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 Discussion and Analysis and to recommend 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 Discussion and Analysis and to recommend 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 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.

Ernst & Young LLP

Calgary, Canada

15 February 2011

Chartered accountants

Inter Pipeline Fund

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)	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Year Ended December 31 **2010** Total	2009 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.

Inter Pipeline Fund

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.

Inter Pipeline Fund

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.

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	
	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	$ 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

Inter Pipeline Fund
Notes to Consolidated Financial Statements
December 31, 2010
(tabular amounts in thousands of dollars, except as otherwise indicated)

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	$ 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's 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	United Kingdom		Ireland		Germany	
by Asset Category	**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.

	2010				2009			
Change in Accrued Benefit Obligation	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

	2010				2009			
Change in Pension Plan Assets	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

	2010				2009			
Reconciliation of Funded Status to Accrued Benefit Liability	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 of 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

(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.

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(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

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).

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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.

[*] 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.

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 GJs/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 percent 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.