Management's Discussion and Analysis

For the three and nine months ended September 30, 2011

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights significant business results and statistics for Inter Pipeline Fund's (Inter Pipeline) three and nine month periods ended September 30, 2011 to provide Inter Pipeline's unitholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of cash distributions to its unitholders through 2011 and beyond; 2) the maintenance of Inter Pipeline's cash distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including the Polaris diluent pipeline project for the Kearl oil sands mining project (Kearl project) and new pipeline connection to the Sunrise oil sands project (Sunrise project) and Cochrane liquid sweetening project; and, 6) capital forecasts.

Readers are cautioned not to place undue reliance on forward-looking statements; as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Pipeline Management Inc., the general partner of Inter Pipeline (General Partner) at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; assumptions concerning operational reliability; the availability and price of labour and construction materials; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its subsidiaries; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and natural gas liquids (NGL) extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; inflation; the ability to access sufficient capital from internal and external sources; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection and instability affecting countries in which Inter Pipeline and its subsidiaries operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; potential delays and cost overruns on construction projects, including, but not limited to the Corridor project and other projects noted above; Inter Pipeline's ability to make capital investments and amount of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its subsidiaries; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; political and economic conditions in the countries in which Inter Pipeline and its subsidiaries operate; difficulty in obtaining necessary regulatory approvals and maintenance of support of such approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. The impact of any one assumption, risk, uncertainty or other factor on a particular forward-looking statement is not determinable with certainty, as these are interdependent and Inter Pipeline's future course of action depends on management's assessment of all information available at the relevant time.

Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled RISK FACTORS included in Inter Pipeline's MD&A for the year ended December 31, 2010. The forward-looking statements contained in this MD&A are made as of the date of this document, and, except to the extent expressly required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document and all subsequent forward-looking statements, whether written or oral, attributable to Inter Pipeline or persons acting on Inter Pipeline's behalf are expressly qualified in their entirety by these cautionary statements.

Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2011

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and nine month periods ended September 30, 2011 as compared to the three and nine month periods ended September 30, 2010. The MD&A should be read in conjunction with the MD&A for the quarterly periods ended March 31 and June 30, 2011, the unaudited condensed interim consolidated financial statements (interim financial statements) for the quarterly periods ended March 31, June 30 and September 30, 2011, the unaudited interim consolidated financial statements and MD&A of Inter Pipeline for the quarterly periods ended March 31, June 30 and September 30, 2010, the audited consolidated financial statements for the year ended December 31, 2010, the **Annual Information Form** and other information filed by Inter Pipeline at www.sedar.com.

Financial information presented in this MD&A is based on information in Inter Pipeline's interim financial statements for September 30, 2011. The Canadian Accounting Standards Board (AcSB) requires all Canadian publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting periods for fiscal years beginning on or after January 1, 2011. Consequently, Inter Pipeline is presenting its 2011 financial results under the principles of IFRS, with fiscal 2010 results restated for comparative purposes. The Canadian Institute of Chartered Accountants (CICA) incorporated IFRS in the CICA Handbook so it is now considered part of Generally Accepted Accounting Principles (GAAP). See the **INTERNATIONAL FINANCIAL REPORTING STANDARDS** section for further information on the transition to IFRS.

This MD&A reports certain non-GAAP financial measures that are used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

Management determines whether information presented in this MD&A is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in Inter Pipeline would likely be influenced or changed if the information was omitted or misstated.

Page

INTERNATIONAL FINANCIAL REPORTING STANDARDS....4
THIRD QUARTER HIGHLIGHTS....5
PERFORMANCE OVERVIEW....6
OUTLOOK....8
RESULTS OF OPERATIONS....10
SUMMARY OF QUARTERLY RESULTS....21
LIQUIDITY AND CAPITAL RESOURCES....22
CASH DISTRIBUTIONS TO UNITHOLDERS....26
OUTSTANDING UNIT DATA....28
RISK MANAGEMENT AND FINANCIAL INSTRUMENTS....28
TRANSACTIONS WITH RELATED PARTIES....32
CONTROLS AND PROCEDURES....33
CRITICAL ACCOUNTING ESTIMATES....33
CHANGES IN ACCOUNTING POLICIES....33
RISK FACTORS....34
NON-GAAP FINANCIAL MEASURES....34
ELIGIBLE INVESTORS....37
ADDITIONAL INFORMATION....37
CONSOLIDATED FINANCIAL STATEMENTS....38

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Inter Pipeline's interim financial statements for September 30, 2011 have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting* (IAS 34) and International Financial Reporting Standard 1 – *First-time Adoption of IFRS* (IFRS 1). The accounting policies used are consistent with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that Inter Pipeline expects to adopt in its first annual IFRS financial statements for the year ended December 31, 2011. The interim financial statements do not contain all disclosures required by IFRS for annual financial statements, and accordingly, should be read in conjunction with Inter Pipeline's consolidated financial statements and the notes thereto for the year ended December 31, 2010. Subject to certain transition elections previously disclosed in the March 31, 2011 interim financial statements, Inter Pipeline has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 21 of the March 31, 2011 interim financial statements discloses the impact of the transition to IFRS on Inter Pipeline's reported balance sheets, statements of net income, comprehensive income, partners' equity and cash flows, including the nature and effect of significant changes in accounting policies from those used in Inter Pipeline's consolidated financial statements for the year ended December 31, 2010. In this MD&A the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. Comparative figures for 2010 that were previously reported under Canadian GAAP have been restated to give effect to these changes.

The policies applied to the September 30, 2011 interim financial statements are based on IFRS issued and outstanding as of November 3, 2011 (the date that Inter Pipeline's interim financial statements are approved by the General Partner's board of directors) with effective dates for periods ending on December 31, 2011. Any subsequent changes to IFRS that are given effect in Inter Pipeline's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of the interim financial statements, including the transition adjustments recognized on transition to IFRS.

The transition to IFRS had an immaterial impact on Inter Pipeline's key financial performance indicator, funds from operations*. Restatement of 2010 consolidated financial statements to IFRS resulted in a decrease in funds from operations* of $1.3 million or 0.4% for the year ended December 31, 2010, and a $0.2 million or 0.3% increase for the three months ended September 30, 2010 ($0.7 million or 0.3% increase for the nine months ended September 30, 2010).

For further discussion on Inter Pipeline's transition to IFRS, see the **Changes in Accounting Policies** section and also refer to Note 21 of the March 31, 2011 interim financial statements and Note 20 of the September 30, 2011 interim financial statements.

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

THIRD QUARTER HIGHLIGHTS

- Funds from operations* increased to a record $111.9 million, up $34.5 million or 45% over third quarter 2010 results
- Record quarterly throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems, averaging 993,300 barrels per day (b/d)
- Shipments on oil sands pipelines averaged 824,000 b/d, an increase of 190,000 b/d or 30% over third quarter 2010 levels
- Low quarterly payout ratio before sustaining capital* of 55.8%
- Conservative use of balance sheet leverage with a recourse debt to capitalization* ratio of only 40.1% at quarter end
- Cash distributions to unitholders totalled $62.5 million or $0.24 per unit
- Successfully completed a $200 million Canadian public debt offering of senior unsecured medium-term notes at an attractive interest rate

---

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

PERFORMANCE OVERVIEW

(millions, except per unit and % amounts)	Three Months Ended September 30 2011	Three Months Ended September 30 2010 (restated)	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010 (restated)
Revenues				
Oil sands transportation	$ 73.0	$ 36.4	$ 213.5	$ 107.7
NGL extraction	158.2	128.8	455.5	445.2
Conventional oil pipelines	45.7	41.4	131.5	116.7
Bulk liquid storage	25.2	25.1	77.9	75.0
	$ 302.1	$ 231.7	$ 878.4	$ 744.6
Funds from operations[(1)(2)(3)(4)]				
Oil sands transportation	$ 41.8	$ 18.4	$ 126.2	$ 55.9
NGL extraction	62.6	40.2	158.4	130.1
Conventional oil pipelines	35.6	30.2	99.7	86.2
Bulk liquid storage	9.0	5.9	27.8	31.4
Corporate costs	(37.1)	(17.3)	(108.0)	(52.0)
	$ 111.9	$ 77.4	$ 304.1	$ 251.6
Per unit[(1)]	$ 0.43	$ 0.30	$ 1.17	$ 0.98
Net income	$ 76.6	$ 46.5	$ 202.1	$ 175.9
Per unit – basic and diluted	$ 0.29	$ 0.19	$ 0.78	$ 0.69
Cash distributions[(5)]	$ 62.5	$ 57.9	$ 186.6	$ 173.3
Per unit[(5)]	$ 0.240	$ 0.225	$ 0.720	$ 0.675
Units outstanding (basic)				
Weighted average	259.9	257.2	259.0	256.6
End of period	261.2	257.5	261.2	257.5
Capital expenditures				
Growth [(1)]	$ 29.8	$ 36.5	$ 98.4	$ 101.9
Sustaining[(1)]	5.0	2.9	12.2	11.0
	$ 34.8	$ 39.4	$ 110.6	$ 112.9
Payout ratio before sustaining capital[(1)]	55.8%	74.8%	61.4%	68.9%
Payout ratio after sustaining capital[(1)]	58.5%	77.6%	63.9%	72.0%

(millions, except per unit and % amounts)	As at September 30 2011	December 31 2010
Total assets	$ 4,779.0	$ 4,715.6
Total debt[(6)]	$ 2,719.1	$ 2,801.2
Total partners' equity	$ 1,404.4	$ 1,328.0
Enterprise value [(1)]	$ 6,901.1	$ 6,651.2
Total debt to total capitalization[(1)]	65.9%	67.8%
Total recourse debt to capitalization[(1)]	40.1%	41.0%

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(2) In the second quarter of 2010, funds from operations[(1)] in the bulk liquid storage business increased by $5.8 million due to cash proceeds received for customer storage fees paid in advance.
(3) In the third quarter of 2010, funds from operations[(1)] in the bulk liquid storage business decreased $4.1 million due to a special defined benefit pension plan contribution.
(4) In the third quarter of 2011, funds from operations[(1)] increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.
(5) Cash distributions are calculated based on the number of units outstanding at each record date.
(6) Total debt reported in the September 30, 2011 interim financial statements includes long-term and short-term debt of $2,711.1 million inclusive of discounts and debt transaction costs of $8.0 million.

THREE MONTHS ENDED SEPTEMBER 30, 2011

Inter Pipeline Fund generated record quarterly financial results in the third quarter of 2011. Funds from operations* of $111.9 million were 44.6% or $34.5 million higher than the $77.4 million earned in the third quarter of 2010, despite becoming a taxable entity on January 1, 2011. This strong financial performance resulted in a very attractive payout ratio before sustaining capital* of 55.8%. The oil sands transportation business led the increase in financial results, primarily due to the completion of the Corridor pipeline expansion project and its revenue commencement, effective January 1, 2011. The Cold Lake pipeline system also experienced a significant increase in funds from operations* primarily due to higher throughput volumes. Also contributing to these results was a one time positive adjustment of $20.5 million in the NGL extraction business. This adjustment related to a pricing adjustment on propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011. The conventional oil pipelines business also generated an increase in operating results due to increased throughput volumes and higher tariffs. Funds from operations* in the bulk liquid storage business increased from the third quarter of 2010, however after adjusting for a $4.1 million special contribution to a defined benefit pension plan in the third quarter of 2010, operating results were consistent. Partially offsetting the increase in funds from operations* were increased corporate costs due to higher current income taxes and higher interest expense.

In the third quarter of 2011, net income increased to $76.6 million from $46.5 million in the third quarter of 2010, an increase of $30.1 million or 64.7%. In addition to the increases in operating results discussed above, the mark-to-market value of derivative financial instruments yielded a lower unrealized loss which also favourably impacted net income. These increases were somewhat offset by higher deferred income taxes and higher depreciation and amortization expenses, compared to the third quarter of 2010.

Total cash distributed to unitholders in the third quarter of 2011 was $62.5 million, an increase of $4.6 million or 7.9% from $57.9 million in the third quarter of 2010. The increase in cash distributions is primarily due to increased monthly distributions of $0.005 per unit effective December 2010, and higher units outstanding as a result of the reintroduction of the Premium Distribution™ component of the distribution reinvestment plan (Plan) in July 2011.

At September 30, 2011, Inter Pipeline's consolidated debt was $2,719.1 million, a decrease of $19.1 million or 0.7% from $2,738.2 million at June 30, 2011, during which time approximately $34.8 million was spent on capital projects.

NINE MONTHS ENDED SEPTEMBER 30, 2011

Inter Pipeline's strong financial performance continued for the first nine months of 2011 as funds from operations* totalled $304.1 million, up $52.5 million or 20.9% from $251.6 million in 2010, despite becoming a taxable entity. The increase in funds from operations* resulted in an attractive payout ratio before sustaining capital* of 61.4%. As discussed above, substantially stronger financial results in the oil sands transportation business, combined with significant increases in the NGL extraction and conventional oil pipelines businesses, were the primary drivers for the increase. Operating results in the bulk liquid storage business decreased by $3.6 million for the first nine months of 2011 compared to 2010, primarily due to transaction costs related to the DEOT acquisition. Corporate costs also increased for the same reasons as discussed above for the third quarter of 2011.

Net income increased to $202.1 million in the first nine months of 2011 compared to $175.9 million in 2010, an increase of $26.2 million or 14.9%. The increase in net income was largely attributed to the increase in operating results discussed above, which were somewhat offset by an unfavourable mark-to-market adjustment of derivative financial instruments, higher deferred income taxes and increased depreciation and amortization expenses.

Total cash distributed to unitholders in the nine months ended September 30, 2011 was $186.6 million, an increase of $13.3 million or 7.7% from $173.3 million in 2010, for the same reasons discussed above for the third quarter of 2011.

---

* Please refer to the NON-GAAP FINANCIAL MEASURES section

™ Denotes trademark of Canaccord Capital Corporation

Inter Pipeline's consolidated debt decreased $82.1 million from $2,801.2 million at December 31, 2010 to $2,719.1 million at September 30, 2011, while approximately $110.6 million was spent on capital projects. Inter Pipeline's low recourse debt to capitalization* ratio decreased slightly from 41.0% at December 31, 2010 to 40.1% at September 30, 2011. When adjusted to include non-recourse debt of $1,779.3 million held within Inter Pipeline's Corridor corporate entity, Inter Pipeline's total debt to total capitalization ratio was 65.9% at September 30, 2011, down from 67.8% at December 31, 2010.

OUTLOOK

Inter Pipeline's business strategy is to acquire and develop long-life, high-quality energy infrastructure assets that generate sustainable and predictable cash flow. Through the execution of this strategy, Inter Pipeline expects to generate long term results that are minimally impacted by fluctuations in business cycles. Strong financial results, operational excellence and a solid balance sheet are expected to provide the foundation for steady returns to unitholders, while simultaneously enabling the development of future growth prospects. Despite becoming a taxable entity in 2011, Inter Pipeline has continued to generate strong results as evidenced by record third quarter 2011 financial performance. Looking forward, cash flows from existing and planned growth projects are expected to position Inter Pipeline very well to sustain current levels of cash distributions to unitholders.

Inter Pipeline's current capital spending outlook is primarily focused on initiatives in our bulk liquid storage and oil sands transportation segments. In the second quarter of 2011, Inter Pipeline entered into an agreement to purchase four petroleum storage terminals in Denmark for €354 million or approximately $500 million (DEOT acquisition). The acquisition will more than double Inter Pipeline's total bulk liquid storage capacity in Western Europe to approximately 19 million barrels, adding scale and diversification to European storage operations. With the DEOT acquisition, Inter Pipeline has increased its capital expenditure forecast for 2011 from an initial $220 million to approximately $700 million.

Despite recent European economic uncertainly, the four storage terminals in Denmark benefit from strong demand as evidenced by the near 100% utilization rate of existing tankage. The revenue stream is not directly subject to commodity price fluctuations. Approximately 90% of revenue is fixed under term storage agreements, adding to Inter Pipeline's increasing proportion of stable contract-based cash flow. The transaction is expected to be immediately accretive to Inter Pipeline's unitholders as cash available for distribution is expected to increase by approximately $0.10 per unit annually. Several growth opportunities have been identified at the terminals, consistent with Inter Pipeline's historic approach of acquiring long-life assets with development potential. The DEOT acquisition is expected to close in November 2011.

The continued development of Alberta's oil sands reserves continues to drive growth in Inter Pipeline's oil sands transportation business. Inter Pipeline is currently developing plans to capitalize on and expand its sizable infrastructure base that currently serves the Athabasca and Cold Lake regions. In the third quarter, development of the Polaris pipeline system continued according to plan, with pipeline and facility infrastructure work progressing steadily. The Polaris system will become a major diluent transportation system to the Athabasca oil sands region, where significant quantities of diluent are expected to be required within the next decade.

The Polaris system is being initially developed with the support of two major long-term contracts. Inter Pipeline has signed agreements to transport diluent to the Kearl oil sands project, under development by Imperial Oil Limited and ExxonMobil Canada, and to the Sunrise project being developed by Husky Oil Operations and BP Canada Energy Company. Together, these projects have contracted for 90,000 b/d of diluent transportation on the Polaris system under agreements with 20+ year terms. These cost-of-service contracts will provide stable long term cash flow that is not subject to commodity price or throughput risk. Service to the Kearl project is expected to begin in late 2012 and to the Sunrise project in late 2013. Construction of both projects remains on schedule to meet planned in-service dates. As a result of Inter Pipeline completing more detailed engineering work, the estimated cost to connect the Polaris pipeline to the Kearl and Sunrise projects and diluent receipt points in the Edmonton area has been revised from $150 million to approximately $115 million. Due to the lower anticipated construction costs, Inter Pipeline expects to generate approximately $63 million in incremental long-term annual EBITDA* when fully in-

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

service. Inter Pipeline is also planning for possible expansions of the Polaris system should additional opportunities arise through either future expansions of the Kearl or Sunrise projects, or other third party oil sands developments.

In 2011, Inter Pipeline is studying the possible development of a potential multi-year expansion of the Cold Lake pipeline system. Additional capacity on the Cold Lake main line is expected to be required to meet forecast volume growth from existing shippers and prospective third parties. Potential expansion projects are expected to be undertaken in numerous phases comprised of new pipeline loops, pipeline laterals, and additional pump stations and associated facilities.

Inter Pipeline expects future cash flow to become increasingly stable with the further development of our existing infrastructure, where new growth projects are primarily governed by fee-based or cost-of-service agreements. While the majority of existing cash flow is tied to stable long-term contracts, cash flow from the sale of propane-plus from the Cochrane extraction facility is subject to commodity price fluctuations. As new projects and acquisitions underpinned by fee-based or cost-of-service type contracts come into service, such as with current planned pipeline expansion projects and the DEOT acquisition, Inter Pipeline's exposure to commodity price fluctuations is expected to become smaller relative to overall financial results.

In the third quarter, Inter Pipeline continued to opportunistically strengthen its balance sheet. In July, Inter Pipeline successfully completed a $200 million Canadian public debt offering of senior unsecured medium-term notes (MTN Series 2) at a favourable rate of 3.839%. The notes have a seven year term and will pay interest semi-annually. Net proceeds were used to reduce existing bank indebtedness in order to provide additional financial capacity to complete the DEOT acquisition. In addition, Inter Pipeline reactivated the Premium™ DRIP component of its distribution reinvestment plan beginning with July's distribution. The Plan issues approximately $15 million per month in new equity capital. These activities further enhance Inter Pipeline's ability to finance planned capital expenditures. At September 30, Inter Pipeline's total recourse debt to capitalization* ratio was only 40.1%, providing Inter Pipeline with significant flexibility to finance its planned capital expenditure program, including the DEOT acquisition.

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

Inter Pipeline continues to maintain investment grade credit ratings, with a rating of BBB+ with a stable outlook from Standard & Poor's (S&P), and BBB (high) with a stable trend from DBRS. Both of these ratings were upgraded in 2010. Inter Pipeline (Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A2 (stable outlook), A (stable outlook), and A- (positive outlook) from Moody's Investor Services (Moody's), DBRS and S&P, respectively. Inter Pipeline's senior unsecured medium-term notes (MTN Series 1 and MTN Series 2) were granted investment grade credit ratings of BBB+ and BBB (high) by S&P and DBRS, respectively.

™ Denotes trademark of Canaccord Capital Corporation

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended September 30			Nine Months Ended September 30		
Volumes (000s b/d)	2011	2010	*% change*	2011	2010	*% change*
Cold Lake (100% basis)	499.5	418.5	*19.4*	497.3	440.3	*12.9*
Corridor	324.5	215.6	*50.5*	294.6	174.1	*69.2*
	824.0	634.1	*29.9*	791.9	614.4	*28.9*

(millions)		*(restated)*			*(restated)*	
Revenue(1)	$ 73.0	$ 36.4	*100.5*	$ 213.5	$ 107.7	*98.2*
Operating expenses(1)	$ 21.2	$ 14.5	*46.2*	$ 58.3	$ 42.1	*38.5*
Funds from operations(1)(2)	$ 41.8	$ 18.4	*127.2*	$ 126.2	$ 55.9	*125.8*
Capital expenditures(1)						
Growth(2)	$ 23.7	$ 27.2		$ 80.3	$ 81.8	
Sustaining(2)	0.3	(0.1)		0.7	0.5	
	$ 24.0	$ 27.1		$ 81.0	$ 82.3	

(1) Cold Lake pipeline system's revenue, operating expenses, funds from operations and capital expenditures are recorded on the basis of Inter Pipeline's 85% ownership interest.

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

Volumes

In the third quarter of 2011, average volumes in the oil sands transportation business increased 29.9% or 189,900 b/d, compared to the third quarter of 2010. Average volumes for the nine months ended September 30, 2011 increased by 28.9% or 177,500 b/d, compared to the same period in 2010.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta. For the three and nine month periods ended September 30, 2011, average volumes increased on the Cold Lake pipeline system by 81,000 b/d or 19.4% and 57,000 b/d or 12.9%, respectively, compared to the same periods in 2010. The volume increases are due to higher production from Cenovus' Foster Creek, Canadian Natural's Wolf Lake and Imperial's Cold Lake in-situ oil sands developments. Inter Pipeline anticipates continued incremental volume growth on the Cold Lake pipeline system, which is consistent with shippers' published long term forecasts.

The Corridor pipeline system transports diluted bitumen produced from the Muskeg River and Jackpine Mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta, as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. In the third quarter and year to date 2011, average volumes transported on the Corridor pipeline system increased 108,900 b/d or 50.5%, and 120,500 b/d or 69.2%, respectively, compared to the same periods in 2010. The increase in volume is primarily due to production from AOSP's Jackpine Mine which commenced operation in the fourth quarter of 2010. The year to date volume increase was also impacted by lower second quarter 2010 volumes due to maintenance turnarounds at the Muskeg River mine and Scotford upgrader, which coincided with commissioning activities associated with the Corridor pipeline expansion project.

Revenue

Revenue from the oil sands transportation business increased 100.5% to $73.0 million in the third quarter of 2011 and 98.2% to $213.5 million year to date 2011, compared to the same periods in 2010.

Revenue from the Cold Lake pipeline system increased 39.3% or $8.1 million in the third quarter of 2011 and 29.5% or $18.0 million year to date in 2011, compared to the same periods in 2010. The increases are due to higher volumes transported on the Cold Lake pipeline system and increased power and operating cost recoveries.

The Cold Lake Transportation Services Agreement (Cold Lake TSA) provides for a structured return on capital invested including a defined capital fee that is applied to volumes transported through the pipelines and facilities that comprise the Cold Lake pipeline system, and a recovery of substantially all operating costs. The founding shippers' annual minimum ship-or-pay commitment under the terms of the Cold Lake TSA is $27.8 million to the end of December 2011 based on Inter Pipeline's 85% ownership interest ($32.7 million – 100% basis). Inter Pipeline receives incremental revenue based on the capital fee for volumes shipped over and above the defined ship-or-pay amounts. Additional returns on capital invested and recovery of associated operating costs are also earned with respect to other agreements between Cold Lake LP and shippers utilizing the Cold Lake pipeline system.

Corridor pipeline system revenue increased 177.8% or $28.5 million in the third quarter of 2011, and 187.3% or $87.8 million year to date 2011, compared to the same periods in 2010. The revenue increase was primarily due to the Corridor pipeline expansion project being placed into service, which began generating incremental revenue on January 1, 2011. Increased operating cost recoveries also favourably impacted revenue in both periods compared to 2010.

The Corridor Firm Service Agreement (Corridor FSA) utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of all debt financing costs, operating costs, rate base depreciation and taxes, in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's funds from operations* are not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's funds from operations* are changes to the long-term Government of Canada bond rate upon which the annual return on equity is determined, and changes to Corridor's rate base.

Operating Expenses

Operating expenses in the oil sands transportation business segment have a limited impact on Inter Pipeline's cash flow as substantially all expenditures are recovered from the shippers on both the Cold Lake and Corridor pipeline systems. For the three and nine month periods ended September 30, 2011, operating expenses in the oil sands transportation business increased $6.7 million and $16.2 million, respectively, compared to the same periods in 2010.

Operating expenses on the Cold Lake pipeline system increased $3.8 million and $7.3 million for the three and nine month periods ended September 30, 2011, respectively. The increase is primarily due to higher power consumption as a result of increased volumes and higher power pricing as the average Alberta power pool prices increased from $35.77/MWh in the third quarter of 2010 to $94.69/MWh in the third quarter of 2011. On a year to date basis, average Alberta power pool prices increased from $52.55/MWh in 2010 to $76.26/MWh in 2011. Other operating costs decreased in the third quarter of 2011, primarily due to lower tank inspection costs, compared to the same period in 2010. Year to date 2011, other operating expenses increased due to higher routine operating and maintenance costs, which were partially offset by lower property taxes and the timing associated with certain integrity related costs, compared to the same period in 2010.

For the three and nine month periods ended September 30, 2011, operating expenses on the Corridor pipeline system increased $2.9 million and $8.9 million, respectively, compared to the same periods in 2010. The increase is attributed to the Corridor pipeline expansion project being in-service, which has resulted in higher routine operating and maintenance costs, property taxes and employee costs. These increases were partially offset by lower power costs as a result of the expanded Corridor system requiring less power to transport volumes.

Capital Expenditures

Growth capital expenditures* of approximately $2.5 million were expended on the Corridor pipeline expansion project in the third quarter of 2011, for a total of $1,856.1 million spent on the project. The Corridor pipeline expansion project has been fully commissioned. Corridor pipeline expansion project costs have been added to the rate base and began generating revenue on January 1, 2011. Growth capital expenditures also included $0.7 million spent on overall system enhancements and improvements to a river crossing on the Corridor pipeline system.

---

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

Detailed facility engineering, procurement and pipeline construction activity for Inter Pipeline's Polaris diluent pipeline system continues, with approximately $15.7 million of growth capital* spent during the third quarter of 2011 for a total of $61.6 million spent to date. Beginning in late 2012 and 2013, the Polaris pipeline system will provide diluent transportation services for the Kearl and Sunrise oil sands projects, respectively. The Polaris system utilizes an existing 12-inch diameter pipeline that has been idled as a result of the Corridor expansion project. The net book value of the Polaris pipeline will be deducted from Corridor's rate base, which is estimated to occur in the latter half of 2012, prior to beginning diluent service for the Kearl project. As a result of Inter Pipeline completing more detailed engineering work, the estimated cost to connect the Polaris pipeline to the Kearl and Sunrise projects and diluent receipt points in the Edmonton area has been revised from $150 million to approximately $115 million. Growth capital expenditures* of $0.8 million were also spent on the Polaris pipeline system relating to other growth initiatives.

The Cold Lake pipeline system incurred growth capital expenditures* of $4.0 million in the third quarter relating to various growth initiatives and final clean up costs on the pipeline expansion project for the Foster Creek oil sands project.

NGL EXTRACTION BUSINESS SEGMENT

	Three Months Ended September 30							
	2011				2010			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,431	46.5	20.7	67.2	1,680	46.2	23.5	69.7
Empress V (100% basis)	979	22.9	11.3	34.2	841	17.4	9.5	26.9
Empress II	19	0.4	0.2	0.6	120	2.2	1.4	3.6
	2,429	69.8	32.2	102.0	2,641	65.8	34.4	100.2

	Nine Months Ended September 30							
	2011				2010			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,618	49.6	23.1	72.7	1,789	49.4	25.4	74.8
Empress V (100% basis)	976	23.2	10.9	34.1	948	19.0	10.5	29.5
Empress II	100	1.8	1.0	2.8	152	2.5	1.7	4.2
	2,694	74.6	35.0	109.6	2,889	70.9	37.6	108.5

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

(millions)	Three Months Ended September 30 2011	2010 (restated)	% change	Nine Months Ended September 30 2011	2010 (restated)	% change
Revenue[1]	$ 158.2	$ 128.8	22.8	$ 455.5	$ 445.2	2.3
Shrinkage gas[1]	$ 67.6	$ 66.9	1.0	$ 216.4	$ 239.1	(9.5)
Operating expenses[1]	$ 28.0	$ 21.6	29.6	$ 80.7	$ 76.0	6.2
Funds from operations[1][2][3]	$ 62.6	$ 40.2	55.7	$ 158.4	$ 130.1	21.8
Capital expenditures[1]						
Growth[3]	$ 1.0	$ 2.4		$ 4.3	$ 3.4	
Sustaining[3]	2.3	1.7		4.3	2.6	
	$ 3.3	$ 4.1		$ 8.6	$ 6.0	

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

(2) In the third quarter of 2011, funds from operations[3] increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.

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

Volumes

Inter Pipeline's NGL extraction plants processed an average of 2,429 million cubic feet of natural gas per day (mmcf/d) in the third quarter and 2,694 mmcf/d during the first nine months of 2011.

At the Cochrane facility, average throughput volume decreased 249 mmcf/d and 171 mmcf/d for the three and nine month periods ended September 30, 2011, respectively, compared to the same periods in 2010. Throughput decreased primarily due to lower demand for Canadian natural gas in the US west-coast as compared to the same periods in 2010.

At the Empress V and II facilities, average throughput volumes increased 37 mmcf/d in the third quarter of 2011 and decreased 24 mmcf/d year to date 2011, compared to the same periods in 2010. Average throughput volumes are impacted by fluctuations in natural gas exported from Alberta's eastern border. Decreased throughput volumes at the Empress II facility do not impact operating results due to the cost-of-service commercial arrangements at this facility.

Revenue

The NGL extraction business earns revenue from a combination of commodity-based, fee-based and cost-of-service arrangements. Commodity-based contracts provide for a sharing of profits from the sale of NGL products between the NGL extraction business and the purchaser. The profit share calculation consists of revenue from the sale of NGL products less costs to bring the NGL product to market, including extraction, shrinkage gas, fractionation and marketing costs. Commodity-based contracts are exposed to frac-spread and volume risks. Fee-based contracts provide a fixed fee associated with each barrel of NGL produced and recovery of operating costs, including shrinkage gas costs. There is no commodity price exposure associated with this type of contract; however, fee-based contracts are exposed to volume fluctuations. Cost-of-service contracts provide a structured return on capital invested utilizing a rate base approach and a recovery of operating costs, including shrinkage gas. This form of contract provides the most stable cash flow of the three contract types, as there is minimal volume risk and no commodity price exposure.

For the three and nine month periods ended September 30, 2011, revenue increased $29.4 million and $10.3 million, respectively, compared to the same periods in 2010. Of the $29.4 million increase in the third quarter $20.5 million was due to a one time price adjustment relating to propane-plus volumes sold from 2007 to 2011. Revenue was also impacted by higher propane-plus pricing in 2011; however, lower propane-plus volumes at the Cochrane facility reduced this positive variance.

Frac-spread

(dollars)	Three Months Ended September 30 2011		2010	
	USD/USG [1]	CAD/USG [1]	USD/USG [1]	CAD/USG [1]
Market frac-spread	$ 1.303	$ 1.275	$ 0.844	$ 0.877
Realized frac-spread	$ 1.013	$ 0.990	$ 0.775	$ 0.806

(dollars)	Nine Months Ended September 30 2011		2010	
	USD/USG [1]	CAD/USG [1]	USD/USG [1]	CAD/USG [1]
Market frac-spread	$ 1.249	$ 1.220	$ 0.865	$ 0.896
Realized frac-spread	$ 1.010	$ 0.987	$ 0.799	$ 0.828

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

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

Realized frac-spreads for the three and nine month periods ended September 30, 2011 increased from $0.78 USD/USG to $1.01 USD/USG and from $0.80 USD/USG to $1.01 USD/USG, respectively, compared to the same periods in 2010. Market frac-spreads for the three and nine month periods ended September 30, 2011 were above the 5-year and 15-year simple average market frac-spread of $0.70 USD/USG and $0.39 USD/USG, respectively, calculated at December 31, 2010.

Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the Cochrane and Empress V facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. Shrinkage gas expense increased in the third quarter of 2011 by $0.7 million due to increased ethane production, while the weighted average monthly AECO price* held constant at $3.53 per gigajoule (GJ) compared to the same period in 2010. Year to date 2011, shrinkage gas expense decreased $22.7 million primarily due to lower natural gas prices, which was partially offset by increased ethane production, compared to the same period in 2010. The weighted average monthly AECO price* decreased 13.0% from $4.08/GJ year to date 2010 to $3.55/GJ year to date 2011.

Operating Expenses

For the three and nine month periods ended September 30, 2011, operating expenses increased $6.4 million and $4.7 million, respectively, compared to the same periods in 2010. Operating expenses increased primarily due to higher fuel and power costs, as well as higher general operating and maintenance costs. Average Alberta pool prices increased in the third quarter from $35.77/MWh in 2010 to $94.69/MWh in 2011 and year to date from $52.55/MWh in 2010 to $76.26/MWh in 2011. AECO natural gas prices are discussed above.

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

Capital Expenditures

The NGL extraction business incurred growth capital expenditures* of approximately $1.0 million in the third quarter of 2011. Expenditures of $0.7 million relate to a liquid sweetening project at the Cochrane facility while the remaining expenditures relate to various other projects at the Cochrane and Empress facilities.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended September 30			Nine Months Ended September 30		
Volumes (000s b/d)	2011	2010	*% change*	2011	2010	*% change*
Bow River	106.5	107.5	*(0.9)*	107.1	109.6	*(2.3)*
Central Alberta	26.2	24.2	*8.3*	26.4	21.8	*21.1*
Mid-Saskatchewan	36.6	31.5	*16.2*	34.5	31.9	*8.2*
	169.3	163.2	*3.7*	168.0	163.3	*2.9*

(millions)	2011	*(restated)* 2010	*% change*	2011	*(restated)* 2010	*% change*
Revenue	$ 45.7	$ 41.4	*10.4*	$ 131.5	$ 116.7	*12.7*
Operating expenses	$ 11.1	$ 11.6	*(4.3)*	$ 32.0	$ 30.5	*4.9*
Funds from operations[1]	$ 35.6	$ 30.2	*17.9*	$ 99.7	$ 86.2	*15.7*
Revenue per barrel[2]	$ 2.94	$ 2.76	*6.5*	$ 2.87	$ 2.62	*9.5*
Capital expenditures						
Growth[1]	$ 1.5	$ 1.1		$ 1.9	$ 4.5	
Sustaining[1]	0.3	(0.2)		1.6	1.1	
	$ 1.8	$ 0.9		$ 3.5	$ 5.6	

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.
(2) Revenue per barrel represents total revenue of the conventional oil pipelines business segment divided by actual volumes.

Volumes

In the third quarter and year to date 2011, volumes on the conventional oil pipelines increased approximately 6,100 b/d and 4,700 b/d, respectively, compared to the same periods in 2010. Mid-Saskatchewan pipeline system volumes increased approximately 5,100 b/d in the third quarter and 2,600 b/d year to date 2011, compared to the same periods in 2010. Volume growth on this system resulted primarily from new horizontal well drilling in the Viking light oil play. In the three and nine month periods ended September 30, 2011, volumes on the Central Alberta pipeline system increased approximately 2,000 b/d and 4,600 b/d, respectively, compared to the same periods in 2010. This volume increase is due to wider heavy crude oil differentials resulting in volumes being trucked in to take advantage of favourable blending economics. Bow River pipeline system volumes decreased approximately 1,000 b/d in the third quarter and 2,500 b/d year to date 2011 compared to the same periods in 2010, primarily due to natural volume declines and a reduction in volumes trucked to the system.

Revenue

Revenues for the three and nine month periods ended September 30, 2011, in the conventional oil pipelines business increased $4.3 million and $14.8 million, respectively, compared to the same periods in 2010. The increase in both periods was mainly due to mainline toll increases averaging 6% in both January and July of 2011, and also due to increased volumes. Revenue was also higher year to date 2011, compared to the same period in 2010, as wider heavy crude oil differentials increased revenue from Inter Pipeline's marketing activities.

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

Operating Expenses

In the third quarter of 2011, operating expenses decreased $0.5 million compared to the same period in 2010. The decrease is primarily due to employee and right-of-way costs, which were partially offset by an increase in long-term environmental liabilities and higher fuel and power costs. Operating expenses increased $1.5 million year to date 2011 compared to the same period in 2010. This increase is due to higher fuel and power, maintenance and integrity costs, as well as an increase in long-term environmental liabilities, which were partially offset by lower employee costs, property taxes and insurance.

Capital Expenditures

The conventional oil pipelines incurred growth capital expenditures* of $1.5 million in the third quarter of 2011, of which approximately $1.0 million was spent on third party connections on the Mid-Saskatchewan pipeline system.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended September 30			Nine Months Ended September 30		
	2011	2010	*% change*	2011	2010	*% change*
Utilization	97.8%	96.5%	*1.3*	97.9%	96.0%	*2.0*

(millions)		*(restated)*			*(restated)*	
Revenue	$ 25.2	$ 25.1	*0.4*	$ 77.9	$ 75.0	*3.9*
Operating expenses	$ 13.8	$ 13.2	*4.5*	$ 40.4	$ 39.4	*2.5*
Funds from operations(1)(2)(3)	$ 9.0	$ 5.9	*52.5*	$ 27.8	$ 31.4	*(11.5)*
Capital expenditures						
Growth(3)	$ 3.6	$ 5.8		$ 11.9	$ 12.2	
Sustaining(3)	1.5	1.2		4.1	3.0	
	$ 5.1	$ 7.0		$ 16.0	$ 15.2	

(1) In the second quarter of 2010, funds from operations(3) in the bulk liquid storage business increased by $5.8 million due to cash proceeds received for customer storage fees paid in advance.
(2) In the third quarter of 2010, funds from operations(3) in the bulk liquid storage business decreased $4.1 million due to a special defined benefit pension plan contribution.
(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

Utilization

Inter Pipeline, through its wholly owned subsidiary Simon Storage Limited (Simon Storage), owns eight deep-water bulk liquid storage terminals primarily servicing the petrochemical, petroleum and biofuel industries in the United Kingdom (UK), Germany and Ireland. Despite the uncertainties in the European economic environment, bulk liquid storage demand has held strong with tank utilization increasing to an average of 97.8% in the third quarter and 97.9% year to date in 2011. Demand for storage fluctuates historically due to market conditions within industry sectors and Simon Storage manages these fluctuations through customer and product diversification.

Revenue

The business activities of Simon Storage consist primarily of bulk liquid storage and handling services that are underpinned by a range of long-term and short-term fee-based contracts. Simon Storage also offers a range of ancillary services to its customers through its engineering and facilities management divisions.

Revenue increased $0.1 million in the third quarter of 2011 compared to the same period in 2010. Increased activity levels in the ancillary business resulted in increased revenue of $0.4 million, which was partially offset by foreign currency translation adjustments of $0.3 million. The average Pound Sterling/CAD exchange rate decreased from 1.61 in the third quarter of 2010 to 1.58 in the third quarter of 2011.

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

Year to date 2011, revenue increased $2.9 million compared to the same period in 2010. Storage and handling revenue increased approximately $3.2 million due to increased storage rates, higher utilization and additional handling services. Foreign currency translation adjustments decreased revenue by $0.3 million as the year to date average Pound Sterling/CAD exchange rate decreased from 1.59 in 2010 to 1.58 in 2011.

Operating Expenses

In the third quarter, operating expenses were $0.6 million higher than the same period in 2010. This increase is due to increased ancillary business activity and higher general operating expenses which were partially offset by foreign currency translation adjustments.

Year to date 2011, operating expenses increased $1.0 million over the same period in 2010. Higher throughputs at key terminals resulted in increased operating expenses in the core storage and handling business, which were partially offset by foreign currency translation adjustments.

Capital Expenditures

The bulk liquid storage business incurred growth capital expenditures* of $3.6 million in the third quarter of 2011. The majority of the expenditures relate to a number of tank replacements, tank life extensions and tank modification projects at Immingham.

OTHER EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Depreciation and amortization	$ 24.8	$ 18.3	$ 74.3	$ 68.8
Gain on disposal of assets	0.2	-	-	-
Financing charges	20.5	10.4	59.5	29.9
General and administrative	11.2	11.8	36.9	31.9
Unrealized change in fair value of derivative financial instruments	0.2	18.6	4.5	(1.8)
Fees to General Partner	3.0	1.9	8.2	5.8
Provision for (recovery of) income taxes	23.8	(3.5)	65.0	7.1

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets for the three and nine month periods ended September 30, 2011 were higher than the same periods in 2010. This increase is a result of depreciation for assets now in service which were not depreciated in 2010. Effective July 1, 2010, Inter Pipeline amended its useful life estimates for calculating depreciation on the Corridor, Cold Lake and Bow River pipeline systems. The estimated remaining service lives of these assets have been revised to 80 years to better reflect the number of years over which these pipeline systems will be in operation. This change results in a decrease in depreciation and amortization expense for assets already in service which slightly offsets the previous increase on a year to date basis.

---

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

Financing Charges

(millions)	Three Months Ended September 30 2011	Three Months Ended September 30 2010 *(restated)*	Nine Months Ended September 30 2011	Nine Months Ended September 30 2010 *(restated)*
Interest on credit facilities	$ 7.2	$ 6.7	$ 22.2	$ 16.3
Interest on loan payable to General Partner	5.7	5.7	17.3	17.3
Interest on Corridor debentures	2.5	2.4	7.5	6.3
Interest on senior unsecured medium-term notes	5.4	-	12.0	-
Total interest	20.8	14.8	59.0	39.9
Capitalized interest	(0.3)	(5.0)	(0.7)	(11.6)
Amortization of transaction costs on long and short-term debt	0.3	0.2	0.8	0.6
Accretion of provisions and pension plan financing charges	(0.3)	0.4	0.4	1.0
Total financing charges	$ 20.5	$ 10.4	$ 59.5	$ 29.9

For the three and nine month periods ended September 30, 2011, total financing charges increased $10.1 million and $29.6 million, respectively, compared to the same periods in 2010.

On February 2 and July 29, 2011, Inter Pipeline issued $325 million of MTN Series 1 notes at a rate of 4.967% per annum due February 2, 2021 and $200 million of MTN Series 2 notes at a rate of 3.839% per annum due July 30, 2018, respectively, in the Canadian public debt market. As a result, term debt interest expense increased by $5.4 million in the third quarter and $12.0 million year to date 2011, compared to the same periods in 2010, due to the issuance of these notes.

For the three and nine month periods ended September 30, 2011 capitalized interest decreased $4.7 million and $10.9 million, respectively, compared to the same periods in 2010. The decrease in capitalized interest is primarily due to the Corridor expansion project being placed into service on January 1, 2011 which resulted in interest relating to the project no longer being capitalized.

Interest on credit facilities increased approximately $0.5 million in the third quarter and $5.9 million year to date 2011 compared to the same periods in 2010. This increase is due to higher average short-term interest rates, but somewhat offset by lower debt levels as a result of issuing the MTN Series 1 and 2 notes. The weighted average interest rate on Inter Pipeline's credit facilities increased approximately 40 basis points from 1.2% in the third quarter of 2010 to approximately 1.6% in third quarter of 2011 and approximately 60 basis points from 1.0% year to date 2010 to 1.6% year to date 2011. The weighted average credit facility debt outstanding decreased approximately $287.8 million to $1,643.1 million in the third quarter of 2011 compared to $1,930.9 million in the same period in 2010. Year to date 2011, the weighted average credit facility debt outstanding decreased approximately $147.4 million to $1,782.8 million compared to $1,930.2 million in 2010.

Corridor debenture interest expense increased $0.1 million in the third quarter and $1.2 million year to date 2011, compared to the same periods in 2010. Interest rates on these debentures are fixed; however, Corridor had swap agreements in place on each of the $150 million series A and B debentures that exchanged the fixed rates for variable rates. On February 2, 2010, the series A debentures matured and the associated interest rate swap agreement was terminated. On the same day, Corridor issued $150 million 4.897% fixed rate series C senior, unsecured debentures that mature February 3, 2020 without acquiring a corresponding swap agreement.

Interest expense on the loans payable to the General Partner was consistent in both periods due to the fixed rate of interest on the loan and no change in principal balance during the period. Fixed interest rates on each of the $91.2 million and $288.6 million loans outstanding are 5.85% and 6.15%, respectively.

Accretion of provisions and pension plan financing charges decreased, for the three and nine month periods ended September 30, 2011, primarily due to a higher expected rate of return on pension plan assets compared to the discount rate on pension plan obligations.

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

General and Administrative

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Canada	$ 9.2	$ 10.3	$ 29.8	$ 27.6
Europe	2.0	1.5	7.1	4.3
	$ 11.2	$ 11.8	$ 36.9	$ 31.9

In the third quarter of 2011, Canadian general and administrative expenses decreased $1.1 million compared to the same period in 2010, primarily due to lower employee compensation expenses and lower external service costs. The decrease in employee compensation expenses resulted from the revaluation of Inter Pipeline's long-term deferred unit rights incentive plan costs due to a smaller increase in unit price from the second to third quarter of 2011, compared to the same period in 2010. This decrease was somewhat offset as a result of no longer capitalizing employee costs relating to the Corridor expansion project and the reallocation of certain employee groups to the corporate group. Canadian general and administrative costs increased $2.2 million year to date 2011 compared to the same period in 2010, due to an increase in employee compensation expenses which was partially offset by lower external service costs. Employee compensation costs increased due to lower capitalized employee costs and the reallocation of certain employee groups to the corporate group, which was somewhat offset by the revaluation of Inter Pipeline's long-term deferred unit rights incentive plan costs, all for the same reasons discussed above.

For the three and nine month periods ended September 30, 2011, general and administrative costs in Inter Pipeline's European operations increased $0.5 million and $2.8 million, respectively, compared to the same periods in 2010. The increase in both periods is primarily due to transaction costs incurred on the pending DEOT acquisition.

Unrealized Change in Fair Value of Derivative Financial Instruments

In the third quarter and year to date 2011, Inter Pipeline's mark-to-market valuation of derivative financial instruments decreased net income by $0.2 million and $4.5 million, respectively.

In the third quarter of 2011, the change in forward prices of foreign currency swaps between July and September of 2011 resulted in an unfavourable $20.4 million change in the mark-to-market value. This change was largely offset by a favourable mark-to-market adjustment of $20.3 million in NGL forward prices between July and September of 2011, combined with changes in NGL volumes under swap contracts. The combined mark-to-market of Inter Pipeline's natural gas hedges, interest rate, electricity and heat rate swaps and transitional transfers reduced net income in the current quarter by $0.1 million.

Year to date 2011, the unfavourable mark-to-market adjustment of foreign currency swaps of $16.9 million was partially offset by favourable mark-to market adjustments in NGL swaps of $8.2 million and natural gas swaps of $4.0 million, for price and volume changes between January and September of 2011. The remaining mark-to-market adjustments for interest rate, heat rate swaps and transitional transfers combined for an increase to net income of $0.2 million.

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

Fees to General Partner

The General Partner earned management fees from Inter Pipeline of $3.0 million in the third quarter of 2011 (third quarter 2010 - $1.9 million) for a total of $8.2 million year to date 2011 (year to date 2010 - $5.8 million). This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (Partnership Agreement).

Income Taxes

Consolidated income tax expense for the three months ended September 30, 2011 increased $27.3 million from an income tax recovery of $3.5 million in the same period of 2010 to an income tax expense of $23.8 million. In June 2007, the Government of Canada enacted legislation imposing income taxes upon publicly traded income trusts and limited partnerships, including Inter Pipeline, effective January 1, 2011. Consequently, Inter Pipeline is subject to income tax on its Canadian partnership income for the first time in the 2011 taxation year. As a result, Inter Pipeline has recognized an additional $27.5 million in income tax expense for the three months ended September 30, 2011, of which $15.4 million is current income tax expense. The remainder of the variance results from other items.

Consolidated income tax expense for the nine months ended September 30, 2011 increased $57.9 million from $7.1 million in 2010 to $65.0 million in 2011. As discussed above, Inter Pipeline is subject to income tax on its Canadian partnership income for the first time in the 2011 taxation year. As a result, Inter Pipeline has recognized an additional $58.3 million in income tax expense for the nine months ended September 30, 2011, of which $42.3 million is current income tax expense. In the UK, tax legislation has been passed which reduced the effective income tax rate from 27.0% to 26.0%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. The effect of recognizing these changes in UK income tax rates is a $3.6 million reduction in deferred income tax liabilities in 2011. The remainder of the variance results from other items.

SUMMARY OF QUARTERLY RESULTS

(millions, except per unit and % amounts)	2009[1] Fourth Quarter	2010 First Quarter (restated)	2010 Second Quarter (restated)	2010 Third Quarter (restated)	2010 Fourth Quarter (restated)	2011 First Quarter	2011 Second Quarter	2011 Third Quarter
Revenue								
Oil sands transportation	$ 34.1	$ 34.9	$ 36.4	$ 36.4	$ 36.8	$ 72.8	$ 67.7	$ 73.0
NGL extraction	160.5	173.0	143.4	128.8	149.1	159.9	137.4	158.2
Conventional oil pipelines	34.3	37.6	37.7	41.4	40.7	43.7	42.1	45.7
Bulk liquid storage	28.2	26.0	23.9	25.1	25.9	26.6	26.1	25.2
	$ 257.1	$ 271.5	$ 241.4	$ 231.7	$ 252.5	$ 303.0	$ 273.3	$ 302.1
Funds from operations[2]								
Oil sands transportation	$ 19.4	$ 18.6	$ 18.9	$ 18.4	$ 17.9	$ 43.1	$ 41.3	$ 41.8
NGL extraction[3]	40.8	47.6	42.3	40.2	46.8	53.0	42.8	62.6
Conventional oil pipelines	23.1	28.3	27.7	30.2	26.8	32.6	31.5	35.6
Bulk liquid storage[4][5]	10.3	10.2	15.3	5.9	8.4	10.5	8.3	9.0
Corporate costs	(15.5)	(19.1)	(15.6)	(17.3)	(19.1)	(38.9)	(32.0)	(37.1)
	$ 78.1	$ 85.6	$ 88.6	$ 77.4	$ 80.8	$ 100.3	$ 91.9	$ 111.9
Per unit[2]	$ 0.31	$ 0.33	$ 0.35	$ 0.30	$ 0.31	$ 0.39	$ 0.35	$ 0.43
Net income	$ 23.1	$ 61.3	$ 68.1	$ 46.5	$ 60.1	$ 64.5	$ 61.0	$ 76.6
Per unit – basic & diluted	$ 0.08	$ 0.24	$ 0.26	$ 0.19	$ 0.23	$ 0.25	$ 0.24	$ 0.29
Cash distributions[6]	$ 54.5	$ 57.6	$ 57.8	$ 57.9	$ 59.3	$ 62.0	$ 62.1	$ 62.5
Per unit[6]	$ 0.215	$ 0.225	$ 0.225	$ 0.225	$ 0.230	$ 0.240	$ 0.240	$ 0.240
Units outstanding (basic)								
Weighted average	252.8	255.8	256.6	257.2	257.8	258.3	258.8	259.9
End of period	254.6	256.3	256.9	257.5	258.0	258.5	259.1	261.2
Capital expenditures								
Growth[2]	$ 53.5	$ 31.2	$ 34.2	$ 36.5	$ 221.0	$ 40.8	$ 27.8	$ 29.8
Sustaining[2]	7.4	2.5	5.6	2.9	5.7	2.8	4.4	5.0
	$ 60.9	$ 33.7	$ 39.8	$ 39.4	$ 226.7	$ 43.6	$ 32.2	$ 34.8
Payout ratio before sustaining capital[2]	69.8%	67.3%	65.2%	74.8%	73.5%	61.8%	67.6%	55.8%
Payout ratio after sustaining capital[2]	77.1%	69.3%	69.6%	77.6%	79.1%	63.6%	71.0%	58.5%
Total debt[7]	$ 2,619.7	$ 2,576.8	$ 2,585.4	$ 2,603.1	$ 2,801.2	$ 2,762.4	$ 2,738.2	$ 2,719.1
Total partners' equity	$ 1,320.1	$ 1,304.4	$ 1,324.5	$ 1,329.7	$ 1,328.0	$ 1,339.8	$ 1,346.7	$ 1,404.4
Enterprise value[2]	$ 5,372.4	$ 5,611.4	$ 5,655.7	$ 6,134.0	$ 6,651.2	$ 7,178.1	$ 6,847.2	$ 6,901.1
Total recourse debt to capitalization[2]	35.7%	34.6%	34.5%	35.0%	41.0%	42.0%	41.5%	40.1%
Total debt to total capitalization[2]	66.5%	66.4%	66.1%	66.2%	67.8%	67.3%	67.0%	65.9%

(1) IFRS adoption is effective as of January 1, 2011 and restated for 2010 as required for comparatives, therefore the 2009 quarterly information is presented on a Canadian GAAP basis. Accordingly, the 2009 quarter information may not be comparable to 2010 and 2011.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(3) In the third quarter of 2011, funds from operations[2] increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.
(4) In the second quarter of 2010, funds from operations[2] in the bulk liquid storage business increased $5.8 million due to cash proceeds received for customer storage fees paid in advance.
(5) In the third quarter of 2010, funds from operations[2] for the bulk liquid storage business decreased $4.1 million due to a special defined benefit pension plan contribution.
(6) Cash distributions are calculated based on the number of units outstanding at each record date.
(7) Total debt includes long-term and short-term debt before discounts and debt transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

Inter Pipeline's capital management objectives are aligned with its commercial growth strategies and long term outlook for the business. The primary objectives are to maintain:

(i) stable cash distributions to unitholders over economic and industry cycles;
(ii) a flexible capital structure which optimizes the cost of capital within an acceptable level of risk; and
(iii) an investment grade credit rating.

Management may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the capital structure, Inter Pipeline may adjust the level of cash distributions paid to unitholders, issue new partnership units or new debt, renegotiate new debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital and acquisition programs throughout market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At September 30, 2011, Inter Pipeline had access to committed credit facilities totaling $2.3 billion, of which approximately $816.3 million remains unutilized. Inter Pipeline also has access to demand facilities of approximately $60 million. Certain facilities are available to specific subsidiaries of Inter Pipeline.

In addition to committed credit facilities, Inter Pipeline issues equity capital from time to time to ensure its balance sheet remains well prepared for expected growth. Approximately $47.1 million of equity was issued through the distribution reinvestment plan during the first nine months of 2011. In July of 2011, Inter Pipeline reintroduced the Premium™ DRIP component of the distribution reinvestment plan to raise additional equity capital.

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

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

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

On February 2, 2011 Inter Pipeline issued $325 million MTN Series 1 notes due February 2, 2021 in the Canadian public debt market. The MTN Series 1 notes were issued under Inter Pipeline's short form base

---

™ Denotes trademark of Canaccord Capital Corporation

shelf prospectus dated November 30, 2010, a related prospectus supplement dated January 19, 2011, and a related pricing supplement dated January 28, 2011.

On July 29, 2011 Inter Pipeline issued $200 million of MTN Series 2 notes due July 30, 2018, in the Canadian public debt market. The MTN Series 2 notes were issued under Inter Pipeline's short form base shelf prospectus dated November 30, 2010, a related prospectus supplement dated January 19, 2011 and a related pricing supplement dated July 26, 2011. As a result of the issuance of the MTN Series 1 and Series 2 notes, the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced from $1.5 billion to $975 million.

CAPITAL STRUCTURE

(millions, except % amounts)	Recourse	Non-recourse	September 30 2011	December 31 2010
Credit facilities available				
Corridor syndicated facility	$ -	$ 1,580.6	$ 1,580.6	$ 2,142.0
Inter Pipeline syndicated facility	750.0	-	750.0	750.0
	750.0	1,580.6	2,330.6	2,892.0
Demand facilities[1]	20.0	40.0	60.0	60.0
	$ 770.0	$ 1,620.6	$ 2,390.6	$ 2,952.0
Total debt outstanding				
Recourse				
Corridor syndicated facility			$ -	$ 386.6
Inter Pipeline syndicated facility			35.0	157.0
Loan payable to General Partner			379.8	379.8
Senior Unsecured Medium-Term Notes			525.0	-
Non-recourse				
Corridor syndicated facility			1,479.3	1,577.8
Corridor debentures			300.0	300.0
Total debt[1][2]			2,719.1	2,801.2
Total partners' equity			1,404.4	1,328.0
Total capitalization[3]			$ 4,123.5	$ 4,129.2
Total debt to total capitalization[3]			65.9%	67.8%
Total recourse debt to capitalization[3]			40.1%	41.0%

(1) At September 30, 2011 and December 31, 2010, outstanding Corridor letters of credit were approximately $0.3 million, which are not included in the demand loan facilities or total debt outstanding in the table above.
(2) At September 30, 2011, total debt includes long-term and short-term debt outstanding of $2,711.1 million inclusive of discounts and debt transaction costs of $8.0 million.
(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Financial covenants on Inter Pipeline's credit facilities are based on the amount of recourse debt outstanding. Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to EBITDA* ratio of 4.25. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization* ratio was a favourable 40.1% at September 30, 2011. Adjusting for the impact of non-recourse debt of $1,779.3 million, Inter Pipeline's consolidated debt to total capitalization* ratio at September 30, 2011 was 65.9%.

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

At September 30, 2011, approximately $1,629.3 million or 59.9% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. These debt financing costs relate to Corridor debt outstanding and are directly recoverable through the terms of the Corridor FSA. In addition, as at September 30, 2011, Inter Pipeline had no direct interest rate risk associated with variable rate debt as all debt outstanding on Inter Pipeline's syndicated facility was swapped to fixed interest rates. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2001, Inter Pipeline entered into two fixed interest rate swap agreements to manage a portion of its variable interest rate risk exposure. In 2007, Inter Pipeline acquired two variable interest rate swap agreements to manage fixed interest rate exposure on Corridor's 5 and 10-year debentures. The interest rate swap associated with Corridor's 5-year debentures was terminated when the underlying debenture matured on February 2, 2010.

		September 30 2011			December 31 2010
Maturity date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)		Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
Corridor debentures					
- Fixed to floating rate swap					
Series B - February 2, 2015	5.033%	$ 150.0		5.033%	$ 150.0
		$ 150.0			$ 150.0
Inter Pipeline syndicated facility					
- Floating to fixed rate swap					
December 30, 2011[1]	6.300%	$ 26.0		6.300%	$ 26.0
December 31, 2011	6.310%	15.0		6.310%	15.0
		$ 41.0			$ 41.0

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

The following earnings coverage ratios are calculated on a consolidated basis for the twelve month periods ended September 30, 2011 and December 31, 2010.

	Twelve months ended September 30 2011	Twelve months ended December 31 2010
(times)		
Interest coverage on long-term debt [1][2]	5.3	5.0

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(2) Net income plus income taxes and interest expense, divided by the sum of interest expense and capitalized interest.

The following investment grade, long-term corporate credit ratings or senior unsecured debt ratings are maintained by Inter Pipeline and by Corridor.

	Credit Rating	Trend/Outlook
Inter Pipeline Fund		
S&P	BBB+	Stable
DBRS	BBB (high)	Stable
Inter Pipeline (Corridor) Inc.		
S&P	A -	Positive
DBRS	A	Stable
Moody's	A2	Stable

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

The following table summarizes Inter Pipeline's commitment profile and future contractual obligations at September 30, 2011. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed in the section above.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects[1]				
Oil sands transportation	$ 66.7	$ 53.2	$ 13.5	$ -
NGL extraction	49.9	8.0	41.9	-
Conventional oil pipelines	9.7	9.7	-	-
Bulk liquid storage	4.4	4.4	-	-
Growth capital[2]	130.7	75.3	55.4	-
Sustaining capital[2]	8.8	8.8	-	-
	139.5	84.1	55.4	-
Total debt[3]				
Corridor syndicated facility	1,479.3	1,479.3	-	-
Inter Pipeline syndicated facility	35.0	35.0	-	-
Loan to General Partner	379.8	-	379.8	-
Corridor debentures	300.0	-	150.0	150.0
4.967% Unsecured Medium-Term Notes, Series 1	325.0	-	-	325.0
3.839% Unsecured Medium-Term Notes, Series 2	200.0	-	-	200.0
	2,719.1	1,514.3	529.8	675.0
Other obligations				
DEOT acquisition	500.0	500.0	-	-
Derivative financial instruments	36.4	27.1	9.3	-
Operating leases	92.2	7.0	26.3	58.9
Purchase obligations	119.8	1.2	21.0	97.6
Long term portion of incentive plan	4.4	-	4.4	-
Working capital deficit[2]	51.5	51.5	-	-
	$ 3,662.9	$ 2,185.2	$ 646.2	$ 831.5

(1) Capital expenditure commitments in "less than one year" represent expected expenditures for the remaining months of 2011.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(3) At September 30, 2011, outstanding Corridor letters of credit of approximately $0.3 million were not included in the total $2,719.1 million of debt outstanding in the table above.

Inter Pipeline plans to invest approximately $130.7 million in organic growth capital projects over the 2011 to 2012 period which includes capital costs for the $115 million Polaris oil sands diluent transportation project and the $50 million liquid sweetening project at the Cochrane NGL extraction facility. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $4.9 million to $9.8 million over the next eight years.

On June 20, 2011 Inter Pipeline announced that it entered into an agreement to acquire four petroleum storage terminals in Denmark from a subsidiary of DONG Energy A/S. The transaction will involve cash consideration of €354 million or approximately $500 million and is expected to close in November 2011. Certain closing conditions and purchase price adjustments apply to the transaction. Funding of the acquisition will be provided from Inter Pipeline's available sources of credit.

Inter Pipeline's debt outstanding at September 30, 2011 matures at various dates up to February 2021. Corridor's series B debentures will mature in February 2015 and Corridor's series C debentures mature February 3, 2020. Amounts drawn on tranches A and B of Corridor's syndicated facility will mature in 2012. On August 2, 2011 tranche D of this facility was cancelled. Inter Pipeline's loan payable to the General Partner and Inter Pipeline's syndicated facility mature in periods between 2012 and 2014. Inter

Pipeline's $325 million MTN Series 1 notes mature on February 2, 2021, while MTN Series 2 notes mature on July 30, 2018.

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

(i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2011, based upon the various contractual maturity dates.

(ii) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2090.

(iii) Working capital deficiencies arise primarily from current income taxes payable and capital expenditures outstanding in accounts payable at the end of a period, and fluctuate with changes in commodity prices.

(iv) Inter Pipeline has obligations of $26.3 million under its employee incentive plan, of which $21.9 million is included in the working capital deficit.

(v) Present value of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $38.4 million at September 30, 2011. Since there is no specified timing for payment of these obligations, they were excluded from the table above.

CASH DISTRIBUTIONS TO UNITHOLDERS

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Cash provided by operating activities	$ 96.4	$ 72.0	$ 333.6	$ 286.5
Net change in non-cash operating working capital	15.5	5.4	(29.5)	(34.9)
Less sustaining capital expenditures[1]	(5.0)	(2.9)	(12.2)	(11.0)
Cash available for distribution[1]	106.9	74.5	291.9	240.6
Change in discretionary reserves	(44.4)	(16.6)	(105.3)	(67.3)
Cash distributions	$ 62.5	$ 57.9	$ 186.6	$ 173.3
Cash distributions per unit[2]	$ 0.240	$ 0.225	$ 0.720	$ 0.675
Payout ratio before sustaining capital[1]	55.8%	74.8%	61.4%	68.9%
Payout ratio after sustaining capital[1]	58.5%	77.6%	63.9%	72.0%
Growth capital expenditures[1]	$ 29.8	$ 36.5	$ 98.4	$ 101.9
Sustaining capital expenditures[1]	5.0	2.9	12.2	11.0
	$ 34.8	$ 39.4	$ 110.6	$ 112.9

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(2) Cash distributions are calculated based on the number of units outstanding at each record date.

It is the policy of the General Partner to provide unitholders with stable cash distributions over time. As a result, not all cash available for distribution is distributed to unitholders. Rather, a portion of cash available for distribution is reserved and reinvested in the business to effectively manage its capital structure, and in particular, debt levels. The General Partner makes its cash distribution decisions based on the underlying assumptions in each year's annual operating and capital budget and long-term forecast, consistent with its policy to provide unitholders with stable cash distributions.

"Cash available for distribution" is a non-GAAP financial measure that the General Partner uses in managing Inter Pipeline's business and in assessing future cash requirements that impact the determination of future distributions to unitholders. Inter Pipeline defines cash available for distribution as cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. The impact of net change in non-cash working capital is excluded in the calculation of "Cash available for distribution" primarily to compensate for the seasonality of working capital throughout the year. Certain Inter Pipeline revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the recognition of revenue. Within a 12-month calendar year, there is minimal variation between revenue recognized and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of cash available for distribution to mitigate the quarterly impact this difference has on cash available for distribution. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, but to focus the results on cash that is generated in any reporting period.

In addition, in determining actual cash distributions, Inter Pipeline applies a discretionary reserve to cash available for distribution, which is designed to ensure stability of distributions over economic and industry cycles and to enable Inter Pipeline to absorb the impact of material one-time events. Therefore, not all cash available for distribution is necessarily distributed to unitholders. The reconciliation is prepared using reasonable and supportable assumptions, reflecting Inter Pipeline's planned course of action in light of management and the board of directors' judgment regarding the most probable set of economic conditions. Investors should be aware that actual results may vary, possibly materially, from such forward-looking adjustments.

The discretionary reserve increased approximately $44.4 million in the third quarter of 2011 and $105.3 million year to date due primarily to the strong operating results of Inter Pipeline's business segments. Inter Pipeline will continue to manage the discretionary reserve and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

The tables below show Inter Pipeline's cash distributions paid relative to cash provided by operating activities and net income (loss) for the periods indicated. See the **OUTLOOK** section of this report and **RISK FACTORS** section for further information regarding the sustainability of cash distributions.

	Three Months Ended September 30	Nine Months Ended September 30				Years Ended December 31
(millions)	2011	2011	2010	2009[(1)]	2008[(1)]	2007[(1)]
Cash provided by operating activities	$ 96.4	$ 333.6	$ 349.6	$ 281.8	$ 321.1	$ 234.1
Cash distributions	(62.5)	(186.6)	(232.6)	(202.4)	(186.6)	(171.7)
Excess	$ 33.9	$ 147.0	$ 117.0	$ 79.4	$ 134.5	$ 62.4

	Three Months Ended September 30	Nine Months Ended September 30				Years Ended December 31
(millions)	2011	2011	2010	2009[(1)]	2008[(1)]	2007[(1)]
Net income (loss)	$ 76.6	$ 202.1	$ 236.0	$ 157.7	$ 249.7	$ (80.0)
Cash distributions	(62.5)	(186.6)	(232.6)	(202.4)	(186.6)	(171.7)
Excess (shortfall)	$ 14.1	$ 15.5	$ 3.4	$ (44.7)	$ 63.1	$ (251.7)

(1) IFRS adoption is effective as of January 1, 2011 and restated for 2010 as required for comparative purposes, therefore the 2007, 2008 and 2009 annual information is presented on a Canadian GAAP basis.

Cash distributions in all periods are less than cash provided by operating activities. Cash distributions were also less than net income for the three and nine month periods ended September 30, 2011 and for the years ended December 31, 2010 and 2008. Net income (loss) includes certain non-cash expenses such

as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore cash distributions may exceed net income.

The overall cash distributions of Inter Pipeline are governed by the Partnership Agreement, specifically section 5.2, which specifies the terms for Inter Pipeline to make distributions of cash. Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the Partnership Agreement, cash distributed to unitholders is always equal to Distributable Cash.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at September 30, 2011 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	260.9	0.3	261.2

At November 1, 2011, Inter Pipeline had 261.9 million Class A units and 0.3 million Class B units for a total of 262.2 million units outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

MARKET RISK MANAGEMENT

Inter Pipeline utilizes derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign currencies and interest rates. Risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price, foreign exchange and interest rate risk to assist with stabilizing funds from operations*. Inter Pipeline endeavours to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline's policy prohibits the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the board of directors through Inter Pipeline's risk management policy.

Inter Pipeline has the following types of derivative financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price hedges and heat rate and interest rate swap agreements. The mark-to-market or fair value of these financial instruments is recorded as an asset or liability and any change in the fair value recognized as an unrealized change in fair value of these derivative financial instruments in the calculation of net income. When the financial instrument matures, any realized gain or loss is recorded in net income.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term and short-term debt outstanding at September 30, 2011. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

NGL Extraction Business

Frac-spread Risk Management

Inter Pipeline is exposed to frac-spread risk which is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Derivative financial instruments are utilized to manage frac-spread risk. Inter Pipeline transacts with third party counterparties to sell a notional portion of its NGL products and purchase related notional quantities of natural gas at fixed prices. NGL price swap agreements are

---

* Please refer to the **NON-GAAP FINANCIAL MEASURES** section

transacted in US currency therefore Inter Pipeline also enters into foreign exchange contracts to sell US dollars to convert notional US dollar amounts in the NGL swaps.

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at September 30, 2011. The CAD/USG average prices would approximate the following USD/USG prices based on the average USD/CAD forward curve at September 30, 2011.

	September 30, 2011		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
October to December 2011	72%	$ 0.80	$ 0.84
January to December 2012	61%	$ 0.91	$ 0.95
January to December 2013	46%	$ 0.92	$ 0.97

Based on propane-plus volume hedges outstanding at September 30, 2011, the following table illustrates how a 10% change in NGL and AECO natural gas commodity prices and foreign exchange rates in isolation could individually impact the mark-to-market valuation of Inter Pipeline's derivative financial instruments and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

(millions)	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates[1]	Change in net income based on 10% decrease in prices/rates[1]
NGL[2]	$ (8.6)	$ (19.1)	$ 19.1
AECO natural gas	(6.9)	4.6	(4.6)
Foreign exchange	(12.4)	(18.6)	18.6
Frac-spread risk management	$ (27.9)		

(1) Negative amounts represent a liability increase or asset decrease.
(2) Assumes that a commodity price change will impact all propane, normal butane, isobutane and pentanes-plus products linearly.

Power Price Risk Management

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

Based on heat rate swaps outstanding in the NGL extraction business at September 30, 2011, 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. 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 $0.1 million.

Based on electricity price swap agreements outstanding in the conventional oil pipelines business at September 30, 2011, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant, could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately $0.1 million.

Bulk Liquid Storage Business

Foreign Exchange Risk Management

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future.

Corporate

Interest Rate Risk Management

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of its floating-to-fixed interest rate swap agreements. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure.

Based on the variable rate obligations outstanding at September 30, 2011, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $11.1 million, assuming all other variables remain constant. The entire $11.1 million relates to the $1.6 billion Corridor credit facility and is recoverable through the terms of the Corridor FSA, therefore the after-tax income impact would be nil. A 1% change in interest rates at September 30, 2011 could also affect the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage interest rate risk and consequently after-tax income by approximately $0.1 million, assuming all other variables remain constant.

Realized and Unrealized (Losses) Gains on Derivative Instruments – Fair Value Through Profit or Loss

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

The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. Fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2011	2010	2011	2010
Realized (loss) gain on derivative financial instruments				
Revenues				
NGL swaps	$ (9.5)	$ 2.3	$ (25.1)	$ 2.5
Foreign exchange swaps (frac-spread hedges)	1.4	0.2	4.7	0.7
	(8.1)	2.5	(20.4)	3.2
Shrinkage gas expense				
Natural gas swaps	(3.0)	(5.7)	(9.1)	(12.7)
Operating expenses				
Electricity price swaps	0.5	(0.1)	0.9	0.1
Heat rate swaps	1.8	0.1	3.7	1.3
	2.3	-	4.6	1.4
Financing charges				
Interest rate swaps	0.7	0.8	2.1	3.0
Total realized loss on derivative financial instruments	(8.1)	(2.4)	(22.8)	(5.1)
Unrealized (loss) gain on derivative financial instruments				
NGL swaps	20.3	(19.4)	8.2	9.6
Natural gas swaps	1.0	(3.1)	4.0	(11.3)
Foreign exchange swaps (frac-spread hedges)	(20.4)	4.5	(16.9)	1.1
Electricity price swaps	(0.3)	(0.2)	-	-
Heat rate swaps	(1.1)	(0.6)	(0.6)	1.7
Interest rate swaps	0.5	0.4	1.4	1.3
Transitional transfers [1]	(0.2)	(0.2)	(0.6)	(0.6)
Total unrealized (loss) gain on derivative financial instruments	(0.2)	(18.6)	(4.5)	1.8
Total loss on derivative financial instruments	$ (8.3)	$ (21.0)	$ (27.3)	$ (3.3)

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

CREDIT RISK

Inter Pipeline's credit risk exposure relates primarily to customers and financial counterparties holding cash and derivative financial instruments, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and monitoring procedures. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At September 30, 2011, accounts receivable associated with these two business segments were $96.3 million or 75% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business units and customers.

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

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. At September 30, 2011, accounts receivable outstanding meeting the definition of past due and impaired is immaterial.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three and nine month periods ended September 30, 2011 or 2010.

Upon acquisition of the General Partner in 2002, Pipeline Assets Corp. (PAC), the sole shareholder of the General Partner, assumed the obligations of the former general partner of Inter Pipeline under a support agreement. The support agreement obligates the affiliates controlled by PAC to provide certain personnel and services if requested by the General Partner, to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts have been paid under the terms of the support agreement since PAC acquired its interests in the General Partner.

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. Officers and directors of the General Partner received a cumulative total of nil in dividends in the third quarter of 2011 and $0.8 million year to date 2011 (third quarter 2010 - $0.2 million; year to date 2010 - $0.7 million) from PAC pursuant to their ownership of non-voting shares.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the Partnership Agreement in excess of $1.01 per unit; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline. See the **Other Expenses** section of **RESULTS OF OPERATIONS** for details of fees paid to the General Partner during the period.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At September 30, 2011, interest payable to the General Partner on the loan was $9.9 million (September 30, 2010 - $9.9 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of a default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At September 30, 2011, there were amounts owed to the General Partner by Inter Pipeline of $1.3 million (September 30, 2010 – $0.6 million).

CONTROLS AND PROCEDURES

Management has made no material changes to the design of Inter Pipeline's internal control over financial reporting during the third quarter of 2011.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's consolidated financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 2 *Summary of Significant Accounting Policies* (Note 2) of the March 31, 2011 interim financial statements for a list of Inter Pipeline's significant accounting policies.

The amounts recorded for fair value of derivative financial instruments, intangible assets, goodwill, property, plant and equipment, provisions, employee benefits, deferred 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. With the transition to IFRS and resulting changes to Inter Pipeline's accounting policies, see the Changes in Accounting Policies section below and Note 2 as mentioned in the previous paragraph for further discussion on these specific estimates.

Change in Estimate

During the period, the NGL extraction business recorded additional revenues, as a result of a price adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011. The impact of this change was an increase in revenues and accounts receivable of $20.5 million.

CHANGES IN ACCOUNTING POLICIES

IFRS

The Canadian Accounting Standards Board (AcSB) requires all Canadian publicly accountable enterprises to adopt IFRS for interim and annual reporting periods for fiscal years beginning on or after January 1, 2011. Consequently, Inter Pipeline is presenting its 2011 interim financial reporting results under the principles of IFRS, with fiscal 2010 results restated for comparative purposes.

The same accounting policies and methods of computation are followed in the March 31, June 30 and September 30, 2011 interim financial statements as compared with the most recent consolidated annual financial statements for the year ended December 31, 2010, except as described in Note 2 to the March 31, 2011 interim financial statements which have been applied consistently in preparing the interim financial statements for March 31, June 30 and September 30, 2011. The accounting policies in Note 2 to the March 31, 2011 interim financial statements were also applied in preparing the opening IFRS consolidated balance sheet as at January 1, 2010 (the Transition Date) except where certain IFRS 1 exemptions were utilized. Inter Pipeline's IFRS adoption date is January 1, 2011.

In preparing the opening January 1, 2010 IFRS consolidated balance sheet and the interim consolidated financial statements for March 31, June 30 and September 30, 2010, Inter Pipeline has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with its previous basis of accounting, Canadian GAAP. Readers should refer to Note 21 of the March 31, 2011 and Note 20 of the September 30, 2011 interim financial statements for a summary of Inter Pipeline's IFRS transition including application of exemptions, reconciliations of Canadian GAAP to IFRS and explanations of reconciling items.

Future

Certain new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory for accounting periods beginning after January 1, 2011 or later periods. Inter Pipeline is currently assessing the impact of the following pronouncements on its balance sheet and results of operations.

IFRS 9 *Financial Instruments (IFRS 9)*
IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and shall be applied to annual periods beginning on or after January 1, 2013 with early adoption permitted. In August 2011, the IASB issued an exposure draft proposing to change the effective date to annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 establishes principals for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

IFRS 10 *Consolidated Financial Statements (IFRS 10)*
IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities* and shall be applied to annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 builds on existing principles and standards and indentifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard gives additional guidance to assist in the determination of control where it is difficult to make an assessment.

IFRS 11 *Joint Arrangements (IFRS 11)*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers* and shall be applied to annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 11 will apply to interests in joint arrangements where there is joint control. IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation has been removed and equity accounting is required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item.

IFRS 12 *Disclosure of Interests in Other Entities (IFRS 12)*
IFRS 12 shall be applied to annual periods beginning on or after January 1, 2013, with early adoption permitted. The standard provides disclosure requirements for a reporting entity's interests held in other entities including: subsidiaries, joint arrangements, associates, or unconsolidated structured entities. The standard's disclosure requirements help identify the net income or loss and cash flows available to the reporting entity and determine the value of a current or future investment in the reporting entity.

IFRS 13 *Fair Value Measurement (IFRS 13)*
IFRS 13 shall be applied to annual periods beginning on or after January 1, 2013. The standard defines fair value and provides, in a single IFRS, a framework for measuring fair value when it is required or permitted within IFRS standards. The standard also provides disclosure requirements about fair value measurements.

RISK FACTORS
During the third quarter of 2011, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2010 annual MD&A.

NON-GAAP FINANCIAL MEASURES
Certain financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "cash available for distribution", "EBITDA", "enterprise value", "funds from operations", "funds from operations per unit", "interest coverage on long-term debt", "payout ratio after sustaining capital", "payout ratio before sustaining capital", "growth capital expenditures", "sustaining capital expenditures", "total debt to total capitalization" and "total recourse debt to capitalization" are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

The following non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

Adjusted working capital deficiency is calculated by subtracting current liabilities from current assets including cash and excluding the fair value of derivative financial instruments and current portion of long-term debt.

(millions)	September 30 2011	December 31 2010
Current assets		
Cash and cash equivalents	$ 26.6	$ 22.5
Accounts receivable	132.5	129.5
Prepaid expenses and other deposits	8.9	13.1
Current liabilities		
Cash distributions payable	(20.9)	(20.6)
Accounts payable and accrued liabilities	(145.9)	(157.0)
Current income taxes payable	(41.3)	(0.8)
Deferred revenue	(11.4)	(6.3)
Adjusted working capital deficiency	$ (51.5)	$ (19.6)

Cash available for distribution includes cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. This measure is used by the investment community to calculate the annualized yield of the units.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Net income	$ 76.6	$ 46.5	$ 202.1	$ 175.9
Depreciation and amortization	24.8	18.3	74.3	68.8
Gain on disposal of assets	0.2	-	-	-
Non-cash recovery (expense)	1.7	1.9	(1.0)	1.4
Unrealized change in fair value of derivative financial instruments	0.2	18.6	4.5	(1.8)
Deferred income tax expense (recovery)	8.4	(3.8)	22.7	5.6
Proceeds from long-term deferred revenue	-	-	-	5.8
Pension plan payment	-	(4.1)	-	(4.1)
Proceeds from long-term leasehold inducements	-	-	1.5	-
Funds from operations	111.9	77.4	304.1	251.6
Total interest less capitalized interest	20.5	9.7	58.3	28.2
Current income tax expense	15.4	0.4	42.3	1.5
Pension plan payment	-	4.1	-	4.1
EBITDA	$ 147.8	$ 91.6	$ 404.7	$ 285.4

Enterprise value is calculated by multiplying the period-end closing unit price by the total number of units outstanding and adding total debt (excluding discounts and debt transaction costs). This measure, in combination with other measures, is used by the investment community to assess the overall market value of the business. Enterprise value is calculated as follows:

(millions, except per unit amounts)	September 30 2011	December 31 2010
Closing unit price	$ 16.01	$ 14.92
Total closing number of Class A and B units outstanding	261.2	258.0
	4,182.0	3,850.0
Total debt	2,719.1	2,801.2
Enterprise value	$ 6,901.1	$ 6,651.2

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

Sustaining capital expenditures are generally defined as expenditures which support and/or maintain the current capacity, cash flow or earnings potential of existing assets without the associated benefits characteristic of growth capital expenditures. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

			Three Months Ended September 30	
			2011	2010
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 23.7	$ 0.3	$ 24.0	$ 27.1
NGL extraction	1.0	2.3	3.3	4.1
Conventional oil pipelines	1.5	0.3	1.8	0.9
Bulk liquid storage	3.6	1.5	5.1	7.0
Corporate	-	0.6	0.6	0.3
	$ 29.8	$ 5.0	$ 34.8	$ 39.4

			Nine Months Ended September 30	
			2011	2010
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 80.3	$ 0.7	$ 81.0	$ 82.3
NGL extraction	4.3	4.3	8.6	6.0
Conventional oil pipelines	1.9	1.6	3.5	5.6
Bulk liquid storage	11.9	4.1	16.0	15.2
Corporate	-	1.5	1.5	3.8
	$ 98.4	$ 12.2	$ 110.6	$ 112.9

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

Payout ratio after sustaining capital is calculated by expressing cash distributions declared for the period as a percentage of cash available for distribution after deducting sustaining capital expenditures for the period. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

Payout ratio before sustaining capital is calculated by expressing cash distributions paid for the period as a percentage of cash available for distribution before deducting sustaining capital. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

Total debt to total capitalization is calculated by dividing the sum of total debt including demand facilities and excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of total debt (as above) and partners' equity. Similarly, **total recourse debt to capitalization** is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline. These measures, in combination with other measures, are used by the investment community to assess the financial strength of the entity.

ELIGIBLE INVESTORS

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

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's **Annual Information Form**, is available on SEDAR at www.sedar.com. Inter Pipeline's Statement of Corporate Governance is included in Inter Pipeline's **Annual Information Form**.

The MD&A has been reviewed and approved by the Audit Committee and the Board of Directors of the General Partner.

Dated at Calgary, Alberta this 3rd day of November, 2011.