiduciary duties. Unlike the strict duty of a trustee who must act solely in the best interests of his beneficiary, the Partnership Agreement permits the General Partner to consider the interests of all parties to a conflict of interest, including the interests of the General Partner and of PAC as the sole shareholder of the General Partner. The Partnership Agreement also provides that, in certain circumstances, the General Partner will act in its sole discretion, in good faith or pursuant to some other specified standard.

Conflicts of Interest

Certain conflicts of interest could arise as a result of the General Partner's relationship with PAC and its affiliates, on the one hand, and Inter Pipeline on the other. Such conflicts may include, among others, the following situations: (i) the General Partner's determination of the amount and timing of any capital expenditures, borrowings and reserves; (ii) the issuance of additional Class A units; (iii) payments to affiliates of the General Partner for any services rendered to or on behalf of Inter Pipeline; (iv) agreements and transactions with affiliates of the General Partner as producers and shippers utilizing the pipelines; (v) the General Partner's determination of which direct and indirect costs are reimbursable by Inter Pipeline; (vi) the enforcement by the General Partner of obligations owed by the General Partner or its affiliates to Inter Pipeline; and (vii) the decision to retain separate counsel, accountants or others to perform services for or on behalf of Inter Pipeline.

Such conflicts of interest may also arise in the conduct of business by affiliates of the General Partner, either currently or in the future, which may be in competition with the business conducted by Inter Pipeline. The General Partner's affiliates are not restricted by the Partnership Agreement from pursuing their own business interests.

Inherent Tax Liability

The assets held directly or indirectly by Inter Pipeline generally have a cost base for applicable income tax purposes that is significantly below the estimated fair market value of such assets and may be significantly below the fair market value of such assets at the time of any disposition thereof in the future. As a result, any disposition of such assets by Inter Pipeline, or a partnership in which Inter Pipeline is itself a partner, may, depending on the particular circumstances of the disposition and the particular circumstances of Inter Pipeline at the time of such disposition, result in the recapture of previously deducted capital cost allowance and the realization of capital gains by Inter Pipeline which amounts, after income tax paid by Inter Pipeline, would be allocated among the Partners for tax purposes. Income or loss for tax purposes, which includes recapture, is allocated to Partners based on the proportion of cash distributions received by the Partner in the fiscal year.

Capital Resources

Future expansions of the pipelines, the NGL extraction facilities and other capital expenditures will be financed out of cash generated from operating activities, sales of additional Class A units and borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to Inter Pipeline to fund expansion or other required capital expenditures.

Inter Pipeline's ability to refinance its indebtedness under its credit facilities and the General Partner loan will depend upon its future operating performance and cash flow, which are subject to prevailing economic and credit conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control. In addition, there can be no assurance that future borrowings or equity financing will be available to Inter Pipeline or available on acceptable terms, in an amount sufficient to fund Inter Pipeline's needs.

Leverage

Borrowings made by the General Partner on behalf of Inter Pipeline introduce leverage into Inter Pipeline's business which increases the level of financial risk in the operations of Inter Pipeline and, to the extent interest rates are not fixed, increases the sensitivity of distributions by Inter Pipeline to interest rate variations.

Debt Restrictive Covenants

The credit facilities described in the **LIQUIDITY AND CAPITAL RESOURCES** section and the General Partner loan contain numerous restrictive covenants that limit the discretion of Inter Pipeline's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Inter Pipeline to create liens or other encumbrances, to pay distributions or make certain other payments, loans and guarantees, and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facilities and General Partner loan contain financial covenants that require Inter Pipeline to meet certain financial ratios and financial condition tests. A failure to comply with the obligations under these agreements could result in a default which, if not cured or waived, could result in a reduction or termination of distributions by Inter Pipeline and permit acceleration of the relevant indebtedness. In addition, in some circumstances, it may become necessary to restrict or terminate distributions by Inter Pipeline in order to avoid a default of such obligations.

Issues of Additional Class A Units; Dilution

Inter Pipeline may issue additional Class A units in the future to finance certain of Inter Pipeline's capital expenditures, including acquisitions. The Partnership Agreement permits Inter Pipeline to issue an unlimited number of additional Class A units without the need for approval from Class A unitholders. The Class A unitholders, other than the General Partner and its affiliates, have no pre-emptive rights in connection with such additional issues. The General Partner has discretion in connection with the price and the terms of issue of additional Class A units. Any issuance of Class A units may have a dilutive effect to existing unitholders.

Limited Voting Rights, Management and Control; Difficulty in Removing General Partner

Class A unitholders generally do not have voting rights in relation to matters involving Inter Pipeline or the General Partner, including with respect to the election of directors of the General Partner. The General Partner manages and controls the activities of Inter Pipeline. Class A unitholders have no right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General Partner may not be removed by the limited partners. Directors of the General Partner are elected by PAC, the sole shareholder of the General Partner, which is a corporation controlled by John F. Driscoll.

Limited Liability

A limited partner may lose the protection of limited liability if such limited partner takes part in the control of the business of Inter Pipeline or does not comply with legislation governing limited partnerships in force in provinces where the Class A units are offered for sale or where Inter Pipeline carries on business.

General Partner Indemnity

While the General Partner has agreed to indemnify the limited partners in circumstances described in the Partnership Agreement, the General Partner may not have sufficient assets to honour such indemnification.

Non-GAAP Financial Measures

Certain financial measures referred to in this MD&A, namely “adjusted working capital deficiency”, “cash available for distribution”, “EBITDA”, “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 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.

(millions)	2010	December 31 2009
Current assets		
Cash and cash equivalents	\$ 22.5	\$ 18.2
Accounts receivable	129.5	122.1
Prepaid expenses and other deposits	14.0	17.9
Current liabilities		
Cash distributions payable	(20.6)	(19.1)
Accounts payable and accrued liabilities	(157.9)	(136.9)
Deferred revenue	(6.3)	(3.6)
Adjusted working capital deficiency	\$ (18.8)	\$ (1.4)

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.

EBITDA and funds from operations are reconciled from the components of net income as noted below. Funds from operations are expressed before changes in non-cash working capital. **Funds from operations per unit** are calculated on a weighted average basis using basic units outstanding during the period. These measures, together with other measures, are used by the investment community to assess the source and sustainability of cash distributions.

(millions)	Three Months Ended December 31		Years Ended December 31	
	2010	2009	2010	2009
Net income	\$ 58.6	\$ 23.1	\$ 234.8	\$ 157.7
Depreciation and amortization	18.7	28.7	87.5	102.2
Gain (loss) on disposal of assets	0.7	0.1	0.7	(17.8)
Non-cash expenses	1.2	0.9	1.5	3.3
Unrealized change in fair value of derivative financial instruments	5.4	24.7	3.6	65.2
Future income tax (recovery) expense	(1.9)	0.7	3.9	(16.7)
Proceeds from long-term deferred revenue	–	–	5.8	10.2
Defined benefit pension plan contribution	–	–	(4.1)	–
Funds from operations	82.7	78.2	333.7	304.1
Financing charges	10.1	8.5	38.4	36.9
Divestiture fee to General Partner	–	–	–	0.1
Current income tax expense	–	(0.1)	1.4	0.6
Defined benefit pension plan contribution	–	–	4.1	–
EBITDA	\$ 92.8	\$ 86.6	\$ 377.6	\$ 341.7

Enterprise value is calculated by multiplying the period-end closing unit price by the total number of units outstanding and adding total debt (excluding discounts and debt transaction costs). 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:

(millions, except per unit amounts)	December 31	
	2010	2009
Closing unit price	\$ 14.92	\$ 10.81
Total closing number of Class A and B units outstanding	258.0	254.6
Total debt	3,850.0	2,752.7
Enterprise value	\$ 6,651.2	\$ 5,372.4

Growth capital expenditures are generally defined as expenditures which incrementally increase cash flow or earnings potential of assets, expand the capacity of current operations or significantly extend the life of existing assets. This measure is used by the investment community to assess the extent of discretionary capital spending.

Sustaining capital expenditures are generally defined as expenditures which support and/or maintain the current capacity, cash flow or earnings potential of 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.

(millions)	Three Months Ended December 31			
	Growth	Sustaining	2010 Total	2009 Total
Oil sands transportation	\$ 214.1	\$ 0.3	\$ 214.4	\$ 21.7
NGL extraction	0.1	0.6	0.7	2.7
Conventional oil pipelines	0.9	0.6	1.5	22.3
Bulk liquid storage	5.9	2.8	8.7	13.3
Corporate	–	1.4	1.4	0.9
	\$ 221.0	\$ 5.7	\$ 226.7	\$ 60.9

(millions)	Years Ended December 31			
	Growth	Sustaining	2010 Total	2009 Total
Oil sands transportation	\$ 295.9	\$ 0.8	\$ 296.7	\$ 477.2
NGL extraction	3.5	3.2	6.7	13.9
Conventional oil pipelines	5.4	1.7	7.1	55.4
Bulk liquid storage	18.1	5.8	23.9	41.8
Corporate	–	5.2	5.2	3.1
	\$ 322.9	\$ 16.7	\$ 339.6	\$ 591.4

Interest coverage on long-term debt is calculated as net income before income taxes and interest expense divided by total interest expense. This measure is used by the investment community to determine the ease with which interest expense is satisfied on long-term debt.

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 debt including demand facilities and excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of total debt (as above) and partners' equity. Similarly, **total recourse debt to capitalization** is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding 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 Annual Information Form, is available on SEDAR at www.sedar.com. Inter Pipeline's Statement of Corporate Governance is included in Inter Pipeline's Annual Information Form.

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 17th day of February, 2011.

Management's Responsibility for Financial Reporting

The management of Pipeline Management Inc. (the "General Partner"), the General Partner of Inter Pipeline Fund ("Inter Pipeline"), is responsible for the presentation and preparation of the accompanying consolidated financial statements of Inter Pipeline.

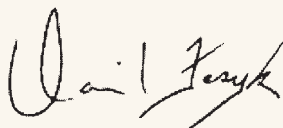
The consolidated financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and, where necessary, include amounts based on the best estimates and judgments of the management of the General Partner.

The management of the General Partner recognizes the importance of Inter Pipeline maintaining the highest possible standards in the preparation and dissemination of statements presenting its financial condition. If alternative accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. In discharging its responsibilities for the integrity and reliability of the financial statements, management of the General Partner has developed and maintains a system of accounting and reporting supported by internal controls designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

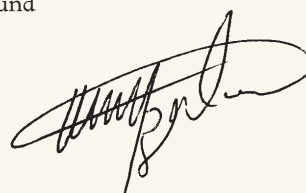
In accordance with the Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit Inter Pipeline's financial statements and provide an independent audit opinion. To provide their opinion on the accompanying consolidated financial statements, Ernst & Young LLP review Inter Pipeline's system of internal controls and conduct their work to the extent they consider appropriate.

The Audit Committee, comprised entirely of independent directors, is appointed by the Board of Directors of the General Partner. The Audit Committee meets quarterly to review Inter Pipeline's interim consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors. As well, the Audit Committee meets annually to review Inter Pipeline's annual consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors. The Board of Directors of the General Partner approves Inter Pipeline's interim and annual consolidated financial statements and the accompanying Management's Discussion and Analysis.

Pipeline Management Inc., as General Partner of Inter Pipeline Fund



David W. Fesyk
President and Chief Executive Officer



William A. van Yzerloo
Chief Financial Officer

February 15, 2011

Independent Auditors' Report

To the Partners of Inter Pipeline Fund

We have audited the accompanying consolidated financial statements of Inter Pipeline Fund (the "Partnership"), which comprise the consolidated balance sheets as at 31 December 2010 and 2009 and the consolidated statements of partners' equity, accumulated other comprehensive loss, net income, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of Pipeline Management Inc. on behalf of the Partnership is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at 31 December 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
February 15, 2011

Ernst + Young LLP

Chartered accountants


Consolidated Balance Sheets

(thousands of dollars)	As at December 31 2010	As at December 31 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,507	\$ 18,208
Accounts receivable	129,501	122,122
Derivative financial instruments (note 20a)	8,916	3,738
Prepaid expenses and other deposits	13,955	17,927
Current portion of future income taxes (note 13)	9,152	—
Total Current Assets	184,031	161,995
Derivative financial instruments (note 20a)	10,067	9,239
Intangible assets (note 6)	304,855	319,603
Property, plant and equipment (note 5)	4,002,796	3,765,930
Goodwill (note 7)	210,436	215,947
Total Assets	\$ 4,712,185	\$ 4,472,714
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Cash distributions payable (note 8)	\$ 20,644	\$ 19,098
Accounts payable and accrued liabilities (note 17)	157,856	136,909
Derivative financial instruments (note 20a)	25,144	16,655
Deferred revenue	6,339	3,621
Current portion of long-term debt (note 9)	386,584	123,600
Total Current Liabilities	596,567	299,883
Long-term debt (note 9)	2,409,029	2,487,315
Long-term payable	9,096	9,212
Derivative financial instruments (note 20a)	4,169	4,081
Asset retirement obligation (note 10)	5,266	5,036
Environmental liabilities (note 11)	11,163	12,299
Employee benefits (note 12)	4,936	7,061
Long-term deferred revenue	13,172	8,730
Future income taxes (note 13)	325,824	318,996
Total Liabilities	3,379,222	3,152,613
Commitments (notes 18 and 21)		
Partners' Equity		
Partners' equity (note 14)	1,414,385	1,373,951
Accumulated other comprehensive loss	(81,422)	(53,850)
Total Partners' Equity	1,332,963	1,320,101
Total Liabilities and Partners' Equity	\$ 4,712,185	\$ 4,472,714

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Pipeline Management Inc., as General Partner of the Partnership:


Director


Director

Consolidated Statements of Partners' Equity

(thousands of dollars)	Year Ended December 31			
			2010	2009
	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Total	Total
Balance, beginning of year	\$ 1,372,579	\$ 1,372	\$ 1,373,951	\$ 1,161,547
Net income for the year	234,534	235	234,769	157,680
Cash distributions declared (note 8)	(232,369)	(233)	(232,602)	(202,399)
Issuance of Partnership units (note 14)				
Equity issuances, net of issue costs and future income taxes	–	–	–	165,884
Issued under Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan	38,077	38	38,115	88,205
Issued under Unit Incentive Option Plan	152	–	152	3,034
Balance, end of year	\$ 1,412,973	\$ 1,412	\$ 1,414,385	\$ 1,373,951

Consolidated Statements of Accumulated Other Comprehensive Loss

(thousands of dollars)	Year Ended December 31	
	2010	2009
Balance, beginning of year	\$ (53,850)	\$ (31,388)
Other comprehensive loss	(27,572)	(22,462)
Balance, end of year	\$ (81,422)	\$ (53,850)

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Capital Corporation.

Consolidated Statements of Net Income

(thousands of dollars)	Year Ended December 31	
	2010	2009
REVENUES		
Operating revenue	\$ 997,063	\$ 924,550
EXPENSES		
Shrinkage gas	317,065	287,957
Operating	255,865	259,818
Depreciation and amortization (note 15)	87,535	102,229
Financing charges (note 16)	39,282	36,931
General and administrative	45,087	41,437
Unrealized change in fair value of derivative financial instruments (note 20b)	3,568	65,230
Management fee to General Partner (note 17)	7,836	6,993
Loss (gain) on disposal of assets (note 5)	723	(17,837)
	756,961	782,758
INCOME BEFORE INCOME TAXES	240,102	141,792
Provision for (recovery of) income taxes (note 13)		
Current	1,440	791
Future	3,893	(16,679)
	5,333	(15,888)
NET INCOME	\$ 234,769	\$ 157,680
Net income per Partnership unit (note 14)		
Basic and diluted	\$ 0.91	\$ 0.66

Consolidated Statements of Comprehensive Income

(thousands of dollars)	Year Ended December 31	
	2010	2009
NET INCOME	\$ 234,769	\$ 157,680
OTHER COMPREHENSIVE LOSS		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(28,380)	(23,270)
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 20b)	808	808
	(27,572)	(22,462)
COMPREHENSIVE INCOME	\$ 207,197	\$ 135,218

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of dollars)	Year Ended December 31	
	2010	2009
OPERATING ACTIVITIES		
Net income	\$ 234,769	\$ 157,680
Items not involving cash:		
Depreciation and amortization	87,535	102,229
Loss (gain) on disposal of assets	723	(17,837)
Non-cash expenses	1,432	3,254
Unrealized change in fair value of derivative financial instruments	3,568	65,230
Future income tax expense (recovery)	3,893	(16,679)
Proceeds from long-term deferred revenue	5,796	10,173
Defined benefit pension plan contribution (note 12)	(4,052)	–
Funds from operations	333,664	304,050
Net change in non-cash operating working capital (note 22)	15,901	(22,265)
Cash provided by operating activities	349,565	281,785
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	(335,618)	(589,904)
Proceeds on sale of assets (note 5)	390	31,251
Net change in non-cash investing working capital (note 22)	3,721	(45,481)
Cash used in investing activities	(331,507)	(604,134)
FINANCING ACTIVITIES		
Cash distributions (note 8)	(194,487)	(114,194)
Increase in long-term debt	180,689	271,448
Transaction costs on long-term debt	(849)	(71)
Issuance of Partnership units, net of issue costs	152	167,659
Net change in non-cash financing working capital (note 22)	1,546	3,484
Cash (used in) provided by financing activities	(12,949)	328,326
Effect of foreign currency translation on foreign currency denominated cash	(810)	(1,335)
Increase in cash and cash equivalents	4,299	4,642
Cash and cash equivalents, beginning of year	18,208	13,566
Cash and cash equivalents, end of year	\$ 22,507	\$ 18,208

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2010 (tabular amounts in thousands of dollars, except as otherwise indicated)

Structure of the Partnership

Inter Pipeline Fund (Inter Pipeline) was formed as a limited partnership under the laws of Alberta pursuant to a Limited Partnership Agreement (LPA) dated October 9, 1997. Pursuant to the LPA, Pipeline Management Inc. (the General Partner) is required to maintain a minimum 0.1% interest in Inter Pipeline. Inter Pipeline is dependent on the General Partner for administration and management of all matters relating to the operation of Inter Pipeline. Inter Pipeline is comprised of four industry operating segments located in two geographic segments: oil sands transportation business, NGL extraction business, conventional oil pipelines business, and bulk liquid storage business, as discussed below in the segment reporting policy.

Under the LPA, 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 LPA. 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 LPA (LPA Distributable Cash) 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.

Inter Pipeline currently makes monthly cash distributions to holders of the Class A limited liability partnership units (Class A units) and Class B unlimited liability partnership units (Class B units) (collectively Partnership units) as discussed in note 8.

The General Partner holds a 0.1% partnership interest in Inter Pipeline represented by Class B units. Public investors hold the remaining 99.9% partnership interest as limited partners represented by Class A units. The General Partner's 0.1% partnership interest is controlled by Pipeline Assets Corp. (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.

1. Summary of Significant Accounting Policies

The consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), have in management's opinion been properly prepared within reasonable limits of materiality and the framework of the significant accounting principles described below. Amounts are stated in Canadian dollars unless otherwise indicated.

The consolidated financial statements include the accounts of Inter Pipeline and its subsidiaries. Inter Pipeline's investment in the Cold Lake Pipeline Limited Partnership (Cold Lake L.P.) and its general partner, Cold Lake Pipeline Ltd., are accounted for using the proportionate consolidation method whereby Inter Pipeline's 85% proportionate share of assets, liabilities, revenues and expenses are included in the accounts, and are presented within the oil sands transportation segment (note 4). Inter Pipeline's 50% interest in the Empress V NGL extraction plant is proportionately consolidated within the NGL extraction business segment. Inter Pipeline's interests in all other subsidiaries are accounted for using the consolidation method.

a) Segment Reporting

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location, which is consistent with how the business is managed.

Industry Segments

The oil sands transportation business consists of two pipeline systems that transport petroleum products and provide related blending and handling services in northern Alberta and a new diluent system currently in the early stages of development. The Cold Lake and Corridor pipeline systems operate under long-term contracts with a limited number of customers. The NGL extraction business consists of processing natural gas to extract natural gas liquids (NGLs) including ethane and a mixture of propane, butane and pentanes plus (collectively known as propane-plus). The conventional oil pipelines business primarily involves the transportation, storage and processing of hydrocarbons. The bulk liquid storage business activity comprises primarily storage and handling of bulk liquid products through the operation of eight deep water bulk liquid storage terminals located in the United Kingdom, Germany and Ireland.

Geographic Segments

Inter Pipeline has two geographic segments, Canada and Europe. The bulk liquid storage business is located in the United Kingdom, Germany and Ireland, while all other operating segments are in Canada.

b) Revenue Recognition

Oil Sands Transportation Business

Capital fee revenue on the Cold Lake pipeline system is recognized based on volumes transported and services provided to each shipper with an adjustment, if necessary, to reflect each shipper's minimum "ship-or-pay" revenue commitment. In addition, an operating fee equivalent to substantially all of the Cold Lake L.P.'s operating costs is recovered from the shippers.

Revenue on the Corridor pipeline system is recognized as services are provided in accordance with terms prescribed by the Firm Service Agreement (FSA) with the shippers. Under the terms of the FSA, revenues are determined by an agreed upon annual revenue requirement formula which allows for the recovery of prescribed expenditures and costs associated with the operation of the Corridor pipeline system, as well as a rate of return on the equity component of the Rate Base (as defined in the FSA) determined with reference to a spread over a long-term bond yield reported by the Bank of Canada.

NGL Extraction Business

Revenue is recognized when the earnings process is complete. This is as the service is provided or when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred, and pricing is either fixed or determinable.

Conventional Oil Pipelines Business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional oil pipelines gathering systems are recognized as the services are provided.

Bulk Liquid Storage Business

Revenues derived from the storage and handling of bulk liquid products and provision of complementary services are recognized as the services are provided.

Deferred Revenue

Deferred revenue represents cash received in excess of revenues recognized. Similarly, a portion of accounts receivable includes unbilled amounts where revenues recognized exceed the amounts billed to date.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of bank accounts, overnight deposits and guaranteed investment certificates.

d) Long-Term Receivable and Long-Term Payable

Inter Pipeline (Corridor) Inc. (Corridor) utilizes an interest rate derivative to manage a portion of its interest rate risk. Gains or losses arising on the interest rate swap contract are payable to, or recoverable from, the shippers, respectively, therefore the long-term portion of the unrealized gain or loss has been recorded as a long-term liability or asset. The current portion is included in accounts receivable or accounts payable and accrued liabilities.

e) Intangible Assets

Transportation Services Agreement

The Cold Lake Transportation Services Agreement (TSA) is amortized on a straight-line basis over 30 years.

Customer Contracts, Relationships and Tradename

The NGL extraction business' intangible assets consist of customer contracts for the sale of ethane and propane-plus. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method.

The bulk liquid storage business' intangible assets consist of a customer contract for the storage and handling of bulk liquid products, customer relationships and tradename. These assets are being amortized over three to 30 years.

Patent

A patented operational process utilized in one of the extraction facilities is being amortized on a straight-line basis over 14 years from the acquisition of the NGL extraction business on July 28, 2004.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

f) Property, Plant and Equipment

Oil Sands Transportation Business

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which was 30 years for Cold Lake and 40 years for Corridor until July 1, 2010, when Inter Pipeline amended its estimates to 80 years for both Cold Lake and Corridor to better reflect the number of years over which these pipeline systems are expected to be in operation following a comprehensive review by management (note 2). The cost of pipelines and facilities includes all direct expenditures for system construction, expansion, and betterments and operating costs incurred prior to the in-service date. Corridor pipeline system costs include an allocation of overhead costs, capitalized interest, and amortization of transaction costs on debt. Capitalization of interest, financing costs and operating costs ceases when the property, plant and equipment is substantially complete and ready for its intended productive use.

Pipeline line fill and tank working inventory for the Cold Lake and Corridor pipeline systems represent petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with an appropriate volume of petroleum products to enable commercial operation of the facilities and pipeline. The cost of line fill includes all direct expenditures for acquiring the petroleum based products. Cold Lake line fill is carried at cost. Corridor line fill is carried at cost less accumulated depreciation. Depreciation is calculated on the same basis as the related property, plant and equipment.

These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system. Proceeds from the sale of Corridor's line fill will be used to fund the cost of any asset retirement obligations. To the extent Corridor's asset retirement obligations exceed the value of its line fill, Inter Pipeline will be obligated to fund the excess. To the extent the value of the line fill exceeds the asset retirement obligation, the excess funds will be refunded to the Corridor shippers.

NGL Extraction Plants and Equipment

Property, plant and equipment of the NGL extraction business are comprised primarily of three extraction plants and associated equipment. Expenditures on plant expansions or betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the extraction plants and additions thereto is charged once the assets are placed in commercial operation, and is calculated on a straight-line basis over the 30 year estimated useful life of the assets.

Conventional Oil Pipelines Business

Expenditures on conventional oil pipelines system expansions and betterments are capitalized. Maintenance and repair costs, as well as pipeline integrity verification and repair costs, are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 30 year service life of the Central Alberta and Mid-Saskatchewan pipeline systems. Effective July 1, 2010, the estimated service life of the Bow River pipeline system was revised from 30 years to 80 years following a comprehensive review by management (note 2). The service life is also connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

Storage Facilities and Equipment

The bulk liquid storage business' property, plant and equipment consists of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from 25 to 30 years.

g) Goodwill

Inter Pipeline has goodwill in two of its reporting units, the Corridor pipeline system and the bulk liquid storage business. Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of the bulk liquid storage business and Corridor pipeline system. Goodwill is carried at initial cost less any write downs for impairment. If the carrying value of either the bulk liquid storage business or the Corridor pipeline system exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair value determined on a discounted cash flow basis. During each fiscal year and as economic events dictate, management conducts an impairment test taking into consideration any events or circumstances which might have impaired the fair value.

h) Asset Retirement Obligations

Asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development and/or the normal operations of long-lived assets. The retirement of a long-lived asset includes its sale, abandonment, recycling or disposal but not its temporary removal from service.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's estimated useful life.

NGL Extraction Business and Bulk Liquid Storage Business

The NGL extraction and bulk liquid storage businesses consist mainly of three NGL extraction plants and eight bulk liquid storage facilities, respectively. Inter Pipeline's asset retirement obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the NGL extraction facilities and leased bulk liquid storage sites. The estimated costs for asset retirement obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the plant sites.

Conventional Oil Pipelines Business and Oil Sands Transportation Business

The property, plant and equipment of the conventional oil pipelines and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. No significant amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right of way.

i) Environmental Liabilities

Undiscounted liabilities for loss contingencies, including environmental remediation costs arising from claims, assessments, litigation, fines and penalties and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Recoveries from third parties which are likely to be realized are separately recorded and are not offset against the related environmental liability.

j) Pension Liabilities

The cost of pension benefits earned by certain employees in the United Kingdom, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, final pensionable salary, terminations and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

k) Long-Term Incentive Plan and Unit Incentive Options

Under Inter Pipeline's long-term incentive plan (LTIP) awards are paid in cash, therefore a mark-to-market basis of accounting is used whereby changes in the liability are recorded in each period based on the number of awards outstanding and current market price of Inter Pipeline's units plus an amount equivalent to cash distributions declared to date. The expense is recognized over the vesting periods of the respective awards.

Unit incentive plan expense for Inter Pipeline's Unit Incentive Option Plan (Option Plan) is calculated using the fair value method, whereby the value of each of the unit incentive options (options) is determined on the date of grant using a binomial option pricing model, and that value is amortized over the vesting period of the options as a charge to net income, with a corresponding increase recorded in partners' equity. The consideration paid to Inter Pipeline upon the exercise of options is recorded as an increase in partners' equity to reflect the units issued.

l) Income Taxes

Current Income Taxes

The limited partners and the General Partner are subject to tax on their proportionate interests of the taxable income allocated by Inter Pipeline.

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada, the United Kingdom, Germany and Ireland.

Future Income Taxes

Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of future changes in income tax rates will be recognized in net income in the period in which the change occurs.

m) Foreign Currency Translation

Inter Pipeline accounts for the consolidated operations of the bulk liquid storage business as self-sustaining operations. Therefore, the accounts are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to these self-sustaining operations are included as a component of other comprehensive income (OCI).

n) Measurement Uncertainty

The amounts recorded for fair value of derivative financial instruments, intangible assets, goodwill, property, plant and equipment, long-term payable, asset retirement obligations, environmental liabilities, employee benefits, future income taxes and depreciation and amortization are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

o) Financial Instruments

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy 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 the financial market relating to interest rates and foreign exchange exposure. Inter Pipeline's risk management policy prohibits the use of derivative financial instruments for speculative purposes.

Financial Instruments – Recognition and Measurement

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as "available-for-sale" that do not have a quoted market price in an active market are measured at cost.

Inter Pipeline has classified its financial instruments as follows. Cash and cash equivalents and certain components of prepaid expenses and other deposits are designated as "held-for-trading" and measured at carrying value, which approximates fair value due to the short-term nature of these instruments. The majority of accounts receivable are designated as "loans and receivables". Cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue, and long-term debt are designated as "other liabilities". Derivative financial instruments and the long-term payable are classified as "held-for-trading". Inter Pipeline has chosen to designate the long-term payable as "held-for-trading" as it represents unrealized gains or losses on interest rate swaps that are also classified as "held-for-trading" (note 1d).

Inter Pipeline has adopted a policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt.

Financial Instruments – Disclosure

Financial instruments recorded at fair value in the consolidated balance sheets are categorized based on the fair value hierarchy of inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 inputs involve limited use of judgments as fair value inputs are based on unadjusted quoted prices in active markets for identical assets and liabilities. Inter Pipeline does not use level 1 inputs for any of its fair value measurements.

Level 2 inputs require slightly more judgment than level 1 but still involve observable or corroborated, either directly or indirectly, market factors. Inter Pipeline's level 2 inputs include quoted market prices for commodities, foreign exchange, interest rates and credit risk premiums. Financial instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards, an interest rate swap, and fixed rate debt. Inter Pipeline obtains information from sources including independent price publications, third-party pricing services, market exchanges and investment dealer quotes. Inter Pipeline uses level 2 inputs for all of its derivative financial instruments and fixed rate debt fair value measurements.

Level 3 inputs require the most significant judgments and consist primarily of unobservable or non-market based inputs. Level 3 inputs include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value which primarily includes extrapolation of observable future prices to similar locations, similar instruments or later time periods. Level 3 inputs may include items based on pricing services or broker quotes, but the inputs into the prices are not observable and cannot be verified. Inter Pipeline does not use level 3 inputs for any of its fair value measurements.

p) Comprehensive Income and Partners' Equity

Comprehensive income reported by Inter Pipeline consists of net income and OCI. OCI comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income, but excluded from net income. The cumulative changes in OCI are included in accumulated other comprehensive loss.

For Inter Pipeline, OCI is comprised of the loss on translation of self-sustaining foreign operations and the transfer of unrealized losses on derivatives previously designated as cash flow hedges to net income.

2. Change in Estimate

Effective July 1, 2010, Inter Pipeline amended its estimates for calculating depreciation on the Corridor, Cold Lake and Bow River pipeline systems. Management conducted a comprehensive review of the estimated useful lives of these assets, having regard for, among other things, the recent negotiation of long-term contracts, the physical life of the pipeline assets as well as the estimated remaining life of crude oil reserves expected to be gathered and shipped on these pipeline systems. The estimated remaining service lives of these assets have been revised to 80 years to better reflect the number of years over which these pipeline systems are expected to be in operation. The impact of this change for the year ended December 31, 2010 is to decrease depreciation and amortization expense and increase net income by \$15.5 million.

3. Future Accounting Policies

Future Accounting Changes

Business Combinations

In January 2009, the CICA issued a new accounting standard, Section 1582 "Business Combinations", which prospectively establishes principles and requirements of the acquisition method for business combinations and related disclosures that will be effective for Inter Pipeline's 2011 reporting, replacing Section 1581. These recommendations are effective for business combinations occurring after January 1, 2011, although early adoption is permitted.

Consolidated Financial Statements

In January 2009, the CICA issued new accounting standards, Sections 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests", which establish standards for the preparation of consolidated financial statements that will replace Section 1600 and be effective for Inter Pipeline's 2011 reporting. The adoption of these recommendations is not expected to have a material impact on Inter Pipeline.

4. Segment Reporting

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

	2010						
	Canada				Europe		Total Canadian and European Operations
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	
Revenues	\$ 144,486	\$ 594,267	\$ 157,373	\$ -	\$ 896,126	\$ 100,937	\$ 997,063
Expenses							
Shrinkage gas	-	317,065	-	-	317,065	-	317,065
Operating	57,228	100,298	44,249	-	201,775	54,090	255,865
Depreciation and amortization	28,358	25,756	13,786	1,799	69,699	17,836	87,535
Financing charges	10,327	-	-	29,189	39,516	(234)	39,282
General and administrative	3,303	-	-	36,024	39,327	5,760	45,087
Unrealized change in fair value of derivative financial instruments	-	4,982	(279)	(1,135)	3,568	-	3,568
Management fee to General Partner	-	-	-	7,836	7,836	-	7,836
(Gain) loss on disposal of assets	(84)	(15)	(67)	(8)	(174)	897	723
Total expenses	99,132	448,086	57,689	73,705	678,612	78,349	756,961
Income (loss) before income taxes	45,354	146,181	99,684	(73,705)	217,514	22,588	240,102
Provision for income taxes	4,058	-	-	955	5,013	320	5,333
Net income (loss)	\$ 41,296	\$ 146,181	\$ 99,684	\$ (74,660)	\$ 212,501	\$ 22,268	\$ 234,769
Expenditures on property, plant and equipment	\$ 296,688	\$ 6,697	\$ 7,106	\$ 5,214	\$ 315,705	\$ 23,888	\$ 339,593
	As at December 31, 2010						
Total assets	\$ 3,140,508	\$ 693,282	\$ 483,361	\$ 9,161	\$ 4,326,312	\$ 385,873	\$ 4,712,185
Goodwill	\$ 156,938	\$ -	\$ -	\$ -	\$ 156,938	\$ 53,498	\$ 210,436

	2009						
	Canada				Europe		Total Canadian and European Operations
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	
Revenues	\$ 130,594	\$ 529,050	\$ 148,882	\$ -	\$ 808,526	\$ 116,024	\$ 924,550
Expenses							
Shrinkage gas	-	287,957	-	-	287,957	-	287,957
Operating	47,912	108,152	38,865	-	194,929	64,889	259,818
Depreciation and amortization	37,923	25,127	16,290	1,041	80,381	21,848	102,229
Financing charges	5,764	-	-	31,024	36,788	143	36,931
General and administrative	3,408	-	-	29,295	32,703	8,734	41,437
Unrealized change in fair value of derivative financial instruments	-	66,287	43	(1,100)	65,230	-	65,230
Management fee to General Partner	-	-	-	6,993	6,993	-	6,993
Loss (gain) on disposal of assets	6	(14)	(20,905)	-	(20,913)	3,076	(17,837)
Total expenses	95,013	487,509	34,293	67,253	684,068	98,690	782,758
Income (loss) before income taxes	35,581	41,541	114,589	(67,253)	124,458	17,334	141,792
Provision for (recovery of) income taxes	3,369	-	-	(19,695)	(16,326)	438	(15,888)
Net income (loss)	\$ 32,212	\$ 41,541	\$ 114,589	\$ (47,558)	\$ 140,784	\$ 16,896	\$ 157,680
Expenditures on property, plant and equipment	\$ 477,240	\$ 13,909	\$ 55,425	\$ 3,034	\$ 549,608	\$ 41,810	\$ 591,418
	As at December 31, 2009						
Total assets	\$ 2,863,230	\$ 710,692	\$ 480,979	\$ 5,885	\$ 4,060,786	\$ 411,928	\$ 4,472,714
Goodwill	\$ 156,938	\$ -	\$ -	\$ -	\$ 156,938	\$ 59,009	\$ 215,947

5. Property, Plant and Equipment

			2010	2009
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Facilities and equipment	\$ 1,079,460	\$ (159,451)	\$ 920,009	\$ 916,766
Construction work in progress (a)	1,869,757	–	1,869,757	1,600,193
Pipeline linefill	74,033	(5,759)	68,274	69,524
	3,023,250	(165,210)	2,858,040	2,586,483
NGL extraction business				
Facilities and equipment	464,898	(91,951)	372,947	386,400
Construction work in progress (a)	10,564	–	10,564	5,638
Spare parts	4,497	–	4,497	4,595
	479,959	(91,951)	388,008	396,633
Conventional oil pipelines business				
Facilities and equipment (b)	828,640	(380,413)	448,227	401,381
Construction work in progress (a)	1,504	–	1,504	55,103
	830,144	(380,413)	449,731	456,484
Corporate				
Office furniture and equipment	23,573	(14,736)	8,837	5,514
	23,573	(14,736)	8,837	5,514
Bulk liquid storage business				
Facilities and equipment (c)	343,869	(56,844)	287,025	299,682
Construction work in progress (a)	11,155	–	11,155	21,134
	355,024	(56,844)	298,180	320,816
	\$ 4,711,950	\$ (709,154)	\$ 4,002,796	\$ 3,765,930

- (a) Construction work in progress includes \$17.9 million in interest capitalized during the year ended December 31, 2010 (2009 – \$14.4 million). Substantially all of the oil sands construction in progress is represented by the Corridor expansion which moves into Corridor's rate base on January 1, 2011.
- (b) On April 7, 2009, Inter Pipeline completed the sale of the Valley pipeline system (Valley pipeline) for proceeds of \$28.3 million, including closing adjustments of \$0.3 million. The Valley pipeline was part of its conventional oil pipelines business. The Valley pipeline's carrying value as of the date of closing was \$7.4 million. For the year ended December 31, 2009, loss (gain) on disposal of assets included a \$20.9 million gain on the sale of the Valley pipeline. In 2009, net income included \$0.2 million related to the Valley pipeline's operations.
- (c) In November 2009, Lewis Tankers Limited (Lewis), an ancillary bulk liquid trucking business in the bulk liquid storage business, was sold. The carrying value of Lewis on closing was \$2.1 million. For the year ended December 31, 2009, loss (gain) on disposal of assets includes a \$1.6 million loss on the sale of Lewis. In 2009, net income included \$0.3 million related to Lewis' operations.

6. Intangible Assets

			2010	2009
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Transportation Services Agreement	\$ 93,548	\$ (25,796)	\$ 67,752	\$ 70,978
NGL extraction business				
Customer contracts	287,612	(61,522)	226,090	235,676
Patent	8,727	(4,000)	4,727	5,351
	296,339	(65,522)	230,817	241,027
Bulk liquid storage business				
Customer contracts and relationships	4,282	(1,298)	2,984	3,851
Tradename	4,002	(700)	3,302	3,747
	8,284	(1,998)	6,286	7,598
	\$ 398,171	\$ (93,316)	\$ 304,855	\$ 319,603

7. Goodwill

The changes in the carrying value of goodwill are as follows:

	2010	2009
Balance, beginning of year	\$ 215,947	\$ 220,582
Foreign currency translation adjustments	(5,511)	(4,635)
Balance, end of year	\$ 210,436	\$ 215,947

8. Cash Distributions

Section 5.2 of the LPA specifies the terms for Inter Pipeline to make distributions of LPA Distributable Cash on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby 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 year ended December 31, 2010, Inter Pipeline declared cash distributions totalling \$232.6 million (2009 – \$202.4 million). Of the total cash distributions, \$38.1 million were settled with the issuance of Class A and Class B units under the Premium Distribution™ and Distribution Reinvestment Plan (Plan) (2009 – \$88.1 million). As at December 31, 2010, distributions of \$20.6 million were payable on 257.8 million outstanding Class A units and 0.3 million outstanding Class B units at \$0.080 per unit (December 31, 2009 – \$19.1 million payable on 254.3 million outstanding Class A units and 0.3 million outstanding Class B units at \$0.075 per unit).

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9. Long-Term Debt

	2010	2009
\$2,142 million Unsecured Revolving Credit Facility (a)	\$ 1,964,384	\$ 1,709,900
\$750 million Unsecured Revolving Credit Facility (b)	157,000	230,000
Loan Payable to General Partner (c)	379,800	379,800
Corridor Debentures (d)	300,000	300,000
Long-term debt (excluding transaction costs and discounts)	2,801,184	2,619,700
Less: Current portion of long-term debt	(386,584)	(123,600)
	2,414,600	2,496,100
Transaction costs	(13,986)	(13,137)
Accumulated amortization of transaction costs	10,337	5,479
Discount, net of accumulated amortization	(1,922)	(1,127)
Long-term debt	2,409,029	2,487,315
Current portion of long-term debt	386,584	123,600
Long-term debt (including current portion)	\$ 2,795,613	\$ 2,610,915

- (a) On August 16, 2007, Corridor entered into an unsecured \$2,142 million syndicated revolving credit facility and a \$40 million demand operating facility. No amounts were outstanding on the demand facility at December 31, 2010 or 2009, with the exception of letters of credit valued at \$0.3 million.

The credit facility is comprised of the following tranches:

- i) \$190 million non-recourse tranche expiring on August 14, 2012.
- ii) \$1,464 million non-recourse tranche expiring on August 14, 2012.
- iii) \$292 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012 and the Corridor first expansion commencement date or the suspension true-up date. On January 4, 2011 amounts drawn on this tranche were repaid and the tranche was cancelled.
- iv) \$196 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012, the Corridor first expansion commencement date or the suspension true-up date. On January 4, 2011 this tranche was permanently reduced by \$168.5 million to \$27.5 million following Inter Pipeline's equity contribution (note 25).

The credit and operating facilities incur fees on amounts borrowed at floating rates based on bankers' acceptances plus 40 to 55 basis points. Unborrowed amounts are charged standby fees of 8 to 12.5 basis points. If Corridor's credit rating changes, the fees on floating rate amounts could increase by up to 65 basis points or reduce by up to 5 basis points, while fees on undrawn amounts could increase by up to 14.5 basis points and decrease by up to 0.5 basis points. The effective rate of interest incurred in 2010 was 0.99% (2009 – 0.98%).

- (b) The \$750 million Unsecured Revolving Credit Facility has a maturity date of September 29, 2012.

Fees on amounts borrowed at floating rates based on bankers' acceptances are 50 basis points, while fees on unborrowed amounts are 11 basis points. If Inter Pipeline's credit rating changes, fees on floating rate amounts could increase by up to 45 basis points or be reduced by up to 12.5 basis points, while fees on undrawn amounts could increase by up to 16.5 basis points and decrease by up to 1 basis point. The effective interest rate incurred in 2010 was 2.54% (2009 – 1.99%) including \$42 million swapped at an average rate of 6.30%.

Effective December 13, 2010, Inter Pipeline revised the terms and conditions of its \$20 million demand facility with a Canadian chartered bank. Fees on amounts borrowed under the facility are based on a prime rate plus 50 basis points, while unborrowed amounts are not charged standby fees. Previously, amounts borrowed under this facility bore interest at a prime rate plus 75 basis points, with fees payable on undrawn amounts of 20 basis points. No amounts were drawn on this facility at December 31, 2010 or 2009.

- (c) On October 28, 2004, Inter Pipeline borrowed \$379.8 million from the General Partner with the following terms:
- \$91.2 million due October 28, 2012, 5.85%; and
 - \$288.6 million due October 28, 2014, 6.15%.

On this date, 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.

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 an interest rate increase of 5 basis points over the rates payable on the notes issued by the General Partner. There are no scheduled repayments of the principal amounts of the notes payable to the General Partner prior to maturity. A prepayment may be made at any time, in which case the General Partner would generally be required to pay a premium of 50 basis points over the implied yield to maturity and, if applicable, swap breakage costs of the counterparty.

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.

In 2007, due to amendments made for the Corridor expansion, interest costs increased by 25 basis points, effective until the end of 2009. Effective January, 2010, this additional interest cost is no longer applicable.

- (d) On February 2, 2010, the \$150 million of 4.240% Series A debentures matured. On February 2, 2010, Corridor issued \$150 million of 4.897% Series C debentures due February 3, 2020. The \$150 million 5.033% Series B debentures due February 2, 2015 and the \$150 million 4.897% Series C debentures due February 3, 2020 (Corridor Debentures) are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005 and a supplemental indenture dated February 2, 2010. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year, except for 2020 in which case interest is payable on the \$150 million 4.897% Series C debentures on February 3, 2020 for interest accrued for the period from and including August 2, 2019 to and including February 2, 2020. Corridor uses a derivative instrument to exchange its fixed rate of interest to floating rates of interest on the \$150 million 5.033% Series B debentures (note 21). This results in an average effective interest rate that is different from the stated interest rate on the \$150 million 5.033% Series B debentures of 1.03% (December 31, 2009 – 1.30% on Series A and B debentures).

The Corridor Debentures are redeemable in whole, or in part, at the option of Corridor at a price equal to the principal amount to be redeemed, plus accrued and unpaid interest including a premium above the implied yield to maturity.

10. Asset Retirement Obligations

The total undiscounted amount of estimated expenditures expected to be incurred on closure of active plants is \$53.7 million, which was calculated using an inflation rate of 2.0% (NGL extraction business only) and an expected life of 40 years. A credit-adjusted risk-free rate of 6.2% was used to discount the estimated future cash flows for the retirement of the NGL extraction business assets, while a credit-adjusted risk-free rate of 7.8% was used to discount the estimated future cash flows for the retirement of the bulk liquid storage business assets. The majority of obligations are not expected to occur for many years and will be funded from Inter Pipeline's resources at that time.

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

	2010	2009
Balance, beginning of year	\$ 5,036	\$ 6,336
Revisions to estimated amount of liabilities	(25)	(1,552)
Accretion expense	326	325
Foreign currency adjustments	(71)	(73)
Balance, end of year	\$ 5,266	\$ 5,036

There were no long-term liabilities settled during the years ended December 31, 2010 and 2009.

11. Environmental Liabilities

	2010	2009
Balance, beginning of year	\$ 12,299	\$ 12,721
Revisions to estimated amount of liabilities and other	(717)	111
Foreign currency translation adjustments	(419)	(533)
Balance, end of year	\$ 11,163	\$ 12,299

12. Employee Benefits

	2010	2009
Pension (asset) liability (note 12a)	\$ (2,228)	\$ 1,934
Long-term incentive plan liability (note 12b)	7,164	5,127
Employee benefits	\$ 4,936	\$ 7,061

a) Pension Liabilities

Inter Pipeline acquired Simon Storage on October 4, 2005 and Simon Tanklager-Gesellschaft MBH on January 1, 2006. At the time of acquisitions, the fair values of the pension plan liabilities were recognized on Inter Pipeline's balance sheet and there were no unrecognized gains or losses.

United Kingdom

Inter Pipeline operates a defined benefit funded pension plan, the Simon Storage Pension Fund (Fund), providing benefits for its employees based primarily on years of service and final pensionable salary. The Fund is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Fund was carried out as at April 6, 2010. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method. The Fund was closed to new entrants from September 30, 2010. At the same time, a change was made to the Fund's rules which will restrict the level of future increases in pensionable salaries to the lower of price inflation and 5.0% each year. This change will come into effect from April 6, 2011. At December 31, 2010, the expected remaining service life for the United Kingdom Fund is 13 years.

Ireland

Inter Pipeline operates a defined benefit funded pension plan, the Irish Bulk Liquid Storage Limited Retirement and Death Benefits Scheme (Scheme) which provides benefits for its employees based on years of service and final pensionable salary. The Scheme is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Scheme was carried out as at September 1, 2010. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method. With effect from September 1, 2010 the Scheme was closed to future benefit accrual. At December 31, 2010, the expected remaining service life for the Scheme is 14 years.

Germany

The German benefit plans included in Inter Pipeline's financial reporting relate to defined benefit retirement pensions, long-service awards and partial early retirement arrangements. The German arrangements are unfunded and therefore have no assets. The most recent actuarial valuation of the long-term employee and post-retirement benefits under local tax and accounting rules was carried out as at December 31, 2010 by professionally qualified actuaries. The results of the valuation were adjusted for Inter Pipeline's financial reporting purposes, with the obligation measured using the projected benefit method. At December 31, 2010, the expected remaining service life for the German plans is 11 years.

The actual distribution of the respective pension plan assets as of December 31 is as follows. The pension plans' assets are not Inter Pipeline's assets and therefore are not included in the Consolidated Balance Sheets. Assets are shown at market value using the bid price:

Pension Plan Assets by Asset Category	United Kingdom		Ireland		Germany	
	2010	2009	2010	2009	2010	2009
Equity securities	54%	51%	–	–	–	–
Debt securities	34%	39%	–	–	–	–
Real estate	12%	10%	–	–	–	–
Deferred annuity contract	–	–	100%	100%	–	–
Total	100%	100%	100%	100%	–	–

The following tables set forth the respective pension plans' funded status and amount included in the accrued asset/(liability) on Inter Pipeline's balance sheets at December 31.

Change in Accrued Benefit Obligation	2010				2009			
	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Accrued benefit obligation, beginning of year	\$ 70,698	\$ 1,298	\$ 1,533	\$ 73,529	\$ 56,476	\$ 1,253	\$ 1,787	\$ 59,516
Current and past service cost	(1,603)	41	7	(1,555)	1,933	56	11	2,000
Employee contributions	736	4	–	740	801	7	–	808
Interest cost	3,755	59	56	3,870	3,552	65	67	3,684
Benefits paid	(1,929)	(165)	(192)	(2,286)	(2,336)	(27)	(203)	(2,566)
Actuarial (gain) loss	(4,682)	(67)	62	(4,687)	14,264	111	95	14,470
Curtailment gain	–	(100)	–	(100)	–	–	–	–
Foreign currency adjustments	(5,776)	(159)	(193)	(6,128)	(3,992)	(167)	(224)	(4,383)
Accrued benefit obligation, end of year	\$ 61,199	\$ 911	\$ 1,273	\$ 63,383	\$ 70,698	\$ 1,298	\$ 1,533	\$ 73,529

Change in Pension Plan Assets	2010				2009			
	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Fair value of pension plan assets, beginning of year	\$ 60,899	\$ 1,490	\$ –	\$ 62,389	\$ 55,607	\$ 1,554	\$ –	\$ 57,161
Actual return on pension plan assets	5,947	7	–	5,954	7,941	57	–	7,998
Employer contributions	6,002	88	192	6,282	2,361	102	203	2,666
Employee contributions	736	4	–	740	801	6	–	807
Benefits paid	(1,929)	(165)	(192)	(2,286)	(2,336)	(27)	(203)	(2,566)
Foreign currency adjustments	(5,332)	(188)	–	(5,520)	(3,475)	(202)	–	(3,677)
Fair value of pension plan assets, end of year	\$ 66,323	\$ 1,236	\$ –	\$ 67,559	\$ 60,899	\$ 1,490	\$ –	\$ 62,389

Reconciliation of Funded Status to Accrued Benefit Liability	2010				2009			
	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Funded status – Excess (deficit) at end of year	\$ 5,124	\$ 325	\$ (1,273)	\$ 4,176	\$ (9,799)	\$ 192	\$ (1,533)	\$ (11,140)
Unamortized past service cost	(3,828)	–	–	(3,828)	94	–	–	94
Unamortized net actuarial loss (gain)	2,064	(285)	49	1,828	9,931	(319)	(15)	9,597
Foreign currency adjustments	45	8	(1)	52	(499)	13	1	(485)
Accrued benefit asset /(liability)	\$ 3,405	\$ 48	\$ (1,225)	\$ 2,228	\$ (273)	\$ (114)	\$ (1,547)	\$ (1,934)

Unamortized net actuarial gains or losses are recognized, to the extent that they exceed 10% of the greater of the accrued benefit obligation and the fair value of pension plan assets, over the average remaining service period of active members.

For the year ended December 31, 2010, net income included \$2.3 million in net pension expense (December 31, 2009 – \$2.4 million).

b) Long-Term Incentive Plan and Unit Incentive Options

In 2003, the Board of Directors of the General Partner established an Option Plan whereby 7.3 million Class A units have been reserved for issuance under the Option Plan. Options to purchase Class A units are granted to directors, officers, employees and consultants of the General Partner. The exercise price of the options is equal to the current market price at the date of grant, subject to an incentive reduction. The options have a five-year term with one-third of the options vesting immediately on the date of grant and one-third on each of the first and second anniversary dates thereafter.

The Option Plan provides for an incentive reduction in the exercise price of the options by the amount by which Inter Pipeline's total return per unit in each calendar year exceeds a prescribed threshold return for such calendar year. The threshold return is determined annually and is equal to 350 basis points over the 10-year Government of Canada bond rate multiplied by the closing price of the units on the Toronto Stock Exchange (TSX) at the beginning of the year. The total return is the sum of the difference between the closing price of the units on the TSX at the end of the year or on the date of exercise, and the exercise price on the grant date, plus the cumulative dollar amount of distributions per unit declared during the year. There have not been any unit option grants since 2005, and the remaining balance outstanding were exercised in July 2010.

Effective January 1, 2006, Inter Pipeline implemented an LTIP for its employees, officers, and directors of the General Partner. The LTIP is governed by a Deferred Unit Rights Plan (DURP) document that defines how awards made under the DURP will be determined and administered. A Deferred Unit Right (DUR), as granted under the DURP, is valued based on Inter Pipeline's unit price plus credit for cash distributions paid to unitholders during the period the DURs are held. Unless otherwise provided in an individual grant agreement, the DUR will vest one-third on each of the successive anniversary dates from the date of grant. Upon exercise of a DUR, the amount owing will be paid out in cash net of applicable withholding taxes. At December 31, 2010, the current portion of the liability included in accounts payable and accrued liabilities is \$14.9 million, and the long-term portion is \$7.2 million (December 31, 2009 – \$9.6 million and \$5.1 million respectively). At December 31, 2010, 867,175 DURs are exercisable.

The following table summarizes the status of Inter Pipeline's Option Plan and DURs as at December 31, 2010 and 2009 and changes during the years then ended:

	Unit Options			DURs
	Number	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Balance outstanding, December 31, 2008	748,500	\$ 9.00	\$ 7.52	1,482,605
Granted	–	\$ –	\$ –	1,214,336
Exercised	(615,000)	\$ 8.68	\$ 2.83	(877,086)
Forfeited and cancelled	(102,000)	\$ 10.45	\$ 5.70	(67,111)
Balance outstanding, December 31, 2009	31,500	\$ 10.48	\$ 5.75	1,752,744
Granted	–	\$ –	\$ –	851,118
Exercised	(31,500)	\$ 10.48	\$ 4.23	(748,423)
Forfeited and cancelled	–	\$ –	\$ –	(57,619)
Balance outstanding, December 31, 2010	–	\$ –	\$ –	1,797,820

* 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 July 26, 2010.

The weighted-average remaining contractual life of the outstandings DURs as at December 31, 2010 was 1.46 years.

For the year ended December 31, 2010, capital expenditures included nil amounts, operating expenses included \$5.7 million and general and administrative expenses included \$14.1 million related to DURs (2009 – \$0.2 million, \$4.5 million and \$10.4 million, respectively).

13. Income Taxes

In June 2007, the Government of Canada enacted legislation imposing income taxes upon publicly traded income trusts and limited partnerships, including Inter Pipeline, effective January 1, 2011. As a result, Inter Pipeline will be subject to income tax on its Canadian partnership taxable income for the first time in the 2011 taxation year.

On March 4, 2009, the Government of Canada substantively enacted legislation that repealed the “provincial SIFT tax factor” and replaced it with the “provincial SIFT tax rate.” The “provincial SIFT tax rate” is calculated based on the general provincial corporate income tax rate for each province in which Inter Pipeline has a permanent establishment. For Inter Pipeline, this legislation reduced the provincial income tax rate for noncorporate entities from 13.0% to approximately 10.0% effective January 1, 2011 onwards, which reduced Inter Pipeline's estimated effective tax rate to 26.5% and 25.0% effective January 1, 2011 and January 1, 2012 respectively. As a result of this rate reduction, future income tax liabilities of non-corporate entities were reduced by \$24.0 million in the first quarter of 2009.

In the bulk liquid storage business, the 2010 results recognize recent tax legislative changes which have impacted future income taxes. In the United Kingdom (“UK”), tax legislation has been passed which reduced the effective income tax rate from 28.0% to 27.0%, effective April 1, 2011. The effect of recognizing this change in UK income tax rates is a \$1.6 million reduction in future income tax liabilities.

At December 31, 2010 a \$9.2 million current portion of future income tax asset was recorded (December 31, 2009 – \$nil). This amount is created by temporary differences that will result in deductible amounts in determining taxable income in the following year.

The components of income before income taxes are summarized below:

	2010	2009
Canada	\$ 217,514	\$ 124,458
Europe	22,588	17,334
	\$ 240,102	\$ 141,792

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before incomes taxes as shown in the following table:

	2010	2009
Income before income taxes per financial statements	\$ 240,102	\$ 141,792
Less: non-taxable Canadian partnership income	(202,302)	(112,291)
Adjusted income before taxes	37,800	29,501
Tax rate	28.0%	29.0%
	10,584	8,555
Future income taxes on temporary differences related to non-taxable Canadian partnership income	1,080	4,913
Impact of changes in tax rates	(1,640)	(23,958)
Deductible intercompany interest expense	(3,940)	(3,850)
Difference in Canadian and foreign tax rates	-	(173)
Other	(751)	(1,375)
Income tax expense (recovery)	\$ 5,333	\$ (15,888)

The provision for income taxes is summarized as follows:

	2010	2009
Current		
Canada	\$ 161	\$ 152
Europe	1,279	639
	1,440	791
Future		
Canada	4,852	(16,478)
Europe	(959)	(201)
	3,893	(16,679)
	\$ 5,333	\$ (15,888)

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the consolidated balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized. The amount of unrecognized losses related to Europe at December 31, 2010 is approximately \$2.0 million (December 31, 2009 – \$2.2 million). The amount of non-capital losses at December 31, 2010 is approximately \$258.8 million (December 31, 2009 – \$146.3 million). If not utilized, these non-capital losses expire in various amounts between 2025 and 2029.

The tax effects of deductible and taxable temporary differences that give rise to future tax amounts are as follows:

	2010	2009
Difference between book values and tax values of:		
Property, plant and equipment	\$ 284,438	\$ 251,286
Non-capital losses	(64,699)	(36,565)
Intangible assets	106,149	106,299
Working capital	(1,060)	2,213
Asset retirement obligations	(2,173)	(3,154)
Derivative financial instruments	(5,983)	(1,083)
	\$ 316,672	\$ 318,996

Current income taxes payable of \$0.8 million (2009 – \$0.1 million) are included in accounts payable.

The classification of future tax amounts is as follows:

	2010	2009
Current asset	\$ 9,152	\$ –
Long-term liability	(325,824)	(318,996)
	\$ (316,672)	\$ (318,996)

14. 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, 2009	254,393,244	254,886	254,648,130
Issued under Premium Distribution™ and Distribution Reinvestment Plan (a)	3,360,852	3,369	3,364,221
Issued under Unit Incentive Option Plan	31,500	36	31,536
Balance as at December 31, 2010	257,785,596	258,291	258,043,887

	Class A Units	Class B Units	Total
Balance as at December 31, 2008	222,841,131	223,247	223,064,378
Issuance of units (b)	20,930,000	20,952	20,950,952
Issued under Premium Distribution™ and Distribution Reinvestment Plan and Optional Purchase Plan (a)	10,007,113	10,027	10,017,140
Issued under Unit Incentive Option Plan	615,000	660	615,660
Balance as at December 31, 2009	254,393,244	254,886	254,648,130

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- (a) On May 7, 2009, Inter Pipeline adopted a Premium Distribution™ and Distribution Reinvestment Plan (Plan), commencing with May 2009 cash distributions. The Plan replaces Inter Pipeline's previous Distribution Reinvestment Plan, and the Optional Unit Purchase component under the previous plan has been discontinued. Similar to the previous plan, under the Distribution Reinvestment component of the Plan, eligible unitholders may reinvest their cash distributions to purchase additional Class A units issued from treasury at a 5% discount to the weighted-average trading price of Inter Pipeline units. Under the Premium Distribution™ component of the Plan, eligible unitholders may elect to exchange these additional units for a cash payment equal to 102% of the regular cash distribution on the applicable distribution payment date.
- (b) On June 18, 2009, Inter Pipeline issued 20.9 million Class A units at \$8.25 per Class A unit. The proceeds of \$164.6 million, net of issuance costs, were applied to reduce outstanding debt. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 20,952 Class B units at a price of \$8.25 per Class B unit.

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:

	2010	2009
Net income attributable to unitholders – basic and diluted	\$ 234,769	\$ 157,680
Weighted-average units outstanding – basic	256,879,626	238,056,555
Effect of Premium Distribution™ and Distribution Reinvestment Plan	145,435	612,811
Effect of Unit Incentive Option Plan	14,670	131,140
Weighted-average units outstanding – diluted	257,039,731	238,800,506
Net income per Partnership unit – basic and diluted	\$ 0.91	\$ 0.66

15. Depreciation and Amortization

	2010	2009
Depreciation of facilities and equipment	\$ 71,821	\$ 80,065
Depreciation of Corridor linefill	1,251	1,774
Amortization of intangible assets	14,137	14,148
Accretion of asset retirement obligation	326	325
Impairment of intangible assets	–	5,917
Total depreciation and amortization	\$ 87,535	\$ 102,229

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16. Financing Charges

	2010	2009
Interest expense on credit facilities	\$ 24,456	\$ 23,288
Interest on Loan Payable to General Partner (a)	23,084	24,034
Interest on Corridor Debentures	8,804	3,903
	56,344	51,225
Capitalized interest (note 5a)	(17,945)	(14,358)
Amortization of transaction costs on long-term debt	883	64
Total financing charges	\$ 39,282	\$ 36,931

(a) In 2007, due to amendments made for the Corridor expansion, interest costs on the loan payable to the General Partner had increased by 25 basis points, effective until the end of 2009. As of January 2010, this additional interest cost is no longer applicable.

During 2010, Inter Pipeline incurred \$24.5 million of interest expense on credit facilities (2009 – \$23.3 million), including \$19.6 million in respect of interest costs on drawn amounts (2009 – \$18.4 million), \$2.3 million in cash settlements on interest rate swaps (2009 – \$2.4 million), and \$2.6 million in respect of fees on undrawn amounts (2009 – \$2.5 million).

17. Related Party Transactions

No revenue was earned from related parties for the years ended December 31, 2010 and 2009.

In 2002, Inter Pipeline entered into a support agreement that enables Inter Pipeline to request PAC, the shareholder of the General Partner, and its affiliates to provide certain personnel and services to 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 were paid in 2010 and 2009 under the support agreement.

Amounts due from/to the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 9). At December 31, 2010, accounts payable includes \$0.8 million owing to the General Partner by Inter Pipeline (December 31, 2009 – \$0.5 million).

Management fees of \$7.8 million were earned by the General Partner in the year ended December 31, 2010 (2009 – \$6.9 million). No acquisition fees or disposition fees were earned by the General Partner in the year ended December 31, 2010 (2009 – nil and \$0.1 million, respectively).

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for \$379.8 million (note 9). At December 31, 2010, accounts payable includes interest payable to the General Partner on the loan of \$4.1 million (December 31, 2009 – \$4.3 million). The General Partner has earned \$0.2 million from Inter Pipeline in interest income during the year (2009 – \$0.2 million) on a net basis, after paying interest expense to the ultimate note holders.

In 2010, certain of the officers and directors of the General Partner received a total of \$0.7 million in dividends from PAC pursuant to their non-voting shares (2009 – \$0.8 million).

All transactions and balances with related parties are established and agreed to by the various parties and approximate the exchange amount.

18. Commitments

As a result of the sale of Lewis (note 5), Inter Pipeline provided third party guarantees for minimum payments under commercial vehicle lease agreements that expire between July 2010 and December 2013. The guarantees may be exercised if the purchaser fails to fulfill its payment obligations. At December 31, 2010, the guaranteed lease obligations are approximately \$1.0 million.

Inter Pipeline has committed to additional expenditures on property, plant and equipment and purchase obligations totaling approximately \$265.3 million and \$97.8 million, respectively, at December 31, 2010.

Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the United Kingdom's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of \$4.7 million to \$9.3 million over the next eight years.

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage, property, plant and equipment and land to 2090. The future minimum annual lease payments for these lease commitments are:

2011	\$	7,005
2012		6,654
2013		6,700
2014		6,528
2015		6,443
Thereafter		58,895
	\$	92,225

19. 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 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, renegotiate new debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund growth capital and acquisition programs throughout market and industry cycles. Inter Pipeline projects its funding requirements to ensure appropriate sources of financing are available to meet future financial obligations and capital programs. Inter Pipeline generally relies on committed credit facilities and cash flow from operations to finance capital requirements. At December 31, 2010, Inter Pipeline had access to committed credit facilities totaling \$2,892.0 million, of which \$770.6 million remains unutilized. On January 4, 2011, Inter Pipeline's access to committed credit facilities decreased to \$2,431 million as a result of the repayment and cancellation of approximately \$460 million of recourse debt in the Corridor syndicated revolving credit facility (note 9a). Inter Pipeline also had access to unutilized demand facilities of \$59.7 million. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

Taking future market trends into consideration, Inter Pipeline regularly forecasts its operational requirements and expected funds from operations to ensure that sufficient funding is available for future sustaining capital programs and distributions to unitholders.

Capital under management includes long-term debt (excluding discounts and transaction costs) and partners' equity. Capital is monitored through a number of measures, including total recourse debt to capitalization and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all financial debt covenants.

Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum senior recourse debt to EBITDA* rate of 4.25 stipulated in the terms of Inter Pipeline's credit facilities. The recourse debt to capitalization and senior recourse debt to EBITDA* measures below are substantially the same as the coverage ratio terms contained in Inter Pipeline's credit facilities.

	2010	2009
Long-term debt (excluding transaction costs and discounts, per note 9)		
Recourse debt	\$ 923,384	\$ 733,400
Non-recourse debt	1,877,800	1,886,300
	2,801,184	2,619,700
Partners' equity	1,332,963	1,320,101
Total capitalization	\$ 4,134,147	\$ 3,939,801
Capitalization (excluding non-recourse debt)	\$ 2,256,347	\$ 2,053,501
Recourse debt to capitalization	40.9%	35.7%
	2010	2009
Net income	\$ 234,769	\$ 157,680
Add:		
Depreciation and amortization	87,535	102,229
Loss (gain) on disposal of assets	723	(17,837)
Financing charges	39,282	36,931
Non-cash operating and general and administrative expense	549	3,190
Unrealized change in fair value of derivative financial instruments	3,568	65,230
Provision for (recovery of) income taxes	5,333	(15,888)
Proceeds from long-term deferred revenue	5,796	10,173
EBITDA*	\$ 377,555	\$ 341,708
Recourse debt to EBITDA*	2.4	2.1

* 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 was compliant with all covenants throughout the period.

20. Financial Instruments

Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at December 31, 2010 are classified as follows:

	Held For Trading	Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non Financial Asset or Liability*	Carrying Value of Asset or Liability
Assets**						
Cash and cash equivalents	\$ 22,507	\$ —	\$ —	\$ 22,507	\$ —	\$ 22,507
Accounts receivable	—	110,906	—	110,906	18,595	129,501
Prepaid expenses and other deposits	3,770	—	—	3,770	10,185	13,955
Derivative financial instruments***	18,983	—	—	18,983	—	18,983
Liabilities						
Cash distributions payable	—	—	20,644	20,644	—	20,644
Accounts payable and accrued liabilities	3,296	—	128,184	131,480	26,376	157,856
Derivative financial instruments***	29,313	—	—	29,313	—	29,313
Deferred revenue	—	—	14	14	19,497	19,511
Long-term debt (note 9)****	—	—	2,801,184	2,801,184	—	2,801,184
Long-term payable	9,096	—	—	9,096	—	9,096

* 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 include the current portion of long-term debt and exclude discounts and transaction costs with the respective accumulated amortization.

a) Fair Value of Financial Instruments

The fair value of long-term debt and derivative financial instruments are discussed in the following paragraphs. The long-term payable is carried at fair value and represents the unrealized change in fair value of the interest rate swap that is recoverable from the Corridor shippers. The carrying value of all other financial assets and liabilities approximate their fair value due to the relatively short-term maturity.

Due to the short-term maturity of instruments under long-term variable rate revolving credit facilities, it is assumed that the carrying amounts of these financial instruments approximate their fair values. At December 31, 2010, 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	\$ 410,225
Corridor Debentures	\$ 300,000	\$ 313,588

* 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.

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 less 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. These fair values are discounted using a risk free rate plus a credit premium that takes into account the credit quality of the instrument.

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

	2010	2009
Current asset	\$ 8,916	\$ 3,738
Long-term asset	10,067	9,239
Current liability	(25,144)	(16,655)
Long-term liability	(4,169)	(4,081)
	\$ (10,330)	\$ (7,759)

Derivative financial instruments carried at fair value are as follows:

	2010	2009
Frac-spread risk management		
NGL swaps	\$ (16,762)	\$ (9,313)
Natural gas swaps	(10,911)	(5,975)
Foreign exchange swaps	4,519	(854)
	(23,154)	(16,142)
Interest rate risk management		
Interest rate swaps	10,474	8,385
	10,474	8,385
Power price risk management		
Electricity price swaps	279	(43)
Heat rate swaps	2,071	41
	2,350	(2)
	\$ (10,330)	\$ (7,759)

b) Net Gains or Losses

Realized and Unrealized Gains (Losses) on Derivative Instruments – Held-for-Trading

Realized gains (losses) represent actual settlements under derivative contracts during the period. The realized gains (losses) on derivative financial instruments recognized in net income were:

	2010	2009
Operating revenues		
NGL swaps	\$ 325	\$ 54,842
Foreign exchange swaps (frac-spread)	1,671	(13,897)
	1,996	40,945
Shrinkage gas expense		
Natural gas swaps	(19,261)	(30,071)
	(19,261)	(30,071)
Operating expenses		
Electricity price swaps	66	–
Heat rate swaps	1,755	1,658
	1,821	1,658
Financing charges		
Interest rate swaps	3,687	7,627
	3,687	7,627
Net realized (loss) gain on derivative financial instruments	\$ (11,757)	\$ 20,159

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

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

	2010	2009
Frac-spread risk management		
NGL swaps	\$ (7,449)	\$ (102,710)
Natural gas swaps	(4,936)	11,495
Foreign exchange swaps	5,373	27,679
	(7,012)	(63,536)
Interest rate risk management		
Interest rate swaps	1,900	1,908
	1,900	1,908
Power price risk management		
Electricity price swaps	322	(43)
Heat rate swaps	2,030	(2,751)
	2,352	(2,794)
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	(808)	(808)
Unrealized change in fair value of derivative financial instruments	\$ (3,568)	\$ (65,230)

The following table presents a reconciliation of the change in the fair market value of derivative financial instruments used for risk management activities during the year ended December 31, 2010:

	Fair Market Value	Total Unrealized Gain (Loss)
Fair value of derivative financial instruments, beginning of year	\$ (7,759)	\$ -
Changes in fair values of contracts in place at beginning of year and contracts entered into during year attributable to market price and other market changes *	(14,328)	(20,519)
Fair value of contracts realized during year *	11,757	17,759
Changes in values attributable to other comprehensive income	-	(808)
Fair value of derivative financial instruments, end of year	\$ (10,330)	\$ (3,568)

* Gains or losses arising on the Corridor interest rate swaps are recoverable from the shippers. Therefore, the changes in fair value have been recorded as an asset or liability and are excluded from the total unrealized loss shown here.

Unrealized changes in fair value are attributable to market price and other market changes that impact contracts in place at the beginning of the year that are settled during the year, new contracts entered into during the year and contracts outstanding at the end of the year.

Realized and Unrealized Gains (Losses) on Other Classes of Financial Instruments

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

21. 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, 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 risk management policy prohibits the use of derivative financial instruments for speculative purposes.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt outstanding at December 31, 2010. 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 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 December 31, 2010, represented approximately 48% of forecast volumes at the Cochrane extraction plant for the period January to December 2011 at average frac-spread prices of approximately \$0.77 CAD/US gallon and 26% of forecast volumes for the period January to December 2012 at average frac-spread prices of approximately \$0.80 CAD/US gallon. These average prices approximated \$0.77 US/US gallon and \$0.79 US/US gallon, respectively, based on the average US\$/CAD\$ forward curve as at December 31, 2010.

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

	Fair Value of Derivative Financial Instruments	Change in Net Income Based on 10% Increase in Prices/Rates**	Change in Net Income Based on 10% Decrease in Prices/Rates**
NGL*	\$ (16,762)	\$ (13,218)	\$ 13,218
AECO natural gas	(10,911)	3,544	(3,544)
Foreign exchange	4,519	(12,147)	12,147
Frac-spread risk management	\$ (23,154)		

* Assumes that a commodity price change will impact all propane, normal butane, isobutane 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 2001, 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. Fixed rates range from 6.30% to 6.31%. At December 31, 2010, the swap agreements outstanding have a total notional value of \$41.0 million (2009 – \$42.0 million).

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 \$300.0 million of Corridor's 5 and 10 year fixed rate debentures. On February 2, 2010, the \$150 million 4.240% Series A debentures matured and Corridor issued \$150 million of 4.897% Series C debentures due February 3, 2020. A swap agreement was not entered into for the Series C debentures. At December 31, 2010 Inter Pipeline manages its interest rate cash flow exposure with the remaining fixed-to-floating interest rate swap on the \$150 million 5.033% Series B 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, the carrying value of 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 December 31, 2010, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately \$21.2 million, assuming all other variables remain constant. Of this amount, \$19.6 million relates to the \$2.1 billion Unsecured Revolving Credit Facility (note 9) and is recoverable through the terms of the Corridor FSA, therefore the after-tax income impact would be \$1.2 million. A 1% change in interest rates at December 31, 2010 could affect the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage interest rate risk and consequently after-tax income by approximately \$0.3 million, assuming all other variables remain constant. On February 2, 2011, Inter Pipeline's direct interest rate risk associated with variable rate debt increased to \$286.5 million or 10.1% of total outstanding debt following the Note offering and Corridor equity contribution (Note 25).

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its conventional oil pipelines and NGL extraction business segments. Inter Pipeline enters into financial heat rate swap contracts to manage electricity price risk exposure in the NGL extraction business. Contracts outstanding at December 31, 2010 were for a notional quantity of 12.0 MW of electric power per hour for the period January 1, 2011 to December 31, 2011 at a price equal to 8.20 GJ\$/MWh multiplied by the AECO monthly index price. Inter Pipeline also enters into financial power swap contracts to manage electricity price exposure in the conventional oil pipelines business. A contract outstanding at December 31, 2010 was for a notional quantity of 4.0 MW of electric power per hour for the period January 1, 2011 to December 31, 2011 at a price equal to \$43.00/MWh.

Based on heat rate swaps outstanding in the NGL extraction business at December 31, 2010, 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 used to manage power price risk, and consequently after-tax income, by approximately \$0.4 million. A 10% change in AECO natural gas prices in isolation with all other variables held constant, could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk, and consequently after-tax income, by approximately \$0.2 million.

Based on electricity price swap agreements outstanding in the conventional oil pipelines business at December 31, 2010, 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 used to manage power price risk and consequently after-tax income by approximately \$0.2 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, deposits and derivative financial instruments, Inter Pipeline believes the risks of non-performance of counterparties are minimal as cash, deposits and derivative financial instruments outstanding are predominately held with major financial institutions or investment grade corporations.

At December 31, 2010, 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 form of 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 December 31, 2010, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

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 December 31, 2010, accounts receivable associated with these two business segments were \$94.0 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 December 31, 2010 on an undiscounted basis:

	Total	Less Than One Year	1 to 5 Years	After 5 Years
Cash distributions payable	\$ 20,644	\$ 20,644	\$ –	\$ –
Accounts payable and accrued liabilities	157,856	157,856	–	–
Deferred revenue	19,511	6,339	13,172	–
Derivative financial instruments*	30,078	25,750	4,328	–
Long-term debt	2,801,184	386,584	2,264,600	150,000
Long-term payable*	9,876	–	9,876	–
	\$ 3,039,149	\$ 597,173	\$ 2,291,976	\$ 150,000

* Derivative financial instruments are shown on a net basis. The long-term payable and derivative financial instruments represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2010, based upon contractual maturity dates. Fair values of the long-term payable and derivative financial instruments reported on the balance sheets 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 19 – Capital Disclosures. At December 31, 2010, Inter Pipeline had access to unutilized credit and demand facilities of approximately \$830.3 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. On January 4, 2011, tranche C of Corridor’s unsecured \$2,142 million syndicated revolving credit facility was cancelled and tranche D was reduced to \$27.5 million following Inter Pipelines equity contribution (notes 9 and 25).

22. Supplemental Cash Flow Information

Changes in Non-Cash Working Capital

	2010	2009
Accounts receivable	\$ (7,379)	\$ 2,009
Prepaid expense and other deposits	3,972	(7,199)
Cash distributions payable	1,546	3,484
Accounts payable and accrued liabilities	20,642	(59,233)
Deferred revenue	2,718	(2,598)
Impact of foreign exchange rate differences and other	(331)	(725)
Changes in non-cash working capital	\$ 21,168	\$ (64,262)
These changes relate to the following activities:		
Operating	\$ 15,901	\$ (22,265)
Investing	3,721	(45,481)
Financing	1,546	3,484
Changes in non-cash working capital	\$ 21,168	\$ (64,262)

Other Cash Flow Information

	2010	2009
Cash taxes paid	\$ 756	\$ 1,475
Cash interest paid	\$ 54,719	\$ 53,144

23. Major Customers

In 2010, Dow Chemical Canada and BP Canada, two of the principal customers of the NGL extraction business, accounted for 51% (2009 – Dow Chemical Canada and BP Canada accounted for 48%) of Inter Pipeline’s consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

24. Interests in Joint Ventures

85% Interest in Cold Lake

Summarized information on the results of operations, financial position and cash flows relating to Inter Pipeline's 85% interest in Cold Lake L.P. and Cold Lake Pipeline Ltd. are:

	2010	2009
Revenues	\$ 80,336	\$ 67,565
Expenses	(50,231)	(44,199)
Provision for income taxes	(161)	(151)
Proportionate share of net income	\$ 29,944	\$ 23,215
Proportionate share of funds from operations	\$ 43,955	\$ 43,091
Cash provided by operating activities	\$ 49,552	\$ 45,904
Cash used in investing activities	(29,553)	(20,473)
Proportionate share of increase in cash and cash equivalents	\$ 19,999	\$ 25,431
Current assets	\$ 29,009	\$ 33,147
Long-term assets	477,703	458,168
Current liabilities	(10,463)	(3,394)
Proportionate share of net assets	\$ 496,249	\$ 487,921

50% Interest in Empress V Extraction Plant

Summarized information on the results of operations, financial position and cash flows relating to Inter Pipeline's 50% interest in the Empress V extraction plant are:

	2010	2009
Revenues	\$ 107,142	\$ 53,234
Expenses	(100,562)	(53,720)
Proportionate share of net income (loss)	\$ 6,580	\$ (486)
Proportionate share of funds from operations	\$ 10,778	\$ 3,327
Cash provided by operating activities	\$ 9,257	\$ 4,688
Cash provided by (used in) investing activities	139	(11,447)
Proportionate share of increase (decrease) in cash and cash equivalents	\$ 9,396	\$ (6,759)
Current assets	\$ 13,786	\$ 10,681
Long-term assets	108,138	112,300
Current liabilities	(10,952)	(9,219)
Long-term liabilities	(435)	(409)
Proportionate share of net assets	\$ 110,537	\$ 113,353

25. Subsequent Events

Subsequent to December 31, 2010, on February 2, 2011 Inter Pipeline issued \$325 million of senior unsecured medium-term notes (Notes) due February 2, 2021, pursuant to a public offering under Inter Pipeline's short form base shelf prospectus dated November 30, 2010, a prospectus supplement dated January 19, 2011 and a related pricing supplement dated January 28, 2011. The Notes bear interest at 4.967% per annum, payable semi-annually. Net proceeds from the offering were used to pay down a portion of Inter Pipeline's \$750 million Unsecured Revolving Credit Facility, which had increased in January, 2011 following an approximate \$460 million equity contribution to Corridor, pursuant to the terms of the FSA.

26. Comparative Figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

Five Year Historical Summary

	2010	2009	2008	2007	2006
Revenues					
Oil sands transportation	\$ 144.5	\$ 130.6	\$ 146.0	\$ 109.0	\$ 58.8
NGL extraction	594.3	529.1	794.3	756.7	691.8
Conventional oil pipelines	157.4	148.9	148.0	122.8	116.7
Bulk liquid storage	100.9	116.0	136.3	156.5	143.7
	\$ 997.1	\$ 924.6	\$ 1,224.6	\$ 1,145.0	\$ 1,011.0
Funds from operations					
Oil sands transportation	\$ 73.8	\$ 73.9	\$ 69.8	\$ 58.7	\$ 37.5
NGL extraction	177.0	133.1	134.0	145.7	111.3
Conventional oil pipelines	113.0	110.8	106.5	86.5	81.1
Bulk liquid storage	40.7	51.3	41.6	44.0	38.4
Corporate costs	(70.8)	(65.0)	(71.4)	(88.0)	(62.9)
	\$ 333.7	\$ 304.1	\$ 280.5	\$ 246.9	\$ 205.4
Per unit	\$ 1.30	\$ 1.28	\$ 1.26	\$ 1.21	\$ 1.03
Net income (loss)	\$ 234.8	\$ 157.7	\$ 249.7	\$ (80.0)	\$ 130.6
Per unit – basic and diluted	\$ 0.91	\$ 0.66	\$ 1.12	\$ (0.39)	\$ 0.65
Cash distributions	\$ 232.6	\$ 202.4	\$ 186.6	\$ 171.7	\$ 160.8
Per unit	\$ 0.905	\$ 0.845	\$ 0.840	\$ 0.840	\$ 0.800
Units outstanding (basic)					
Weighted average	256.9	238.1	222.0	203.4	199.6
End of period	258.0	254.6	223.1	220.9	201.7
Capital expenditures					
Growth*	\$ 322.9	\$ 573.4	\$ 601.7	\$ 363.9	\$ 52.0
Sustaining*	\$ 16.7	\$ 18.0	\$ 13.4	\$ 12.2	\$ 13.6
	\$ 339.6	\$ 591.4	\$ 615.1	\$ 376.1	\$ 65.6

* Refer to the **NON-GAAP FINANCIAL MEASURES** section of the MD&A.

Board of Directors



John F. Driscoll

**Director and the
Chairman of the Board**

Toronto, Ontario
Age: 69

Mr. Driscoll is the founding President, Chairman and Chief Executive Officer of Sentry Select Capital Inc. He also founded and has been Chairman of NCE Resources Group since 1984, and Chairman and founder of Petrofund Energy Trust from 1988 to 2006. During his career, Mr. Driscoll was responsible for raising over \$14 billion of capital in the Canadian equity markets. Mr. Driscoll received his Bachelor of Science degree from the Boston College Business School and attended the New York Institute of Finance for advanced business studies. He is a member of the CFA Institute and also attained the professional manager designation with the Canadian Institute of Management.



Nicholas O. Brigstocke

Director

Midhurst, West Sussex,
United Kingdom
Age: 68

Mr. Brigstocke has had a distinguished international career in the investment sector, including tenure at the brokerage firm of de Zoete and Bevan, which was later acquired by Barclays. He was appointed Chairman of Barclays de Zoete Wedd's corporate broking business, which was acquired by Credit Suisse First Boston. Mr. Brigstocke served as Chairman of Credit Suisse First Boston UK equity capital markets until 2001, following which he acted as a Senior Consultant with Bridgwell Corporate Finance Ltd. until 2004. Mr. Brigstocke currently serves as a non-executive director for a number of private and publicly traded companies.



Lorne E. Brown⁽¹⁾

**Director, Chair of the
EH&S Committee,
Member of the Audit
Committee**

Oro Valley, Arizona
Age: 68

Mr. Brown has over 35 years of experience in the areas of energy transportation, refining, marketing and business development. Mr. Brown served as Vice President, Raw Material Supply at CHS Inc. until his retirement from that position in 2007. His tenure at CHS Inc. included oversight of commodity trading related to refinery feedstock requirements and the supply and marketing of product streams, transportation agreements for raw material supply on pipelines, development of key customer relationships and long-range strategic plans.



Jeffery E. Errico

Director

Calgary, Alberta
Age: 60

Mr. Errico is a Professional Engineer with a Bachelor of Applied Science Degree in Chemical Engineering from the University of British Columbia. Currently, Mr. Errico is the Chairman of Insignia Energy Inc., a private energy company. During his career, he served as the senior operations executive for several small oil and gas E&P companies, including Erskine Resources Ltd. and Deminex Canada Ltd. Most recently Mr. Errico was President & CEO of Petrofund Energy Trust where he led its growth from 450 to over 42,000 boe/d of production.



David W. Fesyk

Director, President and Chief Executive Officer

Calgary, Alberta
Age: 48

Mr. Fesyk has served as President and CEO of the General Partner since its inception. Previous to that he was employed by various affiliates of Koch Industries, Inc. During his tenure at Koch, he held several senior executive positions including Vice President, Transportation, Koch Petroleum Canada, LP, President, Koch Canada Ltd., and President and CEO, Koch Pipelines Canada Ltd. Mr. Fesyk holds a Bachelor of Science degree from Arizona State University and a Master of Business Administration degree from the University of Calgary.



Duane E. Keinick⁽¹⁾

Director, Chair of the Compensation Committee, Member of the Governance and EH&S Committees

Calgary, Alberta
Age: 64

Mr. Keinick had a distinguished career at Canadian Imperial Bank of Commerce, spanning 39 years. Mr. Keinick joined the oil and gas group in 1982 as Vice President, Corporate Credit, later advancing to Senior Vice President, Corporate Credit. In 1998, Mr. Keinick was appointed as Senior Vice President and Managing Director of CIBC World Markets Inc. where he advised on major oil and gas transactions before retiring in 2005. Mr. Keinick holds a Bachelor of Arts degree from the University of Calgary.



William D. Robertson⁽¹⁾

Lead Independent Director, Chair of the Audit Committee, Member of the Compensation and Governance Committees

Calgary, Alberta
Age: 66

Mr. Robertson is a Fellow Chartered Accountant and was formerly the lead oil and gas specialist at Price Waterhouse and PriceWaterhouseCoopers in Calgary. After enjoying a 36 year career with the firm, Mr. Robertson retired from practice in 2002. Prior to this, he served on the CIM Petroleum Society Standing Committee on Reserve Definitions, as well as a number of other committees overseeing the practice of accounting in Alberta. Mr. Robertson graduated with a Bachelor of Commerce degree from the University of Alberta.



Brant Sangster⁽¹⁾

Director, Member of the Audit and EH&S Committees

Calgary, Alberta
Age: 64

Mr. Sangster is an accomplished executive within the Canadian oil and gas industry. During his 40 year career, Mr. Sangster held senior positions with PetroCanada and Imperial Oil Limited in the areas of refining operations, natural gas liquids, petroleum marketing, strategic planning and corporate development. Prior to retirement, he held the position of Senior Vice President, Oil Sands at PetroCanada. Mr. Sangster is also the former chairman of the Canadian Petroleum Products Institute.



Richard Shaw⁽¹⁾

Director, Chair of the Governance Committee, Member of the Compensation Committee

Calgary, Alberta
Age: 65

Mr. Shaw was a senior partner in the Business Law Group of McCarthy Tetrault LLP until his retirement from the firm in December 2010. He has extensive experience with respect to corporate governance, corporate finance, and securities law, and has served as a director on the national board of the Institute of Corporate Directors and as the chair of its Calgary Chapter. Through his professional corporation, he continues to provide legal advisory services. He is a lecturer in the Director Education and MBA programs at the Haskayne School of Business and presently serves as chair of the Board of Governors of Mount Royal University and as a Governor of the Glenbow Museum.

¹ Independent Director

Officers

David W. Fesyk

President and Chief Executive Officer

William A. van Yzerloo

Chief Financial Officer

Jim Arsenych

Vice President, Legal

Christian P. Bayle

Chief Operating Officer

James J. Madro

Vice President, Operations

Jeffrey D. Marchant

Vice President, Oil Sands Development

Jeremy A. Roberge

Vice President, Capital Markets

Anita Dusevic Oliva

Legal Counsel and
Corporate Secretary

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Definitions

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

Net income plus depreciation and amortization, financing charges, non-cash expenses, gains or losses on disposition of assets, unrealized change in fair value of derivative financial instruments, acquisition and divestiture fees and income taxes.

Abbreviations

bbls	Barrels	km	Kilometre
bcf	Billion cubic feet	mmcf	Million cubic feet
bcf/d	Billion cubic feet per day	mmcf/d	Million cubic feet per day
b/d	Barrel(s) per day	MW	Megawatt
GJ	Gigajoule	MWh	Megawatt hour