inter pipeline

Management's Discussion and Analysis

For the year ended December 31, 2011

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights significant business results and statistics for Inter Pipeline Fund's (Inter Pipeline) three month period and year ended December 31, 2011 to provide Inter Pipeline's unitholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of cash distributions to its unitholders through 2012 and beyond; 2) the maintenance of Inter Pipeline's cash distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including the Polaris diluent pipeline project for the Kearl oil sands mining project (Kearl project) and new pipeline connection to the Sunrise oil sands project (Sunrise project) and Cochrane liquid sweetening project; and, 6) capital forecasts.

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

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

Management's Discussion and Analysis

For the three month period and year ended December 31, 2011

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

Financial information presented in this MD&A is based on information in Inter Pipeline's consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). See the INTERNATIONAL FINANCIAL REPORTING STANDARDS section for further information on the transition to IFRS.

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Inter Pipeline's consolidated financial statements for December 31, 2011 have been prepared in accordance with IFRS as issued by the IASB and 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 2010 the CICA Handbook was revised to incorporate IFRS, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Inter Pipeline commenced reporting on this basis in its March 31, 2011 interim financial statements. The term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Note 24 of the December 31, 2011 consolidated financial statements 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 in the December 31, 2011 consolidated financial statements previously reported under Canadian GAAP have been restated to give effect to these changes.

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

For further discussion on Inter Pipeline's transition to IFRS, refer to Note 24 of the December 31, 2011 consolidated financial statements.

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

2011 HIGHLIGHTS

- FFO* increased to a record $394 million, up $62 million or 19% from 2010 levels despite becoming a taxable entity
- Low annual payout ratio before sustaining capital* of 64%
- Cash distributions to unitholders totalled $252 million or $0.9675 per unit, up from $233 million distributed in 2010
- Net income increased 5% to $248 million
- Annual throughput volumes on Inter Pipeline's oil sands and conventional oil pipelines systems averaged a record 956,200 barrels per day (b/d)
- Increased monthly cash distributions by 9.4% to $0.0875 per unit, representing Inter Pipeline's 8th consecutive and largest-ever increase
- Issued $525 million of senior medium-term notes at attractive interest rates
- Successfully refinanced $2.3 billion in credit facilities on favourable terms
- Corridor pipeline system expansion successfully constructed and entered commercial service on January 1, 2011

FOURTH QUARTER HIGHLIGHTS

- Fourth quarter FFO* increased to $90 million, 12% higher than fourth quarter 2010 levels
- Payout ratio before sustaining capital* of 72% for the quarter
- Cash distributions to unitholders were $65 million or $0.2475 per unit
- Inter Pipeline's oil sands and conventional oil pipelines systems transported 945,100 b/d

SUBSEQUENT EVENTS

- Acquired four oil storage terminals in Denmark for $459 million (DEOT acquisition) more than doubling European storage capacity to approximately 19 million barrels
- Announced a $246 million organic growth capital expenditure* program for 2012

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

PERFORMANCE OVERVIEW

(millions, except per unit and % amounts)	Three Months Ended December 31 2011	Three Months Ended December 31 2010 (restated)	Years Ended December 31 2011	Years Ended December 31 2010 (restated)	Years Ended December 31 2009[7]
Revenues					
Oil sands transportation	$ 71.3	$ 36.8	$ 284.8	$ 144.5	$ 130.6
NGL extraction	129.1	149.1	584.6	594.3	529.1
Conventional oil pipelines	46.3	40.7	177.8	157.4	148.9
Bulk liquid storage	26.5	25.9	104.4	100.9	116.0
	$ 273.2	$ 252.5	$ 1,151.6	$ 997.1	$ 924.6
Funds from operations[1][2][3][4]					
Oil sands transportation	$ 39.5	$ 17.9	$ 165.7	$ 73.8	$ 73.9
NGL extraction	44.1	46.8	202.5	176.9	133.1
Conventional oil pipelines	33.5	26.8	133.2	113.0	110.8
Bulk liquid storage	9.4	8.4	37.2	39.8	51.3
Corporate costs	(36.4)	(19.1)	(144.4)	(71.1)	(65.0)
	$ 90.1	$ 80.8	$ 394.2	$ 332.4	$ 304.1
Per unit[1]	$ 0.35	$ 0.31	$ 1.52	$ 1.29	$ 1.28
Net income	$ 45.8	$ 60.1	$ 247.9	$ 236.0	$ 157.7
Per unit – basic and diluted	$ 0.17	$ 0.23	$ 0.95	$ 0.92	$ 0.66
Cash distributions[5]	$ 65.1	$ 59.3	$ 251.7	$ 232.6	$ 202.4
Per unit[5]	$ 0.2475	$ 0.2300	$ 0.9675	$ 0.9050	$ 0.8450
Units outstanding (basic)					
Weighted average	262.7	257.8	259.9	256.9	238.1
End of period	264.2	258.0	264.2	258.0	254.6
Capital expenditures					
Growth [1]	$ 34.2	$ 221.0	$ 132.6	$ 322.9	$ 573.4
Sustaining[1]	7.2	5.7	19.4	16.7	18.0
	$ 41.4	$ 226.7	$ 152.0	$ 339.6	$ 591.4
Payout ratio before sustaining capital[1]	72.3%	73.5%	63.9%	70.0%	66.6%
Payout ratio after sustaining capital[1]	78.5%	79.1%	67.2%	73.7%	70.8%

(millions, except per unit and % amounts)	As at December 31 2011	As at December 31 2010 (restated)	As at December 31 2009[7]
Total assets	$ 4,768.1	$ 4,715.6	$ 4,472.7
Total debt[6]	$ 2,672.1	$ 2,801.2	$ 2,619.7
Total partners' equity	$ 1,419.8	$ 1,328.0	$ 1,320.1
Enterprise value [1]	$ 7,593.3	$ 6,651.2	$ 5,372.4
Total debt to total capitalization[1]	65.3%	67.8%	66.5%
Total recourse debt to capitalization[1]	38.9%	41.0%	35.7%

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(2) In the second quarter of 2010, FFO[1] in the bulk liquid storage business increased by $5.8 million due to cash proceeds received for customer storage fees paid in advance.
(3) In the third quarter of 2010, FFO[1] in the bulk liquid storage business decreased $4.1 million due to a special defined benefit pension plan contribution.
(4) In the third quarter of 2011, FFO[1] increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.
(5) Cash distributions are calculated based on the number of units outstanding at each record date.
(6) Total debt reported in the December 31, 2011 consolidated financial statements include long-term and short-term debt and commercial paper of $2,657.6 million inclusive of discounts and debt transaction costs of $14.5 million.
(7) IFRS adoption is effective as of January 1, 2011 and restated for 2010 as required for comparative purposes, therefore the 2009 annual information is presented on a Canadian GAAP basis.

Year Ended December 31, 2011

Inter Pipeline generated record financial results for the year ended December 31, 2011. FFO* increased 18.6% or $61.8 million from $332.4 million in 2010 to $394.2 million in 2011, despite becoming a taxable entity on January 1, 2011. These strong financial results produced a very positive payout ratio before sustaining capital* of 63.9%. The oil sands transportation business generated record FFO* of $165.7 million in 2011, an increase of $91.9 million or 124.5% from 2010. This increase is largely attributable to the completion of the $1.85 billion Corridor pipeline expansion project and its revenue commencement on January 1, 2011. Operating results on the Cold Lake pipeline system also increased as a result of higher throughput volumes. FFO* in the NGL extraction business reached a record $202.5 million in 2011, an increase of $25.6 million or 14.5% from 2010. A one time positive adjustment of $20.5 million in the third quarter of 2011, relating to a pricing adjustment on propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011, was the primary driver for the increase. Record operating results were also realized in the conventional oil pipelines business. FFO* increased to $133.2 million in 2011, an increase of $20.2 million or 17.9% from 2010 as a result of increased throughput volumes and higher tariffs. In the bulk liquid storage business FFO* of $37.2 million in 2011 was $2.6 million lower than 2010 due to transaction costs for the DEOT acquisition. Corporate costs increased from 2010 by $73.3 million to $144.4 million in 2011, primarily due to Inter Pipeline being a taxable entity for the first time as well as higher interest expense.

In 2011, net income increased from $236.0 million in 2010 to $247.9 million, an increase of $11.9 million or 5.0%. This increase is largely attributable to the positive operating results discussed above which were partially offset by higher income taxes, and higher depreciation and amortization. Net income was also unfavourably impacted by the mark-to-market value of derivative financial instruments which resulted in a higher unrealized loss than the prior year.

In 2011, total cash distributed to unitholders amounted to $251.7 million, an increase of 8.2% or $19.1 million from $232.6 million in 2010. The increase in cash distributions is primarily due to increases in monthly cash distributions of $0.005 per unit effective December 2010, and $0.0075 per unit effective December 2011. Additionally, there were a higher overall number of units outstanding largely due to the reintroduction of the Premium Distribution™ component of the distribution reinvestment plan in July 2011. Inter Pipeline’s new annualized cash distribution, following a 9.4% distribution increase in December 2011, is $1.05 per unit.

Inter Pipeline’s total debt at December 31, 2011 is $2,672.1 million, a decrease of $129.1 million or 4.6% from $2,801.2 million at December 31, 2010.The decrease in debt occurred despite Inter Pipeline investing approximately $152.0 million on capital projects in 2011. At December 31, 2011, Inter Pipeline's recourse debt to capitalization* ratio decreased to 38.9% from 41.0% at December 31, 2010. After adjusting to include non-recourse debt of $1,767.3 million held within the Corridor corporate entity, Inter Pipeline’s total debt to total capitalization* ratio is 65.3% at December 31, 2011, down from 67.8% at December 31, 2010.

Three Months Ended December 31, 2011

In the fourth quarter, Inter Pipeline’s FFO* increased 11.5% or $9.3 million from $80.8 million in 2010 to $90.1 million in 2011, completing its record financial performance for 2011. Inter Pipeline’s payout ratio before sustaining capital* in the fourth quarter of 2011 was very attractive at 72.3%. These strong quarterly financial results were primarily driven by the oil sands transportation and conventional oil pipelines businesses for the same reasons mentioned above. Lower FFO* in the NGL extraction business, mainly as a result of lower natural gas throughput levels, partially offset these results. Corporate costs also increased in the fourth quarter of 2011 for the same reasons discussed above.

In the fourth quarter of 2011, net income decreased to $45.8 million from $60.1 million in same period of 2010. The decrease was primarily due to higher income taxes and increased depreciation and amortization expense, as well as an unfavourable mark-to-market adjustment of derivative financial instruments.

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

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In the fourth quarter of 2011, total cash distributed to unitholders increased $5.8 million or 9.8% from $59.3 million in 2010 to $65.1 million in 2011, for the same reasons discussed above.

At December 31, 2011, Inter Pipeline's total debt decreased $47.0 million from $2,719.1 million at September 30, 2011 to $2,672.1 million at December 31, 2011, during which time approximately $41.4 million was spent on capital projects.

OUTLOOK

Inter Pipeline's long-term business strategy is to acquire and develop long-life, high-quality energy infrastructure assets that generate sustainable and predictable cash flow. Through disciplined growth, Inter Pipeline expects to generate stable and increasing returns to unitholders by building a business that is minimally impacted by fluctuations in business cycles. The success of this strategy is evidenced by our history of positive financial results, solid operational performance, and strong returns to unitholders over the past several years. Looking forward, we intend to maintain a sharp focus on capturing large-scale and accretive development opportunities.

Inter Pipeline's current plans centre on development of the oil sands transportation business segment, where our inventory of opportunities is particularly strong, and on integration of the recently acquired Danish storage terminals. In 2012 Inter Pipeline expects to spend over $290 million in capital, primarily centred on continued development of the oil sands pipeline systems. Beyond 2012 Inter Pipeline is well positioned to invest up to $3.0 billion in its oil sands transportation business.

In 2011, Inter Pipeline announced plans to purchase four petroleum storage terminals in Denmark. The transaction, with a final purchase price of $459 million plus closing adjustments, was completed in January 2012. The acquisition more than doubles Inter Pipeline's total bulk liquid storage capacity in Western Europe to approximately 19 million barrels, creating the fourth largest independent bulk liquid storage business in Europe.

The four storage terminals in Denmark add scope and scale to Inter Pipeline's European operations. Due to strong demand, the terminals have enjoyed a very high utilization rate. Approximately 90% of revenue is fixed under term storage agreements, adding further stability to Inter Pipeline's cash flow. The transaction is accretive to Inter Pipeline's cash available for distribution* and is expected to add approximately $0.10 per unit annually to cash generated. The Danish terminals will operate under the name Inter Terminals.

Inter Pipeline's large pipeline infrastructure base, which connects both the Cold Lake and Athabasca oil sands regions to the Edmonton and Hardisty market hubs, is geographically well situated to capitalize on planned oil sands developments. Inter Pipeline expects to develop the Polaris and Cold Lake pipeline systems significantly over the next several years to meet anticipated requirements for both diluted bitumen and diluent transportation.

The Polaris system is being developed as a stand-alone diluent transportation system as industry demand for diluent continues to grow. Initial development of the Polaris system has been supported by two major long-term contracts to transport diluent to the first phase of the Imperial Kearl oil sands project and to the Husky Sunrise project. Together, these projects have been contracted for 90,000 b/d of diluent transportation on the Polaris system under agreements with terms of 20 years or more. These cost-of-service contracts will provide stable long term cash flow that is not subject to commodity price or throughput risk. Polaris is expected to be in service for the Kearl project in late 2012 and the Sunrise project in the second half of 2013. The estimated cost to connect the Polaris pipeline to the Kearl and Sunrise projects and diluent receipt points in the Edmonton area is approximately $115 million. This investment is expected to generate approximately $63 million in incremental long-term annual EBITDA* when fully in service. With the growing need for diluent in the oil sands region, Inter Pipeline is planning for possible expansions of the Polaris system that may be required to transport diluent for future expansions of the Kearl or Sunrise projects, or other third party oil sands developments.

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

In the Cold Lake region, forecast production volume growth is creating the opportunity for further development of the Cold Lake pipeline system. Inter Pipeline has begun preliminary work on a potential multi-year expansion of the system, with the first phase being the addition of two new quarter-point blend pump stations along the west leg of the Cold Lake system. With an estimated cost of $90 million, the new facilities will boost transportation capacity of the Cold Lake system from 535,000 b/d to approximately 650,000 b/d. Further major expansions may be required to handle forecast volume growth from existing shippers and prospective third party shippers. Potential expansions could include phased construction of new pipeline loops, pipeline laterals, and additional pump stations and associated facilities.

The capital program for 2012 is expected to contribute to Inter Pipeline's trend of creating increasingly stable cash flow streams. Oil sands related development projects and the DEOT acquisition increase the proportion of Inter Pipeline's cash flow that are governed by fee-based or cost-of-service agreements. Cash flow from these types of agreements continues to increase relative to Inter Pipeline's cash flow that is exposed to commodity price fluctuations, namely the sale of propane-plus from the Cochrane extraction facility. Additionally, future growth projects beyond 2012 are expected to be predominantly tied to fee-based or cost-of-service contracts which will add stability to Inter Pipeline's cash flow stream.

In 2011, Inter Pipeline took several steps to enhance its financial position and flexibility. During the year, Inter Pipeline issued $525 million in medium term notes in Canadian public debt markets at very attractive interest rates. In the fourth quarter, credit facilities totalling $2.3 billion were successfully refinanced on attractive terms for both Inter Pipeline and Inter Pipeline (Corridor) Inc. Inter Pipeline was in a very strong position at year end to enable closing of the DEOT acquisition in early January 2012. At year end, Inter Pipeline's total recourse debt to capitalization* ratio was only 38.9%. Inter Pipeline's strong balance sheet and low business risk continue to support investment grade credit ratings. Standard & Poor's (S&P) has assigned a rating of BBB+ with a stable outlook to Inter Pipeline, and DBRS has assigned a BBB (high) rating with a stable trend. Inter Pipeline (Corridor) Inc. has been assigned investment grade credit ratings of A2 (stable outlook), A (stable outlook), and A- (positive outlook) from Moody's Investor Services (Moody's), DBRS and S&P, respectively. Inter Pipeline's senior unsecured medium-term notes issued in 2011 were granted investment grade credit ratings of BBB+ and BBB (high) by S&P and DBRS, respectively.

On January 1, 2011, Inter Pipeline became a taxable entity under SIFT legislation. Although Inter Pipeline has had to absorb a significant new tax expense, this change has beneficially impacted the tax treatment of cash distributions to unitholders in two ways. First, for distributions with a record date after January 1, 2011, the taxable portion of distributions, excluding a minor portion relating to foreign source income, will be eligible for the dividend tax credit resulting in a lower effective tax rate for taxable investors. For example, using currently enacted 2011 tax rates, a Canadian resident in the highest marginal tax bracket will have their effective tax rate on the eligible dividend portion of distributions reduced by approximately 14% to 25% depending on their province of residence. Previously, the entire taxable portion of Inter Pipeline's cash distributions was classified as either business or interest income for tax purposes and not eligible for the dividend tax credit. Second, a portion of distributions is expected to be treated as a return of capital. The return of capital will not be taxable to unitholders and will reduce the adjusted cost base of investors' units, thereby effectively deferring the associated tax implications until disposition of the units.

2011 was a landmark year for Inter Pipeline as several major events came to fruition. For the first time Inter Pipeline became a taxable entity. The $1.85 billion Corridor expansion project began contributing to cash flow in a significant way leading to another year of record results. On the business development front, Inter Pipeline completed a major acquisition in Europe in early 2012, and embarked on several large developments on its Cold Lake and Polaris pipeline systems. The events of 2011 demonstrate the ability of Inter Pipeline to advance projects, overcome taxation burdens, and generate record financial results, all while remaining focused on the next phase of growth. By successfully continuing our proven business model, Inter Pipeline expects to extend its track record of maintaining or increasing cash flow, and providing sustainable and predictable distributions to unitholders in the coming years.

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

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	2011	2010	*% change*	2011	2010	*% change*
Cold Lake (100% basis)	470.2	469.1	*0.2*	490.4	447.6	*9.6*
Corridor	299.2	237.2	*26.1*	295.8	190.0	*55.7*
	769.4	706.3	*8.9*	786.2	637.6	*23.3*

(millions)		*(restated)*			*(restated)*	
Revenue(1)	$ 71.3	$ 36.8	*93.8*	$ 284.8	$ 144.5	*97.1*
Operating expenses(1)	$ 22.5	$ 15.1	*49.0*	$ 80.8	$ 57.2	*41.3*
Funds from operations(1)(2)	$ 39.5	$ 17.9	*120.7*	$ 165.7	$ 73.8	*124.5*
Capital expenditures(1)						
Growth(2)	$ 22.5	$ 214.1		$ 102.8	$ 295.9	
Sustaining(2)	0.5	0.3		1.2	0.8	
	$ 23.0	$ 214.4		$ 104.0	$ 296.7	

(1) Cold Lake pipeline system's revenue, operating expenses, FFO(2) and capital expenditures are recorded on the basis of Inter Pipeline's 85% ownership interest.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

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

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in the Hardisty and Edmonton areas. Inter Pipeline owns an 85% interest in the Cold Lake pipeline system and operates the system pursuant to a long-term Transportation Services Agreement (Cold Lake TSA) with the Cold Lake founding shippers. The shippers have committed to utilizing these pipelines and paying for such usage over the term of the Cold Lake TSA which extends indefinitely subject to certain provisions in the agreement. The Cold Lake TSA provides for a structured return on capital invested, including a defined capital fee that is applied to volumes transported through the pipelines and facilities that comprise the Cold Lake pipeline system, and the recovery of substantially all operating costs. Ship-or-pay provisions resulting in minimum annual toll revenues from the Cold Lake pipeline system were in effect until December 31, 2011. Inter Pipeline anticipates continued volume growth on the Cold Lake Pipeline system which is consistent with the shipper's long-term published forecasts. In addition to the Cold Lake TSA, there are additional agreements between Cold Lake LP and the founding and third party shippers that provide for a return on capital invested and recovery of associated operating costs.

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

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

The Polaris pipeline system will provide diluent transportation service from a diluent receipt point in the area north east of Edmonton to the Kearl and Sunrise oil sands projects in the Athabasca oil sands area of Alberta. This new diluent pipeline system will be comprised of an existing 12-inch diameter pipeline that was previously servicing the Corridor pipeline system but was idled when the Corridor expansion project was placed into service. The Polaris pipeline system is expected to be ready for service late in 2012. Total costs to connect the existing pipeline to the Kearl and Sunrise oil sands projects and to diluent receipt points in the Edmonton area are currently estimated to be $115 million.

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

Volumes

In the fourth quarter and full year of 2011, average volumes in the oil sands transportation business increased 8.9% or 63,100 b/d and 23.3% or 148,600 b/d, respectively, compared to the same periods in 2010.

Average volumes on the Cold Lake pipeline system increased 0.2% or 1,100 b/d to 470,200 b/d during the fourth quarter of 2011 and 9.6% or 42,800 b/d to 490,400 b/d for the year, compared to the same periods in 2010. Volumes increased as a result of higher production from Cenovus' Foster Creek, Canadian Natural Resources' Wolf Lake and Imperial's Cold Lake in-situ oil sands developments. Inter Pipeline anticipates continued volume growth on the Cold Lake pipeline system, which is consistent with shippers' published long term forecasts.

On the Corridor pipeline system, average volumes increased 62,000 b/d or 26.1% to 299,200 b/d and 105,800 b/d or 55.7% to 295,800 b/d in the fourth quarter and year ended 2011, respectively, compared to the same periods in 2010. Volume increases are primarily attributable to production from AOSP's Jackpine Mine which commenced operation in the fourth quarter of 2010. The annual volume increase was also impacted by lower volumes in the second quarter of 2010 due to maintenance turnarounds at the Muskeg River mine and Scotford upgrader, which coincided with commissioning activities associated with the Corridor pipeline expansion project.

Revenue

Revenue in the oil sands transportation business increased 93.8% or $34.5 million to $71.3 million in the fourth quarter of 2011 and 97.1% or $140.3 million to $284.8 million for the year, compared to the same periods in 2010.

The Cold Lake pipeline system revenue increased $6.6 million or 33.8% in the fourth quarter of 2011 and $24.5 million or 30.6% for the year, compared to the same periods in 2010. Increased volumes transported on the Cold Lake pipeline system and higher power and operating cost recoveries were the primary drivers for the increase in revenue.

Revenue from the Corridor pipeline system increased $27.9 million or 161.9% and $115.8 million or 180.5% in the fourth quarter and year ended 2011, respectively, compared to the same periods in 2010. The increase in revenue resulted from the Corridor pipeline expansion project being placed into service, which began generating incremental revenue on January 1, 2011. Revenue in both periods was also favourably impacted by higher operating cost recoveries compared to 2010.

Operating Expenses

In the oil sands transportation business segment, operating expenses typically have a limited impact on Inter Pipeline's cash flow. On the Cold Lake pipeline system substantially all operating expenditures are recovered from the shippers and on the Corridor pipeline system there is full recovery of the expenditures. Similar to Corridor, there will be a full recovery of the expenditures on the Polaris pipeline system once it begins operation in late 2012. In 2011, operating expenses in the oil sands transportation business increased $7.4 million in the fourth quarter and $23.6 million in the full year, compared to the same periods in 2010.

On the Cold Lake pipeline system, operating expenses increased $3.7 million and $11.1 million for the fourth quarter and full year of 2011, respectively, compared to the same periods in 2010. The increase in operating expenses is largely due to higher power costs of $2.7 million in the fourth quarter and $9.3 million in the full year of 2011, compared to the same periods in 2010. Higher power costs resulted from increases in power pricing and greater consumption due to higher volumes. Average Alberta power pool prices increased from $45.94/MWh in the fourth quarter of 2010 to $76.07/MWh in the fourth quarter of 2011, and from $50.88/MWh in 2010 to $76.21/MWh in 2011. Other operating costs also increased $1.0 million in the fourth quarter and $1.8 million in 2011, primarily due to higher general operating and integrity costs which were partially offset by lower leak repair and remediation costs. Operating costs in the fourth quarter of 2011 also increased due to higher property tax expense compared to the same period in 2010.

Operating expenses on the Corridor pipeline system increased $3.6 million and $12.5 million in the fourth quarter and year of 2011, respectively, compared to the same periods in 2010. Higher property taxes, employee costs, integrity, right-of-way and routine operating and maintenance costs resulted in a $3.1 million increase in the fourth quarter of 2011 and a $13.0 million increase in 2011, compared to the same periods in 2010. The increased costs largely correspond with the Corridor pipeline expansion project being in service for the full year in 2011. Power costs increased $0.5 million in the fourth quarter of 2011, compared to the same period in 2010, as a result of credits received in 2010 from the renegotiation of electrical service agreements, as the expanded Corridor system requires less power to transport volumes. In 2011, power costs were $0.5 million lower than 2010 due to lower power consumption as a result of the power efficiencies mentioned above.

Capital Expenditures

Growth capital expenditures* on the Corridor pipeline expansion project were approximately $14.1 million in 2011, for a total of $1,857.5 million spent on the project. Corridor pipeline expansion project costs have been added to the rate base and began generating revenue on January 1, 2011. Additional growth capital expenditures of $9.0 million were also incurred in 2011 for overall system enhancements.

Detailed facility engineering, procurement and pipeline construction activity for Inter Pipeline's Polaris diluent pipeline system continues, with approximately $59.6 million of growth capital* spent in 2011 for a total of $75.0 million spent to date. Beginning in late 2012 and 2013, the Polaris pipeline system will provide diluent transportation services for the Kearl and Sunrise oil sands projects, respectively. The Polaris system utilizes an existing 12-inch diameter pipeline that has been idled as a result of the Corridor expansion project. The rate base net book value of the 12-inch diameter pipeline will be deducted from Corridor's rate base, which is estimated to occur in the latter half of 2012, prior to beginning diluent service for the Kearl project. The estimated cost to connect the Polaris pipeline to the Kearl and Sunrise projects and diluent receipt points in the Edmonton area is approximately $115 million. Growth capital expenditures* of $1.3 million were also spent on the Polaris pipeline system relating to other growth initiatives.

Growth capital expenditures* incurred on the Cold Lake pipeline system were $18.8 million in 2011, of which $5.0 million relates to the west leg expansion project. This project will expand capacity on the west mainline leg of the Cold Lake system. Bitumen blend capacity will be increased from approximately 535,000 b/d to roughly 650,000 b/d by expanding existing pump stations and the addition of two new pump stations. The West leg capacity project is expected to cost $90.0 million, with an in service date of mid 2013. The remaining expenditures relate to a number of growth initiatives, as well as final clean up costs on a pipeline expansion project for the Foster Creek oil sands project.

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

NGL Extraction Business Segment

								Three Months Ended December 31
				2011				2010
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,705	53.8	23.2	77.0	1,942	50.3	26.4	76.7
Empress V (100% basis)	607	15.2	7.0	22.2	941	21.4	10.7	32.1
Empress II	-	-	-	-	81	-	0.8	0.8
	2,312	69.0	30.2	99.2	2,964	71.7	37.9	109.6

								Years Ended December 31
				2011				2010
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,640	50.7	23.1	73.8	1,827	49.6	25.7	75.3
Empress V (100% basis)	883	21.2	10.0	31.2	946	19.6	10.5	30.1
Empress II	75	1.3	0.7	2.0	134	1.9	1.5	3.4
	2,598	73.2	33.8	107.0	2,907	71.1	37.7	108.8

		Three Months Ended December 31			Years Ended December 31	
(millions)	2011	2010 *(restated)*	*% change*	2011	2010 *(restated)*	*% change*
Revenue[1]	$ 129.1	$ 149.1	*(13.4)*	$ 584.6	$ 594.3	*(1.6)*
Shrinkage gas[1]	$ 61.7	$ 78.0	*(20.9)*	$ 278.1	$ 317.1	*(12.3)*
Operating expenses[1]	$ 23.2	$ 24.4	*(4.9)*	$ 103.9	$ 100.4	*3.5*
Funds from operations[1][2][3]	$ 44.1	$ 46.8	*(5.8)*	$ 202.5	$ 176.9	*14.5*
Capital expenditures[1]						
Growth[3]	$ 3.5	$ 0.1		$ 7.8	$ 3.5	
Sustaining[3]	1.4	0.6		5.7	3.2	
	$ 4.9	$ 0.7		$ 13.5	$ 6.7	

(1) Revenue, shrinkage gas, operating expenses, FFO[3] and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.
(2) In the third quarter of 2011, FFO[3] increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.
(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

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

This business has three types of sales contracts with three primary counterparties: Dow Chemical, NOVA Chemicals and BP Canada. Contract types include cost-of-service, fee-based or commodity-based arrangements.

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

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

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

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

Volumes

Daily throughput volumes processed at Inter Pipeline's three NGL extraction plants averaged 2,312 million cubic feet of natural gas per day (mmcf/d) in the fourth quarter of 2011 and 2,598 mmcf/d for the year.

Average throughput volumes at the Cochrane facility decreased 237 mmcf/d in the fourth quarter of 2011 and 187 mmcf/d for the year, compared to the same periods in 2010. The decrease from the prior periods is primarily due to lower demand for Canadian natural gas in the US west-coast region.

Average combined throughput volumes also decreased at the Empress V and II facilities by 415 mmcf/d in the fourth quarter of 2011 and 122 mmcf/d for the year, compared to the same periods in 2010. Throughput volumes at these facilities are impacted by fluctuations in natural gas exports from Alberta's eastern border. Facility throughputs are also dependent on successfully attracting border gas flows to the extraction plants. At Empress II, operating results are not impacted by decreased throughput volumes due to the cost-of-service commercial arrangements at this facility.

Revenue

Revenue decreased $20.0 million in the fourth quarter of 2011 and $9.7 million for the year, compared to the same periods in 2010. The decrease in both periods is largely due to lower propane-plus volumes at the Cochrane facility as a result of lower throughput volumes, as discussed above. The decrease in fourth quarter revenue was further impacted by lower ethane volumes at Empress V which was also due to lower throughput volumes. Revenue for 2011 was favourably impacted by a $20.5 million one time price adjustment relating to propane-plus volumes sold from 2007 to 2011.

Frac-spread

	Three Months Ended December 31			
(dollars)	2011		2010	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Market frac-spread	$ 1.308	$ 1.339	$ 1.070	$ 1.083
Realized frac-spread	$ 0.991	$ 1.015	$ 0.909	$ 0.920

	Years Ended December 31			
(dollars)	2011		2010	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Market frac-spread	$ 1.264	$ 1.250	$ 0.918	$ 0.944
Realized frac-spread	$ 1.005	$ 0.994	$ 0.827	$ 0.851

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

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

Realized frac-spreads increased in the fourth quarter and full year of 2011 from $0.91 USD/USG to $0.99 USD/USG and from $0.83 USD/USG to $1.01 USD/USG, respectively, compared to the same periods in 2010. Market frac-spreads for the three and twelve month periods ended December 31, 2011 were above the 5-year and 15-year simple average market frac-spread of $0.86 USD/USG and $0.45 USD/USG, respectively, calculated at December 31, 2011.

Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the Cochrane and Empress V facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. In the fourth quarter and year ended 2011, shrinkage gas decreased $16.3 million and $39.0 million, respectively, compared to the same periods in 2010. The decrease in both periods is primarily due to lower volumes as well as decreased AECO natural gas prices, compared to 2010. The weighted average monthly AECO price* in the fourth quarter of 2011 was $3.29 per gigajoule (GJ) which was approximately 2.9% lower than the weighted average price[1] of $3.39/GJ in the same period in 2010. For the year ended 2011, the weighted average monthly AECO price decreased 11.0% from $3.91/GJ in 2010 to $3.48/GJ in 2011.

Operating Expenses

Operating expenses for the three months ended December 31, 2011, decreased $1.2 million compared to the same period in 2010. The decrease is primarily due to lower general operating and maintenance costs which were partially offset by higher power costs. Average Alberta power pool prices increased from $45.94/MWh in the fourth quarter of 2010 to $76.07/MWh in the fourth quarter of 2011. For the year

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

ended 2011, operating expenses increased $3.5 million due to higher power costs as a result of an increase in power pool prices. Average Alberta pool prices increased from $50.88/MWh in 2010 to $76.21/MWh in 2011.

Capital Expenditures

In 2011, the NGL extraction business incurred growth capital expenditures* of $7.8 million, of which $5.5 million relates to a liquid sweetening project at the Cochrane facility while the remaining expenditures relate to various other projects at the Cochrane and Empress facilities. Sustaining capital expenditures in 2011 were $5.7 million which primarily relate to various projects at the Cochrane facility.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	2011	2010	*% change*	2011	2010	*% change*
Bow River	109.3	109.5	*(0.2)*	107.7	109.6	*(1.7)*
Central Alberta	24.6	24.0	*2.5*	26.0	22.4	*16.1*
Mid-Saskatchewan	41.8	34.5	*21.2*	36.3	32.5	*11.7*
	175.7	168.0	*4.6*	170.0	164.5	*3.3*

(millions)		*(restated)*			*(restated)*	
Revenue	$ 46.3	$ 40.7	*13.8*	$ 177.8	$ 157.4	*13.0*
Operating expenses	$ 14.0	$ 13.1	*6.9*	$ 46.0	$ 43.6	*5.5*
Funds from operations(1)	$ 33.5	$ 26.8	*25.0*	$ 133.2	$ 113.0	*17.9*
Revenue per barrel(2)	$ 2.87	$ 2.63	*9.1*	$ 2.87	$ 2.62	*9.5*
Capital expenditures						
Growth(1)	$ 3.0	$ 0.9		$ 4.9	$ 5.4	
Sustaining(1)	0.2	0.6		1.8	1.7	
	$ 3.2	$ 1.5		$ 6.7	$ 7.1	

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

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

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

Volumes

Volumes transported on the conventional oil pipelines increased approximately 7,700 b/d in the fourth quarter of 2011 and 5,500 b/d for the year, compared to the same periods in 2010. Volumes on the Mid-Saskatchewan pipeline system increased approximately 7,300 b/d and 3,800 b/d in the fourth quarter and full year 2011, respectively, compared to the same periods in 2010. The increase in volumes on this system primarily resulted from new horizontal well drilling in the Viking light oil play. On the Central Alberta pipeline system, volumes increased approximately 600 b/d in the fourth quarter of 2011 and 3,600 b/d for the year, compared to the same periods in 2010. These increases result from higher volumes being trucked to the system to take advantage of favourable blending economics due to wider heavy crude oil differentials. In the fourth quarter and full year 2011, volumes on the Bow River pipeline system decreased approximately 200 b/d and 1,900 b/d, respectively, compared to the same periods in 2010.

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

The decrease in volumes on this system is primarily due to natural volume declines and lower trucked volumes to the system.

Revenue

Revenue in the conventional oil pipelines business increased $5.6 million in the fourth quarter of 2011 and $20.4 million for the year, compared to the same periods in 2010. The increase in revenue for both periods was primarily due to increased mainline tolls (average increase of 6% in both January and July of 2011), as well as increased volumes as discussed above. Inter Pipeline's marketing activities also favourably impacted revenues due to wider heavy crude oil differentials, compared to the same periods in 2010.

Operating Expenses

Operating expenses increased $0.9 million in the fourth quarter of 2011, compared to the same period in 2010. The increase is primarily due to higher property tax expense, general routine operating costs, right-of-way costs, suspension and abandonment costs as well as an increase in long-term environmental liabilities. These increases were partially offset by lower integrity and remediation costs incurred. Operating expenses increased in 2011 by $2.4 million, compared to 2010, due to higher fuel and power, routine operating and maintenance costs, as well as an increase in long-term environmental liabilities, which were partially offset by lower employee, leak repair and remediation costs.

Capital Expenditures

Growth capital expenditures* in the conventional oil pipelines business were $4.9 million in 2011, which related to third party connections on the Mid-Saskatchewan and Bow River pipeline systems, as well as various smaller projects.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
	2011	2010	*% change*	2011	2010	*% change*
Utilization	94.9%	97.2%	*(2.4)*	97.0%	96.3%	*0.7*

(millions)		*(restated)*			*(restated)*	
Revenue	$ 26.5	$ 25.9	*2.3*	$ 104.4	$ 100.9	*3.5*
Operating expenses	$ 14.2	$ 11.9	*19.3*	$ 54.6	$ 51.3	*6.4*
Funds from operations(1)(2)(3)	$ 9.4	$ 8.4	*11.9*	$ 37.2	$ 39.8	*(6.5)*
Capital expenditures						
Growth(3)	$ 5.2	$ 5.9		$ 17.1	$ 18.1	
Sustaining(3)	4.4	2.8		8.5	5.8	
	$ 9.6	$ 8.7		$ 25.6	$ 23.9	

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

Inter Pipeline, through its wholly owned subsidiary Simon Storage Limited (Simon Storage), owns and operates six deep water bulk liquids storage terminals located in the United Kingdom (UK) and Ireland and two inland terminals located on the Rhine River in Germany, with a combined liquid storage capacity of approximately 8.1 million barrels. Business activities consist primarily of storage and handling services contracted through a combination of fixed storage rental fees and variable throughput fees. The business supports a wide range of activities, including refinery support, inland product distribution and raw material storage for regional manufacturing facilities and has a well diversified customer base, with key customers

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

including ConocoPhillips, Greenergy, Mabanaft and BASF. Simon Storage also offers a range of ancillary services to its customers through its engineering and facilities management divisions.

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

Utilization

Despite the current uncertain European economic environment, demand for bulk liquid storage remains strong with tank utilization averaging 94.9% in the fourth quarter of 2011 and 97.0% for the year. Demand for storage fluctuates historically due to market conditions within industry sectors and Simon Storage manages these fluctuations through customer and product diversification.

Revenue

In 2011, revenue increased in the bulk liquid storage business by $0.6 million in the fourth quarter and $3.5 million for the year, compared to the same periods in 2010. The increase in both periods was primarily due to higher storage and handling revenue, as a result of increased storage rates and additional handling services, which were partially offset by lower heating revenue. Foreign currency translation adjustments had a minor impact as the average Pound Sterling/CAD exchange rate increased from 1.60 in the fourth quarter of 2010 to 1.61 in the fourth quarter of 2011, while it remained relatively constant at 1.59 for 2010 and 2011.

Operating Expenses

Operating expenses increased $2.3 million and $3.3 million in the fourth quarter and full year 2011, respectively, compared to the same periods in 2010. The increase in both periods is largely due to a $3.1 million pension adjustment in the fourth quarter of 2010, which reduced 2010 pension expense. Operating costs were also impacted in the fourth quarter of 2011 by lower repair and maintenance costs and for the year ended 2011 by higher general operating costs.

Capital Expenditures

In 2011, growth capital expenditures* were $17.1 million, which primarily related to a number of tank replacements, tank life extensions and tank modification projects at Immingham and other terminals.

OTHER EXPENSES

	Three Months Ended December 31		Years Ended December 31	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Depreciation and amortization	$ 25.4	$ 18.8	$ 99.7	$ 87.6
Loss on disposal of assets	-	0.7	-	0.7
Financing charges	20.7	10.4	80.2	40.3
General and administrative	17.9	13.6	54.8	45.5
Unrealized change in fair value of derivative financial instruments	10.0	5.4	14.5	3.6
Fees to General Partner	2.4	2.0	10.6	7.8
Provision for (recovery of) income taxes	15.3	(1.0)	80.3	6.1

Depreciation and Amortization

In the fourth quarter and full year of 2011, depreciation and amortization of tangible and intangible assets increased as a result of depreciating new assets now in service which were not depreciated in 2010, particularly the Corridor expansion. Effective July 1, 2010, Inter Pipeline amended its useful life estimates for calculating depreciation on the Corridor, Cold Lake and Bow River pipeline systems. The estimated remaining service lives of these assets was revised to 80 years to better reflect the number of years over

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

which these pipeline systems will be in operation. In 2011, this change resulted in decreased depreciation and amortization for assets already in service, which partially offset the increase mentioned above.

Financing Charges

	Three Months Ended December 31		Years Ended December 31	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Interest on credit facilities	$ 6.4	$ 7.9	$ 28.6	$ 24.2
Interest on loan payable to General Partner	5.8	5.8	23.1	23.1
Interest on Corridor Debentures	2.6	2.5	10.1	8.8
Interest on MTN Series 1 and Series 2 notes	5.9	-	17.9	-
Total interest	20.7	16.2	79.7	56.1
Capitalized interest	(0.6)	(6.4)	(1.3)	(18.0)
Amortization of transaction costs on long-term and short-term debt and commercial paper	0.4	0.3	1.2	0.9
Accretion of provisions and pension plan financing charges	0.2	0.3	0.6	1.3
Total financing charges	$ 20.7	$ 10.4	$ 80.2	$ 40.3

For the three month period and year ended December 31, 2011, total financing charges increased $10.3 million and $39.9 million, respectively, compared to the same periods in 2010. The increases were primarily due to the addition of the $1.85 billion Corridor expansion into Corridor's rate base, and two major medium-term debt offerings which replaced floating rate debt.

On February 2 and July 29, 2011, Inter Pipeline issued $325 million of MTN Series 1 notes at a rate of 4.967% per annum due February 2, 2021 and $200 million of MTN Series 2 notes at a rate of 3.839% per annum due July 30, 2018, respectively, in the Canadian public debt market. As a result, term debt interest expense increased by $5.9 million in the fourth quarter and $17.9 million year to date 2011, compared to the same periods in 2010.

Capitalized interest decreased in the fourth quarter and year ended 2011 by $5.8 million and $16.7 million, respectively, compared to the same periods in 2010. The decrease in capitalized interest is primarily due to the Corridor expansion project being placed into service on January 1, 2011 which resulted in interest relating to the project no longer being capitalized.

Interest on credit facilities decreased $1.5 million in the fourth quarter and increased $4.4 million year to date 2011 compared to the same periods in 2010. The decrease in the fourth quarter of 2011 is due to lower average short-term interest rates and lower debt levels as a result of issuing the MTN Series 1 and 2 notes. The weighted average interest rate on Inter Pipeline's credit facilities decreased approximately 6 basis points from 1.55% in the fourth quarter of 2010 to approximately 1.49% in fourth quarter of 2011. The weighted average credit facility debt outstanding decreased approximately $458.8 million to $1,500.3 million in the fourth quarter of 2011 compared to $1,959.1 million in the fourth quarter of 2010. Interest on credit facilities increased in 2011 due to higher average short-term interest rates which were partially offset by lower debt levels as a result of issuing the MTN Series 1 and 2 notes. The weighted average short-term interest rate increased approximately 42 basis points from 1.14% in 2010 to 1.56% in 2011. The weighted average credit facility debt outstanding decreased approximately $225.9 million from $1,937.5 million in 2010 to $1,711.6 million in 2011.

Corridor debenture interest expense increased $0.1 million in the fourth quarter and $1.3 million year to date 2011, compared to the same periods in 2010. Interest rates on these debentures are fixed; however, Corridor had swap agreements in place on each of the $150 million Series A and B debentures that exchanged the fixed rates for variable rates. On February 2, 2010, the Series A debentures matured and the associated interest rate swap agreement was terminated. On the same day, Corridor issued $150 million of 4.897% fixed rate Series C senior, unsecured debentures that mature February 3, 2020 without acquiring a corresponding swap agreement.

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

Accretion of provisions and pension plan financing charges are consistent in the fourth quarter of 2011 compared to the fourth quarter of 2010, and decreased for the year ended December 31, 2011, compared to 2010. The decrease for the year ended December 31, 2011 is primarily due to a higher expected rate of return on pension plan assets compared to the discount rate on pension plan obligations.

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

General and Administrative

	Three Months Ended December 31		Years Ended December 31	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Canada	$ 15.3	$ 12.0	$ 45.1	$ 39.6
Europe	2.6	1.6	9.7	5.9
	$ 17.9	$ 13.6	$ 54.8	$ 45.5

In the fourth quarter and year of 2011, Canadian general and administrative expenses increased $3.3 million and $5.5 million, respectively, compared to the same periods in 2010. The increase in both periods is primarily due to higher employee costs as a result of the reallocation of certain employee groups to the corporate group, no longer capitalizing employee costs relating to the Corridor expansion project and higher long-term deferred unit rights incentive plan costs.

Inter Pipeline's European general and administrative costs increased $1.0 million and $3.8 million for the fourth quarter and year of 2011, respectively, compared to the same periods in 2010. The increase in both periods was impacted by a $0.7 million pension adjustment in the fourth quarter of 2010 which reduced 2010 pension expense. In 2011, general and administrative costs were primarily impacted by transaction costs relating to the DEOT acquisition that closed in January of 2012.

Unrealized Change in Fair Value of Derivative Financial Instruments

The mark-to-market valuation of Inter Pipeline's derivative financial instruments decreased net income by $10.0 million in the fourth quarter of 2011 and $14.5 million for the year ended December 31, 2011.

In the fourth quarter of 2011, net income was impacted by unfavourable adjustments on natural gas and NGL swaps of $8.7 million and $5.1 million, respectively, for price and volume changes between September and December of 2011. The mark-to-market adjustments relating to heat rate and electricity swaps and transitional transfers also unfavourably impacted net income for a combined total of $1.9 million. These adjustments were partially offset by favourable mark-to-market adjustments on foreign currency swaps of $5.2 million which reflected the change in forward prices between September and December of 2011, as well as interest rate swaps of $0.5 million.

The mark-to-market impact of derivative financial instruments on net income for the year ended 2011 was primarily driven by an unfavourable adjustment for foreign currency swaps of $11.7 million, for the change in forward prices between January and December of 2011. The natural gas swap mark-to-market adjustment also unfavourably impacted net income by $4.7 million, due to price and volume changes over the same period. In addition, net income was unfavourably impacted by $3.1 million related to heat rate and electricity price swap mark-to-market adjustments and transitional transfers. These unfavourable adjustments were partially offset by favourable mark-to-market adjustments on NGL swaps for price and volume changes between January and December of 2011 of $3.1 million and interest rate swaps of $1.9 million.

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

Fees to General Partner

The General Partner earned management fees from Inter Pipeline of $2.4 million in the fourth quarter of 2011 (fourth quarter 2010 - $2.0 million) for a total of $10.6 million for the year ended 2011 (year ended 2010 - $7.8 million). This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (Partnership Agreement).

Income Taxes

Consolidated income tax expense for the three months ended December 31, 2011 increased $16.3 million from an income tax recovery of $1.0 million in the same period of 2010 to an income tax expense of $15.3 million. In June 2007, the Government of Canada enacted legislation imposing income taxes upon publicly traded income trusts and limited partnerships, including Inter Pipeline, effective January 1, 2011. Consequently, Inter Pipeline is subject to income tax on its Canadian partnership income for the first time in the 2011 taxation year. As a result, Inter Pipeline has recognized an additional $15.0 million in income tax expense for the three months ended December 31, 2011, of which $9.3 million is current income tax expense. The remainder of the variance results from numerous other items.

Consolidated income tax expense for the year ended December 31, 2011 increased $74.2 million from $6.1 million in 2010 to $80.3 million in 2011. As discussed above, Inter Pipeline is subject to income tax on its Canadian partnership income for the first time in the 2011 taxation year. As a result, Inter Pipeline has recognized an additional $74.9 million in income tax expense for the year ended December 31, 2011, of which $51.6 million is current income tax expense. In the UK, tax legislation was passed which reduced the effective income tax rate from 27.0% to 26.0%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. The effect of recognizing these changes in UK income tax rates is a $3.7 million reduction in deferred income tax liabilities in 2011. The remainder of the variance results from numerous other items.

SUMMARY OF QUARTERLY RESULTS

(millions, except per unit and % amounts)	2010 First Quarter *(restated)*	2010 Second Quarter *(restated)*	2010 Third Quarter *(restated)*	2010 Fourth Quarter *(restated)*	2011 First Quarter	2011 Second Quarter	2011 Third Quarter	2011 Fourth Quarter
Revenue								
Oil sands transportation	$ 34.9	$ 36.4	$ 36.4	$ 36.8	$ 72.8	$ 67.7	$ 73.0	$ 71.3
NGL extraction	173.0	143.4	128.8	149.1	159.9	137.4	158.2	129.1
Conventional oil pipelines	37.6	37.7	41.4	40.7	43.7	42.1	45.7	46.3
Bulk liquid storage	26.0	23.9	25.1	25.9	26.6	26.1	25.2	26.5
	$ 271.5	$ 241.4	$ 231.7	$ 252.5	$ 303.0	$ 273.3	$ 302.1	$ 273.2
Funds from operations(2)								
Oil sands transportation	$ 18.6	$ 18.9	$ 18.4	$ 17.9	$ 43.1	$ 41.3	$ 41.8	$ 39.5
NGL extraction(3)	47.6	42.3	40.2	46.8	53.0	42.8	62.6	44.1
Conventional oil pipelines	28.3	27.7	30.2	26.8	32.6	31.5	35.6	33.5
Bulk liquid storage(4)(5)	10.2	15.3	5.9	8.4	10.5	8.3	9.0	9.4
Corporate costs	(19.1)	(15.6)	(17.3)	(19.1)	(38.9)	(32.0)	(37.1)	(36.4)
	$ 85.6	$ 88.6	$ 77.4	$ 80.8	$ 100.3	$ 91.9	$ 111.9	$ 90.1
Per unit(2)	$ 0.33	$ 0.35	$ 0.30	$ 0.31	$ 0.39	$ 0.35	$ 0.43	$ 0.35
Net income	$ 61.3	$ 68.1	$ 46.5	$ 60.1	$ 64.5	$ 61.0	$ 76.6	$ 45.8
Per unit – basic & diluted	$ 0.24	$ 0.26	$ 0.19	$ 0.23	$ 0.25	$ 0.24	$ 0.29	$ 0.17
Cash distributions(6)	$ 57.6	$ 57.8	$ 57.9	$ 59.3	$ 62.0	$ 62.1	$ 62.5	$ 65.1
Per unit(6)	$ 0.2250	$ 0.2250	$ 0.2250	$ 0.2300	$ 0.2400	$ 0.2400	$ 0.2400	$ 0.2475
Units outstanding (basic)								
Weighted average	255.8	256.6	257.2	257.8	258.3	258.8	259.9	262.7
End of period	256.3	256.9	257.5	258.0	258.5	259.1	261.2	264.2
Capital expenditures								
Growth(2)	$ 31.2	$ 34.2	$ 36.5	$ 221.0	$ 40.8	$ 27.8	$ 29.8	$ 34.2
Sustaining(2)	2.5	5.6	2.9	5.7	2.8	4.4	5.0	7.2
	$ 33.7	$ 39.8	$ 39.4	$ 226.7	$ 43.6	$ 32.2	$ 34.8	$ 41.4
Payout ratio before sustaining capital(2)	67.3%	65.2%	74.8%	73.5%	61.8%	67.6%	55.8%	72.3%
Payout ratio after sustaining capital(2)	69.3%	69.6%	77.6%	79.1%	63.6%	71.0%	58.5%	78.5%
Total debt(7)	$ 2,576.8	$ 2,585.4	$ 2,603.1	$ 2,801.2	$ 2,762.4	$ 2,738.2	$ 2,719.1	$ 2,672.1
Total partners' equity	$ 1,304.4	$ 1,324.5	$ 1,329.7	$ 1,328.0	$ 1,339.8	$ 1,346.7	$ 1,404.4	$ 1,419.8
Enterprise value(2)	$ 5,611.4	$ 5,655.7	$ 6,134.0	$ 6,651.2	$ 7,178.1	$ 6,847.2	$ 6,901.1	$ 7,593.3
Total recourse debt to capitalization(2)	34.6%	34.5%	35.0%	41.0%	42.0%	41.5%	40.1%	38.9%
Total debt to total capitalization(2)	66.4%	66.1%	66.2%	67.8%	67.3%	67.0%	65.9%	65.3%

(1) IFRS adoption is effective as of January 1, 2011 and restated for 2010 as required for comparatives.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(3) In the third quarter of 2011, FFO(2) increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.
(4) In the second quarter of 2010, FFO(2) in the bulk liquid storage business increased $5.8 million due to cash proceeds received for customer storage fees paid in advance.
(5) In the third quarter of 2010, FFO(2) for the bulk liquid storage business decreased $4.1 million due to a special defined benefit pension plan contribution.
(6) Cash distributions are calculated based on the number of units outstanding at each record date.
(7) Total debt includes long-term and short-term debt and commercial paper before discounts and debt transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital and acquisition programs throughout market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At December 31, 2011, Inter Pipeline had access to committed credit facilities totalling $2.3 billion, of which approximately $832.7 million remains unutilized, and demand facilities totalling $45 million. In December 2011, Inter Pipeline successfully completed the refinancing of two revolving credit facilities totalling $2.3 billion. Certain facilities are available to specific subsidiaries of Inter Pipeline.

In addition to committed credit facilities, Inter Pipeline issues equity capital from time to time to ensure its balance sheet remains well prepared for expected growth. Approximately $95.1 million of equity was issued through the distribution reinvestment plan during 2011. In July of 2011, Inter Pipeline reintroduced the Premium™ DRIP component of the distribution reinvestment plan to raise additional equity capital.

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

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

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

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

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

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

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

On December 5, 2011, Inter Pipeline entered into a new five year $750 million senior unsecured revolving credit facility with a syndicate of nine lenders. The new credit facility contains a $250 million accordion feature which allows Inter Pipeline to increase the facility to an aggregate amount of $1 billion. The new credit facility replaces the previous $750 million facility that had a maturity date of September 29, 2012. Borrowings under the facility can be by way of prime loans, U.S. base rate loans, LIBOR loans, bankers' acceptances or letters of credit. In addition, on December 5, 2011 Inter Pipeline entered into a new $20 million demand operating facility. The new demand facility replaces the previous $20 million demand facility that was entered into on December 13, 2010.

On December 15, 2011, Corridor entered into a new four year $1.55 billion senior unsecured revolving credit facility with a syndicate of 15 lenders. The new credit facility contains a $250 million accordion feature which allows Corridor to increase the facility to an aggregate amount of $1.8 billion. The new credit facility replaces the previous $1.581 billion unsecured revolving credit facility that had a maturity date of August 14, 2012. The new facility will primarily be used to backstop Corridor's commercial paper program. Borrowings under the facility can be by way of prime loans, U.S. base rate loans, LIBOR loans, bankers' acceptances or letters of credit. In addition, the new credit facility includes a $25 million demand operating facility. The new demand facility replaces a $40 million demand facility that was part of Corridor's previous revolving credit facility.

Capital Structure

(millions, except % amounts)	Recourse	Non-recourse	December 31 2011	December 31 2010
Credit facilities available				
Corridor syndicated facility	$ -	$ 1,550.0	$ 1,550.0	$ 2,142.0
Inter Pipeline syndicated facility	750.0	-	750.0	750.0
	750.0	1,550.0	2,300.0	2,892.0
Demand facilities(1)	20.0	25.0	45.0	60.0
	$ 770.0	$ 1,575.0	$ 2,345.0	$ 2,952.0
Total debt outstanding				
Recourse				
Corridor syndicated facility			$ -	$ 386.6
Inter Pipeline syndicated facility			-	157.0
Loan payable to General Partner			379.8	379.8
Senior Unsecured Medium-Term Notes			525.0	-
Non-recourse				
Corridor syndicated facility			1,467.3	1,577.8
Corridor debentures			300.0	300.0
Total debt(1)(2)			2,672.1	2,801.2
Total partners' equity			1,419.8	1,328.0
Total capitalization(3)			$ 4,091.9	$ 4,129.2
Total debt to total capitalization(3)			65.3%	67.8%
Total recourse debt to capitalization(3)			38.9%	41.0%

(1) At December 31, 2011 and 2010, outstanding Corridor letters of credit were approximately $0.2 million and $0.3 million, respectively, which are not included in the demand loan facilities or total debt outstanding in the table above.
(2) At December 31, 2011, total debt includes long-term and short-term debt and commercial paper outstanding of $2,657.6 million inclusive of discounts and debt transaction costs of $14.5 million.
(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Financial covenants within Inter Pipeline's credit agreements are based on the amount of recourse debt outstanding. Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to EBITDA* ratio of 4.25. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization* ratio was a favourable 38.9% at December 31, 2011. Adjusting for the impact of non-recourse debt of $1,767.3 million, Inter Pipeline's consolidated debt to total capitalization* ratio at December 31, 2011 was 65.3%.

At December 31, 2011, approximately $1,617.3 million or 60.5% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. These debt financing costs relate to Corridor debt outstanding and are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2001, Inter Pipeline entered into two fixed interest rate swap agreements, which expired in December 2011, to manage a portion of its variable interest rate risk exposure. In 2007, Inter Pipeline acquired an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

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

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

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

	Twelve Months Ended December 31	
(times)	2011	2010
Interest coverage on long-term debt (1)(2)	5.1	5.0

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

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

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

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's commitment profile and future contractual obligations at December 31, 2011. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed in the section above.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects(1)				
Oil sands transportation	$ 236.0	$ 182.0	$ 54.0	$ -
NGL extraction	53.8	38.0	15.8	-
Conventional oil pipelines	10.0	10.0	-	-
Bulk liquid storage	16.0	16.0	-	-
Growth capital(2)	315.8	246.0	69.8	-
Sustaining capital(2)	46.0	46.0	-	-
	361.8	292.0	69.8	-
Total debt(3)				
Corridor syndicated facility(4)	1,467.3	1,467.3	-	-
Loan to General Partner	379.8	91.2	288.6	-
Corridor debentures	300.0	-	150.0	150.0
4.967% Unsecured Medium-Term Notes, Series 1	325.0	-	-	325.0
3.839% Unsecured Medium-Term Notes, Series 2	200.0	-	-	200.0
	2,672.1	1,558.5	438.6	675.0
Other obligations				
DEOT acquisition(5)	459.0	459.0	-	-
Derivative financial instruments	37.4	26.0	11.4	-
Operating leases	88.0	7.1	27.3	53.6
Purchase obligations	119.8	5.6	21.5	92.7
Long-term portion of incentive plan	6.2	-	6.2	-
Working capital deficit(2)	70.0	70.0	-	-
	$ 3,814.3	$ 2,418.2	$ 574.8	$ 821.3

(1) Capital expenditure commitments in "less than one year" represent expected expenditures for 2012.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(3) At December 31, 2011, outstanding Corridor letters of credit of approximately $0.2 million were not included in the total $2,672.1 million of debt outstanding in the table above.
(4) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated credit facility that has no repayment requirements until December 2015.
(5) 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 Partnership Agreement.

Inter Pipeline plans to invest approximately $315.8 million in organic growth capital projects over the 2012 to 2013 period which includes capital costs for the $115 million Polaris oil sands diluent transportation project and the $53 million liquid sweetening project at the Cochrane NGL extraction facility. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $4.7 million to $9.5 million over the next eight years.

On January 11, 2012, Inter Pipeline completed the acquisition of four petroleum storage terminals in Denmark 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.

Inter Pipeline's debt outstanding at December 31, 2011, matures at various dates up to February 2021. Corridor's Series B debentures will mature on February 2, 2015, and Corridor's Series C debentures mature on February 3, 2020. On December 15, 2011, Corridor entered into a new $1.55 billion senior unsecured syndicated revolving credit facility that has an initial maturity date of December 15, 2015. Corridor's previous syndicated credit facility was cancelled on December 15, 2011. On December 5, 2011, Inter Pipeline entered into a new $750 million senior unsecured syndicated revolving credit facility with a maturity date of December 5, 2016. Inter Pipeline's previous $750 million unsecured revolving credit facility was cancelled on December 5, 2011. Inter Pipeline's and Corridor's new credit facilities can be extended beyond their initial maturity date under certain circumstances. Inter Pipeline's loans payable to the General Partner of $91.2 million and $288.6 million mature on October 28, 2012 and October 28, 2014, respectively. Inter Pipeline's $325 million MTN Series 1 notes mature on February 2, 2021, while MTN Series 2 notes mature on July 30, 2018.

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

(i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2011, based upon the various contractual maturity dates.

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

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

(iv) Inter Pipeline has obligations of $18.9 million under its employee incentive plan, of which $12.7 million is included in the working capital deficit*.

(v) Present value of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $37.0 million at December 31, 2011. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

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

CASH DISTRIBUTIONS TO UNITHOLDERS

(millions)	Three Months Ended December 31 2011	Three Months Ended December 31 2010 (restated)	Years Ended December 31 2011	Years Ended December 31 2010 (restated)
Cash provided by operating activities	$ 126.9	$ 63.1	$ 460.5	$ 349.6
Net change in non-cash operating working capital	(36.8)	17.7	(66.3)	(17.2)
Less sustaining capital expenditures(1)	(7.2)	(5.7)	(19.4)	(16.7)
Cash available for distribution(1)	82.9	75.1	374.8	315.7
Change in discretionary reserves(1)	(17.8)	(15.8)	(123.1)	(83.1)
Cash distributions	$ 65.1	$ 59.3	$ 251.7	$ 232.6
Cash distributions per unit(2)	$ 0.2475	$ 0.2300	$ 0.9675	$ 0.9050
Payout ratio before sustaining capital(1)	72.3%	73.5%	63.9%	70.0%
Payout ratio after sustaining capital(1)	78.5%	79.1%	67.2%	73.7%
Growth capital expenditures(1)	$ 34.2	$ 221.0	$ 132.6	$ 322.9
Sustaining capital expenditures(1)	7.2	5.7	19.4	16.7
	$ 41.4	$ 226.7	$ 152.0	$ 339.6

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

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

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

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

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

The discretionary reserve* increased approximately $17.8 million in the fourth quarter of 2011 and $123.1 million in 2011 due primarily to the strong operating results of Inter Pipeline's business segments. Inter Pipeline will continue to manage the discretionary reserve* and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

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

	Three Months Ended December 31		Years Ended December 31			
(millions)	2011	2010	2011	2010	2009(1)	2008(1)
Cash provided by operating activities	$ 126.9	$ 63.1	$ 460.5	$ 349.6	$ 281.8	$ 321.1
Cash distributions	(65.1)	(59.3)	(251.7)	(232.6)	(202.4)	(186.6)
Excess	$ 61.8	$ 3.8	$ 208.8	$ 117.0	$ 79.4	$ 134.5

	Three Months Ended December 31		Years Ended December 31			
(millions)	2011	2010	2011	2010	2009(1)	2008(1)
Net income	$ 45.8	$ 60.1	$ 247.9	$ 236.0	$ 157.7	$ 249.7
Cash distributions	(65.1)	(59.3)	(251.7)	(232.6)	(202.4)	(186.6)
(Shortfall) excess	$ (19.3)	$ 0.8	$ (3.8)	$ 3.4	$ (44.7)	$ 63.1

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

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

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

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at December 31, 2011 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	263.9	0.3	264.2

At February 14, 2012, Inter Pipeline had 264.9 million Class A units and 0.3 million Class B units for a total of 265.2 million units outstanding.

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

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Market Risk Management

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

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

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

NGL Extraction Business

Frac-spread Risk Management

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

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at December 31, 2011. The CAD/USG average prices would approximate the following USD/USG prices based on the average USD/CAD forward curve at December 31, 2011.

	December 31, 2011		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
January to December 2012	57%	$ 0.93	$ 0.95
January to December 2013	48%	$ 0.94	$ 0.97

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

Based on propane-plus volume hedges outstanding 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 and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

(millions)	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates[1]	Change in net income based on 10% decrease in prices/rates[1]
NGL[2]	$ (13.7)	$ (16.3)	$ 16.3
AECO natural gas	(15.6)	3.0	(3.0)
Foreign exchange	(7.2)	(15.5)	15.5
Frac-spread risk management	$ (36.5)		

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

Power Price Risk Management

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

Bulk Liquid Storage Business

Foreign Exchange Risk Management

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

In association with the DEOT acquisition, 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.

Corporate

Interest Rate Risk Management

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

Based on the variable rate obligations outstanding at December 31, 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 Corridor credit facility and is recoverable through the terms of the Corridor FSA, therefore there would be no after-tax income impact.

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

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

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

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

	Three Months Ended December 31		Years Ended December 31	
(millions)	2011	2010	2011	2010
Realized (loss) gain on derivative financial instruments				
Revenues				
NGL swaps	$ (10.4)	$ (2.2)	$ (35.5)	$ 0.3
Foreign exchange swaps (frac-spread hedges)	-	1.0	4.7	1.7
	(10.4)	(1.2)	(30.8)	2.0
Shrinkage gas expense				
Natural gas swaps	(4.7)	(6.6)	(13.8)	(19.3)
Operating expenses				
Electricity price swaps	0.3	-	1.2	0.1
Heat rate swaps	1.3	0.4	5.0	1.7
	1.6	0.4	6.2	1.8
Financing charges				
Interest rate swaps	0.7	0.7	2.8	3.7
Total realized loss on derivative financial instruments	(12.8)	(6.7)	(35.6)	(11.8)
Unrealized (loss) gain on derivative financial instruments				
NGL swaps	(5.1)	(17.1)	3.1	(7.5)
Natural gas swaps	(8.7)	6.4	(4.7)	(4.9)
Foreign exchange swaps (frac-spread hedges)	5.2	4.3	(11.7)	5.4
Electricity price swaps	(0.3)	0.3	(0.3)	0.3
Heat rate swaps	(1.4)	0.3	(2.0)	2.0
Interest rate swaps	0.5	0.6	1.9	1.9
Transitional transfers (1)	(0.2)	(0.2)	(0.8)	(0.8)
Total unrealized loss on derivative financial instruments	(10.0)	(5.4)	(14.5)	(3.6)
Total loss on derivative financial instruments	$ (22.8)	$ (12.1)	$ (50.1)	$ (15.4)

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

Credit Risk

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 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.

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

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. At December 31, 2011, accounts receivable outstanding meeting the definition of past due and impaired is immaterial.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three and twelve month periods ended December 31, 2011 or 2010.

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

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. Officers and directors of the General Partner received a cumulative total of $0.3 million in dividends in the fourth quarter of 2011 and $1.1 million year to date 2011 (fourth quarter 2010 - $nil; year to date 2010 - $0.7 million) from PAC pursuant to their ownership of non-voting shares.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline or in the performance of its duties as General Partner of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the Partnership Agreement. In addition, as an incentive to the General Partner to enhance the profitability of Inter Pipeline and the cash distributions paid in respect of Inter Pipeline's units, the General Partner is entitled to earn an annual incentive fee calculated as a percentage of available Distributable Cash (as defined in the Partnership Agreement). The percentage of available Distributable Cash payable to the General Partner as an incentive fee will be 15% of available 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. The incentive fee is paid at the time of distribution of Distributable Cash for the last calendar quarter of each year. In addition, the General Partner is entitled to be paid an acquisition fee equal to 1.0% of the purchase price of any New Assets (as defined in the Partnership Agreement) acquired by Inter Pipeline, and a disposition fee equal to 0.5% of the sale price of any assets sold by Inter Pipeline. See the **Other Expenses** section of **RESULTS OF OPERATIONS** for details of fees paid to the General Partner during the period.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At December 31, 2011, interest payable to the General Partner on the loan was $4.1 million (December 31, 2010 - $4.1 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of a default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At December 31, 2011, there were amounts owed to the General Partner by Inter Pipeline of $0.9 million (December 31, 2010 – $0.8 million).

CONTROLS AND PROCEDURES

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

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

Inter Pipeline has disclosed in this MD&A any change in Inter Pipeline's internal control over financial reporting (ICFR) that occurred during the period beginning on January 1, 2011 and ended on December 31, 2011 that has materially affected, or is reasonably likely to materially affect, Inter Pipeline's ICFR.

At December 31, 2011, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2011.

CRITICAL ACCOUNTING ESTIMATES

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

Financial Instruments

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

Inter Pipeline has classified its financial instruments as follows: certain components of prepaid expenses and other deposits are classified as "fair value through profit or loss" (FVTPL) 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".

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

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

Corridor utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are either payable to or recoverable from the shippers, 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 or payable as "FVTPL" as it represents unrealized gains or losses on interest rate swaps that are also classified as "FVTPL".

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

Intangible Assets

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

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

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus and a patented operational process utilized in one of the extraction facilities. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method. 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 period of the customer contracts is approximately 23 years. The patent is being amortized on a straight-line basis over the 14 year life of the patent.

The bulk liquid storage business' intangible assets represent the estimated value of a customer contract, customer relationships and tradename as at October 4, 2005 when the bulk liquid storage business was first acquired. These intangible assets are being amortized over estimated useful lives of 20 to 30 years. Should the likelihood of the renewal of the customer contract or estimated life of the customer relationships or 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 to 24 years, respectively.

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 level for which there are separately identifiable cash inflows. Goodwill created upon the acquisition of bulk liquid storage and Corridor represents the excess of the consideration transferred over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write-down for impairment. If the carrying value of either of the CGU's exceeds its recoverable value, an impairment loss would be recognized to the extent that the carrying amount of the goodwill exceeds its recoverable value. Each fiscal year and as economic events dictate, management reviews the valuation of goodwill, taking into consideration any events or circumstances which might have impaired the value. Inter Pipeline assesses the recoverable value of the goodwill amount for impairment on a fair value less cost to sell basis by discounting projected future cash flows generated by these assets at a weighted average cost of capital that reflects the relative risk of the asset. If it is determined that the recoverable value of the future cash flows is less than the carrying value of the assets at the time of assessment, an impairment loss would be determined by deducting the fair value less cost to sell on a discounted cash flow basis from the carrying values. The recoverable value of the underlying assets and liabilities were assessed and it was determined that there was no impairment of goodwill in 2011. Projected future cash flows used in the goodwill assessment represented management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

Property, Plant and Equipment

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

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which was 30 years for Cold Lake and 40 years for Corridor until July 1, 2010, when Inter Pipeline amended its estimates to 80 years for both Cold Lake and Corridor to better reflect the number of years over which these pipeline systems will be in operation following a comprehensive review by management. The cost of pipelines and facilities includes all 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 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 obligation 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 shippers. Depreciation of the Corridor line fill is calculated on the same basis as the related property, plant 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.

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 30 year service life of the Central Alberta and Mid-Saskatchewan pipeline systems and, effective July 1, 2010, the estimated service life was revised from 30 years to 80 years for the Bow River pipeline system following a comprehensive review by management. These estimates are connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

The bulk liquid storage business' property, plant and equipment 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.

Provisions

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 and the bulk liquid storage businesses consist mainly of three NGL extraction plants and two owned and six 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. Decommissioning obligations for the NGL extraction and bulk liquid storage business assets are being accreted over a period of 40 years at rates of 4.10% and 4.00% to 4.25% per annum, respectively, based on their respective estimated discounted values at December 31, 2011 of $6.2 million and $9.6 million, respectively.

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. Decommissioning obligations for the conventional oil pipelines and oil sands transportation business assets are being accreted over a period of 40 to 290 years at a rate of 4.10% per annum, based on an estimated discounted value at December 31, 2011 of $4.4 million.

Inter Pipeline's environmental remediation obligation relates to a number of projects which have been identified that Inter Pipeline is obligated to remediate in future periods. Based on management's current knowledge of regulations, technology and current plans to remediate these sites, an estimated discounted liability of $16.7 million has been recognized at December 31, 2011. Environmental obligations for the conventional oil pipelines and bulk liquid storage businesses are being accreted over a period of five to ten years at rates of 2.65% to 3.60% and 2.75% to 3.40% per annum, respectively.

Obligations Relating To Employee Pension Plans

Inter Pipeline provides retirement benefits for its UK, Ireland and German employees under three separate defined benefit pension plans. These plans provide benefits based primarily on a combination of years of service and an estimate of final pensionable salary. Inter Pipeline's policy is to fund the amount of benefit as required by governing legislation. Independent actuaries perform the required calculations to determine the pension expense in accordance with GAAP. The most recent actuarial valuations of the UK and Ireland plans were carried out in 2010 and updated in 2011, and an actuarial valuation of the German plan was completed in 2011.

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.

Long-Term Incentive Plan and Unit Incentive Options

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 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.

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 FFO[*] 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.

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

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.

Change in Estimate

In 2011, 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.

CHANGES IN ACCOUNTING POLICIES

IFRS

Inter Pipeline's consolidated financial statements for December 31, 2011 have been prepared in accordance with IFRS as issued by the IASB and are Inter Pipeline's first annual financial statements prepared in accordance with IFRS.

Inter Pipeline formerly prepared its financial statements in accordance with Canadian GAAP as set out in the CICA Handbook. In 2010 the CICA Handbook was revised to incorporate IFRS, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Inter Pipeline commenced reporting on this basis in its March 31, 2011 interim financial statements.

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 the following pronouncements on its balance sheet and results of operations.

IFRS 9 *Financial Instruments (IFRS 9)*

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

IFRS 10 *Consolidated Financial Statements (IFRS 10)*

IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities* and shall be applied to annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 10 builds on existing principles and standards and indentifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. 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 a 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 line item.

IFRS 12 *Disclosure of Interests in Other Entities (IFRS 12)*

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

IFRS 13 *Fair Value Measurement (IFRS 13)*

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

RISK FACTORS

Any of the risks summarized in the following sections may require Inter Pipeline to invest additional capital, pursue alternative business plans, or could have a material adverse effect on the future business, financial condition and/or results of operations of Inter Pipeline and its future ability to make cash distributions to Class A unitholders. Readers are cautioned that this summary of risks may not be exhaustive, as there may be risks that are unknown and other risks that may pose unexpected consequences. Further, many of the risks are beyond Inter Pipeline's control and, in spite of Inter Pipeline's active management of its risk exposure, there is no guarantee that risk management activities will successfully mitigate such exposure.

RISKS ASSOCIATED WITH THE PIPELINES – THE OIL SANDS TRANSPORTATION AND CONVENTIONAL OIL PIPELINES BUSINESSES

Throughput Risks

Demand Risks

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

Supply Risks

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

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

Competition and Contracts

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

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

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers (including the Cold Lake pipeline system's founding shippers) who have committed to utilizing the Cold Lake pipeline system and who pay for such usage over the term of the contract. Take-or-pay provisions resulting in minimum annual toll revenues from the Cold Lake pipeline system were in effect until the end of 2011. As of January 1, 2012, the aforementioned capital fee is no longer subject to a minimum take or pay threshold. Although volumes that are shipped by the Cold Lake pipeline system's founding shippers from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline, the Cold Lake founding shippers may utilize alternative transportation methods after 2011 (if certain minimum volume levels are maintained) subject to the Cold Lake LP's right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake founding shippers following the end of the ship-or-pay period will be sustained.

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

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

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

Operational Factors

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

Rights-of-Way and Access

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

Multi-Jurisdictional Regulation

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

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

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

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

RISKS ASSOCIATED WITH THE NGL EXTRACTION BUSINESS

Natural Gas Availability and Composition

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

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

Operational Factors

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

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

Competition

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

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

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

On December 7, 2010, the Energy Resources Conservation Board approved the application concerning AltaGas Ltd.'s Harmattan Co-stream Project. The Harmattan Co-stream Project consists of modifications to the Harmattan facility and the construction of a bypass pipeline around the Cochrane plant for the purpose of extracting NGL from up to 490 mmcf/d of natural gas on the Foothills and TransCanada Alberta systems directly upstream of and in parallel to the Cochrane plant. This could result in a subsequent reduction in volumes available for processing at the Cochrane plant. Should the Harmattan Co-Stream Project become operational, it would compete directly with the Cochrane plant for the right to reprocess gas volumes on the Foothills and TransCanada Alberta systems. Inter Pipeline has challenged the Energy Resources Conservation Board's decision to approve the Harmattan Co-Stream Project and won leave to appeal the decision at the Alberta Court of Appeal. Such appeal is scheduled to be heard in 2012.

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

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

Reliance on Dow Chemical, NOVA Chemicals and BP Canada
Dow Chemical, NOVA Chemicals and BP Canada are the principal customers of the NGL extraction business and represent the majority of the revenue from the NGL extraction business. As of the date hereof, BP Canada also operates the Empress II plant and the Empress V plant. BP is in the process of selling its NGL extraction business to Plains Midstream Canada. It is anticipated that Plains Midstream Canada, as purchaser, will assume all obligations of BP Canada in relation to Inter Pipeline's NGL extraction business and that no negative impacts to Inter Pipeline will result due to this divestiture. If, for any reason, any of the aforementioned parties were unable to perform their obligations under the various agreements with Inter Pipeline, the financial results of the NGL extraction business or the operations of the Empress II plant and the Empress V plant could be negatively impacted.

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

Pipeline's NGL extraction business segment. There is a risk that a change in convention, if implemented, could adversely affect the NGL extraction business. Inter Pipeline is active in the federal regulatory process involving the NEXT application.

TCPL has also submitted to the NEB a toll restructuring application for their Alberta and Mainline systems, and an application for the implementation of the NEXT model. Further revisions to TCPL's rate design and/or service offerings could affect TCPL's competitiveness in relation to other pipelines. These factors could result in additional costs or reduced gas volumes available for reprocessing at Inter Pipeline's NGL extraction facilities.

RISKS ASSOCIATED WITH THE BULK LIQUID STORAGE BUSINESS

Demand for Bulk Liquid Storage

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

The Inter Terminals business is primarily involved in the storage and handling of liquids for the petroleum refining business. Therefore, a sustained slowdown in the petroleum sector could adversely affect the Inter Terminals business. Supply or demand imbalances in the liquid storage market or sustained periods with backwardation in the oil market could also adversely affect the Inter Terminals business.

Simon Storage's Immingham terminals are highly integrated with two local refineries, the ConocoPhillips Humber refinery and the Total Lindsey refinery. The closure of one or both refineries, or amalgamation under ownership by a single party, could significantly reduce revenue from the Simon Storage business. Inter Terminal's AOT terminal handles all fuel oil exports from a Statoil Hydro refinery. The closure of this refinery could significantly reduce revenue from the Inter Terminals business. Furthermore, if this Statoil Hydro refinery were to subsequently be converted into a competing storage facility, revenues from the Inter Terminals business could be significantly reduced.

Post Buncefield Regulation

Following the Buncefield oil terminal incident in December 2005, the UK's regulatory authorities have been in the process of formulating policies which require additional integrity systems and controls on gasoline tanks and associated infrastructure. A report issued in December 2009 by the Process Safety Leadership Group details all of the required improvements and also contains a list of other hydrocarbon and petrochemical products to which these improvements are likely to be extended in future years.

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

Operational Factors

In the event of a major facility incident resulting in the release of large quantities of product, the location of the bulk liquid storage facilities on water courses and large bodies of water could significantly impact the revenues and continuing operation of the bulk liquid storage business.

Defined Benefit Pension Plan

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

Competition

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

Land Lease Renewals

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

Foreign Exchange Risk

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

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

Execution Risk

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

Reputational Risk

Reputational risk is the potential for negative impacts that could result from the deterioration of Inter Pipeline's reputation with key stakeholders. The potential for harming Inter Pipeline's reputation exists in every business decision and all risks can have an impact on reputation, which in turn can negatively impact Inter Pipeline's business and the value of Class A units. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity and regulatory and legal risks must all be managed effectively to safeguard Inter Pipeline's reputation. Negative impacts from a compromised reputation could include reductions in cash flow and customer base, and decreases in the value of Class A units.

Inter Pipeline's reputation as a reliable and responsible energy services provider with consistent financial performance and long-term financial stability is one of its most valuable assets. Key to effectively building and maintaining Inter Pipeline's reputation is fostering a culture that promotes integrity and ethical conduct. Ultimate responsibility for Inter Pipeline's reputation lies with the executive team that examines reputational risk and issues as part of all business decisions. Nonetheless, every employee and representative of the General Partner has a responsibility to contribute in a positive way to Inter Pipeline's reputation. This means ensuring compliance with applicable policies, legislation and regulations, that ethical practices are followed at all times, and that interactions with our stakeholders are positive. Reputational risk is most effectively managed when every individual works continuously to protect and enhance Inter Pipeline's reputation.

Federal Government Tax Fairness Plan

On October 31, 2006, the Government of Canada announced the Tax Fairness Plan which resulted in Inter Pipeline becoming taxable in 2011 at an effective income tax rate of 26.5% applied against taxable income, resulting in cash available for distribution being reduced by an amount approximating the new income tax payable. As a result of the adoption of the Tax Fairness Plan, Inter Pipeline may, from time to time, evaluate its organizational and capital structure and its subsidiaries to ensure that they remain appropriate and efficient for its business. Such evaluation and review may result in a recommendation that Inter Pipeline convert to another structure, such as a corporation. In the event that such a recommendation were to be made, approved and implemented, Inter Pipeline's partnership structure would be reorganized and holders of Class A units would become securityholders of one or more new public entities. Such a reorganization could result in the winding-up of Inter Pipeline contemporaneous with, or following, such reorganization and could include transfers of certain inter-entity receivables owing by certain subsidiaries of Inter Pipeline to one or more new public entities. Such a reorganization would be subject to approval of the Class A unitholders and to such other approvals as may be required, including regulatory, stock exchange and court approvals. In connection with any such reorganization, Inter Pipeline's current distribution policies would be replaced by the dividend or distribution policy of the successor entity, if any, which may result in a decrease or increase in the cash distributed by such entity compared with the current distributions of Inter Pipeline.

Royalty Regimes

Inter Pipeline's pipeline and NGL extraction businesses may be impacted by changes to the oil and gas royalty regime in effect in Alberta. Future royalty regime modifications could have adverse impacts on production of oil and gas volumes. Such changes may directly or indirectly impact Inter Pipeline in a materially different manner and/or in a manner that is more adverse to Inter Pipeline than the current royalty regime and regulatory framework.

Operational Factors

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

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

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

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

Regulatory Intervention and Changes in Legislation

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

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

Decommissioning, Abandonment and Reclamation Costs

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

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

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

In the future, the General Partner may determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the pipelines, the NGL extraction facilities, or the assets of the bulk liquid storage business, or the establishment of reserves for that purpose, would reduce Distributable Cash, and the timing of additions to, and distributions from, such reserves or trusts may result in the realization of taxable income by unitholders in a year prior to that in which funds resulting therefrom are distributed. See ***The Partnership Agreement – Cash Reserves*** in the 2011 **Annual Information Form.**

Environmental Costs and Liabilities

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

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

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

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

Greenhouse Gas Regulations

Inter Pipeline's facilities and other operations and activities emit greenhouse gases (GHG) and require Inter Pipeline to comply with greenhouse gas emissions legislation in Alberta. Alberta facilities emitting more than 100,000 tonnes of GHGs a year are subject to compliance with the *Climate Change and Emissions Management Act* (CCEMA) which requires a reduction in emissions intensity over a period of years. The CCEMA and the associated *Specified Gas Emitters Regulation* require certain facilities to reduce their emissions intensity to 88% of their baseline for 2008 and subsequent years, with their baseline being established by the average of the ratio of the total annual emissions to production for the years 2003 to 2005. The Cochrane plant is the only asset of Inter Pipeline that is subject to provincial GHG regulations. Regulated emitters can meet their emissions intensity targets by contributing to the Climate Change and Emissions Management Fund or by purchasing emissions credits.

The Copenhagen Summit on Climate Change (COP) in 2009 resulted in the Copenhagen Accord, which expresses the intention for global and national emissions to decline as soon as possible. Under the Copenhagen Accord, Canada has announced a commitment to reduce GHG emissions by 17% of the base year 2005 by 2020. The Government of Canada has also announced its intention to regulate GHG emissions in compliance with the Copenhagen Accord. Inter Pipeline may be required to comply with the regulatory scheme for GHG emissions ultimately adopted by the federal government, which is expected to be modified to ensure consistency with the regulatory scheme for GHG emissions to be adopted by the United States. The future implementation or modification of GHG regulations, whether to meet the limits regulated by the Copenhagen Accord or as otherwise determined, could have an adverse effect on Inter Pipeline's business, financial condition, results of operations and prospects.

The adoption of legislation or other regulatory initiatives designed to reduce GHG and air pollutants from oil and gas producers, refiners and petrochemical producers and electric generators in the geographic areas served by the pipelines, NGL extraction facilities and bulk liquid storage business could result in, among other things, increased operating and capital expenditures for those operators. This may make certain production of petroleum and gas by those producers uneconomic, resulting in reduced or delayed production, or reduced scope in planned new development or expansion projects. The operation of certain refineries and petrochemical plants may also become uneconomic. In addition, the adoption of new regulations concerning climate change and the reduction of GHG emissions and other air pollutants or other related federal or provincial legislation, including the *Specified Gas Emitters Regulation*, may also result in higher operating and capital costs for the pipelines and NGL extraction facilities. Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is not possible to predict the impact on Inter Pipeline and its operations and financial condition.

Dependence on Key Personnel

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

International Operations

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

Possible Failure to Realize Anticipated Benefits of Acquisitions

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

Capital Maintenance Levels

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

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

Possible Downgrade of Investment Grade Credit Rating

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

Credit Risk

Inter Pipeline is subject to credit risk arising out of its operations. A majority of Inter Pipeline’s accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Credit risk is managed through credit approval and monitoring procedures. The credit worthiness assessment takes into account available qualitative and quantitative information about the counterparty, including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may 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. Historically, Inter Pipeline has collected its accounts receivable in full.

Liquidity Risk
Liquidity risk is the risk that Inter Pipeline will not be able to meet its financial obligations. To manage this risk, Inter Pipeline forecasts its cash requirements to determine whether sufficient funds will be available. Inter Pipeline’s primary sources of liquidity and capital resources are funds generated from operations and draws under committed credit facilities and the issuance of commercial paper as well as medium-term notes. Inter Pipeline maintains a current shelf prospectus with Canadian securities regulators, which enables, subject to market conditions, ready access to Canadian public capital markets. Corridor’s commercial paper is rated R-1 (low) by DBRS. If Corridor’s commercial paper rating falls below this level, Corridor may not be able to issue commercial paper and be required to use higher cost financing to fund its financial obligations.

Refinancing Risk
Inter Pipeline's credit facilities each have a maturity date, on which date, absent replacement, extension or renewal, the indebtedness under the respective credit facility becomes repayable in its entirety. To the extent any of the credit facilities are not replaced or extended on or before their respective maturity dates or are not replaced, extended or renewed for the same or similar amounts or on the same or similar terms, Inter Pipeline's ability to fund ongoing operations and pay distributions could be impaired.

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

Aboriginal Land Claims
Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of the lands in western Canada. Such claims, if successful, could have a significant adverse effect on Inter Pipeline’s Canadian operations.

Crown Duty to Consult First Nations
The federal and provincial governments in Canada have a duty to consult and, where appropriate, accommodate aboriginal people where the interests of the aboriginal peoples may be affected by a Crown action or decision. Accordingly, the Crown’s duty may result in regulatory approvals being delayed or not being obtained in relation to Inter Pipeline’s Canadian operations.

Weather Conditions
Weather conditions can affect the demand for and price of natural gas and NGL. As a result, changes in weather patterns can affect throughput as well as Inter Pipeline’s NGL extraction and storage activities. For instance, colder winter temperatures generally increase demand for natural gas and NGL used for heating which tends to result in increased throughput volumes at facilities and higher prices in the extraction and storage businesses. In its storage facilities and NGL extraction business, Inter Pipeline attempts to position itself to be able to handle increased volumes of throughput and storage at its facilities to meet changes in seasonal demand; however, at any given time, facility and storage capacity is finite.

Weather conditions may influence Inter Pipeline’s ability to complete capital projects or facility turnarounds on time, potentially resulting in delays and increasing costs of such capital projects and turnarounds. Weather may also affect the operations and projects of Inter Pipeline’s customers or shippers, thereby influencing the supply of products.

With respect to construction activities, in areas where construction can be conducted in non-winter months, Inter Pipeline tries to schedule its construction timetables so as to minimize delays due to cold winter weather. While availability of trades and supplies does not always make this possible, Inter Pipeline has been relatively successful in minimizing construction delays due to weather issues.

Labour Relations
Inter Pipeline may from time to time have labour unions. Unionized labour disruptions could restrict the ability of Inter Pipeline to carry out its business and therefore affect Inter Pipeline's financial results.

Risks Inherent in the Nature of the Partnership

Fluctuating Distributions; Cash Distributions Are Not Guaranteed

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

Nature of the Class A Units

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

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

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

Responsibility of the General Partner

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

Conflicts of Interest

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

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

Inherent Tax Liability

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

Capital Resources

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

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

Leverage

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

Debt Restrictive Covenants

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

Issues of Additional Class A Units; Dilution

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

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

Class A unitholders generally do not have voting rights in relation to matters involving Inter Pipeline or the General Partner, including with respect to the election of directors of the General Partner. The General Partner manages and controls the activities of Inter Pipeline. Class A unitholders have no right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General

Partner may not be removed by the limited partners. Directors of the General Partner are elected by PAC, the sole shareholder of the General Partner, which is a corporation controlled by John F. Driscoll.

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

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

NON-GAAP FINANCIAL MEASURES

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

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

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

		December 31
(millions)	2011	2010 *(restated)*
Current assets		
Cash and cash equivalents	$ 50.0	$ 22.5
Accounts receivable	109.1	129.5
Prepaid expenses and other deposits	10.9	13.1
Current liabilities		
Cash distributions payable	(23.1)	(20.6)
Accounts payable and accrued liabilities	(162.5)	(157.0)
Current income taxes payable	(49.8)	(0.8)
Deferred revenue	(4.6)	(6.3)
Adjusted working capital deficiency	$ (70.0)	$ (19.6)

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

Discretionary reserve is calculated as cash available for distribution less actual cash distributions. This measure is used by the investment community to determine the amount of cash reserved and reinvested in the business.

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

	Three Months Ended December 31		Years Ended December 31	
(millions)	2011	2010 *(restated)*	2011	2010 *(restated)*
Net income	$ 45.8	$ 60.1	$ 247.9	$ 236.0
Depreciation and amortization	25.4	18.8	99.7	87.6
Loss on disposal of assets	-	0.7	-	0.7
Non-cash recovery (expense)	2.9	(3.2)	1.9	(1.8)
Unrealized change in fair value of derivative financial instruments	10.0	5.4	14.5	3.6
Deferred income tax expense (recovery)	6.0	(1.0)	28.7	4.6
Proceeds from long-term deferred revenue	-	-	-	5.8
Pension plan payment	-	-	-	(4.1)
Proceeds from long-term leasehold inducements	-	-	1.5	-
Funds from operations	90.1	80.8	394.2	332.4
Total interest less capitalized interest	20.1	9.8	78.4	38.1
Current income tax expense	9.3	-	51.6	1.4
Pension plan payment	-	-	-	4.1
EBITDA	$ 119.5	$ 90.6	$ 524.2	$ 376.0

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

	December 31	
(millions, except per unit amounts)	2011	2010
Closing unit price	$ 18.63	$ 14.92
Total closing number of Class A and B units outstanding	264.2	258.0
	4,921.2	3,850.0
Total debt	2,672.1	2,801.2
Enterprise value	$ 7,593.3	$ 6,651.2

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

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

			Three Months Ended December 31	
			2011	2010
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 22.5	$ 0.5	$ 23.0	$ 214.4
NGL extraction	3.5	1.4	4.9	0.7
Conventional oil pipelines	3.0	0.2	3.2	1.5
Bulk liquid storage	5.2	4.4	9.6	8.7
Corporate	-	0.7	0.7	1.4
	$ 34.2	$ 7.2	$ 41.4	$ 226.7

			Years Ended December 31	
			2011	2010
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 102.8	$ 1.2	$ 104.0	$ 296.7
NGL extraction	7.8	5.7	13.5	6.7
Conventional oil pipelines	4.9	1.8	6.7	7.1
Bulk liquid storage	17.1	8.5	25.6	23.9
Corporate	-	2.2	2.2	5.2
	$ 132.6	$ 19.4	$ 152.0	$ 339.6

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

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

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

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

ELIGIBLE INVESTORS

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

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 16th day of February, 2012.