Management's Responsibility for Financial Reporting

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

The consolidated financial statements have been prepared by the General Partner in accordance with International Financial Reporting Standards and, where necessary, include amounts based on the best estimates and judgments of the management of the General Partner.

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

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

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

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

(Signed) David W. Fesyk
President and Chief Executive Officer

(Signed) William A. van Yzerloo
Chief Financial Officer

February 16, 2012

INDEPENDENT AUDITORS' REPORT

To the Partners of **Inter Pipeline Fund**

We have audited the accompanying consolidated financial statements of Inter Pipeline Fund, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of changes in partners' equity, net income, comprehensive income and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of Pipeline Management Inc. on behalf of Inter Pipeline Fund is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inter Pipeline Fund as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered accountants

Calgary, Canada
February 16, 2012

Inter Pipeline Fund

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at December 31 2011	As at December 31 2010 *(restated - note 24)*	As at January 1 2010 *(restated - note 24)*
ASSETS			
Current Assets			
Cash and cash equivalents (note 20)	$ 50,021	$ 22,507	$ 18,208
Accounts receivable	109,145	129,501	122,122
Derivative financial instruments (note 16)	5,167	8,916	3,738
Prepaid expenses and other deposits	10,917	13,118	17,927
Total Current Assets	175,250	174,042	161,995
Non-Current Assets			
Derivative financial instruments (note 16)	9,772	10,067	9,239
Employee benefits (note 10)	-	4,488	-
Property, plant and equipment (note 5)	4,081,036	4,011,754	3,774,830
Goodwill and intangible assets (note 6)	502,009	515,291	535,550
Total Assets	$ 4,768,067	$ 4,715,642	$ 4,481,614
LIABILITIES AND PARTNERS' EQUITY			
Current Liabilities			
Cash distributions payable (note 7)	$ 23,114	$ 20,644	$ 19,098
Accounts payable and accrued liabilities (note 13)	162,499	156,959	136,191
Current income taxes payable (note 11)	49,753	764	123
Derivative financial instruments (note 16)	25,746	25,144	16,655
Deferred revenue	4,583	6,339	3,621
Current portion of long-term debt (note 8)	90,989	386,584	123,600
Commercial paper (note 8)	1,464,369	1,576,062	1,583,327
Total Current Liabilities	1,821,053	2,172,496	1,882,615
Non-Current Liabilities			
Long-term debt (note 8)	1,102,288	832,967	903,988
Long-term payable	9,772	9,096	9,212
Derivative financial instruments (note 16)	11,035	4,169	4,081
Provisions (note 9)	37,018	34,725	34,852
Employee benefits (note 10)	6,989	6,500	13,459
Long-term deferred revenue and other liabilities	17,652	13,172	8,730
Deferred income taxes (note 11)	342,474	314,468	314,594
Total Liabilities	3,348,281	3,387,593	3,171,531
Commitments (notes 5 and 14)			
Partners' Equity			
Partners' equity (note 12)	1,452,066	1,360,735	1,319,117
Total reserves (note 12)	(32,280)	(32,686)	(9,034)
Total Partners' Equity	1,419,786	1,328,049	1,310,083
Total Liabilities and Partners' Equity	$ 4,768,067	$ 4,715,642	$ 4,481,614

See accompanying notes to the consolidated financial statements.

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

(Signed) John F. Driscoll
Director

(Signed) William D. Robertson
Director

Consolidated Statements of Changes in Partners' Equity

(thousands of Canadian dollars)

	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Reserves *(note 12)*	Total Partners' Equity
Balance, January 1, 2011	$ 1,359,377	$ 1,358	$ (32,686)	$ 1,328,049
Net income for the year	247,684	248	-	247,932
Other comprehensive income	-	-	406	406
	1,607,061	1,606	(32,280)	1,576,387
Cash distributions declared (note 7)	(251,497)	(252)	-	(251,749)
Issuance of Partnership units (note 12)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	95,053	95	-	95,148
Balance, December 31, 2011	$ 1,450,617	$ 1,449	$ (32,280)	$ 1,419,786
Balance, January 1, 2010	$ 1,372,579	$ 1,372	$ (53,850)	$ 1,320,101
Opening IFRS adjustments (note 24)	(54,779)	(55)	44,816	(10,018)
Balance, beginning of year *(restated)*	1,317,800	1,317	(9,034)	1,310,083
Net income for the year *(restated)*	235,717	236	-	235,953
Other comprehensive loss *(restated)*	-	-	(23,652)	(23,652)
	1,553,517	1,553	(32,686)	1,522,384
Cash distributions declared (note 7)	(232,369)	(233)	-	(232,602)
Issuance of Partnership units (note 12)				
Issued under Premium Distribution™, Distribution Reinvestment and Unit Incentive Option Plan	38,229	38	-	38,267
Balance, December 31, 2010 *(restated)*	$ 1,359,377	$ 1,358	$ (32,686)	$ 1,328,049

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Capital Corporation.

Inter Pipeline Fund

Consolidated Statements of Net Income

(thousands of Canadian dollars)	Twelve Months Ended December 31 2011	2010 (restated - note 24)
REVENUES		
Operating revenue	$ 1,151,567	$ 997,063
EXPENSES		
Shrinkage gas	278,114	317,065
Operating (note 19)	285,272	252,541
Depreciation and amortization	99,716	87,553
Financing charges (note 18)	80,216	40,298
General and administrative (note 19)	54,824	45,460
Unrealized change in fair value of derivative financial instruments (note 16)	14,539	3,568
Management fee to General Partner (note 13)	10,641	7,836
Loss on disposal of assets	23	723
	823,345	755,044
INCOME BEFORE INCOME TAXES	328,222	242,019
Provision for income taxes (note 11)		
Current	51,590	1,440
Deferred	28,700	4,626
	80,290	6,066
NET INCOME	$ 247,932	$ 235,953
Net income per Partnership unit (note 12)		
Basic and diluted	$ 0.95	$ 0.92

Consolidated Statements of Comprehensive Income

(thousands of Canadian dollars)	Twelve Months Ended December 31 2011	2010 (restated - note 24)
NET INCOME	$ 247,932	$ 235,953
OTHER COMPREHENSIVE INCOME (LOSS) (note 12)		
Unrealized gain (loss) on translating financial statements of foreign operations	4,472	(28,395)
Actuarial (loss) gain on defined pension benefit obligation (note 10)	(6,167)	5,390
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 16)	809	808
Income tax relating to components of other comprehensive income (note 11)	1,292	(1,455)
	406	(23,652)
COMPREHENSIVE INCOME	$ 248,338	$ 212,301

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	Twelve Months Ended December 31 2011	2010 (restated - note 24)
OPERATING ACTIVITIES		
Net income	$ 247,932	$ 235,953
Items not involving cash:		
Depreciation and amortization	99,716	87,553
Loss on disposal of assets	23	723
Non-cash expense (recovery)	1,826	(1,802)
Unrealized change in fair value of derivative financial instruments	14,539	3,568
Deferred income tax expense	28,700	4,626
Proceeds from long-term deferred revenue and lease inducements	1,480	5,796
Pension plan payment	-	(4,052)
Funds from operations	394,216	332,365
Net change in non-cash operating working capital (note 20)	66,288	17,200
Cash provided by operating activities	460,504	349,565
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	(152,003)	(335,618)
Proceeds on sale of assets	474	390
Net change in non-cash investing working capital (note 20)	7,710	3,721
Cash used in investing activities	(143,819)	(331,507)
FINANCING ACTIVITIES		
Cash distributions (note 7)	(156,601)	(194,487)
(Decrease) increase in debt	(129,169)	180,689
Transaction costs on debt	(6,078)	(849)
Issuance of Partnership units, net of issue costs	-	152
Net change in non-cash financing working capital (note 20)	2,470	1,546
Cash used in financing activities	(289,378)	(12,949)
Effect of foreign currency translation on foreign currency denominated cash	207	(810)
Increase in cash and cash equivalents	27,514	4,299
Cash and cash equivalents, beginning of year	22,507	18,208
Cash and cash equivalents, end of year	$ 50,021	$ 22,507
Cash taxes paid	$ 2,643	$ 756
Cash interest paid	$ 70,337	$ 54,719

See accompanying notes to the consolidated financial statements.

STRUCTURE OF THE PARTNERSHIP

Inter Pipeline Fund (Inter Pipeline) was formed as a limited partnership under the laws of Alberta pursuant to a Limited Partnership Agreement (LPA) dated October 9, 1997. Inter Pipeline's Class A limited liability partnership units (Class A units) are listed on the Toronto Stock Exchange and are classified as partners' equity in the consolidated balance sheets. Pursuant to the LPA, Pipeline Management Inc. (the General Partner) is required to maintain a minimum 0.1% interest in Inter Pipeline. Inter Pipeline is dependent on the General Partner for administration and management of all matters relating to the operation of Inter Pipeline. Inter Pipeline is comprised of four industry operating segments located in two geographic segments: oil sands transportation business, NGL extraction business and conventional oil pipelines business all operate in Canada, while the bulk liquid storage business operates in Europe, as discussed below in the segment reporting policy. The head office, principal address and records office of Inter Pipeline are located in Calgary, Alberta, Canada.

Under the LPA, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the LPA. In addition, the General Partner is entitled to earn an annual incentive fee of 15% of Inter Pipeline's annual Distributable Cash, as defined in the LPA (LPA Distributable Cash), in excess of $1.01 per unit annually but less than or equal to $1.10 per unit annually, 25% of available Distributable Cash in excess of $1.10 per unit annually but less than or equal to $1.19 per unit annually, and 35% of available Distributable Cash in excess of $1.19 per unit annually; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline.

Inter Pipeline currently makes monthly cash distributions to holders of the Class A units and Class B unlimited liability partnership units (Class B units) (collectively Partnership units) as discussed in note 7.

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

The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends.

These audited consolidated annual financial statements were authorized for issue by the Board of Directors of the General Partner on February 16, 2012.

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are Inter Pipeline's first annual financial statements prepared in accordance with IFRS.

Inter Pipeline formerly prepared its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP) as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook Part V). In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Note 24 discloses the impact of the transition to IFRS on Inter Pipeline's reported balance sheets, statements of net income, comprehensive income and cash flows and changes in partners' equity 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 previously prepared under Canadian GAAP. Comparative figures for 2010 in these financial statements previously reported under Canadian GAAP have been restated to give effect to these changes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Measurement Basis*

The financial statements are prepared on a going concern basis, under the historical cost convention except for derivative financial assets and liabilities and long-term receivable/long-term payable that have been measured at fair value through profit or loss (FVTPL) and long-term incentive plan (LTIP) awards that have been measured at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Inter Pipeline's significant accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2 (c).

b) *Basis of Consolidation*

These consolidated financial statements include the accounts of Inter Pipeline and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as Inter Pipeline, using consistent accounting policies.

Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting at the date control of a business is obtained. The cost of an acquisition is measured as the aggregate of the fair values of the assets given or equity instruments issued, net of liabilities incurred or assumed, and is allocated to the fair value of the acquiree's identifiable net assets acquired, including intangible assets. Goodwill is recognized when the cost of the acquisition exceeds the fair value of the identifiable net assets acquired. Costs directly associated with the acquisition are expensed.

Subsidiaries

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Inter Pipeline obtained control, and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions, and unrealized gains and losses from intercompany transactions, are eliminated on consolidation.

Interest in Joint Venture

Inter Pipeline has an indirect 85% interest in the Cold Lake Pipeline Limited Partnership (Cold Lake L.P.) and an 85% interest in its general partner, Cold Lake Pipeline Ltd. (collectively Cold Lake). The results of Cold Lake are consolidated in a manner that reflects Inter Pipeline's 85% ownership interest in the individual income, expenses, assets, liabilities and cash flows of Cold Lake on a line by line basis in the consolidated results.

Interest in Jointly Controlled Assets

Inter Pipeline has a 50% interest in the Empress V NGL extraction plant which is accounted for as a jointly controlled asset. All strategic financial and operating decisions must be jointly agreed by all parties to the joint arrangement and all parties have direct exclusive rights to their joint interest share of the Empress V assets and the economic benefit generated from them. Accordingly, the results of Empress V are consolidated in a manner that reflects Inter Pipeline's 50% interest in the individual income, expenses, assets, liabilities and cash flows of Empress V on a line by line basis in the consolidated results.

c) *Critical Accounting Estimates and Judgments*

The preparation of the annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The amounts recorded for derivative financial instruments; long term payable/long term receivable; goodwill and intangible assets; property, plant and equipment, including asset impairment, depreciation and amortization; provisions; employee benefits and deferred income taxes 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. Information about critical judgments, estimates and assumptions in applying accounting policies for these areas is included in the relevant sections of the notes to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Change in Estimate

During the year, 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 of $20.5 million.

d) *Segment Reporting*

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location, which is consistent with how the business is managed and results reported to the chief operating decision maker. Each operating segment also uses a measure of profit and loss that represents income before income taxes. Operating segment assets and liabilities are measured on the same basis as consolidated assets and liabilities.

Industry Segments

The oil sands transportation business consists of two pipeline systems that transport petroleum products and provide related blending and handling services in northern Alberta and a new diluent system currently in the development stage. The Corridor and Cold Lake pipeline systems operate under long-term contracts with a limited number of customers. The Polaris pipeline system is currently under development and not operating. The NGL extraction business consists of processing natural gas to extract natural gas liquids (NGLs) including ethane and a mixture of propane, butane and pentanes plus (collectively known as propane-plus). The conventional oil pipelines business primarily involves the transportation, storage and processing of hydrocarbons. The bulk liquid storage business involves the primary storage and handling of bulk liquid products through the operation of eight bulk liquid storage terminals located in the United Kingdom (UK), Germany and Ireland.

Geographic Segments

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

e) *Revenue Recognition*

Oil Sands Transportation Business

Capital fee revenue on the Cold Lake pipeline system is recognized based on volumes transported and services provided to each shipper. In addition, an operating fee equivalent to substantially all of the Cold Lake L.P.'s operating costs is recovered from the Cold Lake shippers.

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

NGL Extraction Business

Revenue for the extraction plants is recognized when the earnings process is complete. This is as the service is provided or when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred and pricing is either fixed or determinable. Revenue recognition is based on three methodologies: according to the terms of the profit share agreements which include an annualized adjustment, fee based revenue which is recognized when volumes are produced and cost of service revenue which is predominantly based on a fixed monthly fee.

Conventional Oil Pipelines Business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional oil pipelines gathering systems, namely trunk line tariffs and gathering tariffs are recognized as the services are

provided. The majority of volumes are transported on the conventional oil pipelines gathering systems under short- term contracts with a fixed tolling arrangement and no volume commitment made by the shipper.

Bulk Liquid Storage Business

Revenues are derived from the storage and handling of bulk liquid products and provision of complementary services and are recognized as the services are provided. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duties. Revenue received in advance is recognized over the duration of the contract to which it applies.

Deferred Revenue

Deferred revenue represents cash received in excess of revenues recognized.

f) *Cash and Cash Equivalents*

Cash and cash equivalents consist of bank accounts and overnight deposits with original maturities of three months or less.

g) *Long-Term Receivable and Long-Term Payable*

Inter Pipeline (Corridor) Inc. (Corridor) utilizes an interest rate derivative to manage a portion of its interest rate risk. Gains or losses arising on the interest rate swap contract are payable to, or recoverable from, the Corridor shippers, respectively; therefore the long-term portion of the unrealized gain or loss has been recorded as a long-term liability or asset. The current portion is included in accounts receivable or accounts payable and accrued liabilities. Inter Pipeline has chosen to designate the long-term receivable/payable as FVTPL as it represents unrealized gains or losses on interest rate swaps that are classified as FVTPL (note 2p).

h) *Property, Plant and Equipment*

Residual values of the assets, estimated useful lives and depreciation and amortization methodology are reviewed annually with prospective application of any changes, if deemed appropriate.

The calculation of depreciation for property, plant and equipment includes assumptions related to useful lives and residual values. The assumptions are based on management's experience with similar assets and corporate policies.

Oil Sands Transportation Business

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which is 80 years. The cost of pipelines and facilities includes all expenditures directly attributable to bringing the pipeline to the location and condition necessary for its intended use, including costs incurred for system construction, expansion and betterments until the assets are available for use. Corridor pipeline system costs include an allocation of directly attributable overhead costs, capitalized interest, and amortization of transaction costs on debt. Capitalization of interest and financing costs ceases when the property, plant and equipment is substantially complete and ready for its intended productive use.

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

NGL Extraction Plants and Equipment

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

Conventional Oil Pipelines Business

Expenditures on conventional oil pipelines system expansions and betterments are capitalized. Maintenance and repair costs are expensed as incurred. Pipeline integrity verification and repair costs are also expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are available for use. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 80 year service life of the Bow River pipeline system assets and 30 year service life of the Central Alberta and Mid-Saskatchewan pipeline system assets. These estimates are connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

Storage Facilities and Equipment

The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from 10 to 30 years.

i) *Goodwill and Intangible Assets*

Goodwill

Inter Pipeline has goodwill in two of its cash generating units (CGU's): the Corridor pipeline system and the bulk liquid storage business. Assets are grouped in CGU's which are the lowest levels for which there are separately identifiable cash inflows. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the bulk liquid storage and Corridor CGU's. After initial recognition, goodwill is carried at cost less any write downs for impairment. If the carrying value of either the bulk liquid storage business or the Corridor pipeline system exceeds its recoverable value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its recoverable value, determined on a fair value less cost to sell discounted cash flow basis. During each fiscal year and as economic events dictate, management conducts an impairment test taking into consideration any events or circumstances which might have impaired the recoverable value.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Intangible Assets

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

Transportation Services Agreement

The Cold Lake Transportation Services Agreement (TSA) intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the TSA expired on December 31, 2011, the term of the TSA extends until the Cold Lake LP gives notice that it forecasts it will

earn less than $1.0 million of capital fees in the year. After December 31, 2011, the Cold Lake founding shippers may contract with a third party to transport their dedicated petroleum after giving the Cold Lake LP notice of at least 20 months prior to the effective date and meeting certain conditions. The Cold Lake LP has the right to match any new service offer from a third party. Therefore, this intangible asset is being amortized on a straight-line basis over a conservative estimate of 30 years. The TSA is amortized on a straight-line basis over 30 years. The remaining amortization period of the TSA is approximately 20 years.

Customer Contracts, Relationships and Tradename

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition of July 28, 2004, which is the period over which amortization is being charged using the straight-line method. Should the useful life or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly. The average remaining amortization period of the customer contracts is approximately 23 years.

The bulk liquid storage business' intangible assets consist of a customer contract for the storage and handling of bulk liquid products, customer relationships and tradename. These assets are being amortized over 20 to 30 years. Should the likelihood of the renewal of the customer contract or estimated life of the tradename change, the amortization of the remaining balance would change accordingly. The customer relationships, which were amortized over a period of three years, are fully amortized and the remaining amortization periods of the customer contract and tradename are approximately 15 and 24 years, respectively.

Patent

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

j) *Borrowing Costs*

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the related assets, until such time as the assets are substantially ready for their intended productive use. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs include interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs are amortized over the estimated service life of the assets to which the borrowings relate.

k) *Provisions*

A provision is recognized when it is determined that an obligation has arisen as a result of a past event, the obligation can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Inter Pipeline's provisions represent legal or constructive obligations associated with decommissioning tangible long-lived assets at the end of their useful lives and loss contingencies, including environmental remediation costs arising from claims, assessments, litigation, fines and penalties, and other sources.

Decommissioning obligations and environmental liabilities are calculated based on current price estimates using current technologies in accordance with current legal or constructive requirements and are adjusted for inflation to when the decommissioning or remediation activity is anticipated. Where a range of estimates exists, the possible outcomes are weighted to determine a probable settlement value or the midpoint is used where all outcomes are equally likely. Inter Pipeline's decommissioning obligations are expected to occur when the assets are no longer economically viable. The economic lives of these assets are estimated based on future expectations involving the supply of petroleum, chemical and other products and demand for certain services and therefore the timing of decommissioning may change significantly in the future. Actual costs and cash outflows may differ from these estimates due to changes in laws or regulations, timing of projects, costs and technology. As a result, there could be material adjustments to the provisions established. If the effect of the time value of money is material, provisions are discounted to their present value using a pre-tax risk-free rate.

The provision will accrete to its full value over time through charges to income, or until Inter Pipeline settles the obligation. Recoveries from third parties which are virtually certain to be realized are recorded separately and are not offset against the related provision.

On initial recognition of a decommissioning obligation, an amount equal to the estimated present value of the obligation is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's estimated useful life. Any subsequent changes to the decommissioning cost estimate or discount rate will result in a similar adjustment to the cost of the related long-lived asset.

NGL Extraction Business and Bulk Liquid Storage Business

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

Conventional Oil Pipelines Business and Oil Sands Transportation Business

Property, plant and equipment related to the conventional oil pipelines and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. The potential cost of future decommissioning activities is a function of several factors, including regulatory requirements at the time of pipeline abandonment, the size of the pipeline and the pipeline's location. Decommissioning requirements can vary considerably, ranging from purging product from the pipeline, refilling with inert gas and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Under current regulations, the estimated cost for the decommissioning obligation include: purging product from the pipeline, refilling with inert gas and capping all open ends; and removal of surface facilities and reclamation of the surface facility sites.

l) *Employee Benefits*

Long-term Incentive Plan

Under Inter Pipeline's long-term incentive plan (LTIP) awards are paid in cash, therefore a fair value basis of accounting is used whereby changes in the liability are recorded in each period based on the number of awards outstanding and the current market price of Inter Pipeline's units plus an amount equivalent to cash distributions declared to date. The expense is recognized over the vesting periods of the respective awards. Compensation expense and the long-term incentive liability are adjusted to reflect the use of actual historical forfeiture rates as well as estimated future forfeiture rates. The market-based value of the award approximates the intrinsic value as the awards have no exercise price.

Pension Plans

The cost of pension benefits earned by certain employees in the United Kingdom, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate used to measure obligations, expected mortality and the expected rate of future compensation. There is measurement uncertainty inherent in the actuarial valuation process because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions. Actual results will differ from results which are estimated based on assumptions.

Plan assets are measured at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the vesting period of the employee benefits. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Past service costs are recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

m) *Income Taxes*

Current Income Taxes

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

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

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in countries where Inter Pipeline and its subsidiaries operate and generate taxable income. The actual amount of income tax expense is final only when the tax return is filed and accepted by relevant tax authorities, which occurs subsequent to the issuance of the annual financial statements.

Management periodically evaluates positions taken in Inter Pipeline's entity tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Provisions are established if appropriate.

Current income tax relating to items recognized directly in partners' equity is recognized in equity and not the income statement.

Deferred Income Taxes

Inter Pipeline uses the liability method where deferred income taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities recorded for financial reporting purposes and their tax bases.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carried forward tax losses can be utilized. Assessing the recoverability of deferred taxes requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast funds from operations and the application of existing tax laws.

The carrying amount of deferred tax assets is reviewed each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured using the tax rates that have been enacted or substantially enacted at the reporting date. The tax rates are those that are expected to apply in the year the asset is to be realized or the liability is to be settled. Future changes in tax laws affecting existing tax rates could limit the ability of the Partnership to obtain tax deductions in future periods.

Deferred tax relating to items recognized outside net income is recognized outside net income. Deferred tax items are recognized in correlation to the underlying transaction either in comprehensive income or directly in partners' equity.

Deferred tax assets and liabilities have been offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes are related to the same taxable entity and the same taxation authority.

n) *Foreign Currency Translation*

Foreign Currency Transactions

Items included in the financial statements of each of Inter Pipeline's subsidiaries are measured using the functional currency of that subsidiary being the primary economic environment in which that subsidiary operates. Transactions that are in a currency other than the functional currency of the subsidiary are translated

at exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency at the reporting date are retranslated to the functional currency at the exchange rate in effect at the reporting date with the resulting exchange gains or losses recognized in the income statement.

Foreign Operations

The results of all of Inter Pipeline's subsidiaries that have a functional currency other than Canadian dollars are translated into Canadian dollars as follows:

a. All assets and liabilities, including goodwill and other fair value adjustments arising on business combinations, at foreign exchange rates at the end of the applicable reporting period; and

b. All income and expenses at monthly average exchange rates over the reporting periods.

The resulting translation gains and losses are included in other comprehensive (loss) income (OCI) as foreign currency translation adjustments.

Currently only Inter Pipeline Europe Limited (IPEL) and its respective subsidiaries have functional currencies that differ from the Canadian dollar. Neither IPEL nor any of its subsidiaries operate in hyperinflationary economies. IPEL comprises all of the operations in the bulk liquid storage business.

o) *Asset Impairment*

Non-financial Assets

Property, plant and equipment and intangible assets with definite lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and non-financial assets with indefinite lives are tested at least annually for impairment regardless of whether indicators of impairment exist. For the purpose of measuring recoverable amounts, assets are grouped in CGU's. The recoverable amount is the higher of a CGU's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, the best evidence of fair value is the value obtained from recent market transactions or the value stated in a binding sale agreement. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Inter Pipeline calculates the fair value less cost to sell using a projected cash flow model applying a fair value less cost to sell discounted cash flow methodology. After-tax cash flows are discounted using a weighted average cost of capital discount rate.

An impairment test is performed by comparing a CGU's carrying amount to its recoverable amount. An impairment loss is recognized to the extent a CGU's carrying amount exceeds its recoverable amount.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the business combination. A group of CGU's represents the lowest level within the entity at which goodwill is monitored for internal management purposes, which may not be higher than an operating segment. Inter Pipeline has goodwill in two of its CGU's, the Corridor pipeline system and the bulk liquid storage business.

An impairment loss is recognized in the period it occurs. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then on a pro-rata basis to reduce the carrying amount of other assets in the CGU with an offset to net income. Impairment losses, other than goodwill impairment, are subsequently evaluated for potential reversal when events or circumstances warrant such consideration.

Impairment indicators include a significant decline in an asset's market value, significant adverse changes in the technological, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing

under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

The determination of the magnitude of impairment involves the use of estimates, assumptions and judgments on highly uncertain matters particularly with respect to determining fair value less costs to sell and value in use. Such estimates, assumptions and judgments include, but are not limited to, the choice of discount rates that reflect appropriate asset-specific risks, timing of revenue and customer turnover, inflation factors for projected operating and maintenance capital expenditures and commodity prices.

Financial Assets

Financial assets carried at amortized cost are assessed by Inter Pipeline at each reporting date to determine whether objective evidence of impairment exists. Significant assets are tested for impairment individually then assessed collectively in a group of assets with similar credit risk characteristics. A financial asset is considered to be impaired if one or more events have occurred that would impact the estimated future cash flows of that asset. If evidence of impairment exists, an entity recognizes an impairment loss, the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is then reduced by this amount with an offsetting entry to net income. Impairment losses on financial assets carried at amortized cost may be reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

p) *Financial Instruments*

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (crude oil, natural gas, NGL's and power) as well as changes within the financial market relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's risk management policy prohibits the use of derivative financial instruments for speculative purposes.

Determination of the fair value of financial assets and liabilities requires the use of valuation techniques that involve many estimates, assumptions and judgments including the timing and magnitude of cash flows, discount rates and reference prices.

Financial Instruments – Recognition and Measurement

Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities "held-for-trading" or designated as FVTPL on initial recognition. Financial assets or financial liabilities are classified as "held-for-trading" if they are acquired for the purpose of selling in the near term. Financial assets or financial liabilities are designated as FVTPL if Inter Pipeline manages such investments and makes purchases and sales decisions based on their fair value in accordance with Inter Pipeline's documented risk management policy, or if such designation eliminates or significantly reduces a measurement or recognition inconsistency. Financial assets and financial liabilities FVTPL are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income (OCI). Financial assets "held-to-maturity", "cash, loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as "available-for-sale" that do not have a quoted market price in an active market are measured at fair value.

Inter Pipeline has classified its financial instruments as follows: certain components of prepaid expenses and other deposits are classified as "held-for-trading" and measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Cash and cash equivalents and the majority of accounts receivable are classified as "cash, loans and receivables". Cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue, and long-term and short-term debt and commercial paper are classified as "other financial liabilities". Derivative financial instruments and the related current and long-term payable/receivable are classified as FVTPL.

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

Inter Pipeline capitalizes long-term debt transaction costs, premiums and discounts within long-term debt.

Financial Instruments – Fair Value Hierarchy

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

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

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

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

q) *Financial Guarantees*

Financial guarantees are issued contracts that require a payment to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized as a liability at their fair value and subsequently measured at the higher of the unamortized balance of the related fees received and the amount expected to settle at the balance sheet date.

r) *Reserves*

Foreign Currency Translation Reserve

The foreign currency translation reserve includes exchange differences arising from the translation of the financial statements of foreign operations.

Defined Benefit Pension Reserve

The defined benefit pension reserve includes actuarial gains and losses on defined benefit pension obligations.

s) *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use an asset. Leases which transfer substantially all the risks and

benefits of ownership to Inter Pipeline are classified as finance leases. The leased asset is recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. Finance lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. Other leases are classified as operating leases and payments are amortized on a straight-line basis over the lease term.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2013 or later periods with early adoption permitted. Inter Pipeline is currently assessing the impact of these pronouncements on its balance sheet and results of operations. The standards impacted are as follows:

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, 2015 with early adoption permitted. IFRS 9 establishes principles 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 identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 revises the definition of control and adds requirements to consider when making control decisions. 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. The concept of control identified in IFRS 10 above may result in an entity being included in the consolidated financial statements of the parent, where previously IAS 31 was applied. 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 joint venture. In addition, the option to account for joint ventures 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 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 consistent disclosure requirements about fair value measurements.

4. SEGMENT REPORTING

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

December 31, 2011	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 284,829	$ 584,534	$ 177,788	$ -	$ 1,047,151	$ 104,416	$ 1,151,567
Expenses							
Shrinkage gas	-	278,114	-	-	278,114	-	278,114
Operating	80,740	103,919	45,985	-	230,644	54,628	285,272
Depreciation and amortization	41,959	26,365	9,437	2,351	80,112	19,604	99,716
Financing charges	32,561	243	563	47,162	80,529	(313)	80,216
General and administrative	5,814	-	-	39,318	45,132	9,692	54,824
Unrealized change in fair value of derivative financial instruments	-	15,370	(384)	(447)	14,539	-	14,539
Management fee to General Partner	-	-	-	10,641	10,641	-	10,641
Loss (gain) on disposal of assets	304	(12)	(15)	(8)	269	(246)	23
Total expenses	161,378	423,999	55,586	99,017	739,980	83,365	823,345
Income (loss) before income taxes	123,451	160,535	122,202	(99,017)	307,171	21,051	328,222
Provision for (recovery of) income taxes	19,043	-	-	61,900	80,943	(653)	80,290
Net income (loss)	$ 104,408	$ 160,535	$ 122,202	$ (160,917)	$ 226,228	$ 21,704	$ 247,932
Items not involving cash:							
Depreciation and amortization*	42,263	26,353	9,422	2,343	80,381	19,358	99,739
Non-cash expense (recovery)	224	238	1,952	831	3,245	(1,419)	1,826
Unrealized change in fair value of derivative financial instruments	-	15,370	(384)	(447)	14,539	-	14,539
Deferred income tax expense (recovery)	18,824	-	-	12,322	31,146	(2,446)	28,700
Proceeds from long-term deferred revenue and other liabilities	-	-	-	1,480	1,480	-	1,480
Funds from (used in) operations	$ 165,719	$ 202,496	$ 133,192	$ (144,388)	$ 357,019	$ 37,197	$ 394,216
Expenditures on property, plant and equipment	$ 103,964	$ 13,584	$ 6,721	$ 2,170	$ 126,439	$ 25,564	$ 152,003
						As at December 31, 2011	
Property, plant and equipment - net book value	$ 2,924,367	$ 386,931	$ 448,463	$ 7,339	$ 3,767,100	$ 313,936	$ 4,081,036
Goodwill and intangible assets - net book value	$ 221,465	$ 220,606	$ -	$ -	$ 442,071	$ 59,938	$ 502,009
Other assets	$ 44,567	$ 64,859	$ 50,003	$ 321	$ 159,750	$ 25,272	$ 185,022
Total assets	$ 3,190,399	$ 672,396	$ 498,466	$ 7,660	$ 4,368,921	$ 399,146	$ 4,768,067

* Includes loss (gain) on disposal of assets

December 31, 2010 (restated)	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 144,486	$ 594,267	$ 157,373	$ -	$ 896,126	$ 100,937	$ 997,063
Expenses							
Shrinkage gas	-	317,065	-	-	317,065	-	317,065
Operating	57,211	100,390	43,604	-	201,205	51,336	252,541
Depreciation and amortization	28,359	25,594	13,846	1,799	69,598	17,955	87,553
Financing charges	10,330	233	1,272	28,497	40,332	(34)	40,298
General and administrative	3,303	-	-	36,257	39,560	5,900	45,460
Unrealized change in fair value of derivative financial instruments	-	4,982	(279)	(1,135)	3,568	-	3,568
Management fee to General Partner	-	-	-	7,836	7,836	-	7,836
(Gain) loss on disposal of assets	(84)	(15)	(67)	(8)	(174)	897	723
Total expenses	99,119	448,249	58,376	73,246	678,990	76,054	755,044
Income (loss) before income taxes	45,367	146,018	98,997	(73,246)	217,136	24,883	242,019
Provision for income taxes	4,057	-	-	762	4,819	1,247	6,066
Net income (loss)	$ 41,310	$ 146,018	$ 98,997	$ (74,008)	$ 212,317	$ 23,636	$ 235,953
Items not involving cash							
Depreciation and amortization*	28,275	25,579	13,779	1,791	69,424	18,852	88,276
Non-cash expense (recovery)	287	321	500	1,464	2,572	(4,374)	(1,802)
Unrealized change in fair value of derivative financial instruments	-	4,982	(279)	(1,135)	3,568	-	3,568
Deferred income tax expense (recovery)	3,896	-	-	762	4,658	(32)	4,626
Proceeds from long-term deferred revenue and pension plan payment	-	-	-	-	-	1,744	1,744
Funds from (used in) operations	$ 73,768	$ 176,900	$ 112,997	$ (71,126)	$ 292,539	$ 39,826	$ 332,365
Expenditures on property, plant and equipment	$ 296,688	$ 6,697	$ 7,106	$ 5,214	$ 315,705	$ 23,888	$ 339,593
							As at December 31, 2010 *(restated)*
Property, plant and equipment - net book value	$ 2,858,128	$ 389,482	$ 451,188	$ 8,838	$ 3,707,636	$ 304,118	$ 4,011,754
Goodwill and intangible assets - net book value	$ 224,691	$ 230,816	$ -	$ -	$ 455,507	$ 59,784	$ 515,291
Other assets	$ 57,778	$ 74,458	$ 25,568	$ 292	$ 158,096	$ 30,501	$ 188,597
Total assets	$ 3,140,597	$ 694,756	$ 476,756	$ 9,130	$ 4,321,239	$ 394,403	$ 4,715,642
							As at January 1, 2010 *(restated)*
Property, plant and equipment - net book value	$ 2,586,573	$ 398,169	$ 458,000	$ 5,514	$ 3,448,256	$ 326,574	$ 3,774,830
Goodwill and intangible assets - net book value	$ 227,917	$ 241,027	$ -	$ -	$ 468,944	$ 66,606	$ 535,550
Other assets	$ 48,831	$ 73,031	$ 24,495	$ 371	$ 146,728	$ 24,506	$ 171,234
Total assets	$ 2,863,321	$ 712,227	$ 482,495	$ 5,885	$ 4,063,928	$ 417,686	$ 4,481,614

* Includes (gain) loss on disposal of assets

5. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities & Equipment	Pipeline Line fill	Construction Work in Progress	Total
Cost				
Balance at January 1, 2010 *(restated)*	$ 2,659,144	$ 74,033	$ 1,684,115	$ 4,417,292
Additions/transfers from construction*	129,175	-	339,523	468,698
Disposals/completed construction*	(963)	-	(128,601)	(129,564)
Foreign currency translation adjustment	(33,270)	-	115	(33,155)
Balance at December 31, 2010 *(restated)*	2,754,086	74,033	1,895,152	4,723,271
Additions/transfers from construction*	1,730,633	174,105	150,940	2,055,678
Disposals/completed construction*	(821)	-	(1,904,889)	(1,905,710)
Foreign currency translation adjustment	5,411	-	(180)	5,231
Balance at December 31, 2011	**$ 4,489,309**	**$ 248,138**	**$ 141,023**	**$ 4,878,470**
Accumulated Depreciation				
Balance at January 1, 2010 *(restated)*	$ 637,953	$ 4,509	$ -	$ 642,462
Depreciation	72,166	1,250	-	73,416
Disposals	(504)	-	-	(504)
Foreign currency translation adjustment	(3,857)	-	-	(3,857)
Balance at December 31, 2010 *(restated)*	705,758	5,759	-	711,517
Depreciation	82,719	2,880	-	85,599
Disposals	(193)	-	-	(193)
Foreign currency translation adjustment	511	-	-	511
Balance at December 31, 2011	**$ 788,795**	**$ 8,639**	**$ -**	**$ 797,434**
Net Book Value				
At January 1, 2010 *(restated)*	$ 2,021,191	$ 69,524	$ 1,684,115	$ 3,774,830
At December 31, 2010 *(restated)*	$ 2,048,328	$ 68,274	$ 1,895,152	$ 4,011,754
At December 31, 2011	**$ 3,700,514**	**$ 239,499**	**$ 141,023**	**$ 4,081,036**

* The majority of capital asset additions are related to constructed assets and are initially recorded as construction work in progress before being transferred to pipelines, facilities and equipment or line fill when the related asset is available for use.

Inter Pipeline has committed to additional expenditures on property, plant and equipment totalling approximately $820.8 million at December 31, 2011, of which $751.0 million is due in one year and $69.8 million is due in one to five years.

The amount of borrowing costs capitalized during the year ended December 31, 2011 was $1.3 million (December 31, 2010 – $17.9 million). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 2.64% (December 31, 2010 – 1.1%).

6. GOODWILL AND INTANGIBLE ASSETS

		Intangible Assets				
	Goodwill	Customer Contracts & Relationships	Patent	Tradename	Total Intangible Assets	Total Goodwill & Intangible Assets
Cost						
Balance, January 1, 2010	$ 215,947	$ 385,828	$ 8,727	$ 4,365	$ 398,920	$ 614,867
Foreign currency translation adjustment	(5,511)	(386)	-	(363)	(749)	(6,260)
Balance, December 31, 2010	210,436	385,442	8,727	4,002	398,171	608,607
Foreign currency translation adjustment	714	79	-	73	152	866
Balance, December 31, 2011	**$ 211,150**	**$ 385,521**	**$ 8,727**	**$ 4,075**	**$ 398,323**	**$ 609,473**
Accumulated Amortization						
Balance, January 1, 2010	$ -	$ 75,323	$ 3,376	$ 618	$ 79,317	$ 79,317
Amortization	-	13,376	624	137	14,137	14,137
Foreign currency translation adjustment	-	(83)	-	(55)	(138)	(138)
Balance, December 31, 2010	$ -	$ 88,616	$ 4,000	$ 700	$ 93,316	$ 93,316
Amortization	-	13,357	623	137	14,117	14,117
Foreign currency translation adjustment	-	19	-	12	31	31
Balance, December 31, 2011	**$ -**	**$ 101,992**	**$ 4,623**	**$ 849**	**$ 107,464**	**$ 107,464**
Net Book Value						
At January 1, 2010	$ 215,947	$ 310,505	$ 5,351	$ 3,747	$ 319,603	$ 535,550
At December 31, 2010	$ 210,436	$ 296,826	$ 4,727	$ 3,302	$ 304,855	$ 515,291
At December 31, 2011	**$ 211,150**	**$ 283,529**	**$ 4,104**	**$ 3,226**	**$ 290,859**	**$ 502,009**

The carrying amounts of goodwill allocated to the Corridor pipeline system and bulk liquid storage business CGU's are $156.9 million and $54.2 million, respectively (December 31, 2010 - $156.9 million and $53.5 million, respectively, January 1, 2010 - $156.9 million and $59.0 million, respectively).

Corridor pipeline system

In arriving at fair value less costs to sell, after-tax discount rates of 3.7% and 5.7% were applied to after-tax cash flows from the Corridor and Polaris pipelines, respectively. Cash flow projections are based on long-term contractual transportation agreements with shippers. These cash flows are then aggregated with a 'terminal value'. The terminal value represents the value of cash flows beyond the tenth year, incorporating no growth rate for Polaris and a declining growth rate of 2% for Corridor. The key assumption to which the calculation of fair value less costs to sell for the Corridor pipeline system is most sensitive is the discount rate used to present value cash flow projections. Management believes, at December 31, 2011, that there are no reasonably possible changes in any of the key assumptions that would lead to the recoverable amount being below the carrying amount.

Bulk liquid storage business

Goodwill relating to the bulk liquid storage business has been assessed, applying an after-tax discount rate of 7.9% to after-tax cash flows. Valuations are based on cash flow projections that incorporate best estimates of revenue, operating and maintenance expenditures, administrative expenses and capital expenditures over the life of tank assets. These cash flow projections are then aggregated with a 'terminal value', representing the value of cash flows beyond the tenth year incorporating an annual real term growth rate of 2.5%. The calculation of fair value less costs to sell is most sensitive to assumptions about revenue, foreign exchange and discount rates. Management believes, at December 31, 2011, that there are no reasonably possible changes in any of the key assumptions that would lead to the recoverable amount being below the carrying amount.

7. CASH DISTRIBUTIONS

Section 5.2 of the LPA specifies the terms for Inter Pipeline to make distributions of LPA Distributable Cash on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). LPA Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash.

For the year ended December 31, 2011, Inter Pipeline declared cash distributions totalling $251.7 million, or $0.9675 per unit, of which $95.1 million was settled with the issuance of Class A units under the Premium Distribution™ and Distribution Reinvestment Plan (Plan) (2010 - $232.6 million, $0.9050 per unit and $38.1 million, respectively). As at December 31, 2011 distributions of $23.1 million were payable on 263.9 million outstanding Class A units and 0.3 million outstanding Class B units at $0.0875 per unit (December 31, 2010 - $20.6 million payable on 257.8 million outstanding Class A units and 0.3 million outstanding Class B units at $0.08 per unit, January 1, 2010 - $19.1 million payable on 254.3 million outstanding Class A units and 0.3 million outstanding Class B units at $0.075 per unit).

On January 9, 2012, Inter Pipeline declared cash distributions of $0.0875 per unit. The distributions were paid on February 15, 2012 to all unitholders of record on January 23, 2012. The total distributions were approximately $23.2 million. On February 7, 2012, Inter Pipeline declared cash distributions of $0.0875 per unit. The distributions will be paid on or about March 15, 2012 to all unitholders of record on February 23, 2012. The total estimated distributions to be paid are $23.3 million.

8. LONG-TERM AND SHORT-TERM DEBT AND COMMERCIAL PAPER

	December 31 2011	December 31 2010	January 1 2010
$1,550 million Unsecured Revolving Credit Facility (a)	$ 1,467,300	$ -	$ -
$2,142 million Unsecured Revolving Credit Facility (b)	-	1,964,384	1,709,900
$750 million Unsecured Revolving Credit Facility (c) (d)	-	157,000	230,000
Loan payable to General Partner (e)	379,800	379,800	379,800
Corridor Debentures (f)	300,000	300,000	300,000
Unsecured Medium-Term Notes (g)	525,000	-	-
Long-term and short-term debt and commercial paper (excluding transaction costs and discounts)	2,672,100	2,801,184	2,619,700
Less: Current portion of long-term debt and commercial paper*	(1,558,452)	(1,964,384)	(1,709,900)
	1,113,648	836,800	909,800
Transaction costs	(23,964)	(13,986)	(13,137)
Accumulated amortization of transaction costs	11,517	10,337	5,479
Discount, net of accumulated amortization	(2,007)	(1,922)	(1,127)
Add: Current portion of transaction costs and discounts	3,094	1,738	2,973
Long-term debt	1,102,288	832,967	903,988
Current portion of long-term debt including transaction costs and discounts	90,989	386,584	123,600
Commercial paper including transactions costs and discounts* (a) (b)	1,464,369	1,576,062	1,583,327
Total debt	$ 2,657,646	$ 2,795,613	$ 2,610,915

* Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2015.

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(a) On December 15, 2011 Corridor entered into a new $1,550 million Unsecured Revolving Credit Facility and a $25 million demand operating facility. The Unsecured Revolving Credit Facility has an initial maturity date of December 15, 2015, which can be extended under certain conditions. No amounts were outstanding on the demand facility at December 31, 2011, with the exception of letters of credit valued at $0.2 million.

Fees on amounts borrowed at floating rates based on bankers' acceptances are 100 basis points, while fees on unborrowed amounts are 40 basis points. If Corridor's credit rating changes, the fees on floating rate amounts could increase by up to 75 basis points or reduce by up to 15 basis points, while fees on undrawn amounts could increase by up to 30 basis points and decrease by up to 6 basis points. The effective rate of interest incurred in 2011 was 1.40% (2010 – 0.99%) for the $1,550 million Unsecured Revolving Credit Facility and $2,142 million Unsecured Revolving Credit Facility combined. Fees on amounts borrowed under the demand facility match the $1,550 Unsecured Revolving Credit Facility while undrawn amounts are not charged standby fees.

(b) Corridor's $2,142 million Unsecured Revolving Credit Facility and $40 million demand operating facility were cancelled on December 15, 2011 when Corridor entered into a $1,550 million Unsecured Revolving Credit Facility on the same date.

The $2,142 million Unsecured Revolving Credit Facility was comprised of the following tranches:

i) $190 million non-recourse tranche expiring on August 14, 2012. Effective December 15, 2011 this tranche was cancelled when Corridor entered into a $1,550 million Unsecured Revolving Credit Facility.

ii) $1,464 million non-recourse tranche expiring on August 14, 2012. Effective August 2, 2011, this tranche was permanently reduced by $73.4 million to $1,391 million as a result of Corridor achieving the first expansion commencement date on August 1, 2011. Effective December 15, 2011 this tranche was cancelled when Corridor entered into a $1,550 million Unsecured Revolving Credit Facility.

iii) $292 million recourse to Inter Pipeline. On January 4, 2011 amounts drawn on this tranche were repaid and the tranche was cancelled.

iv) $196 million recourse to Inter Pipeline. On January 4, 2011 this tranche was permanently reduced by $168.5 million to $27.5 million. Effective August 2, 2011, the $27.5 million recourse to Inter Pipeline tranche was cancelled as a result of Corridor achieving the first expansion commencement date on August 1, 2011.

Fees on amounts borrowed at floating rates based on bankers' acceptances were 40 basis points, while fees on unborrowed amounts were 8 basis points.

(c) On December 5, 2011, Inter Pipeline entered into a new $750 million Unsecured Revolving Credit Facility. This facility has an initial maturity date of December 5, 2016, which can be extended under certain conditions.

Fees on amounts borrowed at floating rates based on bankers' acceptances are 125 basis points, while fees on unborrowed amounts are 25 basis points. If Inter Pipeline's credit rating changes, fees on floating rate amounts could increase by up to 100 basis points or be reduced by up to 37.5 basis points, while fees on undrawn amounts could increase by up to 20 basis points and decrease by up to 7.5 basis points. The effective combined interest rate for both the new and old $750 million Unsecured Revolving Credit Facility incurred in 2011 was 2.64% (2010 – 2.54%).

On December 5, 2011 Inter Pipeline also entered into a new $20 million demand facility. Fees on amounts borrowed under the facility are based on prime plus 25 basis points, while unborrowed amounts are not charged standby fees. No amounts were drawn on this facility at December 31, 2011.

(d) The previous $750 million Unsecured Revolving Credit Facility, which had a maturity date of September 29, 2012, was cancelled on December 5, 2011.

Fees on amounts borrowed at floating rates based on bankers' acceptances were 50 basis points, while fees on unborrowed amounts were 11 basis points.

On December 5, 2011, Inter Pipeline cancelled and replaced its previous $20 million demand facility which had been entered into on December 13, 2010. No amounts were drawn on this previous facility at December 31, 2010.

(e) On October 28, 2004, Inter Pipeline borrowed $379.8 million from the General Partner with the following terms:

- $91.2 million due October 28, 2012, 5.85%, which is included within the current portion of long-term debt; and
- $288.6 million due October 28, 2014, 6.15%.

On this date, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline.

This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 5 basis points over the rates payable on the notes issued by the General Partner. There are no scheduled repayments of the principal amounts of the notes payable to the General Partner prior to maturity. A prepayment may be made at any time, in which case the General Partner would generally be required to pay a premium of 50 basis points over the implied yield to maturity and, if applicable, swap breakage costs of the counterparty.

Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 basis points over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

(f) On February 2, 2010, Corridor's $150 million of 4.240% Series A debentures matured. On February 2, 2010, Corridor issued $150 million of 4.897% Series C debentures due February 3, 2020. The $150 million 5.033% Series B debentures due February 2, 2015 and the $150 million 4.897% Series C debentures due February 3, 2020 (Corridor Debentures) are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005 and a supplemental indenture dated February 2, 2010. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year, except for 2020 in which case interest is payable on the $150 million 4.897% Series C debentures on February 3, 2020 for interest accrued for the period from and including August 2, 2019 to and including February 2, 2020. Corridor uses a derivative instrument to exchange its fixed rate of interest to floating rates of interest on the $150 million 5.033% Series B debentures (note 17). This results in an average effective interest rate that is different from the stated interest rate on the $150 million 5.033% Series B debentures of 1.83% (2010 – 1.03% on Series A debentures).

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

(g) The Unsecured Medium-Term Notes are comprised of the following:

i) On February 2, 2011, Inter Pipeline issued $325 million of 4.967% Unsecured Medium-Term Notes, Series 1 (MTN Series 1) due February 2, 2021, in the Canadian public debt market. The MTN Series 1 notes were issued under Inter Pipeline's short form base shelf prospectus dated November 30, 2010, a related prospectus supplement dated January 19, 2011 and a related pricing supplement dated January 28, 2011. The MTN Series 1 notes bear interest at the rate of 4.967% per annum, payable semi-annually. Proceeds from the offering were used to pay down a portion of Inter Pipeline's $750 million Unsecured Revolving Credit Facility.

ii) On July 29, 2011, Inter Pipeline issued $200 million of 3.839% Unsecured Medium-Term Notes, Series 2 (MTN Series 2) due July 30, 2018, in the Canadian public debt market. The MTN Series 2 notes were issued under the same short form base shelf prospectus and related prospectus supplement as the MTN Series 1 notes and a related pricing supplement dated July 26, 2011. The MTN Series 2 notes bear interest at a rate of 3.839% per annum, payable semi-annually in equal instalments in arrears on July 30 and January 30 of each year, except for the first interest payment on January 30, 2012 which will be calculated from and including July 29, 2011 to and excluding January 30, 2012. Proceeds from the offering were used to repay a portion of Inter Pipeline's $750 million Unsecured Revolving Credit Facility.

9. PROVISIONS

The following table shows the movement in the long-term liability for provisions:

	Decommissioning Obligations	Environmental Liabilities	Total
Balance at January 1, 2010 *(restated)*	$ 19,247	$ 15,605	$ 34,852
Revisions to estimated amount of liabilities	988	(1,021)	(33)
Obligations discharged	-	(20)	(20)
Accretion expense	782	515	1,297
Foreign currency adjustments	(896)	(475)	(1,371)
Balance at December 31, 2010 *(restated)*	$ 20,121	$ 14,604	$ 34,725
Revisions to estimated amount of liabilities	(805)	918	113
Obligations discharged	-	738	738
Accretion expense	843	495	1,338
Foreign currency adjustments	115	(11)	104
Balance at December 31, 2011	**$ 20,274**	**$ 16,744**	**$ 37,018**

The following estimates of expected economic life and inflation rates were used to calculate the undiscounted amount 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. The long-term risk-free rates were used to discount the future cash flows for decommissioning obligations and the 5 to 10 year risk-free rates were used to discount the future cash flows for environmental liabilities:

	Expected Economic Life (years)*	Inflation Rate	Long-Term Risk-Free Discount Rate	5 to 10 Year Risk-Free Discount Rate
Oil sands transportation business	80 to 500**	2.0%	4.1%	n/a
NGL extraction business	40	2.0%	4.1%	n/a
Conventional oil pipelines business	40 to 500**	2.0%	4.1%	2.65% to 3.6%
Bulk liquid storage business	40	1.7% to 2.3%	4.0% to 4.25%	2.75% to 3.4%

* Environmental liabilities are being accreted over 5 to 10 years.
** The expected economic life of oil sands assets and the Bow River pipeline system is 80 to 500 years. The mid-point value of 290 years is used in the decommissioning obligation assessment.

At December 31, 2011, $1.7 million is included in accounts payable and accrued liabilities for the current portion of these obligations (December 31, 2010 - $1.9 million, January 1, 2010 - $2.1 million).

10. EMPLOYEE BENEFITS

	December 31 2011	December 31 2010 *(restated)*	January 1 2010 *(restated)*
Pension liability (asset)	$ 758	$ (4,488)	$ 8,872
Long-term incentive plan liability	6,231	6,500	4,587
Employee benefits	$ 6,989	$ 2,012	$ 13,459

a) Long-Term Incentive Plan and Unit Incentive Options

Effective January 1, 2006, Inter Pipeline implemented an LTIP for its employees, officers, and directors of the General Partner. The LTIP is governed by a Deferred Unit Rights Plan (DURP) document that defines how awards made under the DURP will be determined and administered. A Deferred Unit Right (DUR), as granted under the DURP, is valued based on Inter Pipeline's unit price plus credit for cash distributions paid to unit holders during the period the DURs are held. Unless otherwise provided in an individual grant agreement, the DUR will vest one-third on each of the successive anniversary dates from the date of grant. The life of DURs granted is three years. Upon exercise of a DUR, the amount owing will be paid out in cash net of applicable withholding taxes. At December 31, 2011, the current portion of the liability included in accounts payable and accrued liabilities was $12.7 million (December 31, 2010 - $14.8 million, January 1, 2010 - $9.0 million). At December 31, 2011, 650,598 DURs are exercisable. Inter Pipeline's closing unit price at December 31, 2011 was $18.63.

The total intrinsic value of DUR's vested and not exercised as at December 31, 2011 was $13.2 million (December 31, 2010 - $13.8 million, January 1, 2010 - $9.3 million).

The weighted average remaining contractual life of the outstanding DURs as at December 31, 2011 was 1.5 years.

For the year ended December 31, 2011, operating expenses included $4.6 million and general and administrative expenses included $14.5 million related to DURs (2010 - $5.8 million and $14.3 million, respectively).

The following table summarizes the status of Inter Pipeline's DURs for the years ended December 31, 2011 and 2010:

	DURs Number
Balance outstanding, January 1, 2010	1,752,744
Granted	851,118
Exercised	(748,423)
Forfeitures	(57,619)
Balance outstanding, December 31, 2010	1,797,820
Granted	731,437
Exercised	(1,048,691)
Forfeitures	(109,887)
Balance outstanding, December 31, 2011	**1,370,679**

In 2003, the Board of Directors of the General Partner established an Option Plan whereby 7.3 million Class A units were reserved for issuance under the Option Plan. There have been no new grants related to this Option Plan since July 28, 2005 and the remaining options were exercised on July 26, 2010.

b) *Pension Asset/Liability*

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

United Kingdom

Inter Pipeline operates a defined benefit funded pension plan, the Simon Storage Pension Fund (Fund), providing benefits for its employees based primarily on years of service and final pensionable salary. The Fund is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Fund was carried out as at April 6, 2010. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the reporting date, with the obligation measured using the projected unit method. The Fund was closed to new entrants from September 30, 2010. At the same time, a change was made to the Fund's rules, which restricts the level of future increases in pensionable salaries to the lower of price inflation and 5.0% each year. This change came into effect on April 6, 2011. The next valuation date for funding purposes is April 6, 2013.

Ireland

Inter Pipeline operates a defined benefit funded pension plan, the Irish Bulk Liquid Storage Limited Retirement and Death Benefits Scheme (Scheme) which provides benefits for its employees based on years of service and final pensionable salary. The Scheme is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Scheme was carried out as at September 1, 2010. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the reporting date, with the obligation measured using the projected unit method. With effect from September 1, 2010 the Scheme was closed to future benefit accrual. The next valuation date for funding purposes is September 1, 2013.

Germany

The German benefit plans included in Inter Pipeline's financial reporting relate to defined benefit retirement pensions, long-service awards and partial early retirement arrangements. The German arrangements are unfunded and therefore have no assets. The most recent actuarial valuation of the long-term employee and post-retirement benefits under local tax and accounting rules was carried out as at December 31, 2011 by professionally qualified actuaries. The results of the valuation were adjusted for Inter Pipeline's financial reporting purposes, with the obligation measured using the projected unit method. The next valuation date for funding purposes is December 31, 2012.

The expected rate of return on assets for the financial year ending December 31, 2011 was 5.3% and 1.9% for the UK and Irish pension plans, respectively (December 31, 2010 – 6.3% and 2.5% for the UK and Irish plans, respectively). This rate is derived by taking the weighted average of the long-term expected rate of return on each of the asset classes that the plan was invested in at the start of the financial year, less an allowance for investment management expenses.

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

Pension Plan Assets	United Kingdom		Ireland		Germany	
by Asset Category	2011	2010	2011	2010	2011	2010
Equity securities	45%	54%	-	-	-	-
Debt securities	41%	34%	-	-	-	-
Real estate	14%	12%	-	-	-	-
Deferred annuity contract	-	-	100%	100%	-	-
Total	100%	100%	100%	100%	-	-

The significant actuarial assumptions adopted in measuring Inter Pipeline's accrued benefit obligations are as follows:

Weighted-Average Assumptions	United Kingdom		Ireland		Germany	
for Expense	2011	2010	2011	2010	2011	2010
Discount rate	4.8%	5.4%	5.1%	5.1%	4.2%	5.1%
Rate of price inflation	3.2%	3.5%	2.0%	2.0%	2.0%	2.0%
Compensation increase	3.1%	3.4%	n/a	n/a	n/a	n/a
Rate of pension payment increase	3.1%	3.4%	2.8%	2.8%	1.5%	1.5%

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

	December 31 2011				December 31 2010 (restated)				January 1 2010 (restated)			
Change in Accrued Benefit Obligation	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Accrued benefit obligation, beginning of year	$ 60,890	$ 910	$ 1,273	$ 63,073	$ 68,431	$ 1,297	$ 1,533	$ 71,261	$ 54,375	$ 1,253	$ 1,787	$ 57,415
Current and past service cost	1,792	5	6	1,803	(1,622)	41	7	(1,574)	1,877	56	11	1,944
Employee contributions	776	-	-	776	736	4	-	740	801	6	-	807
Interest cost	3,378	48	62	3,488	3,636	59	56	3,751	3,418	65	67	3,550
Benefits paid	(1,907)	(279)	(189)	(2,375)	(1,929)	(165)	(192)	(2,286)	(2,336)	(27)	(203)	(2,566)
Actuarial loss (gain)	3,883	-	(37)	3,846	(3,470)	(67)	62	(3,475)	14,157	111	95	14,363
Curtailment gain	-	-	-	-	-	(100)	-	(100)	-	-	-	-
Foreign currency adjustments	1,390	6	-	1,396	(4,892)	(159)	(193)	(5,244)	(3,861)	(167)	(224)	(4,252)
Accrued benefit obligation, end of year	$ 70,202	$ 690	$ 1,115	$ 72,007	$ 60,890	$ 910	$ 1,273	$ 63,073	$ 68,431	$ 1,297	$ 1,533	$ 71,261

	December 31 2011				December 31 2010 *(restated)*				January 1 2010 *(restated)*			
Change in Pension Plan Assets	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Fair value of pension plan assets, beginning of year	$ 66,325	$ 1,236	$ -	$ 67,561	$ 60,899	$ 1,490	$ -	$ 62,389	$ 55,607	$ 1,554	$ -	$ 57,161
Expected return on pension plan assets	4,314	32	-	4,346	3,988	53	-	4,041	3,200	57	-	3,257
Actuarial (loss) gain in other comprehensive income	(2,311)	(10)	-	(2,321)	1,961	(46)	-	1,915	4,741	-	-	4,741
Employer contributions	1,808	49	189	2,046	6,002	88	192	6,282	2,361	102	203	2,666
Employee contributions	776	-	-	776	736	4	-	740	801	6	-	807
Benefits paid	(1,907)	(279)	(189)	(2,375)	(1,929)	(165)	(192)	(2,286)	(2,336)	(27)	(203)	(2,566)
Foreign currency adjustments	1,213	3	-	1,216	(5,332)	(188)	-	(5,520)	(3,475)	(202)	-	(3,677)
Fair value of pension plan assets, end of year	$ 70,218	$ 1,031	$ -	$ 71,249	$ 66,325	$ 1,236	$ -	$ 67,561	$ 60,899	$ 1,490	$ -	$ 62,389

	December 31 2011				December 31 2010 *(restated)*				January 1 2010 *(restated)*			
Accrued benefit asset (liability)	$ 16	$ 341	$ (1,115)	$ (758)	$ 5,435	$ 326	$ (1,273)	$ 4,488	$ (7,532)	$ 193	$ (1,533)	$ (8,872)

The actual return on the Fund's assets over the year was $2.0 million (2010 - $6.0 million).

The present value of defined benefit obligations, fair value of plan assets and associated experience adjustments for the defined benefit pension plans are shown for the current year and preceding four years as follows:

	2011	2010 *(restated)*	2009 *(restated)*	2008 *(restated)*	2007 *(restated)*
Defined benefit obligation	$ (72,007)	$ (63,073)	$ (71,261)	$ (59,516)	$ (69,487)
Plan assets	71,249	67,561	62,389	57,161	68,958
(Deficit) surplus	$ (758)	$ 4,488	$ (8,872)	$ (2,355)	$ (529)
Experience adjustments on plan assets	3%	(3%)	7%	21%	1%
Experience adjustments on plan liabilities	-	(6%)	-	-	2%

11. INCOME TAXES

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

In the bulk liquid storage business, the 2011 results recognize recent tax legislative changes which impacted deferred income taxes. In the UK, tax legislation was passed which reduced the effective income tax rate from 27% to 26%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. The effect of recognizing this change in UK income tax rates is a $3.7 million reduction in deferred income tax liabilities.

In the bulk liquid storage business, the 2010 results recognize tax legislative changes which impacted deferred income taxes. In the UK, tax legislation was passed which reduced the effective income tax rate from 28% to 27%, effective April 1, 2011. The effect of recognizing this change in UK income tax rates was a $1.6 million reduction in deferred income tax liabilities.

The major components of income tax expense for the years ended December 31, 2011 and 2010 are as follows:

	December 31 2011	December 31 2010 *(restated)*
Current income tax:		
Current income tax expense	$ 51,590	$ 1,440
Total current tax expense	51,590	1,440
Deferred income tax:		
Relating to the origination and reversal of temporary differences	32,390	6,266
Adjustments to deferred tax attributable to changes in tax rates and laws	(3,690)	(1,640)
Total deferred tax expense	28,700	4,626
Total income tax expense	$ 80,290	$ 6,066

Deferred taxes charged directly to other comprehensive income are as follows:

	December 31 2011	December 31 2010 *(restated)*
Deferred income tax (recovery) expense on defined benefit pension actuarial (loss) gain	$ (1,292)	$ 1,455
Income tax (recovery) expense charged to other comprehensive income	$ (1,292)	$ 1,455

The provision for income taxes is summarized by jurisdiction as follows:

	December 31 2011	December 31 2010 *(restated)*
Current		
Canada	$ 49,797	$ 161
Europe	1,793	1,279
	51,590	1,440
Deferred		
Canada	31,146	4,658
Europe	(2,446)	(32)
	28,700	4,626
	$ 80,290	$ 6,066

The components of income before income taxes are summarized below:

	December 31 2011	December 31 2010 *(restated)*
Canada	$ 307,171	$ 217,136
Europe	21,051	24,883
	$ 328,222	$ 242,019

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

	December 31 2011	December 31 2010 (restated)
Income before income taxes per consolidated statements of net income	$ 328,222	$ 242,019
Less: non taxable Canadian partnership income	-	(201,924)
Adjusted income before taxes	328,222	40,095
Statutory tax rate	26.50%	28.00%
	86,979	11,227
Deferred income taxes on temporary differences related to non-taxable Canadian partnership income	-	888
Deductible intercompany interest expense	(3,774)	(3,940)
Impact of rate reductions	(3,690)	(1,640)
Other	775	(469)
Tax expense	$ 80,290	$ 6,066

The tax rates used in the reconciliation above are the combined federal and provincial rates payable by Inter Pipeline in Canada. These tax rates decreased to 26.5% in 2011 from 28% in 2010 due to previously enacted tax rate deductions. On October 30, 2007, the Government of Canada announced reductions to the federal general tax rate that was enacted into law in December 2007. This legislation reduced the federal general tax rate from 18% to 16.5% effective January 1, 2011.

Deferred tax relates to temporary differences in the following assets and liabilities:

	Consolidated Balance Sheets			Consolidated Statements of Net Income	
	December 31 2011	December 31 2010 (restated)	January 1 2010 (restated)	December 31 2011	December 31 2010 (restated)
Property, plant and equipment	$ (337,166)	$ (285,311)	$ (253,193)	$ (51,160)	$ (38,029)
Non-capital losses	79,136	64,699	36,565	14,437	28,133
Intangible assets	(101,474)	(106,507)	(106,673)	5,064	(4)
Pension liability	(23)	(1,467)	2,113	97	(2,240)
Working capital	698	1,060	545	(397)	577
Decommissioning obligations	7,228	7,075	4,973	114	2,030
Derivative financial instruments	9,127	5,983	1,076	3,145	4,907
Deferred tax expense				$ (28,700)	$ (4,626)
Net deferred tax liability	$ (342,474)	$ (314,468)	$ (314,594)		

Reconciliation of deferred tax liabilities net:

	December 31 2011	December 31 2010 (restated)
Balance, January 1	$ (314,468)	$ (314,594)
Tax expense recognized in net income	(28,700)	(4,626)
Tax recovery (expense) recognized in other comprehensive income	1,292	(1,455)
Revaluation of foreign deferred tax liabilities	(598)	6,207
Balance, December 31	$ (342,474)	$ (314,468)

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying amount of the consolidated balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized. The amount of unrecognized losses related to Europe at December 31, 2011 are $2.1 million (December 31, 2010 - $2.0 million, January 1, 2010 - $2.2 million).

The amount of recognized non-capital losses in Canada at December 31, 2011 is approximately $316.5 million (December 31, 2010 - $258.8 million, January 1, 2010 - $146.3 million). If not utilized, these non-capital losses expire in various amounts between 2025 and 2030.

12. PARTNERS' EQUITY

Units Issued, Fully Paid and Outstanding

Authorized

Unlimited number of Class A limited liability units, with voting rights and no par value.
Unlimited number of Class B unlimited liability units, with voting rights and no par value.

Each unit is subject to the transfer restrictions within the LPA. All unitholders receive distributions on their units in accordance with the LPA. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash. In the event of the dissolution of Inter Pipeline, any of Inter Pipeline's remaining assets, after giving effect to any asset sales and payment of debts and liabilities upon dissolution, will be distributed to unitholders. In accordance with the LPA, Inter Pipeline is required to be dissolved on December 31, 2037 and in certain other instances in accordance with the LPA.

Issued, Fully Paid and Outstanding

	Class A Units	Class B Units	Total
Balance as at January 1, 2010	254,393,244	254,886	254,648,130
Issued under Premium Distribution™ and Distribution Reinvestment Plan	3,360,852	3,369	3,364,221
Issued under Unit Incentive Option Plan	31,500	36	31,536
Balance as at December 31, 2010	257,785,596	258,291	258,043,887
Issued under Premium Distribution™ and Distribution Reinvestment Plan (a)	6,106,849	6,122	6,112,971
Balance as at December 31, 2011	**263,892,445**	**264,413**	**264,156,858**

a) In July 2011, Inter Pipeline reintroduced the Premium Distribution™ component of the Plan. Under the Distribution Reinvestment component of the Plan, eligible unitholders may reinvest their cash distributions to purchase additional Class A units issued from treasury at a 5% discount to the weighted average trading price of Inter Pipeline units. Under the Premium Distribution™ component of the Plan, eligible unitholders may elect to exchange these additional units for cash payment equal to 102% of the regular cash distribution on the applicable distribution payment date.

™ Denotes trademark of Canaccord Capital Corporation.

Calculation of Net Income per Partnership Unit

Partnership units share equally on a pro rata basis in the allocation of net income. The number of diluted units outstanding is calculated using the Treasury Stock method based on the weighted average number of units outstanding for the period as follows:

	December 31 2011	December 31 2010 *(restated)*
Net income attributable to unitholders – Basic and diluted	$ 247,932	$ 235,953
Weighted average units outstanding – Basic	259,937,522	256,879,626
Effect of Premium Distribution™ and Distribution Reinvestment Plan	412,870	145,435
Effect of Unit Incentive Option Plan	-	14,670
Weighted average units outstanding – Diluted	260,350,392	257,039,731
Net income per Partnership unit – Basic and diluted	$ 0.95	$ 0.92

Reserves

Reserves are summarized as follows:

	Hedging Reserve	Foreign Currency Translation Reserve	Defined Benefit Pension Reserve	Total Reserves
Balance, January 1, 2010	$ (1,617)	$ (52,233)	$ -	$ (53,850)
Opening IFRS adjustments (note 24)	-	52,233	(7,417)	44,816
Balance, beginning of period *(restated)*	(1,617)	-	(7,417)	(9,034)
Other comprehensive income (loss)	808	(28,395)	3,935	(23,652)
Balance, December 31, 2010 *(restated)*	$ (809)	$ (28,395)	$ (3,482)	$ (32,686)
Other comprehensive income	809	4,472	(4,875)	406
Balance, December 31, 2011	**$ -**	**$ (23,923)**	**$ (8,357)**	**$ (32,280)**

13. RELATED PARTY TRANSACTIONS

Inter Pipeline wholly owns a number of subsidiaries located in Canada, England, Germany, Ireland and Denmark and an 85% interest in two subsidiaries located in Canada (2010 – 100% interests in Canada, England, Germany and Ireland and 85% interest in two subsidiaries located in Canada).

No revenue was earned from related parties for the years ended December 31, 2011 and 2010.

In 2002, Inter Pipeline entered into a support agreement that enables Inter Pipeline to request PAC, the shareholder of the General Partner, and its affiliates to provide certain personnel and services to the General Partner to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts were paid in 2011 and 2010 under the support agreement.

Amounts due from/to the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 8). At December 31, 2011, accounts payable includes $0.9 million owing to the General Partner by Inter Pipeline (December 31, 2010 - $0.8 million, January 1, 2010 - $0.5 million).

Management fees of $10.6 million were earned by the General Partner in the year ended December 31, 2011 (2010 - $7.8 million). Acquisition fees of $nil and disposition fees of $nil were earned by the General Partner in the year ended December 31, 2011 (2010 – $nil and $nil, respectively).

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At December 31, 2011, accounts payable includes interest payable to the General Partner on the loan of $4.1 million (December 31, 2010 - $4.1 million, January 1, 2010 - $4.3 million). The General Partner has earned $0.2 million from Inter Pipeline in interest income during the year (2010 - $0.2 million) on a net basis, after paying interest expense to the ultimate note holders.

In 2011, certain of the officers and directors of the General Partner received a total of $1.1 million in dividends from PAC pursuant to their non-voting shares (2010 - $0.7 million).

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

Key Management Personnel

Total compensation of the Board of Directors and top three paid executives consisted of the following:

	December 31 2011	December 31 2010
Short-term employee benefits*	$ 4,340	$ 3,978
Unit-based payments**	8,294	7,918
Total compensation***	$ 12,634	$ 11,896

* Short-term employee benefits consist of base salary, annual earned bonuses and employer contributions for non-monetary benefits.

* * Unit-based payments consist of the compensation expense recognized for DURs outstanding at the period end and DUR's exercised by key management personnel during the period (see note 10a for a discussion of the plan).

* * * Post employment benefits, other long-term benefits and termination benefits are not applicable for Inter Pipeline's key management personnel in the year ended December 31, 2011 and 2010.

14. COMMITMENTS AND CONTINGENCIES

On June 15, 2007, Inter Pipeline entered into an agreement with the Corridor shippers to guarantee the payment and performance of all obligations, other than repayment of borrowed amounts or similar financial obligations, of Corridor, the General Partner, or the operator (if the operator was not Inter Pipeline) in favour of the shippers under the FSA and other related agreements. The guarantee may be exercised in the event that Corridor, the General Partner or the operator (if the operator was not Inter Pipeline) fails to pay or perform such obligations for any reason.

As a result of the sale of Lewis Tankers Limited in November 2009, Inter Pipeline provided third party guarantees for minimum payments under commercial vehicle lease agreements that expire between July 2010 and December 2013. The guarantees may be exercised if the purchaser fails to fulfill its payment obligations. At December 31, 2011, the guaranteed lease obligations are approximately $0.6 million.

Inter Pipeline has committed to purchase obligations totalling approximately $119.8 million at December 31, 2011 (refer to note 5 for committed property, plant and equipment expenditures).

Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the United Kingdom's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $4.7 million to $9.5 million over the next eight years.

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage, property, plant and equipment and land for periods ranging from 2012 to 2090. Certain leases contain extension and renewal options. The future minimum annual lease payments for these lease commitments are:

Less than one year	$	7,078
One to five years		27,317
After five years		53,564
	$	87,959

15. CAPITAL DISCLOSURES

Financial objectives are aligned with Inter Pipeline's commercial strategies and its long-term outlook for the business. Inter Pipeline's capital management objectives are to maintain (i) stable cash distributions to unitholders over economic and industry cycles; (ii) a flexible capital structure which optimizes the cost of capital within an acceptable level of risk; and (iii) an investment grade credit rating. Management manages the capital structure and makes adjustments based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or modify the capital structure, Inter Pipeline may adjust the level of cash distributions paid to unitholders, issue new partnership units or new debt, renegotiate new debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund growth capital and acquisition programs throughout market and industry cycles. Inter Pipeline projects its funding requirements to ensure appropriate sources of financing are available to meet future financial obligations and capital programs. Inter Pipeline generally relies on committed credit facilities and funds from operations to finance ongoing capital requirements. At December 31, 2011, Inter Pipeline had access to committed credit facilities totalling $2,300.0 million, of which $832.7 million remains unutilized. Inter Pipeline also had access to unutilized demand facilities of $44.8 million. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

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

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

* 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.

** EBITDA is a non-GAAP measure whose nearest GAAP measure is net income. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

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

	December 31 2011	December 31 2010 (restated)	January 1 2010 (restated)
Long-term and short-term debt and commercial paper (excluding transaction costs and discounts, per note 8)			
Recourse debt	$ 904,800	$ 923,384	$ 733,400
Non-recourse debt	1,767,300	1,877,800	1,886,300
	2,672,100	2,801,184	2,619,700
Partners' equity	1,419,786	1,328,049	1,310,083
Total capitalization	$ 4,091,886	$ 4,129,233	$ 3,929,783
Capitalization (excluding non-recourse debt)	$ 2,324,586	$ 2,251,433	$ 2,043,483
Recourse debt to capitalization*	38.9%	41.0%	35.9%

	December 31 2011	December 31 2010 (restated)
Net income	$ 247,932	$ 235,953
Add:		
Depreciation and amortization	99,716	87,553
Loss on disposal of assets	23	723
Financing charges	80,216	40,298
Non-cash expense (recovery)	26	(3,702)
Unrealized change in fair value of derivative financial instruments	14,539	3,568
Provision for income taxes	80,290	6,066
Proceeds from long-term deferred revenue and lease inducements	1,480	5,796
EBITDA**	$ 524,222	$ 376,255
Recourse debt to EBITDA**	1.7	2.5

Inter Pipeline was compliant with all covenants throughout each of the years presented.

* 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.

** EBITDA is a non-GAAP measure whose nearest GAAP measure is net income. Non-GAAP measures do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

16. FINANCIAL INSTRUMENTS

Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at December 31, 2011 are classified as follows:

	FVTPL	Cash, Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non Financial Asset or Liability*	Carrying Value of Asset or Liability
Assets**						
Cash and cash equivalents	$ -	$ 50,021	$ -	$ 50,021	$ -	$ 50,021
Accounts receivable	-	99,625	-	99,625	9,520	109,145
Prepaid expenses and other deposits	-	1,053	-	1,053	9,864	10,917
Derivative financial instruments***	14,939	-	-	14,939	-	14,939
Liabilities						
Cash distributions payable	-	-	23,114	23,114	-	23,114
Accounts payable and accrued liabilities	4,839	-	139,976	144,815	17,684	162,499
Derivative financial instruments***	36,781	-	-	36,781	-	36,781
Deferred revenue and other liabilities	-	-	13	13	22,222	22,235
Long-term and short-term debt and commercial paper (note 8)****	-	-	2,672,100	2,672,100	-	2,672,100
Long-term payable	9,772	-	-	9,772	-	9,772

* Not all components of assets and liabilities meet the definition of a financial asset or liability.
** Inter Pipeline does not have any assets that meet the definition of "available-for-sale" or "held-to-maturity."
*** Financial instruments at FVTPL are recorded at fair value using a discounted cash flow methodology.
**** Carrying values include the current portion of long-term debt and commercial paper and exclude discounts and transaction costs with the respective accumulated amortization.

a) Fair Value of Financial Instruments

The fair value of long-term debt and derivative financial instruments are discussed in the following paragraphs. The long-term portion of unrealized gains arising from the interest rate swap contracts payable to the shippers is designated as FVTPL and is carried at fair value. The carrying value of all other financial assets and liabilities approximate their fair value due to the relatively short-term maturity.

Due to the short-term maturity of instruments under long-term variable rate revolving credit facilities, it is assumed that the carrying amounts of these financial instruments approximate their fair values. At December 31, 2011, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value*	Fair Value
Loan Payable to General Partner	$ 379,800	$ 413,208
Corridor Debentures	$ 300,000	$ 328,184
Unsecured Medium-Term Notes, Series 1 & 2	$ 525,000	$ 564,822

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

The estimated fair value of the fixed rate debt has been determined based on available market information and appropriate valuation methods, including the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The actual amounts realized may differ from these estimates.

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

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

	December 31 2011	December 31 2010	January 1 2010
Current asset	$ 5,167	$ 8,916	$ 3,738
Non-current asset	9,772	10,067	9,239
Current liability	(25,746)	(25,144)	(16,655)
Non-current liability	(11,035)	(4,169)	(4,081)
	$ (21,842)	$ (10,330)	$ (7,759)

Derivative financial instruments carried at fair value are as follows:

	December 31 2011	December 31 2010	January 1 2010
Frac-spread risk management			
NGL swaps	$ (13,691)	$ (16,762)	$ (9,313)
Natural gas swaps	(15,573)	(10,911)	(5,975)
Foreign exchange swaps	(7,189)	4,519	(854)
	(36,453)	(23,154)	(16,142)
Interest rate risk management			
Interest rate swaps	14,611	10,474	8,385
	14,611	10,474	8,385
Power price risk management			
Electricity price swaps	-	279	(43)
Heat rate swaps	-	2,071	41
	-	2,350	(2)
	$ (21,842)	$ (10,330)	$ (7,759)

b) *Net Gains or Losses*

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

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

	December 31 2011	December 31 2010
Revenues		
NGL swaps	$ (35,465)	$ 325
Foreign exchange swaps (frac-spread)	4,737	1,671
	(30,728)	1,996
Shrinkage gas expense		
Natural gas swaps	(13,817)	(19,261)
	(13,817)	(19,261)
Operating expenses		
Electricity price swaps	1,164	66
Heat rate swaps	5,010	1,755
	6,174	1,821
Financing charges		
Interest rate swaps	2,760	3,687
	2,760	3,687
Net realized loss on derivative financial instruments	$ (35,611)	$ (11,757)

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

	December 31 2011	December 31 2010
Frac-spread risk management		
NGL swaps	$ 3,071	$ (7,449)
Natural gas swaps	(4,661)	(4,936)
Foreign exchange swaps	(11,708)	5,373
	(13,298)	(7,012)
Interest rate risk management		
Interest rate swaps	1,918	1,900
	1,918	1,900
Power price risk management		
Electricity price swaps	(279)	322
Heat rate swaps	(2,071)	2,030
	(2,350)	2,352
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	(809)	(808)
Unrealized change in fair value of derivative financial instruments	$ (14,539)	$ (3,568)

Realized and Unrealized Gain (Loss) on Other Classes of Financial Instruments

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

17. RISK MANAGEMENT

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

a) Market Risk

Market risk is the risk or uncertainty that the fair value of financial instruments, future cash flows and net earnings of Inter Pipeline will fluctuate due to movements in market rates. Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy in place that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (crude oil, natural gas, NGLs and power) as well as changes within financial markets relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline’s risk management policy prohibits the use of derivative financial instruments for speculative purposes.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt outstanding at December 31, 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.

Frac-Spread Risk Management

Inter Pipeline is exposed to frac-spread risk which is the relative price differential between the sale of NGL produced and the purchase of shrinkage gas used to replace the heat content removed during the extraction of the NGL from the natural gas stream. Derivative financial instruments are utilized to manage frac-spread risk. Inter Pipeline transacts with third party counterparties to sell a notional portion of its NGL products and purchase related notional quantities of natural gas at fixed prices. NGL price swap agreements are transacted in US currency therefore Inter Pipeline also enters into foreign exchange contracts to sell US dollars to convert notional US dollar amounts in the NGL swaps.

Contracts outstanding at December 31, 2011, represented approximately 57% of forecast propane-plus volumes at the Cochrane extraction plant for the period January 1, 2012 to December 31, 2012 at average frac-spread prices of approximately $0.95 CAD/US gallon and 48% of forecast volumes for the period January 1, 2013 to December 31, 2013 at average frac-spread prices of approximately $0.97 CAD/US gallon. These average prices approximated $0.93 USD/US gallon and $0.94 USD/US gallon, respectively, based on the average USD/CAD forward curve as at December 31, 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 used to manage frac-spread risk and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

	Fair Value of Derivative Financial Instruments	Change in Net Income Based on 10% Increase in Prices/Rates**	Change in Net Income Based on 10% Decrease in Prices/Rates**
NGL*	$ (13,691)	$ (16,325)	$ 16,325
AECO natural gas	(15,573)	3,016	(3,016)
Foreign exchange	(7,189)	(15,479)	15,479
Frac-spread risk management	$ (36,453)		

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

Interest Rate Risk Management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of a change in market interest rates. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure.

In 2001, Inter Pipeline entered into a series of floating-to-fixed interest rate swap agreements with a Canadian chartered bank to manage the interest rate risk exposure on its unsecured revolving credit facility. Fixed rates range from 6.30% to 6.31%. The series of floating-to-fixed interest rate swap agreements matured on December 30, 2011 and there is no notional value outstanding (December 31, 2010 - $41.0 million).

In 2007, Inter Pipeline assumed fixed-to-floating interest rate swap agreements with a Canadian chartered bank to manage its interest rate cash flow exposure on $300.0 million of Corridor's 5 and 10 year fixed rate debentures. On February 2, 2010, the $150 million 4.240% Series A debentures matured and Corridor issued $150 million of 4.897% Series C debentures due February 3, 2020. A swap agreement was not entered into for the Series C debentures. At December 31, 2011 Inter Pipeline manages its interest rate cash flow exposure with the remaining fixed-to-floating interest rate swap on the $150 million 5.033% Series B Corridor debentures.

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of floating-to-fixed interest rate swap agreements. Since fixed rate long-term debt is carried at amortized cost rather than at fair value, the carrying value of this debt is not subject to interest rate risk. Since the fair value gains and losses on the fixed-to-floating interest rate swap agreements are offset by the long-term receivable or long-term payable, there is no interest rate risk on these agreements.

Based on the variable rate debt obligations outstanding at December 31, 2011, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $14.7 million, assuming all other variables remain constant. The entire $14.7 million relates to the $1.55 billion Unsecured Revolving Credit Facility (note 8) and is recoverable through the terms of Corridor's FSA, therefore there would be no after-tax income impact.

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its conventional oil pipelines and NGL extraction business segments. Inter Pipeline enters into financial heat rate swap contracts to manage electricity price risk exposure in the NGL extraction business. Inter Pipeline also enters into financial power swap contracts to manage electricity price exposure in the conventional oil pipelines business. As at December 31, 2011 there are no heat rate or electricity price swap agreements outstanding.

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.

In association with the acquisition discussed in note 23, Inter Pipeline entered into a forward foreign exchange agreement on February 1, 2012 to sell EUR 36.4 million at a rate of 1.3165 CAD per EUR, with a settlement date up to April 30, 2012.

b) Credit Risk

Credit exposure on financial instruments arises from a counterparty's inability or unwillingness to fulfill its obligations to Inter Pipeline. Inter Pipeline's credit risk exposure relates primarily to customers (accounts receivable) and financial counterparties holding cash and derivative financial instruments. Inter Pipeline's exposure to credit risk arises from default of a customer or counterparty's obligations, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and monitoring procedures.

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

At December 31, 2011, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval, ongoing monitoring procedures and historical experience. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other form of credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis.

At December 31, 2011, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2011, accounts receivable associated with these two business segments were $78.5 million or 72% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business units and customers.

c) Liquidity Risk

Liquidity risk is the risk that suitable sources are not available to fund business operations, commercial strategies or meet financial obligations (refer to note 15 for capital management and note 14 for commitments). The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at December 31, 2011, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Cash distributions payable	$ 23,114	$ 23,114	$ -	$ -
Accounts payable and accrued liabilities	162,499	162,499	-	-
Deferred revenue and other liabilities	22,235	4,583	11,370	6,282
Derivative financial instruments*	37,372	26,000	11,372	-
Long-term and short-term debt and commercial paper**	2,672,100	1,558,452	438,648	675,000
Long-term payable*	10,273	-	10,273	-
	$ 2,927,593	$ 1,774,648	$ 471,663	$ 681,282

* Derivative financial instruments are shown on a net basis. Derivative financial instruments and the long-term payable represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2011, based upon contractual maturity dates. Fair values of derivative financial instruments and the long-term payable reported on the balance sheets are shown on a discounted basis.

** Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2015.

18. FINANCING CHARGES

	December 31 2011	December 31 2010 *(restated)*
Interest expense on credit facilities	$ 28,577	$ 24,175
Interest on loan payable to General Partner	23,084	23,084
Interest on Corridor Debentures	10,084	8,804
Interest on MTN Series 1 and Series 2 notes	17,928	-
Total interest	79,673	56,063
Capitalized interest	(1,256)	(17,945)
Amortization of transaction costs on long-term and short-term debt and commercial paper	1,180	883
Accretion of provisions and pension plan financing charges	619	1,297
Total financing charges	$ 80,216	$ 40,298

19. EXPENSES BY NATURE

	December 31 2011	December 31 2010 *(restated)*
Fuel and power	$ 107,263	$ 94,427
External services	52,523	47,307
Employee costs	68,287	59,020
Property taxes	22,057	15,819
Materials and supplies	19,200	18,780
Transportation and storage	49,717	49,129
Other	21,049	13,519
Total expense by nature	$ 340,096	$ 298,001
Allocated to:		
Operating	285,272	252,541
General and administrative	54,824	45,460
	$ 340,096	$ 298,001

20. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	December 31 2011	December 31 2010 *(restated)*
Accounts receivable	$ 20,356	$ (7,379)
Prepaid expense and other deposits	2,201	4,809
Cash distributions payable	2,470	1,546
Accounts payable and accrued liabilities	3,997	19,868
Deferred revenue	(1,756)	2,718
Current income taxes payable	48,989	641
Impact of foreign exchange rate differences and other	211	264
Changes in non-cash working capital	$ 76,468	$ 22,467
These changes relate to the following activities:		
Operating	$ 66,288	$ 17,200
Investing	7,710	3,721
Financing	2,470	1,546
Changes in non-cash working capital	$ 76,468	$ 22,467

Cash and Cash Equivalents

	December 31 2011	December 31 2010	January 1 2010
Cash on hand and at banks	$ 37,879	$ 10,936	$ 8,472
Short-term deposits	12,142	11,571	9,736
	$ 50,021	$ 22,507	$ 18,208

21. MAJOR CUSTOMERS

In 2011, Dow Chemical Canada and BP Canada, two of the principal customers of the NGL extraction business, accounted for 47% (2010 – Dow Chemical Canada and BP Canada accounted for 51%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

22. JOINT ARRANGEMENTS

85% Interest in Cold Lake

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

	December 31 2011	December 31 2010 *(restated)*
Revenues	$ 104,896	$ 80,336
Expenses	(55,910)	(50,219)
Provision for income taxes	(219)	(161)
Proportionate share of net income	$ 48,767	$ 29,956

	December 31 2011	December 31 2010 *(restated)*	January 1 2010 *(restated)*
Current assets	$ 24,974	$ 29,020	$ 33,148
Long-term assets	490,401	477,727	458,192
Current liabilities	(7,278)	(11,017)	(3,823)
Long-term liabilities	(283)	(302)	(238)
Proportionate share of net assets	$ 507,814	$ 495,428	$ 487,279

At December 31, 2011, there were $156.0 million of commitments to purchase property, plant and equipment and $46.7 million of purchase obligations related to Inter Pipeline's interest in the Cold Lake entity. Cold Lake's commitments and purchase obligations are included in total commitments and contingencies disclosed in note 14.

50% Interest in Empress V Extraction Plant

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

	December 31 2011	December 31 2010 *(restated)*
Revenues	$ 110,031	$ 107,142
Expenses	(101,216)	(100,567)
Proportionate share of net income	$ 8,815	$ 6,575

	December 31 2011	December 31 2010 *(restated)*	As at January 1 2010 *(restated)*
Current assets	$ 11,085	$ 13,786	$ 10,681
Long-term assets	104,392	108,413	112,586
Current liabilities	(7,847)	(10,952)	(9,219)
Long-term liabilities	(655)	(628)	603
Proportionate share of net assets	$ 106,975	$ 110,619	$ 114,651

At December 31, 2011, there were $0.1 million commitments to purchase property, plant and equipment and no purchase obligations related to Inter Pipeline's interest in the jointly controlled Empress V extraction plant asset. Empress V's commitments and purchase obligations are included in total commitments and contingencies disclosed in note 14.

23. SUBSEQUENT EVENT

Acquisition of DONG Energy Terminals

On January 11, 2012, Inter Pipeline completed the acquisition of four petroleum storage terminals in Denmark, referred to collectively as Inter Terminals, from a subsidiary of DONG Energy A/S, through the purchase of all the outstanding shares for cash consideration of $459 million, plus closing adjustments. The acquisition was funded from Inter Pipeline's existing credit facilities. The acquisition will more than double Inter Pipeline's total bulk liquid storage capacity in Western Europe, adding scale and diversification to European storage operations.

Due to the proximity of the acquisition date to the approval of these financial statements, it has not been possible to reasonably estimate the significant accounting aspects of this business combination, including disclosure of the consideration transferred.

As a result of this transaction, an acquisition fee of approximately $4.6 million will be paid in 2012 to the General Partner, pursuant to the terms of the LPA.

Acquisition related costs of $3.2 million have been expensed and included in general and administrative expenses in the consolidated statement of net income for the year ended December 31, 2011.

24. TRANSITION TO IFRS

The same accounting policies and methods of computation are followed in the consolidated annual financial statements as compared with the most recent consolidated annual financial statements for the year ended December 31, 2010, except as described below. The accounting policies in Note 2 have been applied consistently in preparing the consolidated financial statements for the years ended December 31, 2011 and December 31, 2010 and the IFRS consolidated balance sheets as at December 31, 2010 and December 31, 2011. The accounting policies in Note 2 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 where utilized. Inter Pipeline's IFRS adoption date is January 1, 2011.

In preparing the opening January 1, 2010 IFRS consolidated balance sheet and the consolidated financial statements for the year ended December 31, 2011, Inter Pipeline has adjusted comparative amounts reported previously in the consolidated financial statements prepared in accordance with its previous basis of accounting, Canadian GAAP.

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the Transition Date with all adjustments to assets and liabilities taken to retained earnings unless certain mandatory exceptions and optional exemptions are applied. Inter Pipeline elected to take the following IFRS 1 optional exemptions:

Exemption	Application of Exemption
Decommissioning Obligation	The requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37) and IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* are applied at the Transition Date. Inter Pipeline has remeasured its provisions at this date, estimating the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the historical risk-free discount rates, and recalculating the accumulated depreciation under IFRS.

Borrowing Costs	The transitional provisions in IAS 23 *Borrowing Costs* are applied to borrowing costs on qualifying assets. There is no impact on Inter Pipeline's consolidated annual financial statements as borrowing costs were previously capitalized under Canadian GAAP.
Business Combinations	The requirements of IFRS 3 *Business Combinations* (IFRS 3) are applied prospectively from the Transition Date.
Lease Arrangements	Arrangements that were already assessed under Canadian GAAP EIC 150 *Determining Whether an Arrangement Contains a Lease* are not reassessed under IFRIC 4 *Determining Whether an Arrangement Contains a Lease* at the Transition Date.
Cumulative Translation Differences	Cumulative currency translation differences for all foreign operations have been reset to zero as at the Transition Date.
Employee Benefits	The disclosure requirements of IAS 19 – *Employee Benefits* are applied prospectively from the Transition Date, if disclosure differences between IFRS and Canadian GAAP are considered to be material.
Share Based Payments	The impact associated with estimating DUR forfeiture rates has only been applied retrospectively for DURs not vested at January 1, 2010. All Unit Incentive Options were vested at the Transition Date and the exemption was applied with no adjustment required.

An explanation of how the transition from Canadian GAAP to IFRS has affected Inter Pipeline's consolidated balance sheets, consolidated net income, consolidated comprehensive income, consolidated cash flows and consolidated partners' equity is set out in the following reconciliations and notes that accompany the reconciliations.

Reconciliation of Consolidated Statement of Cash Flows December 31, 2010

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by Inter Pipeline. Cash flows relating to interest are classified as operating under both Canadian GAAP and IFRS.

Reconciliation of Consolidated Balance Sheet as at January 1, 2010

	Canadian GAAP	Presentation Differences	Canadian GAAP IFRS Presentation	Decommissioning Obligations	Environmental Liabilities	Defined Benefit Pensions	Share Based Payments	Foreign Currency Translation	Total IFRS Adjustments	IFRS
ASSETS		(a)		(b)	(c)	(d)	(e)	(f)		
Current Assets										
Cash and cash equivalents	$ 18,208	$ -	$ 18,208	$ -	$ -	$ -	$ -	$ -	$ -	$ 18,208
Accounts receivable	122,122	-	122,122	-	-	-	-	-	-	122,122
Derivative financial instruments	3,738	-	3,738	-	-	-	-	-	-	3,738
Prepaid expenses and other deposits	17,927	-	17,927	-	-	-	-	-	-	17,927
Total Current Assets	161,995	-	161,995	-	-	-	-	-	-	161,995
									-	
Derivative financial instruments	9,239	-	9,239	-	-	-	-	-	-	9,239
Property, plant and equipment	3,765,930	-	3,765,930	8,900	-	-	-	-	8,900	3,774,830
Intangible assets	319,603	(319,603)	-	-	-	-	-	-	-	-
Goodwill	215,947	(215,947)	-	-	-	-	-	-	-	-
Goodwill and intangible assets	-	535,550	535,550	-	-	-	-	-	-	535,550
Total Assets	$ 4,472,714	$ -	$ 4,472,714	$ 8,900	$ -	$ -	$ -	$ -	$ 8,900	$ 4,481,614
LIABILITIES AND PARTNERS' EQUITY										
Current Liabilities										
Cash distributions payable	$ 19,098	$ -	$ 19,098	$ -	$ -	$ -	$ -	$ -	$ -	$ 19,098
Accounts payable and accrued liabilities	136,909	(123)	136,786	-	-	-	(595)	-	(595)	136,191
Current income taxes payable	-	123	123	-	-	-	-	-	-	123
Derivative financial instruments	16,655	-	16,655	-	-	-	-	-	-	16,655
Deferred revenue	3,621	-	3,621	-	-	-	-	-	-	3,621
Current portion of long-term debt	123,600		123,600	-	-	-	-	-	-	123,600
Commercial paper	-	1,583,327	1,583,327	-	-	-	-	-	-	1,583,327
Total Current Liabilities	299,883	1,583,327	1,883,210	-	-	-	(595)	-	(595)	1,882,615
Long-term debt	2,487,315	(1,583,327)	903,988	-	-	-	-	-	-	903,988
Long-term payable	9,212	-	9,212	-	-	-	-	-	-	9,212
Derivative financial instruments	4,081	-	4,081	-	-	-	-	-	-	4,081
Asset retirement obligation	5,036	(5,036)	-	-	-	-	-	-	-	-
Environmental liabilities	12,299	(12,299)	-	-	-	-	-	-	-	-
Provisions	-	17,335	17,335	14,211	3,306	-	-	-	17,517	34,852
Employee benefits	7,061	-	7,061	-	-	6,939	(541)	-	6,398	13,459
Long-term deferred revenue	8,730	-	8,730	-	-	-	-	-	-	8,730
Deferred income taxes (g)	318,996	-	318,996	(1,441)	(880)	(1,943)	(138)	-	(4,402)	314,594
Total Liabilities	3,152,613	-	3,152,613	12,770	2,426	4,996	(1,274)	-	18,918	3,171,531
Partners' Equity										
Partners' equity	1,373,951	-	1,373,951	(3,870)	(2,426)	2,421	1,274	(52,233)	(54,834)	1,319,117
Total reserves	(53,850)	-	(53,850)	-	-	(7,417)	-	52,233	44,816	(9,034)
Total Partners' Equity	1,320,101	-	1,320,101	(3,870)	(2,426)	(4,996)	1,274	-	(10,018)	1,310,083
Total Liabilities and Partners' Equity	$ 4,472,714	$ -	$ 4,472,714	$ 8,900	$ -	$ -	$ -	$ -	$ 8,900	$4,481,614

Reconciliation of Consolidated Balance Sheet as at December 31, 2010

	Canadian GAAP	Presentation Differences	Canadian GAAP IFRS presentation	Decommissioning Obligations	Environmental Liabilities	Defined Benefit Pensions	Share Based Payments	Foreign Currency Translation	Business Combinations	Total IFRS adjustments	IFRS
ASSETS		(a)		(b)	(c)	(d)	(e)	(f)	(h)		
Current Assets											
Cash and cash equivalents	$ 22,507	$ -	$ 22,507	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 22,507
Accounts receivable	129,501	-	129,501	-	-	-	-	-	-	-	129,501
Derivative financial instruments	8,916	-	8,916	-	-	-	-	-	-	-	8,916
Prepaid expenses and other deposits	13,955	-	13,955	-	-	-	-	-	(837)	(837)	13,118
Current portion of future income taxes	9,152	(9,152)	-	-	-	-	-	-	-	-	-
Total Current Assets	184,031	(9,152)	174,879	-	-	-	-	-	(837)	(837)	174,042
Derivative financial instruments	10,067	-	10,067	-	-	-	-	-	-	-	10,067
Employee benefits	-	2,228	2,228	-	-	2,260	-	-	-	2,260	4,488
Property, plant and equipment	4,002,796	-	4,002,796	8,958	-	-	-	-	-	8,958	4,011,754
Intangible assets	304,855	(304,855)	-	-	-	-	-	-	-	-	-
Goodwill	210,436	(210,436)	-	-	-	-	-	-	-	-	-
Goodwill and intangible assets	-	515,291	515,291	-	-	-	-	-	-	-	515,291
Total Assets	$ 4,712,185	$ (6,924)	$ 4,705,261	$ 8,958	$ -	$ 2,260	$ -	$ -	$ (837)	$ 10,381	$ 4,715,642
LIABILITIES AND PARTNERS' EQUITY											
Current Liabilities											
Cash distributions payable	$ 20,644	$ -	$ 20,644	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 20,644
Accounts payable and accrued liabilities	157,856	(764)	157,092	-	-	-	(133)	-	-	(133)	156,959
Current income taxes payable	-	764	764	-	-	-	-	-	-	-	764
Derivative financial instruments	25,144	-	25,144	-	-	-	-	-	-	-	25,144
Deferred revenue	6,339	-	6,339	-	-	-	-	-	-	-	6,339
Current portion of long-term debt	386,584	-	386,584	-	-	-	-	-	-	-	386,584
Commercial paper	-	1,576,062	1,576,062	-	-	-	-	-	-	-	1,576,062
Total Current Liabilities	596,567	1,576,062	2,172,629	-	-	-	(133)	-	-	(133)	2,172,496
Long-term debt	2,409,029	(1,576,062)	832,967	-	-	-	-	-	-	-	832,967
Long-term payable	9,096	-	9,096	-	-	-	-	-	-	-	9,096
Derivative financial instruments	4,169	-	4,169	-	-	-	-	-	-	-	4,169
Asset retirement obligation	5,266	(5,266)	-	-	-	-	-	-	-	-	-
Environmental liabilities	11,163	(11,163)	-	-	-	-	-	-	-	-	-
Provisions	-	16,429	16,429	14,857	3,439	-	-	-	-	18,296	34,725
Employee benefits	4,936	2,228	7,164	-	-	-	(664)	-	-	(664)	6,500
Long-term deferred revenue	13,172	-	13,172	-	-	-	-	-	-	-	13,172
Deferred income taxes (g)	325,824	(9,152)	316,672	(1,596)	(935)	650	(323)	-	-	(2,204)	314,468
Total Liabilities	3,379,222	(6,924)	3,372,298	13,261	2,504	650	(1,120)	-	-	15,295	3,387,593
Partners' Equity											
Partners' equity	1,414,385	-	1,414,385	(4,473)	(2,555)	5,328	1,120	(52,233)	(837)	(53,650)	1,360,735
Total reserves	(81,422)	-	(81,422)	170	51	(3,718)	-	52,233	-	48,736	(32,686)
Total Partners' Equity	1,332,963	-	1,332,963	(4,303)	(2,504)	1,610	1,120	-	(837)	(4,914)	1,328,049
Total Liabilities and Partners' Equity	$ 4,712,185	$ (6,924)	$ 4,705,261	$ 8,958	$ -	$ 2,260	$ -	$ -	$ (837)	$ 10,381	$ 4,715,642

Reconciliation of Consolidated Statement of Net Income for the year ended December 31, 2010

	Canadian GAAP	Presentation differences (a)	Canadian GAAP IFRS presentation	Decommissioning Obligations (b)	Environmental Liabilities (c)	Defined Benefit Pensions (d)	Share Based Payments (e)	Business Combinations (h)	Total IFRS adjustments	IFRS
REVENUES										
Operating revenue	$997,063	$ -	$ 997,063	$ -	$ -	$ -	$ -	$ -	$ -	$ 997,063
	997,063	-	997,063	-	-	-	-	-	-	997,063
EXPENSES										
Shrinkage gas	317,065	-	317,065	-	-	-	-	-	-	317,065
Operating	255,865	-	255,865	-	(314)	(3,115)	105	-	(3,324)	252,541
Depreciation and amortization	87,535	(352)	87,183	370	-	-	-	-	370	87,553
Financing charges	39,282	352	39,634	430	515	(281)	-	-	664	40,298
General and administration	45,087	-	45,087	-	-	(697)	233	837	373	45,460
Unrealized change in fair value of derivatives	3,568	-	3,568	-	-	-	-	-	-	3,568
Management fee to General Partner	7,836	-	7,836	-	-	-	-	-	-	7,836
Loss on disposal of assets	723	-	723	-	-	-	-	-	-	723
	756,961	-	756,961	800	201	(4,093)	338	837	(1,917)	755,044
INCOME BEFORE TAXES	240,102	-	240,102	(800)	(201)	4,093	(338)	(837)	1,917	242,019
PROVISION FOR (RECOVERY OF) INCOME TAXES										
Current	1,440	-	1,440	-	-	-	-	-	-	1,440
Deferred (g)	3,893	-	3,893	(197)	(72)	1,187	(185)	-	733	4,626
	5,333	-	5,333	(197)	(72)	1,187	(185)	-	733	6,066
NET INCOME	$ 234,769	$ -	$ 234,769	$ (603)	$ (129)	$ 2,906	$ (153)	$ (837)	$ 1,184	$ 235,953

Reconciliation of Comprehensive Income for the year ended December 31, 2010

	Canadian GAAP	Total IFRS Adjustments to Net Income	Foreign Currency Translation (f)	Defined Benefit Pensions (d)	Total IFRS Adjustments	IFRS
NET INCOME	$ 234,769	$ 1,184	$ -	$ -	$ 1,184	$ 235,953
OTHER COMPREHENSIVE LOSS						
Unrealized (loss) gain on translating financial statements of foreign operations	(28,380)	-	(15)	-	(15)	(28,395)
Actuarial loss on defined pension benefit obligation	-	-	-	5,390	5,390	5,390
Transfer of losses on derivatives previously designated as cash flow hedges to net income	808	-	-	-	-	808
Income tax relating to components of other comprehensive income	-	-	-	(1,455)	(1,455)	(1,455)
	(27,572)	-	(15)	3,935	3,920	(23,652)
COMPREHENSIVE INCOME (LOSS)	$ 207,197	$ 1,184	$ (15)	$ 3,935	$ 5,104	$ 212,301

Explanation of Reconciling Items

(a) Presentation Differences

The adjustments to the presentation of the consolidated balance sheets and the consolidated statements of net income reflect the new financial statement classifications used under IFRS. Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2015. However, the amount of commercial paper outstanding at each balance sheet date is classified as current under IFRS. The first and second quarter 2011 condensed interim consolidated balance sheets had commercial paper classified as long-term. In addition, goodwill and intangible assets are presented as one line item, decommissioning obligations and environmental liabilities are combined and presented as provisions on the consolidated balance sheets and current portion of deferred income taxes has been combined with non-current deferred income taxes. Accretion of decommissioning obligations was previously recorded within depreciation and amortization under Canadian GAAP, however under IFRS it is recorded within financing charges on the consolidated statements of net income.

(b) Decommissioning Obligation

Under Canadian GAAP, Inter Pipeline did not record a decommissioning obligation for the pipelines and related facilities in the oil sands transportation and conventional oil pipelines business units under the rationale that insufficient information was available to determine the probability of estimate with respect to the timing of settlement and the magnitude of the potential obligation.

IFRS requires, in the case where a range of possible outcomes is determinable with no one outcome being more likely than another, the mid-point of the estimated range should be used. As a result, Inter Pipeline has developed a methodology for estimating the costs associated with pipeline decommissioning, including applying ranges and probabilities of outcomes, to determine a decommissioning obligation. The obligations are discounted to their present value using a pre-tax risk-free rate under IFRS, whereas under Canadian GAAP a credit-adjusted risk-free rate was used.

The IFRS 1 transition rules have been utilized and the adjustment to the decommissioning liability has been calculated in accordance with IAS 37 at the Transition Date. The offsetting adjustment to property, plant and equipment was calculated by discounting the revised decommissioning liability back to when the liability first arose using the best estimate of the historical discount rates and applying depreciation to that amount up to the Transition Date. This was calculated using the existing depreciation policy for the underlying assets. The 2010 adjustment reflects the present value of the liability, with the accretion of the liability included in financing charges.

(c) Environmental Liabilities

Under Canadian GAAP, Inter Pipeline recorded its best estimate of specific environmental remediation costs arising from claims, assessments, litigation and penalties as contingent liabilities on an undiscounted basis.

Under IFRS, these environmental remediation costs are considered a provision, requiring calculation of present value using a discount rate to factor in the associated time value of money for those costs expected to be incurred in future years. IFRS also requires a mid-point to be used to calculate the settlement value if all outcomes are equally likely. The adjustment reflects the difference between the minimum value under Canadian GAAP compared to the mid-point under IFRS as well as the undiscounted environmental liability under Canadian GAAP and the revised discounted liability under IFRS at the Transition Date, offset entirely to opening partners' equity. The 2010 adjustment reflects the present value of the liability, with the accretion of the liability included in financing charges.

(d) Defined Benefit Pensions

Under Canadian GAAP, Inter Pipeline recognized actuarial gains and losses using the "corridor" approach. The excess of accumulated actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of plan assets was amortized as a component of pension expense over the expected average remaining service period of the employee group.

Upon initial adoption of IFRS, Inter Pipeline has retrospectively applied IAS 19 and has elected to recognize all actuarial gains and losses immediately in other comprehensive income as they arise without recycling to the income statement in subsequent periods.

Inter Pipeline has chosen not to utilize the IFRS 1 exemption option to recognize all cumulative actuarial gains and losses that existed at the Transition Date in opening partners' equity for all of its employee benefit plans, and therefore has retroactively restated the impact associated with immediate recognition of actuarial gains and losses in other comprehensive income. Consequently, all previously unrecognized actuarial gains and losses under Canadian GAAP are recognized in other comprehensive income and reserves.

In addition, under Canadian GAAP, Inter Pipeline expensed past service costs over the weighted average service life of active employees remaining in the plan. Under IFRS, Inter Pipeline expenses the cost of past service benefits awarded to employees under post-employment benefit plans over the periods in which the benefits vest, which usually corresponds to the period in which the benefits are granted.

Subsequent to the Transition Date, the pension expense, pension reserve and pension liability have been adjusted to reflect the new accounting policy adopted for the treatment of actuarial gains and losses and past service costs.

(e) Share-Based Payments

Under Canadian GAAP, the liability and related compensation expense of Inter Pipeline's Deferred Unit Rights Plan was calculated assuming all DURs would vest, with the effect of forfeitures included as they actually occurred. Under IFRS, the expense related to share-based payments must be accrued using an estimated forfeiture rate, trued up for the number of awards actually vested at each vesting date.

Inter Pipeline has chosen to utilize the IFRS 1 exemption associated with share based payments, and therefore has retroactively restated the impact associated with estimating DUR forfeiture rates for DURs not vested at January 1, 2010. Consequently, opening partners' equity and the LTIP liability have been adjusted to reflect the use of estimated forfeiture rates for unvested DURs at January 1, 2010.

(f) Cumulative Translation Differences

In accordance with IFRS transitional provisions, Inter Pipeline has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the Transition Date. Adjustments recognized subsequent to the Transition Date reflect the translation of all Canadian GAAP and IFRS differences arising in foreign operations.

(g) Income Taxes

The deferred income tax effect of the individual IFRS adjustments described above is captured in the tax provision line item for those adjustments. The income tax adjustment reflects all Canadian GAAP and IFRS differences described above affecting temporary differences in the calculation of the income tax provision.

(h) Business Combinations

In accordance with IFRS transitional provisions, Inter Pipeline elected to apply IFRS related to business combinations prospectively from January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment. In accordance with IFRS, transaction costs that were previously deferred under Canadian GAAP subsequent to January 1, 2010 have been expensed as required by IFRS 3.