Inter Pipeline Fund

Consolidated Balance Sheets

(unaudited) (thousands of dollars)	As at September 30 2010	As at December 31 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 29,407	$ 18,208
Accounts receivable	87,605	122,122
Derivative financial instruments (note 14a)	7,725	3,738
Prepaid expenses and other deposits	12,118	17,927
Current portion of future income taxes (note 7)	5,243	-
Total Current Assets	142,098	161,995
Derivative financial instruments (note 14a)	13,306	9,239
Intangible assets (note 3)	308,665	319,603
Property, plant and equipment (note 4)	3,804,896	3,765,930
Goodwill	212,863	215,947
Total Assets	$ 4,481,828	$ 4,472,714
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Cash distributions payable (note 5)	$ 19,335	$ 19,098
Accounts payable and accrued liabilities (note 12)	123,785	136,909
Derivative financial instruments (note 14a)	18,845	16,655
Deferred revenue	9,387	3,621
Current portion of long-term debt (note 6)	191,000	123,600
Total Current Liabilities	362,352	299,883
Long-term debt (note 6)	2,403,369	2,487,315
Long-term payable	12,152	9,212
Derivative financial instruments (note 14a)	3,297	4,081
Asset retirement obligation	5,223	5,036
Environmental liabilities	12,021	12,299
Employee benefits (notes 9 and 10)	3,131	7,061
Long-term deferred revenue	13,977	8,730
Future income taxes (note 7)	326,625	318,996
Total Liabilities	3,142,147	3,152,613
Commitments (note 4)		
Partners' Equity		
Partners' equity (note 8)	1,408,330	1,373,951
Accumulated other comprehensive loss	(68,649)	(53,850)
Total Partners' Equity	1,339,681	1,320,101
Total Liabilities and Partners' Equity	$ 4,481,828	$ 4,472,714

See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Partners' Equity

(unaudited) (thousands of dollars)	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Nine Months Ended September 30 **2010** Total	2009 Total
Balance, beginning of period	$ 1,372,579	$ 1,372	**$ 1,373,951**	$ 1,161,547
Net income for the period	175,972	176	**176,148**	134,624
Cash distributions declared (notes 5 and 8)	(173,116)	(173)	**(173,289)**	(147,910)
Issuance of Partnership units (note 8)				
Equity issuances, net of issue costs and future income taxes	-	-	**-**	165,470
Issued under Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan	31,337	31	**31,368**	51,846
Issued under Unit Incentive Option Plan	152	-	**152**	2,555
Balance, end of period	$ 1,406,924	$ 1,406	**$ 1,408,330**	$ 1,368,132

Consolidated Statements of Accumulated Other Comprehensive Loss

(unaudited) (thousands of dollars)	Nine Months Ended September 30 **2010**	2009
Balance, beginning of period	**$ (53,850)**	$ (31,388)
Other comprehensive loss	**(14,799)**	(17,459)
Balance, end of period	**$ (68,649)**	$ (48,847)

See accompanying notes to the interim consolidated financial statements.

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Inter Pipeline Fund

Consolidated Statements of Net Income

(unaudited) (thousands of dollars)	Three Months Ended September 30 2010	2009	Nine Months Ended September 30 2010	2009
REVENUES				
Operating revenue	$ 231,663	$ 224,462	$ 744,633	$ 667,408
EXPENSES				
Shrinkage gas	66,908	65,081	239,127	200,040
Operating	60,960	58,380	188,213	188,899
Depreciation and amortization (note 11)	18,235	24,464	68,759	73,542
Financing charges (note 12)	10,059	8,582	28,939	28,443
General and administrative	11,982	10,277	32,298	30,539
Unrealized change in fair value of derivative financial instruments (note 14b)	18,628	(542)	(1,814)	40,481
Management fee to General Partner	1,881	1,854	5,787	5,206
(Gain) loss on disposal of assets	-	1,935	(37)	(17,922)
	188,653	170,031	561,272	549,228
INCOME BEFORE INCOME TAXES	43,010	54,431	183,361	118,180
(Recovery of) provision for income taxes (note 7)				
Current	290	169	1,456	905
Future	(3,841)	2,384	5,757	(17,349)
	(3,551)	2,553	7,213	(16,444)
NET INCOME	$ 46,561	$ 51,878	$ 176,148	$ 134,624
Net income per Partnership unit (note 8)				
Basic and diluted	$ 0.18	$ 0.21	$ 0.69	$ 0.58

Consolidated Statements of Comprehensive Income

(unaudited) (thousands of dollars)	Three Months Ended September 30 2010	2009	Nine Months Ended September 30 2010	2009
NET INCOME	$ 46,561	$ 51,878	$ 176,148	$ 134,624
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	9,424	(31,452)	(15,405)	(18,065)
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 14b)	202	202	606	606
	9,626	(31,250)	(14,799)	(17,459)
COMPREHENSIVE INCOME	$ 56,187	$ 20,628	$ 161,349	$ 117,165

See accompanying notes to the interim consolidated financial statements.

Consolidated Statements of Cash Flows

(unaudited) (thousands of dollars)	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
OPERATING ACTIVITIES				
Net income	$ 46,561	$ 51,878	$ 176,148	$ 134,624
Items not involving cash:				
Depreciation and amortization	18,235	24,464	68,759	73,542
(Gain) loss on disposal of assets	-	1,935	(37)	(17,922)
Non-cash expenses	1,718	1,049	409	2,394
Unrealized change in fair value of derivative financial instruments	18,628	(542)	(1,814)	40,481
Future income tax (recovery) expense	(3,841)	2,384	5,757	(17,349)
Proceeds from long-term deferred revenue	-	10,173	5,796	10,173
Defined benefit pension plan contribution	(4,052)	-	(4,052)	-
Funds from operations	77,249	91,341	250,966	225,943
Net change in non-cash working capital (note 16)	(5,231)	(23,028)	35,547	(29,317)
Cash provided by operating activities	72,018	68,313	286,513	196,626
INVESTING ACTIVITIES				
Expenditures on property, plant and equipment	(39,011)	(420,592)	(111,745)	(529,418)
Proceeds on sale of assets	-	11	239	28,275
Net change in non-cash investing working capital (note 16)	217	12,491	(3,728)	(13,169)
Cash used in investing activities	(38,794)	(408,090)	(115,234)	(514,312)
FINANCING ACTIVITIES				
Cash distributions (note 5)	(50,713)	(18,219)	(141,921)	(96,064)
Increase (decrease) in long-term debt	17,146	365,331	(17,494)	262,226
Transaction costs on long-term debt	(9)	-	(849)	-
Issuance of Partnership units, net of issue costs	44	1,402	152	167,182
Net change in non-cash financing working capital (note 16)	65	301	237	1,939
Cash (used in) provided by financing activities	(33,467)	348,815	(159,875)	335,283
Effect of foreign currency translation on foreign currency denominated cash	534	(1,413)	(205)	(1,386)
Increase in cash and cash equivalents	291	7,625	11,199	16,211
Cash and cash equivalents, beginning of period	29,116	22,152	18,208	13,566
Cash and cash equivalents, end of period	$ 29,407	$ 29,777	$ 29,407	$ 29,777

See accompanying notes to the interim consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles (GAAP) and have been prepared by management following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. The disclosures provided in these interim consolidated financial statements are incremental to those included with the annual consolidated financial statements. These interim consolidated financial statements do not contain all disclosures required by GAAP for annual financial statements, and accordingly, should be read in conjunction with the consolidated financial statements and notes in Inter Pipeline Fund's (Inter Pipeline) annual report for the year ended December 31, 2009.

Change in Estimate

Effective July 1, 2010, Inter Pipeline has amended its estimates for calculating depreciation on the oil sands 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 will be in operation. The impact of this change for the three and nine months ended September 30, 2010 is to decrease depreciation and amortization expense and increase net income by $7.8 million.

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. 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 a new accounting standard, section 1601 "Consolidated Financial Statements", which establishes standards for the preparation of consolidated financial statements that will be effective for Inter Pipeline's 2011 reporting. The adoption of these recommendations is not expected to have a material impact on Inter Pipeline.

(tabular amounts in thousands of dollars, except per unit amounts)

2. SEGMENT REPORTING

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

Three Months Ended September 30, 2010

	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 36,440	$ 128,783	$ 41,388	$ -	$ 206,611	$ 25,052	$ 231,663
Expenses							
Shrinkage gas	-	66,908	-	-	66,908	-	66,908
Operating	14,516	21,651	11,604	-	47,771	13,189	60,960
Depreciation and amortization	4,534	6,440	2,358	479	13,811	4,424	18,235
Financing charges	2,811	-	-	7,288	10,099	(40)	10,059
General and administrative	802	-	-	9,724	10,526	1,456	11,982
Unrealized change in fair value of derivative financial instruments	-	18,601	202	(175)	18,628	-	18,628
Management fee to General Partner	-	-	-	1,881	1,881	-	1,881
Gain on disposal of assets	-	-	-	-	-	-	-
Total expenses	22,663	113,600	14,164	19,197	169,624	19,029	188,653
Income (loss) before income taxes	13,777	15,183	27,224	(19,197)	36,987	6,023	43,010
Provision for (recovery of) income taxes	1,289	-	-	(3,956)	(2,667)	(884)	(3,551)
Net income (loss)	$ 12,488	$ 15,183	$ 27,224	$ (15,241)	$ 39,654	$ 6,907	$ 46,561
Expenditures on property, plant and equipment	$ 27,128	$ 4,078	$ 942	$ 196	$ 32,344	$ 7,045	$ 39,389
							As at September 30, 2010
Total assets	$ 2,927,011	$ 671,383	$ 472,281	$ 9,423	$ 4,080,098	$ 401,730	$ 4,481,828
Goodwill	$ 156,938	$ -	$ -	$ -	$ 156,938	$ 55,925	$ 212,863

Inter Pipeline Fund
Notes to Interim Consolidated Financial Statements
(unaudited)
September 30, 2010
(tabular amounts in thousands of dollars, except per unit amounts)

Three Months Ended September 30, 2009

	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 32,189	$ 127,280	$ 36,076	$ -	$ 195,545	$ 28,917	$ 224,462
Expenses							
Shrinkage gas	-	65,081	-	-	65,081	-	65,081
Operating	12,021	21,307	9,031	-	42,359	16,021	58,380
Depreciation and amortization	9,508	6,413	4,052	258	20,231	4,233	24,464
Financing charges	1,194	-	-	7,404	8,598	(16)	8,582
General and administrative	553	-	-	7,576	8,129	2,148	10,277
Unrealized change in fair value of derivative financial instruments	-	(836)	-	294	(542)	-	(542)
Management fee to General Partner	-	-	-	1,854	1,854	-	1,854
(Gain) loss on disposal of assets	-	-	(5)	-	(5)	1,940	1,935
Total expenses	23,276	91,965	13,078	17,386	145,705	24,326	170,031
Income (loss) before income taxes	8,913	35,315	22,998	(17,386)	49,840	4,591	54,431
Provision for (recovery of) income taxes	888	-	-	1,915	2,803	(250)	2,553
Net income (loss)	$ 8,025	$ 35,315	$ 22,998	$ (19,301)	$ 47,037	$ 4,841	$ 51,878
Expenditures on property, plant and equipment	$ 383,469	$ 1,103	$ 23,799	$ 1,056	$ 409,427	$ 11,544	$ 420,971

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

(tabular amounts in thousands of dollars, except per unit amounts)

	Nine Months Ended September 30, 2010						
	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 107,682	$ 445,294	$ 116,689	$ -	$ 669,665	$ 74,968	$ 744,633
Expenses							
Shrinkage gas	-	239,127	-	-	239,127	-	239,127
Operating	42,162	76,010	30,651	-	148,823	39,390	188,213
Depreciation and amortization	23,779	19,311	11,431	1,279	55,800	12,959	68,759
Financing charges	7,360	-	-	21,778	29,138	(199)	28,939
General and administrative	2,292	-	-	25,726	28,018	4,280	32,298
Unrealized change in fair value of derivative financial instruments	-	(1,094)	37	(757)	(1,814)	-	(1,814)
Management fee to General Partner	-	-	-	5,787	5,787	-	5,787
Gain on disposal of assets	-	(15)	(22)	-	(37)	-	(37)
Total expenses	75,593	333,339	42,097	53,813	504,842	56,430	561,272
Income (loss) before income taxes	32,089	111,955	74,592	(53,813)	164,823	18,538	183,361
Provision for (recovery of) income taxes	2,848	-	-	4,508	7,356	(143)	7,213
Net income (loss)	$ 29,241	$ 111,955	$ 74,592	$ (58,321)	$ 157,467	$ 18,681	$ 176,148
Expenditures on property, plant and equipment	$ 82,327	$ 5,956	$ 5,649	$ 3,750	$ 97,682	$ 15,198	$ 112,880

(tabular amounts in thousands of dollars, except per unit amounts)

	Nine Months Ended September 30, 2009						
	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 96,455	$ 368,566	$ 114,527	$ -	$ 579,548	$ 87,860	$ 667,408
Expenses							
Shrinkage gas	-	200,040	-	-	200,040	-	200,040
Operating	35,165	76,356	27,615	-	139,136	49,763	188,899
Depreciation and amortization	28,357	18,744	12,231	750	60,082	13,460	73,542
Financing charges	4,777	-	-	23,610	28,387	56	28,443
General and administrative	2,267	-	-	22,004	24,271	6,268	30,539
Unrealized change in fair value of derivative financial instruments	-	41,087	-	(606)	40,481	-	40,481
Management fee to General Partner	-	-	-	5,206	5,206	-	5,206
(Gain) loss on disposal of assets	-	(15)	(20,890)	-	(20,905)	2,983	(17,922)
Total expenses	70,566	336,212	18,956	50,964	476,698	72,530	549,228
Income (loss) before income taxes	25,889	32,354	95,571	(50,964)	102,850	15,330	118,180
Provision for (recovery of) income taxes	2,579	-	-	(20,048)	(17,469)	1,025	(16,444)
Net income (loss)	$ 23,310	$ 32,354	$ 95,571	$ (30,916)	$ 120,319	$ 14,305	$ 134,624
Expenditures on property, plant and equipment	$ 455,497	$ 11,203	$ 33,155	$ 2,168	$ 502,023	$ 28,531	$ 530,554

(tabular amounts in thousands of dollars, except per unit amounts)

3. INTANGIBLE ASSETS

	Cost	Accumulated Depreciation & Amortization	September 30 2010 Net Book Value	December 31 2009 Net Book Value
Oil sands transportation business				
Transportation Services Agreement	$ 93,548	$ (24,989)	$ 68,559	$ 70,978
NGL extraction business				
Customer contracts	287,612	(59,126)	228,486	235,676
Patent	8,727	(3,844)	4,883	5,351
	296,339	(62,970)	233,369	241,027
Bulk liquid storage business				
Customer contracts and relationships	4,471	(1,218)	3,253	3,851
Tradename	4,179	(695)	3,484	3,747
	8,650	(1,913)	6,737	7,598
	$ 398,537	$ (89,872)	$ 308,665	$ 319,603

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation & Amortization	September 30 2010 Net Book Value	December 31 2009 Net Book Value
Oil sands transportation business				
Facilities and equipment	$ 1,055,793	$ (155,861)	$ 899,932	$ 916,766
Construction work in progress	1,679,064	-	1,679,064	1,600,193
Pipeline linefill	74,033	(5,577)	68,456	69,524
	2,808,890	(161,438)	2,647,452	2,586,483
NGL extraction business				
Facilities and equipment	464,277	(88,113)	376,164	386,400
Construction work in progress	10,017	-	10,017	5,638
Spare parts	4,924	-	4,924	4,595
	479,218	(88,113)	391,105	396,633
Conventional oil pipelines business				
Facilities and equipment	827,911	(378,342)	449,569	401,381
Construction work in progress	1,073	-	1,073	55,103
	828,984	(378,342)	450,642	456,484
Corporate				
Office furniture and equipment	22,145	(14,252)	7,893	5,514
	22,145	(14,252)	7,893	5,514
Bulk liquid storage business				
Facilities and equipment	357,175	(55,943)	301,232	299,682
Construction work in progress	6,572	-	6,572	21,134
	363,747	(55,943)	307,804	320,816
	$ 4,502,984	$ (698,088)	$ 3,804,896	$ 3,765,930

Inter Pipeline has committed to additional expenditures on property, plant and equipment totalling approximately $456.7 million at September 30, 2010, of which $244.1 million is due in 1 year and $212.6 million is due in 1-5 years.

(tabular amounts in thousands of dollars, except per unit amounts)

5. CASH DISTRIBUTIONS

Section 5.2 of the Limited Partnership Agreement (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 three and nine months ended September 30, 2010, Inter Pipeline declared cash distributions totalling $57.9 million and $173.3 million, respectively (three and nine months ended September 30, 2009 - $52.4 million and $147.9 million, respectively). Of the total cash distributions, $7.2 million and $31.4 million were settled with the issuance of Class A and Class B units under the Premium Distribution™ and Distribution Reinvestment Plan (Plan) for the three and nine months ended September 30, 2010, respectively (three and nine months ended September 30, 2009 - $34.2 million and $51.8 million, respectively). As at September 30, 2010, distributions of $19.3 million were payable on 257.3 million outstanding Class A units and 0.3 million outstanding Class B units at $0.075 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).

6. LONG-TERM DEBT

	September 30 2010	December 31 2009
$2,142 million Unsecured Revolving Credit Facility	$ 1,778,800	$ 1,709,900
$750 million Unsecured Revolving Credit Facility	144,500	230,000
Loan Payable to General Partner	379,800	379,800
Corridor Debentures (a)	300,000	300,000
Long-term debt (excluding transaction costs and discounts)	2,603,100	2,619,700
Less: Current portion of long-term debt	(191,000)	(123,600)
	2,412,100	2,496,100
Transaction costs	(13,986)	(13,137)
Accumulated amortization of transaction costs	7,276	5,479
Discount, net of accumulated amortization	(2,021)	(1,127)
Long-term debt	2,403,369	2,487,315
Current portion of long-term debt	191,000	123,600
Long-term debt (including current portion)	$ 2,594,369	$ 2,610,915

(a) 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. Corridor Series C 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 instalments in arrears on February 2 and August 2 of each year, except for 2020 in which case interest is payable on February 3, 2020 for interest accrued for the period from and including August 2, 2019 to and including February 2, 2020.

(b) At September 30, 2010 Corridor had issued letters of credit valued at $0.3 million.

(tabular amounts in thousands of dollars, except per unit amounts)

7. INCOME TAXES

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 onward, 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 third quarter 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 the end of September 30, 2010 a $5.2 million current portion of future income 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.

8. 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)	2,856,783	2,863	2,859,646
Issued under Unit Incentive Option Plan	31,500	36	31,536
Balance as at September 30, 2010	**257,281,527**	**257,785**	**257,539,312**

	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™ Reinvestment and Optional Unit Purchase Plan	6,240,651	6,254	6,246,905
Issued under Unit Incentive Option Plan	501,000	532	501,532
Balance as at September 30, 2009	250,512,782	250,985	250,763,767

(a) During the three and nine months ended September 30, 2010, Inter Pipeline issued 0.6 million and 2.9 million Class A units respectively to unitholders who elected to participate under the Plan. Inter Pipeline is not committed to issuing additional Class A units under the Plan at September 30, 2010.

(b) On June 18, 2009, Inter Pipeline issued 20.9 million Class A units at $8.25 per Class A unit. The proceeds of $164.8 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.

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(tabular amounts in thousands of dollars, except per unit amounts)

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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	**2010**	2009
Net income attributable to unitholders – Basic and diluted	**$ 46,561**	$ 51,878	**$ 176,148**	$ 134,624
Weighted-average units outstanding – Basic	**257,239,335**	248,659,037	**256,570,226**	233,096,897
Effect of Premium Distribution™ and Distribution Reinvestment Plan	**150,269**	956,756	**150,804**	507,024
Effect of Unit Incentive Option Plan	**5,936**	108,210	**14,670**	119,630
Weighted-average units outstanding – Diluted	**257,395,540**	249,724,003	**256,735,700**	233,723,551
Net income per Partnership unit – Basic and diluted	**$ 0.18**	$ 0.21	**$ 0.69**	$ 0.58

9. EMPLOYEE BENEFITS

	September 30 2010	December 31 2009
Pension (asset) liability	**$ (2,261)**	$ 1,934
Long-term incentive plan liability (note 10)	**5,392**	5,127
Employee benefits	**$ 3,131**	$ 7,061

10. LONG-TERM INCENTIVE PLAN AND UNIT INCENTIVE OPTIONS

The following table summarizes the status of Inter Pipeline's Option Plan and Deferred Unit Rights (DURs) as at September 30, 2010 and changes during the nine months then ended:

	Unit Options			DURs
	Number	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Balance outstanding, December 31, 2009	31,500	$ 10.48	$ 5.75	1,752,744
Granted	-	$ -	$ -	845,109
Exercised	(31,500)	$ 10.48	$ 4.23	(324,216)
Cancelled	-	$ -	$ -	(44,124)
Balance outstanding, September 30, 2010	-	$ -	$ -	2,229,513

* 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.

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(tabular amounts in thousands of dollars, except per unit amounts)

For the three months ended September 30, 2010, operating expenses included $1.8 million and general and administrative expenses included $4.4 million related to DURs (three months ended September 30, 2009 - $1.3 million and $2.7 million, respectively). For the nine months ended September 30, 2010, operating expenses included $4.0 million and general and administrative expenses included $9.8 million related to DURs (nine months ended September 30, 2009 - $3.3 million and $7.0 million, respectively).

11. DEPRECIATION AND AMORTIZATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Depreciation of facilities and equipment	$ 14,431	$ 20,398	$ 56,838	$ 59,612
Depreciation of Corridor linefill	182	443	1,069	1,330
Amortization of intangible assets	3,538	3,536	10,605	10,543
Accretion of asset retirement obligation	84	87	247	253
Impairment of intangible assets	-	-	-	1,804
Total depreciation and amortization	$ 18,235	$ 24,464	$ 68,759	$ 73,542

12. FINANCING CHARGES

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Interest expense on credit facilities	$ 6,630	$ 4,826	$ 16,274	$ 18,270
Interest on Loan Payable to General Partner (a)	5,771	6,008	17,313	18,025
Interest on Corridor Debentures	2,371	708	6,269	3,165
	14,772	11,542	39,856	39,460
Capitalized interest	(4,934)	(2,975)	(11,579)	(11,066)
Amortization of transaction costs on long-term debt	221	15	662	49
Total financing charges	$ 10,059	$ 8,582	$ 28,939	$ 28,443

(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. In January, 2010, this additional interest cost is no longer applicable.

At September 30, 2010, $9.9 million in interest payable was included in accounts payable and accrued liabilities related to the Loan Payable to the General Partner (December 31, 2009 - $4.3 million).

13. CAPITAL DISCLOSURES

Consistent with the year ended December 31, 2009, capital under management includes long-term debt (excluding discounts and transaction costs) and partners' equity.

At September 30, 2010, Inter Pipeline had access to committed credit facilities totalling $2,892.0 million, of which $968.7 million remains unutilized. 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.

(tabular amounts in thousands of dollars, except per unit amounts)

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.

	September 30 2010	December 31 2009
Long-term debt (excluding transaction costs and discounts, per note 6)		
Recourse debt	$ 715,300	$ 733,400
Non-recourse debt	1,887,800	1,886,300
	2,603,100	2,619,700
Partners' equity	1,339,681	1,320,101
Total capitalization	$ 3,942,781	$ 3,939,801
Capitalization (excluding non-recourse debt)	$ 2,054,981	$ 2,053,501
Recourse debt to capitalization	34.8%	35.7%

	Twelve Months Ended	
	September 30 2010	December 31 2009
Net income	$ 199,204	$ 157,680
Add:		
Depreciation and amortization	97,446	102,229
Loss (gain) on disposal of assets	48	(17,837)
Financing charges	37,427	36,931
Non-cash operating and general and administrative expense	730	3,472
Unrealized change in fair value of derivative financial instruments	22,935	65,230
Provision for (recovery of) income taxes	7,769	(15,888)
Proceeds from long-term deferred revenue	5,796	10,173
EBITDA*	$ 371,355	$ 341,990
Recourse debt to EBITDA*	1.9	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.

(tabular amounts in thousands of dollars, except per unit amounts)

14. FINANCIAL INSTRUMENTS

Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at September 30, 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	$ 29,407	$ -	$ -	$ 29,407	$ -	$ 29,407
Accounts receivable	-	77,661	-	77,661	9,944	87,605
Prepaid expenses and other deposits	4,025		-	4,025	8,093	12,118
Derivatives and other financial instruments***	21,031	-	-	21,031	-	21,031
Liabilities						
Cash distributions payable	-	-	19,335	19,335	-	19,335
Accounts payable and accrued liabilities	4,279	-	90,099	94,378	29,407	123,785
Derivatives and other financial instruments***	22,142	-	-	22,142	-	22,142
Deferred revenue	-	-	4,262	4,262	19,102	23,364
Long-term debt (note 6)****	-	-	2,603,100	2,603,100	-	2,603,100
Long-term payable	12,152	-	-	12,152	-	12,152

* 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 September 30, 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	$ 418,832
Corridor Debentures	$ 300,000	$ 321,004

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

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

	September 30 2010	December 31 2009
Current asset	$ 7,725	$ 3,738
Long-term asset	13,306	9,239
Current liability	(18,845)	(16,655)
Long-term liability	(3,297)	(4,081)
	$ (1,111)	$ (7,759)

(tabular amounts in thousands of dollars, except per unit amounts)

Derivative financial instruments carried at fair value are as follows:

	September 30 2010	December 31 2009
Frac-spread risk management		
NGL swaps	$ 303	$ (9,313)
Natural gas swaps	(17,264)	(5,975)
Foreign exchange swaps	231	(854)
	(16,730)	(16,142)
Interest rate risk management		
Interest rate swaps	13,933	8,385
	13,933	8,385
Power price risk management		
Electricity price swaps	(36)	(43)
Heat rate swaps	1,722	41
	1,686	(2)
	$ (1,111)	$ (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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Revenues				
NGL swaps	$ 2,307	$ 13,031	$ 2,449	$ 48,294
Foreign exchange swaps (frac-spread)	135	(2,383)	668	(12,916)
	2,442	10,648	3,117	35,378
Shrinkage gas expense				
Natural gas swaps	(5,683)	(9,518)	(12,684)	(22,744)
	(5,683)	(9,518)	(12,684)	(22,744)
Operating expenses				
Electricity price swaps	(117)	-	93	-
Heat rate swaps	130	689	1,324	1,301
	13	689	1,417	1,301
Financing charges				
Interest rate swaps	809	2,162	2,999	5,495
	809	2,162	2,999	5,495
Net realized (loss) gain on derivative financial instruments	$ (2,419)	$ 3,981	$ (5,151)	$ 19,430

(tabular amounts in thousands of dollars, except per unit amounts)

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Frac-spread risk management				
NGL swaps	$ (19,421)	$ (18,446)	$ 9,617	$ (69,990)
Natural gas swaps	(3,102)	9,724	(11,289)	5,997
Foreign exchange swaps	4,515	10,539	1,085	25,285
	(18,008)	1,817	(587)	(38,708)
Interest rate risk management				
Interest rate swaps	377	(92)	1,320	1,212
	377	(92)	1,320	1,212
Power price risk management				
Electricity price swaps	(202)	-	6	-
Heat rate swaps	(593)	(981)	1,681	(2,379)
	(795)	(981)	1,687	(2,379)
Transfer of gains and losses on derivatives previously designated as cash-flow hedges from accumulated other comprehensive income	(202)	(202)	(606)	(606)
Unrealized change in fair value of derivative financial instruments	$ (18,628)	$ 542	$ 1,814	$ (40,481)

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 nine months ended September 30, 2010:

	Fair Market Value	Total Unrealized Gain (Loss)
Fair value of derivative financial instruments, beginning of period	$ (7,759)	$ -
Changes in fair values of contracts in place at beginning of period and contracts entered into during period attributable to market price and other market changes *	1,497	(7,514)
Fair value of contracts realized during period *	5,151	9,934
Changes in values attributable to other comprehensive income	-	(606)
Fair value of derivative financial instruments, end of period	$ (1,111)	$ 1,814

* 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.

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.

(tabular amounts in thousands of dollars, except per unit amounts)

15. RISK MANAGEMENT

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

a) Market Risk

Frac-spread Risk Management

Contracts outstanding at September 30, 2010, represented approximately 49% of forecast propane-plus volumes at the Cochrane extraction plant for the period October to December 2010 at average net prices of approximately $0.74 Cdn/US gallon and 43% of forecast volumes for the period January to December 2011 at average net prices of approximately $0.76 Cdn/US gallon. These average prices approximated $0.72 US/US gallon and $0.73 US/US gallon, respectively, based on the average US$/Cdn$ forward curve as at September 30, 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*	$ 303	$ (10,260)	$ 10,260
AECO natural gas	(17,264)	2,690	(2,690)
Foreign exchange	231	(10,334)	10,334
Frac-spread risk management	$ (16,730)		

* 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. Changes related to 2011 contracts are net of tax of 26.5%.

Interest Rate Risk Management

Based on the variable rate debt obligations outstanding at September 30, 2010, a 1% change in interest rates at this date could affect interest expense on credit facilities and consequently pre-tax income by approximately $4.9 million and $14.3 million, respectively, for the three and nine months ending September 30, 2010, assuming all other variables remain constant. Of this amount, $4.5 million and $13.3 million, respectively, relate to the $2.1 billion Unsecured Revolving Credit Facility (note 6) and are recoverable through the terms of the Corridor Firm Service Agreement. A 1% change in interest rates at September 30, 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 $0.4 million, assuming all other variables remain constant.

Power Price Risk Management

Based on heat rate swaps outstanding in the NGL extraction business at September 30, 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 $0.3 million.

(tabular amounts in thousands of dollars, except per unit amounts)

Based on electricity price swap agreements outstanding in the conventional oil pipelines business at September 30, 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 $0.1 million.

Foreign Exchange Risk Management

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

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 and cash equivalents, deposits and derivative financial instruments outstanding are predominately held with major financial institutions or investment grade corporations.

At September 30, 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.

At September 30, 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 affiliated with investment grade corporations in the energy and chemical industry sectors. At September 30, 2010, accounts receivable associated with these two business segments were $56.0 million or 64% 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

The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at September 30, 2010, on an undiscounted basis:

	Total	Less Than One Year	1 to 5 Years	After 5 Years
Cash distributions payable	$ 19,335	$ 19,335	$ -	$ -
Accounts payable and accrued liabilities	123,785	123,785	-	-
Deferred revenue	23,364	9,387	13,977	-
Derivative financial instruments*	22,447	19,060	3,387	-
Long-term debt	2,603,100	191,000	2,262,100	150,000
Long-term payable*	13,056	-	13,056	-
	$ 2,805,087	$ 362,567	$ 2,292,520	$ 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 September 30, 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.

(tabular amounts in thousands of dollars, except per unit amounts)

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Accounts receivable	$ 13,819	$ (22,349)	$ 34,517	$ (327)
Prepaid expense and other deposits	9,720	4,715	5,809	(3,706)
Cash distributions payable	65	301	237	1,939
Accounts payable and accrued liabilities	(18,022)	22,459	(14,412)	(43,726)
Deferred revenue	(10,434)	(16,635)	5,766	4,099
Impact of foreign exchange rate differences and other	(97)	1,273	139	1,174
Changes in non-cash working capital	$ (4,949)	$ (10,236)	$ 32,056	$ (40,547)
These changes relate to the following activities:				
Operating	$ (5,231)	$ (23,028)	$ 35,547	$ (29,317)
Investing	217	12,491	(3,728)	(13,169)
Financing	65	301	237	1,939
Changes in non-cash working capital	$ (4,949)	$ (10,236)	$ 32,056	$ (40,547)

Other Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Cash taxes paid	$ 26	$ 114	$ 508	$ 1,186
Cash interest paid	$ 11,779	$ 7,207	$ 35,029	$ 36,440

17. COMPARATIVE FIGURES

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