Management's Responsibility for Financial Reporting

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

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

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

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

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

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

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

(Signed) William A. van Yzerloo
Chief Financial Officer

February 21, 2013

INDEPENDENT AUDITORS' REPORT

To the Partners of **Inter Pipeline Fund**

We have audited the accompanying consolidated financial statements of Inter Pipeline Fund, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of changes in partners' equity, net income, comprehensive income and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inter Pipeline Fund as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Calgary, Canada
February 21, 2013

Chartered Accountants

Inter Pipeline Fund

Consolidated Balance Sheets

(thousands of Canadian dollars)		**As at December 31 2012**		As at December 31 2011
ASSETS				
Current Assets				
Cash and cash equivalents (note 21)	**$**	**63,902**	$	50,021
Accounts receivable		**146,545**		109,145
Derivative financial instruments (note 17)		**20,816**		5,167
Prepaid expenses and other deposits		**30,059**		10,917
Total Current Assets		**261,322**		175,250
Non-Current Assets				
Derivative financial instruments (note 17)		**4,865**		9,772
Property, plant and equipment (note 6)		**4,714,627**		4,081,036
Goodwill and intangible assets (note 7)		**609,384**		502,009
Total Assets	**$**	**5,590,198**	$	4,768,067
LIABILITIES AND PARTNERS' EQUITY				
Current Liabilities				
Distributions payable (note 8)	**$**	**25,452**	$	23,114
Accounts payable and accrued liabilities (note 14)		**294,240**		162,499
Current income taxes payable (note 12)		**8,685**		49,753
Derivative financial instruments (note 17)		**8,336**		25,746
Deferred revenue		**6,074**		4,583
Current portion of long-term debt (note 9)		**-**		90,989
Commercial paper (note 9)		**1,351,132**		1,464,369
Total Current Liabilities		**1,693,919**		1,821,053
Non-Current Liabilities				
Long-term debt (note 9)		**1,760,902**		1,102,288
Long-term payable		**4,865**		9,772
Derivative financial instruments (note 17)		**-**		11,035
Provisions (note 10)		**59,941**		37,018
Employee benefits (note 11)		**9,631**		6,989
Long-term deferred revenue and other liabilities		**16,958**		17,652
Deferred income taxes (note 12)		**384,531**		342,474
Total Liabilities		**3,930,747**		3,348,281
Commitments (notes 6 and 15)				
Partners' Equity				
Partners' equity (note 13)		**1,682,955**		1,452,066
Total reserves (note 13)		**(23,504)**		(32,280)
Total Partners' Equity		**1,659,451**		1,419,786
Total Liabilities and Partners' Equity	**$**	**5,590,198**	$	4,768,067

See accompanying notes to the consolidated financial statements.

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

(Signed) John F. Driscoll
Director

(Signed) William D. Robertson
Director

Inter Pipeline Fund

Consolidated Statements of Changes in Partners' Equity

(thousands of Canadian dollars)

	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Reserves *(note 13)*	Total Partners' Equity
Balance, January 1, 2012	$ 1,450,617	$ 1,449	$ (32,280)	**$ 1,419,786**
Net income for the year	306,846	307	-	**307,153**
Other comprehensive income	-	-	8,776	**8,776**
	1,757,463	1,756	(23,504)	**1,735,715**
Distributions declared (note 8)	(284,946)	(285)	-	**(285,231)**
Issuance of Partnership units (note 13)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	208,757	210	-	**208,967**
Balance, December 31, 2012	$ 1,681,274	$ 1,681	$ (23,504)	**$ 1,659,451**
Balance, January 1, 2011	$ 1,359,377	$ 1,358	$ (32,686)	$ 1,328,049
Net income for the year	247,684	248	-	247,932
Other comprehensive income	-	-	406	406
	1,607,061	1,606	(32,280)	1,576,387
Distributions declared (note 8)	(251,497)	(252)	-	(251,749)
Issuance of Partnership units (note 13)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	95,053	95	-	95,148
Balance, December 31, 2011	$ 1,450,617	$ 1,449	$ (32,280)	$ 1,419,786

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Capital Corporation.

Inter Pipeline Fund

Consolidated Statements of Net Income

(thousands of Canadian dollars)	Twelve Months Ended December 31 2012	2011
REVENUES		
Operating revenues	**$ 1,187,023**	$ 1,151,567
EXPENSES		
Shrinkage gas	**206,525**	278,114
Midstream product purchases	**31,905**	-
Operating (note 20)	**293,150**	285,272
Depreciation and amortization	**123,132**	99,716
Financing charges (note 19)	**97,618**	80,216
General and administrative (note 20)	**64,046**	54,824
Unrealized change in fair value of derivative financial instruments (note 17)	**(44,363)**	14,539
Acquisition fee to General Partner (notes 4 and 14)	**4,591**	-
Management and incentive fees to General Partner (note 14)	**13,832**	10,641
Loss on disposal of assets	**179**	23
	790,615	823,345
INCOME BEFORE INCOME TAXES	**396,408**	328,222
Provision for income taxes (note 12)		
Current	**57,002**	51,590
Deferred	**32,253**	28,700
	89,255	80,290
NET INCOME	**$ 307,153**	$ 247,932
Net income per Partnership unit (note 13)		
Basic and diluted	**$ 1.14**	$ 0.95

Consolidated Statements of Comprehensive Income

(thousands of Canadian dollars)	Twelve Months Ended December 31 2012	2011
NET INCOME	**$ 307,153**	$ 247,932
OTHER COMPREHENSIVE INCOME (note 13)		
Unrealized gain on translating financial statements of foreign operations	**10,486**	4,472
Actuarial loss on defined benefit pension plan (note 11)	**(1,925)**	(6,167)
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 17)	**-**	809
Income tax relating to defined benefit pension reserve (note 12)	**215**	1,292
	8,776	406
COMPREHENSIVE INCOME	**$ 315,929**	$ 248,338

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	Twelve Months Ended December 31 **2012**	2011
OPERATING ACTIVITIES		
Net income	**$ 307,153**	$ 247,932
Items not involving cash:		
Depreciation and amortization	**123,132**	99,716
Loss on disposal of assets	**179**	23
Non-cash expense	**4,236**	1,826
Unrealized change in fair value of derivative financial instruments	**(44,363)**	14,539
Deferred income tax expense	**32,253**	28,700
Proceeds from long-term lease inducements	**-**	1,480
Funds from operations	**422,590**	394,216
Net change in non-cash operating working capital (note 21)	**(47,338)**	66,288
Cash provided by operating activities	**375,252**	460,504
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(378,010)**	(152,003)
Proceeds on sale of assets	**356**	474
Acquisition of Inter Terminals (note 4)	**(509,713)**	-
Assumption of cash on acquisition of Inter Terminals (note 4)	**48,293**	-
Net change in non-cash investing working capital (note 21)	**100,489**	7,710
Cash used in investing activities	**(738,585)**	(143,819)
FINANCING ACTIVITIES		
Cash distributions (note 8)	**(76,264)**	(156,601)
Increase (decrease) in debt	**455,402**	(129,169)
Transaction costs on debt	**(1,924)**	(6,078)
Net change in non-cash financing working capital (note 21)	**412**	2,470
Cash provided by (used in) financing activities	**377,626**	(289,378)
Effect of foreign currency translation on foreign currency denominated cash	**(412)**	207
Increase in cash and cash equivalents	**13,881**	27,514
Cash and cash equivalents, beginning of year	**50,021**	22,507
Cash and cash equivalents, end of year	**$ 63,902**	$ 50,021
Cash taxes paid	**$ 98,100**	$ 2,643
Cash interest paid	**$ 97,416**	$ 70,337

See accompanying notes to the consolidated financial statements.

STRUCTURE OF THE PARTNERSHIP

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

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

Inter Pipeline currently makes monthly distributions to holders of the Class A units and Class B unlimited liability partnership units (Class B units) (collectively Partnership units) as discussed in note 8.

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

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

These audited consolidated annual financial statements were authorized for issue by the Board of Directors of the General Partner on February 21, 2013.

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies that follow have been consistently applied to all years presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Measurement Basis*

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

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

b) *Basis of Consolidation*

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

Business Combinations

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

Subsidiaries

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

Interest in Joint Venture

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

Interest in Jointly Controlled Assets

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

c) *Critical Accounting Estimates and Judgments*

The preparation of the annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The amounts recorded for derivative financial instruments; long-term payable/long-term receivable; business combinations; non-financial asset impairment; depreciation and amortization; provisions; and deferred income taxes are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material. The following discusses the most significant accounting judgments and estimates that Inter Pipeline has made in the preparation of these consolidated financial statements.

Derivative Financial Instruments and Long-Term Payable/Long-Term Receivable

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risk relating to commodity prices, foreign exchange and interest rates. All derivative financial instruments and the long-term payable/long-term receivable are measured at fair value.

The fair values of derivative financial instruments and the long-term payable/long-term receivable 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 of derivative financial instruments and the long-term payable/long-term receivable 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 frame for which there are derivative financial instruments in place. These fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. 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 and the long-term payable/long-term receivable would change the fair value reported in the consolidated balance sheets and unrealized change in fair value of derivative financial instruments in the consolidated statements of net income.

Business Combinations

The consideration transferred of an acquired business is allocated to the identifiable assets acquired and liabilities assumed at their estimated fair values on the acquisition date. The excess of the consideration transferred over the amount allocated to net assets is recorded as goodwill. All available information is used to estimate fair values. External consultants are typically engaged to assist in the fair value determination of identifiable intangible assets and other significant assets or liabilities. The preliminary allocation of consideration transferred may be adjusted, as necessary, up to one year after the acquisition closing date due to additional information impacting asset valuation and liabilities assumed.

The allocation process of the consideration transferred involves uncertainty as management is required to make assumptions and apply judgment to estimates of the fair value of the acquired assets and liabilities, including highest and best use of assets. Quoted market prices and widely accepted valuation techniques, including discounted cash flows and market multiple analyses are used to estimate the fair market value of the assets and liabilities and depreciated replacement costs is used for the valuation of tangible assets. These estimates include assumptions on inputs within the discounted cash flow calculations related to forecasted revenues, cash flows, contract renewals, asset lives, industry economic factors and business strategies.

In certain circumstances Inter Pipeline may also be required to consider the differences between the acquisition of a business and the purchase of assets depending on the terms of an acquisition contract. Certain judgments can be made in this determination which could impact the valuation and recognition of assets acquired and liabilities assumed. When an asset acquisition occurs the identifiable assets acquired and liabilities assumed are allocated based on the cost of the acquisition and no goodwill or gain on a bargain purchase is recognized.

Goodwill Impairment

For the purposes of Inter Pipeline's goodwill impairment testing, fair value is estimated using a discounted cash flow methodology. This method estimates fair value less costs to sell using a discounted ten year forecasted cash flow with a terminal value, based on Inter Pipeline's assessment of the long-term outlook for each business. Cash flows are estimated from several sources including internal budgets and long-term contractual transportation agreements with shippers. Observable market data is used to develop discount rates for each business, which approximate the discount rate from a market participant's perspective.

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

Impairment indicators include a significant decline in an asset's market value, significant adverse changes in the technological, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

Depreciation and Amortization

Calculation of the net book value of property, plant and equipment and intangible assets requires Inter Pipeline to make estimates of the useful life of the assets, residual value at the end of the asset's useful life, method of depreciation and amortization and whether impairment in value has occurred. Residual values of the assets, estimated useful lives and depreciation and amortization methodology are reviewed annually with prospective application of any changes, if deemed appropriate. Changes to estimates and specifically those related to pipeline assets, which could be significant, could be caused by a variety of factors, including changes to the physical life of the assets as well as the estimated remaining life of crude oil reserves expected to be gathered and shipped on these pipeline systems. A change in any of the estimates would result in a change in the amount of depreciation and, as a result, a charge to net income recorded in the period in which the change occurs, with a similar change in the carrying value of the asset on the consolidated balance sheets.

Provisions

Inter Pipeline is required to apply a number of assumptions in estimating provisions recorded for decommissioning and environmental remediation associated with Inter Pipeline's sites. Liabilities are calculated based on current price estimates using current technologies in accordance with current legal or constructive requirements. Liabilities are adjusted for inflation to reflect the timing of 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.

NGL Extraction Business and Bulk Liquid Storage Business

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction facilities and twelve 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 facility sites.

Conventional Oil Pipelines Business and Oil Sands Transportation Business

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

Deferred Income Taxes

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 forecasted funds from operations and the application of existing tax laws.

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

Deferred income taxes contain uncertainties because of the assumptions made about when deferred tax assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain.

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 facility from 2007 to 2011. The impact of this change was an increase in revenues in 2011 of $20.5 million.

d) *Segment Reporting*

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

Industry Segments

The oil sands transportation business consists of three pipeline systems that transport petroleum products and provide related blending and handling services in northern Alberta and includes a new diluent system, which entered commercial service in the third quarter of 2012. The Corridor, Cold Lake and Polaris pipeline systems operate under long-term contracts with a limited number of customers. The NGL extraction business consists of processing natural gas to extract natural gas liquids (NGLs) including ethane and a mixture of propane, butane and pentanes plus (collectively known as propane-plus). The conventional oil pipelines business primarily involves the transportation, storage and processing of hydrocarbons. On April 1, 2012, Inter Pipeline internalized the midstream marketing blending and handling services within its conventional oil pipelines business segment, which were previously provided by a third party. The bulk liquid storage business involves the primary storage and handling of bulk liquid products through the operation of eight bulk liquid storage terminals located in the UK, Germany, and Ireland, referred to collectively as Simon Storage, and four bulk liquid storage terminals located in Denmark, referred to collectively as Inter Terminals.

Geographic Segments

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

e) *Revenue Recognition*

Oil Sands Transportation Business

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

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

The Polaris pipeline system recognizes capital fee revenue based on available capacity to each shipper. In addition, an operating fee equivalent to all of the pipeline's operating costs is recovered from the Polaris pipeline system's shippers.

NGL Extraction Business

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

Conventional Oil Pipelines Business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional oil pipelines gathering systems, namely trunk line tariffs and gathering tariffs are recognized as the services are provided. The majority of volumes are transported on the conventional oil pipelines gathering systems under short-term contracts with a fixed tolling arrangement and no volume commitment made by the shipper.

As a result of internalizing the midstream marketing services, volumes purchased by Inter Pipeline to be used in the blending process, that are then resold at a pre-arranged agreed-upon differential, are recognized on a net basis. Sales of additional volumes created through the blending process are recognized on a gross basis with corresponding product purchases of blend components. Revenue is recognized when title is transferred.

Bulk Liquid Storage Business

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

Deferred Revenue

Deferred revenue represents cash received in excess of revenues recognized.

f) *Cash and Cash Equivalents*

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

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

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

h) *Property, Plant and Equipment*

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

Oil Sands Transportation Business

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which is 80 years. The cost of pipelines and facilities includes all expenditures directly attributable to bringing the pipeline to the location and condition necessary for its intended use, including costs incurred for system construction, expansion and betterments until the assets are available for use. Pipeline system costs also include an allocation of directly attributable overhead costs and capitalized borrowing costs. Capitalization of borrowing costs ceases when the related 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. Pipeline line fill for the Polaris pipeline system is owned by the shippers directly. The cost of line fill includes all direct expenditures for acquiring the petroleum based products. These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system under the terms of the agreement. Cold Lake line fill is carried at cost and Corridor line fill is carried at cost less accumulated depreciation. Proceeds from the sale of Cold Lake line fill will be fully available to Inter Pipeline, whereas proceeds from the sale of Corridor's line fill will be used to fund the cost of any decommissioning obligations and to the extent Corridor's decommissioning obligations exceed the value of the line fill, Inter Pipeline will be obligated to fund the excess. To the extent the value of the line fill exceeds the decommissioning obligation; the excess funds will be refunded to the Corridor shippers. Depreciation of Corridor line fill is calculated on the same basis as the related property, plant and equipment.

NGL Extraction Facilities and Equipment

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

Conventional Oil Pipelines Business

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

Storage Facilities and Equipment

The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from four to 70 years.

i) *Goodwill and Intangible Assets*

Goodwill

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

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

Intangible Assets

Inter Pipeline's intangible assets are amortized using an amortization method and term based on estimates of the useful lives of these assets.

Cold Lake Transportation Services Agreement

The Cold Lake Transportation Services Agreement (TSA) intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the TSA expired on December 31, 2011, the term of the TSA extends until the Cold Lake LP gives notice that it forecasts it will earn less than $1.0 million of capital fees in the year. 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. This intangible asset is being amortized on a straight-line basis over 30 years. The remaining amortization period of the TSA is approximately 19 years.

Customer Contracts, Relationships and Tradename

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition of July 28, 2004, which is the period over which amortization is being charged using the straight-line method. Should the useful life or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly. The average remaining amortization period of the customer contracts is approximately 22 years.

Within the bulk liquid storage business segment, Simon Storage's intangible assets consist of a customer contract for the storage and handling of bulk liquid products and tradename. These assets are being amortized over 30 years. Should the likelihood of the renewal of the customer contract or estimated life of the tradename change, the amortization of the remaining balance would change accordingly. The remaining amortization period of the customer contract and tradename is approximately 23 years. Inter Terminals' intangible assets, also within the bulk liquid storage business segment, consist of customer contracts with agreed guaranteed payments for storage revenue and minimum throughput volumes. These assets are being amortized over the remaining lives of the contracts on a contract-by-contract basis, the majority of which ranged from eight months to 30 months at the date of acquisition. At December 31, 2012, some of the contracts are fully amortized, while the remaining amortization period of those contracts not yet fully amortized is six to 18 months.

Patent

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

j) *Borrowing Costs*

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

k) *Provisions*

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

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. 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.

l) *Employee Benefits*

Long-term Incentive Plan

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

Pension Plans

The cost of pension benefits earned by certain employees in the UK, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected unit credit method. 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 (OCI). Past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

m) *Income Taxes*

Current Income Taxes

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

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

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, at 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 consolidated 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 statements of net income.

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

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

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

n) *Foreign Currency Translation*

Foreign Currency Transactions

Items included in the financial statements of each of Inter Pipeline's subsidiaries are measured using the functional currency of that subsidiary being the currency of the primary economic environment in which that subsidiary operates. Transactions that are in a currency other than the functional currency of the subsidiary are translated at exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency at the reporting date are retranslated to the functional currency at the exchange rate in effect at the reporting date with the resulting exchange gains or losses recognized in the statements of net income.

Foreign Operations

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

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

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

The resulting translation gains and losses are included in OCI as foreign currency translation adjustments.

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

o) *Asset Impairment*

Non-Financial Assets

Property, plant and equipment and intangible assets with definite lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and intangible assets with indefinite lives are tested at least annually for impairment regardless of whether indicators of impairment exist.

For the purpose of measuring recoverable amounts, assets are grouped in CGU's, which are the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of a CGU's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, the best evidence of fair value is the value obtained from recent market transactions or the value stated in a binding sale agreement. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Inter Pipeline calculates the fair value less costs to sell using a projected cash flow model applying a fair value less costs to sell discounted cash flow methodology. After-tax cash flows are discounted using a weighted average cost of capital discount rate that reflects the relative risk of the asset. Projected future cash flows used in the goodwill impairment assessment represent 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.

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

Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the business combination. A group of CGU's represents the lowest level within the entity at which goodwill is monitored for internal management purposes, which may not be higher than an operating segment.

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

Financial Assets

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

p) *Financial Instruments*

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

Financial Instruments – Recognition and Measurement

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

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

Determination of the fair value of financial assets and liabilities requires the use of valuation techniques that involve many estimates, assumptions and judgments including the timing and magnitude of cash flows, discount rates and reference prices. Estimates of the fair value of derivative contracts outstanding at the end of each financial reporting period are recognized on the consolidated balance sheets 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.

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

Financial Instruments – Fair Value Hierarchy

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

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

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

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

q) *Financial Guarantees*

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

r) *Reserves*

Foreign Currency Translation Reserve

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

Defined Benefit Pension Reserve

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

s) *Leases*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use an asset. Leases which transfer substantially all the risks and benefits of ownership to Inter Pipeline are classified as finance leases. The leased asset is recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. Finance lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. Other leases are classified as operating leases and payments are amortized on a straight-line basis over the lease term.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2013 or later periods with early adoption permitted. The standards impacted are as follows:

IFRS 9 *Financial Instruments (IFRS 9)*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and shall be applied to annual periods beginning on or after January 1, 2015 with early adoption permitted. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Inter Pipeline is currently assessing the impact of IFRS 9; however the extent of the impact has not yet been determined.

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. IFRS 10 establishes a single control model based on power, exposure to variable returns and the ability to exercise power to affect the amount of returns. Management has evaluated Inter Pipeline's investment in Cold Lake and determined that under IFRS 10, Inter Pipeline controls the relevant activities of this investment. Control was obtained on January 2, 2003 with the acquisition of 70% ownership of Cold Lake. As a result, Inter Pipeline will consolidate 100% of Cold Lake under IFRS 10, compared to proportionate consolidation of 85% of Cold Lake under IAS 31 *Interests in Joint Ventures* (IAS 31). A non-controlling interest will be recorded to represent the 15% equity investment in Cold Lake that is not attributable to Inter Pipeline.

IFRS 11 *Joint Arrangements (IFRS 11)*

IFRS 11 replaces IAS 31 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. IFRS 11 will apply to interests in joint arrangements where there is joint control. The concept of control identified in IFRS 10 above may result in an entity being included in the consolidated financial statements of the parent, where previously IAS 31 was applied. IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer the most significant factor when classifying the joint arrangement as either a joint operation or joint venture. In addition, the option to account for joint ventures using proportionate consolidation has been removed and equity accounting is required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single item. Management performed a review of all arrangements and, with the exception of its investment in Cold Lake which will be accounted in accordance with IFRS 10, determined that the adoption of this standard will not have a material impact on its consolidated financial statements.

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. 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. The adoption of IFRS 12 is expected to increase the current level of Inter Pipeline's disclosure of interests in other entities.

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. Inter Pipeline does not expect implementation of this standard to have a significant impact on its consolidated financial statements.

IAS 19 *Employee Benefits (Revised) (IAS 19)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism, which is consistent with Inter Pipeline's current accounting policy and the concept of expected returns on plan assets. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The adoption of IAS 19 amendments will not have a significant impact on the consolidated financial statements.

4. ACQUISITION OF INTER TERMINALS

On January 11, 2012, Inter Pipeline completed the acquisition, and thereby obtained control, of Inter Terminals from a subsidiary of DONG Energy A/S, through the purchase of 100% of its share capital. The acquisition was valued at $459.1 million plus closing adjustments and the assumption of surplus cash, for a total cash consideration of $509.7 million and was funded from Inter Pipeline's credit facility. The acquisition has more than doubled Inter Pipeline's total bulk liquid storage capacity in Western Europe, adding scale and diversification to European storage operations.

Operating results for Inter Terminals have been included in the consolidated financial statements since January 11, 2012. Inter Terminals contributed $55.8 million and $15.3 million to revenue and net income, respectively from the date of acquisition to December 31, 2012. If the acquisition had taken place on January 1, 2012, as opposed to January 11, 2012, the impact on revenue and net income would have been immaterial.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

As a result of this transaction, an acquisition fee of $4.6 million was paid to the General Partner, pursuant to the terms of the LPA. Acquisition related costs of $0.2 million (2011 - $3.2 million) have been expensed and included in general and administrative expenses in the consolidated statements of net income.

The acquisition was accounted for using the acquisition method at the closing date of January 11, 2012. Determinations of fair value often require management to make assumptions and estimates about future events. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities, including closing adjustments, could impact the carrying amounts assigned. The allocation of the consideration transferred was as follows:

Cash	$	48,293
Non-cash working capital (note 21)		15,513
Property, plant and equipment (note 6)		342,159
Goodwill (note 7)		110,870
Intangible assets (note 7)		20,281
Decommissioning obligation (note 10)		(18,360)
Deferred income tax liability (note 12)		(9,043)
	$	509,713

Goodwill of $110.9 million relates to the fair value of strategic synergies, expansion options at the existing terminals, value of the assembled workforce, renewal of customer contracts, and other intangible assets, which do not require separate recognition. Tax deductible goodwill of $196.1 million arising on this acquisition is different than goodwill recognized for accounting purposes as a result of specific Danish tax laws.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

5. SEGMENT REPORTING

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

December 31, 2012	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 300,274	$ 499,934	$ 231,251	$ -	$ 1,031,459	$ 155,564	$ 1,187,023
Expenses							
Shrinkage gas	-	206,525	-	-	206,525	-	206,525
Midstream product purchases	-	-	31,905	-	31,905	-	31,905
Operating	84,105	98,854	47,119	-	230,078	63,072	293,150
Depreciation and amortization	42,228	26,737	10,009	2,651	81,625	41,507	123,132
Financing charges	36,979	241	607	59,279	97,106	512	97,618
General and administrative	6,068	-	-	47,017	53,085	10,961	64,046
Unrealized change in fair value of derivative financial instruments	-	(44,388)	25	-	(44,363)	-	(44,363)
Acquisition fee to General Partner	-	-	-	4,591	4,591	-	4,591
Management and incentive fees to General Partner	-	-	-	13,832	13,832	-	13,832
(Gain) loss on disposal of assets	(23)	522	(76)	(8)	415	(236)	179
Total expenses	169,357	288,491	89,589	127,362	674,799	115,816	790,615
Income (loss) before income taxes	130,917	211,443	141,662	(127,362)	356,660	39,748	396,408
Provision for (recovery of) income taxes	21,782	-	-	70,485	92,267	(3,012)	89,255
Net income (loss)	$ 109,135	$ 211,443	$ 141,662	$ (197,847)	$ 264,393	$ 42,760	$ 307,153
Items not involving cash:							
Depreciation and amortization*	42,205	27,259	9,933	2,643	82,040	41,271	123,311
Non-cash expense (recovery)	241	270	1,753	2,056	4,320	(84)	4,236
Unrealized change in fair value of derivative financial instruments	-	(44,388)	25	-	(44,363)	-	(44,363)
Deferred income tax expense (recovery)	21,239	-	-	14,793	36,032	(3,779)	32,253
Funds from (used in) operations	$ 172,820	$ 194,584	$ 153,373	$ (178,355)	$ 342,422	$ 80,168	$ 422,590
Property, plant and equipment additions	$ 264,085	$ 36,504	$ 34,737	$ 4,563	$ 339,889	$ 39,705	$ 379,594
							As at December 31, 2012
Property, plant and equipment - net book value	$ 3,149,459	$ 406,313	$ 473,192	$ 9,251	$ 4,038,215	$ 676,412	$ 4,714,627
Goodwill and intangible assets - net book value	$ 218,239	$ 210,396	$ -	$ -	$ 428,635	$ 180,749	$ 609,384
Other assets	$ 65,953	$ 85,341	$ 51,811	$ 389	$ 203,494	$ 62,693	$ 266,187
Total assets	$ 3,433,651	$ 702,050	$ 525,003	$ 9,640	$ 4,670,344	$ 919,854	$ 5,590,198

* Includes (gain) loss on disposal of assets

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

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

* Includes loss (gain) on disposal of assets

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

6. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities and Equipment	Pipeline Line Fill	Construction Work in Progress	Total
Cost				
Balance, January 1, 2011	$ 2,754,086	$ 74,033	$ 1,895,152	$ 4,723,271
Additions/transfers from construction*	1,730,633	174,105	150,940	2,055,678
Disposals/completed construction*	(821)	-	(1,904,889)	(1,905,710)
Foreign currency translation adjustment	5,411	-	(180)	5,231
Balance, December 31, 2011	4,489,309	248,138	141,023	4,878,470
Acquisition of Inter Terminals (note 4)	340,881	-	1,278	342,159
Additions/transfers from construction*	170,172	23,858	362,267	556,297
Disposals/completed construction*	(8,625)	-	(169,103)	(177,728)
Foreign currency translation adjustment	11,474	-	275	11,749
Balance, December 31, 2012	**$ 5,003,211**	**$ 271,996**	**$ 335,740**	**$ 5,610,947**
Accumulated Depreciation				
Balance, January 1, 2011	$ 705,758	$ 5,759	$ -	$ 711,517
Depreciation	82,719	2,880	-	85,599
Disposals	(193)	-	-	(193)
Foreign currency translation adjustment	511	-	-	511
Balance, December 31, 2011	788,795	8,639	-	797,434
Depreciation	93,924	3,359	-	97,283
Disposals	(430)	-	-	(430)
Foreign currency translation adjustment	2,033	-	-	2,033
Balance, December 31, 2012	**$ 884,322**	**$ 11,998**	**$ -**	**$ 896,320**
Net Book Value				
At December 31, 2011	$ 3,700,514	$ 239,499	$ 141,023	$ 4,081,036
At December 31, 2012	**$ 4,118,889**	**$ 259,998**	**$ 335,740**	**$ 4,714,627**

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

At December 31, 2012, Inter Pipeline expects to spend approximately $1,489.1 million in 2013 on property, plant and equipment.

The amount of borrowing costs capitalized during the year ended December 31, 2012, was $5.7 million (December 31, 2011 – $1.3 million). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 4.62% (December 31, 2011 – 2.64%).

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

7. GOODWILL AND INTANGIBLE ASSETS

		Intangible Assets				
	Goodwill	Customer Contracts and Relationships	Patent	Tradename	Total Intangible Assets	Total Goodwill and Intangible Assets
Cost						
Balance, January 1, 2011	$ 210,436	$ 385,442	$ 8,727	$ 4,002	$ 398,171	$ 608,607
Foreign currency translation adjustment	714	79	-	73	152	866
Balance, December 31, 2011	211,150	385,521	8,727	4,075	398,323	609,473
Acquisition of Inter Terminals (note 4)	110,870	20,281	-	-	20,281	131,151
Foreign currency translation adjustment	2,057	296	-	99	395	2,452
Balance, December 31, 2012	**$ 324,077**	**$ 406,098**	**$ 8,727**	**$ 4,174**	**$ 418,999**	**$ 743,076**
Accumulated Amortization						
Balance, January 1, 2011	$ -	$ 88,616	$ 4,000	$ 700	$ 93,316	$ 93,316
Amortization	-	13,357	623	137	14,117	14,117
Foreign currency translation adjustment	-	19	-	12	31	31
Balance, December 31, 2011	-	101,992	4,623	849	107,464	107,464
Amortization	-	25,089	624	136	25,849	25,849
Foreign currency translation adjustment	-	355	-	24	379	379
Balance, December 31, 2012	**$ -**	**$ 127,436**	**$ 5,247**	**$ 1,009**	**$ 133,692**	**$ 133,692**
Net Book Value						
At December 31, 2011	$ 211,150	$ 283,529	$ 4,104	$ 3,226	$ 290,859	$ 502,009
At December 31, 2012	**$ 324,077**	**$ 278,662**	**$ 3,480**	**$ 3,165**	**$ 285,307**	**$ 609,384**

The carrying amounts of goodwill allocated to the Corridor and Polaris pipeline systems in the oil sands transportation business are $52.6 million and $104.3 million, respectively, in 2012 and 2011. The Polaris CGU was tested separately from Corridor in 2012 as a result of the commencement of Polaris' operations. Goodwill was originally assigned to the Corridor and Polaris CGUs, respectively, upon original acquisition. The carrying amounts of goodwill allocated to the Simon Storage and Inter Terminals bulk liquid storage business CGU's are $55.3 million and $111.9 million, respectively (December 31, 2011 - $54.2 million and $nil, respectively).

Corridor and Polaris pipeline systems

In arriving at fair value less costs to sell, after-tax discount rates of 2.9% and 5.0% were applied to after-tax cash flows from the Corridor and Polaris pipeline systems, respectively. Cash flow projections are based on long-term contractual transportation agreements with shippers. These cash flows are then aggregated with a 'terminal value'. The terminal value represents the value of cash flows beyond the tenth year, incorporating a declining growth rate of 2% for Corridor and no growth rate for Polaris. The key assumption to which the calculation of fair value less costs to sell for the Corridor and Polaris pipeline systems are most sensitive is the discount rate used to present value cash flow projections.

Simon Storage and Inter Terminals bulk liquid storage operations

Goodwill relating to the bulk liquid storage business has been assessed, applying an after-tax discount rate of 6.6% and 6.5% to after-tax cash flows of Simon Storage and Inter Terminals, respectively. Valuations are based on cash flow projections that incorporate best estimates of revenue, operating and maintenance expenditures, administrative expenses and capital expenditures over the life of tank assets. These cash flow projections are then aggregated with a 'terminal value', representing the value of cash flows beyond the tenth year incorporating an annual growth rate of 2.5% for Simon Storage and an annual growth rate of 2.2% for Inter Terminals. The calculation of fair value less costs to sell is most sensitive to assumptions about revenue and discount rates.

The key assumptions used by Inter Pipeline in calculating fair value less costs to sell are as follows:

Discount Rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow forecasts. The discount rate or weighted average cost of capital (WACC) is based on the specific circumstances of each CGU. The WACC calculation takes into account appropriate debt and equity weightings. The cost of equity is derived from the expected risk-free rate of return plus an appropriate equity risk premium and the after-tax cost of debt is based on expected borrowing rates for each CGU. Segment-specific risks are also considered and are evaluated annually based on publicly available market data.

Revenues

Revenues in the Corridor and Polaris CGU's are based on long-term contractual transportation agreements with shippers. Revenues in the Simon Storage and Inter Terminals CGU's are based on management's best estimates, taking into consideration existing contracts, timing of contract renewals, as well as relevant market factors such as contango and backwardation in the oil products markets served by Inter Terminals. The market in which Inter Terminals operates was impacted by backwardation in 2012 and sustained periods of backwardation could adversely affect the Inter Terminals CGU. While management's cash flow estimates factored in a period of backwardation, recoverable amounts calculated were still significantly above carrying amounts.

Management believes, at December 31, 2012, that there are no reasonably possible changes in any of the key assumptions that would lead to the recoverable amounts being below the carrying amounts.

8. DISTRIBUTIONS

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

For the year ended December 31, 2012, Inter Pipeline declared distributions totaling $285.2 million, or $1.055 per unit, of which $209.0 million was settled with the issuance of units under the Premium Distribution™ and Distribution Reinvestment Plan (Plan) (2011 - $251.7 million, $0.9675 per unit and $95.1 million, respectively). As at December 31, 2012, distributions of $25.5 million were payable on 274.9 million outstanding Class A units and 0.3 million outstanding Class B units at $0.0925 per unit (December 31, 2011 - $23.1 million payable on 263.9 million outstanding Class A units and 0.3 million outstanding Class B units at $0.0875 per unit).

On January 3, 2013, Inter Pipeline declared distributions of $0.0925 per unit. The distributions were paid on February 15, 2013, to all unitholders of record on January 22, 2013. The total declared distributions were approximately $25.5 million. On February 6, 2013, Inter Pipeline declared distributions of $0.0925 per unit. The distributions will be paid on or about March 15, 2013, to all unitholders of record on February 25, 2013. The total estimated declared distributions are approximately $25.6 million.

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(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

9. LONG-TERM DEBT, SHORT-TERM DEBT AND COMMERCIAL PAPER

	December 31 2012	December 31 2011
$1,550 million Unsecured Revolving Credit Facility (a)	**$ 1,353,950**	$ 1,467,300
$750 million Unsecured Revolving Credit Facility (b)	**260,000**	-
Loan payable to General Partner (c)	**288,648**	379,800
Corridor Debentures (d)	**300,000**	300,000
Senior Unsecured Medium-Term Notes (e)	**925,000**	525,000
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts)	**3,127,598**	2,672,100
Less: Current portion of long-term debt and commercial paper*	**(1,353,950)**	(1,558,452)
	1,773,648	1,113,648
Transaction costs, net of accumulated amortization	**(13,461)**	(12,447)
Discount, net of accumulated amortization	**(2,103)**	(2,007)
Add: Current portion of transaction costs and discounts	**2,818**	3,094
Long-term debt	**1,760,902**	1,102,288
Current portion of long-term debt including transaction costs and discounts	**-**	90,989
Commercial paper including transactions costs and discounts* (a)	**1,351,132**	1,464,369
	$ 3,112,034	$ 2,657,646

* Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2016.

(a) On December 15, 2011, Corridor entered into a new restated $1,550 million Unsecured Revolving Credit Facility and a $25 million demand operating facility, which replaced the $2,142 million Unsecured Revolving Credit Facility and $40 million demand operating facility. The Unsecured Revolving Credit Facility had an initial maturity date of December 15, 2015. On December 15, 2012, Corridor extended the maturity date of the $1,550 million Unsecured Revolving Credit Facility to December 15, 2016, which can be extended again under certain conditions. No amounts were outstanding on the demand facility at December 31, 2012 (2011 - $nil), with the exception of letters of credit valued at $0.2 million (2011 - $0.2 million).

Fees on amounts borrowed at floating rates based on bankers' acceptances are 100 basis points, while fees on unborrowed amounts are 40 basis points. If Corridor's credit rating changes, the fees on floating rate amounts could increase by up to 75 basis points or reduce by up to 15 basis points, while fees on undrawn amounts could increase by up to 30 basis points and decrease by up to 6 basis points. The effective rate of interest incurred in 2012 was 1.32% (2011 – 1.40%) for the $1,550 million Unsecured Revolving Credit Facility and $2,142 million Unsecured Revolving Credit Facility combined. Fees on amounts borrowed under the demand facility match the $1,550 million Unsecured Revolving Credit Facility while undrawn amounts are not charged standby fees.

(b) On December 5, 2011, Inter Pipeline entered into a new restated $750 million Unsecured Revolving Credit Facility, which replaced the previous $750 million Unsecured Revolving Credit Facility. On December 5, 2012, Inter Pipeline extended the maturity date of the $750 million Unsecured Revolving Credit Facility to December 5, 2017, which can be extended again under certain conditions.

Fees on amounts borrowed at floating rates based on bankers' acceptances are 120 basis points, while fees on unborrowed amounts are 24 basis points. If Inter Pipeline's credit rating changes, fees on floating rate amounts could increase by up to 105 basis points or be reduced by up to 35 basis points, while fees on undrawn amounts could increase by up to 21 basis points and decrease by up to 7 basis points. The effective combined interest rate for both the new and old $750 million Unsecured Revolving Credit Facility incurred in 2012 was 2.47% (2011 – 2.64%).

On December 5, 2012, Inter Pipeline also entered into a new $20 million demand facility. Fees on amounts borrowed under the facility are based on prime plus 20 basis points, while unborrowed amounts are not charged standby fees. No amounts were drawn on this facility at December 31, 2012.

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

- $91.2 million due October 28, 2012, 5.85%, which was repaid on October 29, 2012; and
- $288.6 million due October 28, 2014, 6.15%.

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

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

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

(d) The $150 million 5.033% Series B debentures due February 2, 2015 and the $150 million 4.897% Series C debentures due February 3, 2020 (Corridor Debentures) are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005 and a supplemental indenture dated February 2, 2010. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year, except for 2020 in which case interest is payable on the $150 million 4.897% Series C debentures on February 3, 2020 for interest accrued for the period from and including August 2, 2019 to and including February 2, 2020. Corridor uses a derivative instrument to exchange its fixed rate of interest to floating rates of interest on the $150 million 5.033% Series B debentures (note 18). This results in an average effective interest rate that is different from the stated interest rate on the $150 million 5.033% Series B debentures of 1.85% (2011 – 1.83%).

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

(e) In November 2012, 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) Class A units; (ii) debt securities and (iii) subscription receipts (collectively, the “Securities”) of up to $3.0 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. This short form base shelf prospectus replaces the previous one filed on November 30, 2010.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

The Senior Unsecured Medium-Term Notes are comprised of the following:

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

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

iii) On May 28, 2012, Inter Pipeline issued $400 million of 3.776% Senior Unsecured Medium-Term Notes, Series 3 (MTN Series 3) due May 30, 2022, in the Canadian public debt market. The MTN Series 3 were issued under the same short form base shelf prospectus and related prospectus supplement as the MTN Series 1 and the MTN Series 2 and a related pricing supplement dated May 23, 2012. The MTN Series 3 bear interest at the rate of 3.776% per annum, payable semi-annually in equal instalments in arrears on May 30 and November 30 of each year, except for the first interest payment on November 30, 2012, which was calculated from and including May 28, 2012, and excluding November 30, 2012. Proceeds from the offering were used to pay down a portion of the amount drawn under Inter Pipeline's $750 million Unsecured Revolving Credit Facility.

10. PROVISIONS

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

	Decommissioning Obligations	Environmental Liabilities	Total
Balance, January 1, 2011	$ 20,121	$ 14,604	$ 34,725
Revisions to estimated amount of liabilities	(805)	918	113
Obligations discharged	-	738	738
Accretion expense	843	495	1,338
Foreign currency adjustments	115	(11)	104
Balance, December 31, 2011	20,274	16,744	37,018
Revisions to estimated amount of liabilities	1,609	811	2,420
Acquisition of Inter Terminals (note 4)	18,360	-	18,360
Obligations discharged	-	(20)	(20)
Accretion expense	1,319	502	1,821
Foreign currency adjustments	340	2	342
Balance, December 31, 2012	**$ 41,902**	**$ 18,039**	**$ 59,941**

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

The following estimates of expected economic life and inflation rates were used to calculate the undiscounted amount of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction facilities and leased bulk liquid storage sites and remediation of known environmental liabilities. The long-term risk-free rates were used to discount the future cash flows for decommissioning obligations and the 5 to 10 year risk-free rates were used to discount the future cash flows for environmental liabilities:

	Expected Economic Life (years)*	Inflation Rate	Long-Term Risk-Free Discount Rate	5 to 10 Year Risk-Free Discount Rate
Oil sands transportation business	80 to 500 **	2.0%	3.9%	n/a
NGL extraction business	40	2.0%	3.9%	n/a
Conventional oil pipelines business	40 to 500**	2.0%	3.9%	2.2% to 3.45%
Bulk liquid storage business	40	1.7% to 2.4%	2.9% to 4.15%	1.75% to 3.15%

* Environmental liabilities are being accreted over 5 to 10 years.

** The expected economic life of the oil sands and Bow River pipeline systems is 80 to 500 years. The mid-point value of 290 years is used in the decommissioning obligation assessment.

At December 31, 2012, $2.0 million is included in accounts payable and accrued liabilities for the current portion of these obligations (December 31, 2011 - $1.7 million).

11. EMPLOYEE BENEFITS

	December 31 2012	December 31 2011
Pension liability	**$ 2,396**	$ 758
Long-term incentive plan liability	**7,235**	6,231
Employee benefits	**$ 9,631**	$ 6,989

a) Long-Term Incentive Plan

Effective January 1, 2006, Inter Pipeline implemented an LTIP for its employees, officers, and directors of the General Partner. The LTIP is governed by a Deferred Unit Rights Plan (DURP) document that defines how awards made under the DURP will be determined and administered. A Deferred Unit Right (DUR), as granted under the DURP, is valued based on Inter Pipeline’s Class A unit price plus credit for cash distributions paid to unitholders during the period the DURs are held. Unless otherwise provided in an individual grant agreement, the DUR will vest one-third on each of the successive anniversary dates from the date of grant. The life of DURs granted is three years. Upon exercise of a DUR, the amount owing will be paid out in cash net of applicable withholding taxes. At December 31, 2012, the current portion of the liability included in accounts payable and accrued liabilities was $16.2 million (December 31, 2011 - $12.7 million). At December 31, 2012, 620,018 DURs are exercisable. Inter Pipeline’s closing Class A unit price at December 31, 2012, was $23.50.

The total intrinsic value of DURs vested and not exercised as at December 31, 2012, was $15.5 million (December 31, 2011 - $13.2 million).

The weighted average remaining contractual life of the outstanding DURs as at December 31, 2012, was 1.5 years.

For the year ended December 31, 2012, operating expenses included $5.5 million and general and administrative expenses included $18.3 million related to DURs (2011 - $4.6 million and $14.5 million, respectively).

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

The following table summarizes the status of Inter Pipeline's DURs for the years ended December 31, 2012 and 2011:

	Number
Balance, January 1, 2011	1,797,820
Granted	731,437
Exercised	(1,048,691)
Forfeitures	(109,887)
Balance, December 31, 2011	1,370,679
Granted	682,476
Exercised	(723,922)
Forfeitures	(34,748)
Balance, December 31, 2012	**1,294,485**

b) Pension Liability

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

UK

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

Ireland

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

Germany

The German benefit plans included in Inter Pipeline's financial reporting relate to defined benefit retirement pensions, long-service awards and partial early retirement arrangements. The German arrangements are unfunded and therefore have no assets. The most recent actuarial valuation of the long-term employee and post-retirement benefits under local tax and accounting rules was carried out as at December 31, 2011, by professionally qualified actuaries. For Inter Pipeline's financial reporting purposes the defined benefit obligations are calculated on a triennial basis by independent actuaries using the projected unit credit method, with approximate updates in interim years.

The expected rate of return on assets for the financial year ending December 31, 2012, was 5.4% and 1.9% for the UK and Irish pension plans, respectively (December 31, 2011 – 5.3% and 1.9% for the UK and Irish plans, respectively). This rate is derived by taking the weighted average of the long-term expected rate of return on each of the asset classes that the plan was invested in at the start of the financial year, less an allowance for investment management expenses.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

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

Pension Plan Assets by Asset Category	**UK 2012**	UK 2011	**Ireland 2012**	Ireland 2011
Equity securities	**47%**	45%	**-**	-
Debt securities	**40%**	41%	**-**	-
Real estate	**13%**	14%	**-**	-
Deferred annuity contract	**-**	-	**100%**	100%
Total	**100%**	100%	**100%**	100%

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

Weighted Average Assumptions for Expense	**UK 2012**	UK 2011	**Ireland 2012**	Ireland 2011	**Germany 2012**	Germany 2011
Discount rate	**4.4%**	4.8%	**3.6%**	5.1%	**3.2%**	4.2%
Rate of price inflation	**3.1%**	3.2%	**2.0%**	2.0%	**2.0%**	2.0%
Compensation increase	**3.0%**	3.1%	**n/a**	n/a	**n/a**	n/a
Rate of pension payment increase	**3.0%**	3.1%	**2.8%**	2.8%	**1.5%**	1.5%

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

Change in Accrued Benefit Obligation	**December 31 2012** UK	Ireland	Germany	Total	December 31 2011 UK	Ireland	Germany	Total
Accrued benefit obligation, beginning of year	**$ 70,202**	**$ 690**	**$ 1,115**	**$ 72,007**	$ 60,890	$ 910	$ 1,273	$ 63,073
Current and past service cost	**1,699**	**5**	**7**	**1,711**	1,792	5	6	1,803
Employee contributions	**692**	**-**	**-**	**692**	776	-	-	776
Interest cost	**3,378**	**35**	**45**	**3,458**	3,378	48	62	3,488
Benefits paid	**(2,229)**	**(5)**	**(77)**	**(2,311)**	(1,907)	(279)	(189)	(2,375)
Actuarial loss (gain)	**4,758**	**109**	**14**	**4,881**	3,883	-	(37)	3,846
Foreign currency adjustments	**1,846**	**4**	**1**	**1,851**	1,390	6	-	1,396
Accrued benefit obligation, end of year	**$ 80,346**	**$ 838**	**$ 1,105**	**$ 82,289**	$ 70,202	$ 690	$ 1,115	$ 72,007

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

				December 31 2012				December 31 2011
Change in Pension Plan Assets	UK	Ireland	Germany	Total	UK	Ireland	Germany	Total
Fair value of pension plan assets, beginning of year	**$ 70,218**	**$ 1,031**	**$ -**	**$ 71,249**	$ 66,325	$ 1,236	$ -	$ 67,561
Expected return on pension plan assets	**3,742**	**20**	**-**	**3,762**	4,314	32	-	4,346
Actuarial gain (loss)	**2,956**	**-**	**-**	**2,956**	(2,311)	(10)	-	(2,321)
Employer contributions	**1,639**	**-**	**77**	**1,716**	1,808	49	189	2,046
Employee contributions	**692**	**-**	**-**	**692**	776	-	-	776
Benefits paid	**(2,229)**	**(5)**	**(77)**	**(2,311)**	(1,907)	(279)	(189)	(2,375)
Foreign currency adjustments	**1,830**	**(1)**	**-**	**1,829**	1,213	3	-	1,216
Fair value of pension plan assets, end of year	**$ 78,848**	**$ 1,045**	**$ -**	**$ 79,893**	$ 70,218	$ 1,031	$ -	$ 71,249

				December 31 2012				December 31 2011
Pension (liability) asset	**$ (1,498)**	**$ 207**	**$ (1,105)**	**$ (2,396)**	$ 16	$ 341	$ (1,115)	$ (758)

The actual return on the Fund's assets over the year was $6.7 million (2011 - $2.0 million).

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

	2012	2011	2010	2009	2008
Defined benefit obligation	**$ (82,289)**	$ (72,007)	$ (63,073)	$ (71,261)	$ (59,516)
Plan assets	**79,893**	71,249	67,561	62,389	57,161
(Deficit) surplus	**$ (2,396)**	$ (758)	$ 4,488	$ (8,872)	$ (2,355)
Experience adjustments on plan assets	**(4%)**	3%	(3%)	7%	21%
Experience adjustments on plan liabilities	**-**	-	(6%)	-	-

12. INCOME TAXES

In the bulk liquid storage business, the 2012 results recognize recent tax legislative changes which have impacted deferred income taxes. In the UK, tax legislation has been passed which reduced the effective income tax rate from 25% to 24%, effective April 1, 2012, and from 24% to 23%, effective April 1, 2013 (2011 - 27% to 26%, 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 $3.5 million (2011 - $3.7 million) reduction in deferred income tax liabilities.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

The major components of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

	December 31 2012	December 31 2011
Current income tax:		
Current income tax charge	$ 57,880	$ 51,590
Adjustments in respect of current income tax of the previous year	(878)	-
Current income tax	57,002	51,590
Deferred income tax:		
Relating to the origination and reversal of temporary differences	35,184	32,390
Adjustments in respect of deferred income tax of the previous year	571	-
Adjustments to deferred tax attributable to changes in tax rates and laws	(3,502)	(3,690)
Deferred income tax	32,253	28,700
Provision for income taxes	$ 89,255	$ 80,290

Deferred income taxes recognized directly in OCI are as follows:

	December 31 2012	December 31 2011
Deferred income tax recovery on defined pension benefit reserve	$ (215)	$ (1,292)

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

	December 31 2012	December 31 2011
Current income taxes		
Canada	$ 56,235	$ 49,797
Europe	767	1,793
	57,002	51,590
Deferred income taxes		
Canada	36,032	31,146
Europe	(3,779)	(2,446)
	32,253	28,700
	$ 89,255	$ 80,290

The components of income before income taxes are summarized below:

	December 31 2012	December 31 2011
Canada	$ 356,660	$ 307,171
Europe	39,748	21,051
	$ 396,408	$ 328,222

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

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

	December 31 2012	December 31 2011
Income before income taxes per consolidated financial statements	$ 396,408	$ 328,222
Tax rate	25.0%	26.5%
	99,102	86,979
Deductible intercompany interest expense	(6,466)	(3,774)
Impact of rate reductions	(3,502)	(3,690)
Other	121	775
Provision for income taxes	$ 89,255	$ 80,290

The tax rates used in the reconciliation above are the combined federal and provincial tax rates payable by Inter Pipeline in Canada. These tax rates decreased to 25.0% in 2012 from 26.5% in 2011, due to previously enacted tax rate deductions. On October 30, 2007, the Government of Canada announced reductions to the federal general rate that was enacted into law in December 2007. This legislation reduced the federal general rate from 16.5% to 15.0% effective January 1, 2012.

Deferred income taxes relate to the following temporary differences:

	Consolidated Balance Sheets		Consolidated Statements of Net Income	
	December 31 2012	December 31 2011	December 31 2012	December 31 2011
Property, plant and equipment	$ (398,576)	$ (337,166)	$ (32,521)	$ (51,160)
Non-capital losses	88,563	79,136	8,912	14,437
Intangible assets	(85,941)	(101,474)	1,315	5,064
Employee benefits	366	(23)	(112)	97
Working capital	444	698	367	(397)
Provisions	12,594	7,228	895	114
Derivative financial instruments	(1,981)	9,127	(11,109)	3,145
Deferred income tax expense			$ (32,253)	(28,700)
Net deferred tax liability	$ (384,531)	$ (342,474)		

Reconciliation of deferred income tax liabilities net:

	2012	2011
Balance, January 1	$ (342,474)	$ (314,468)
Tax expense recognized in net income	(32,253)	(28,700)
Tax recovery recognized in OCI	215	1,292
Acquisition of Inter Terminals (note 4)	(9,043)	-
Revaluation of foreign deferred income tax liabilities and other	(976)	(598)
Balance, December 31	$ (384,531)	$ (342,474)

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying amount of the consolidated balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized. The amount of unrecognized losses related to Europe at December 31, 2012, are $2.1 million (December 31, 2011 - $2.1 million).

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

13. PARTNERS' EQUITY

Units Issued, Fully Paid and Outstanding

Authorized

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

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

Issued, Fully Paid and Outstanding

	Class A Units	Class B Units	Total
Balance, January 1, 2011	257,785,596	258,291	258,043,887
Issued under Premium Distribution™ and Distribution Reinvestment Plan (a)	6,106,849	6,122	6,112,971
Balance, December 31, 2011	263,892,445	264,413	264,156,858
Issued under Premium Distribution™ and Distribution Reinvestment Plan (a)	10,987,873	11,009	10,998,882
Balance, December 31, 2012	**274,880,318**	**275,422**	**275,155,740**

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

Calculation of Net Income per Partnership Unit

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

	December 31 2012	December 31 2011
Net income attributable to unitholders – Basic and diluted	**$ 307,153**	$ 247,932
Weighted average units outstanding – Basic	**269,897,073**	259,937,522
Effect of Premium Distribution™ and Distribution Reinvestment Plan	**696,346**	412,870
Weighted average units outstanding – Diluted	**270,593,419**	260,350,392
Net income per Partnership unit – Basic and diluted	**$ 1.14**	$ 0.95

TM Denotes trademark of Canaccord Capital Corporation.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Reserves

Reserves are summarized as follows:

	Hedging Reserve	Foreign Currency Translation Reserve	Defined Benefit Pension Reserve	Total Reserves
Balance, January 1, 2011	$ (809)	$ (28,395)	$ (3,482)	$ (32,686)
Other comprehensive income (loss)	809	4,472	(4,875)	406
Balance, December 31, 2011	-	(23,923)	(8,357)	(32,280)
Other comprehensive income (loss)	-	10,486	(1,710)	8,776
Balance, December 31, 2012	**$ -**	**$ (13,437)**	**$ (10,067)**	**$ (23,504)**

14. RELATED PARTY TRANSACTIONS

Inter Pipeline wholly owns a number of subsidiaries located in Canada, England, Germany, Ireland and Denmark and an 85% interest in two joint ventures located in Canada (2011 – 100% interests in Canada, England, Germany and Ireland and an 85% interest in two joint ventures located in Canada).

No revenue was earned from related parties for the years ended December 31, 2012 and 2011.

In 2002, Inter Pipeline entered into a support agreement that enables Inter Pipeline to request PAC, the shareholder of the General Partner, and its affiliates to provide certain personnel and services to the General Partner to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts were paid in 2012 and 2011 under the support agreement.

Amounts due from/to the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 9). At December 31, 2012, accounts payable includes $2.7 million owing to the General Partner by Inter Pipeline (December 31, 2011 - $0.9 million).

Management fees of $12.0 million were earned by the General Partner in the year ended December 31, 2012 (2011 - $10.6 million). Incentive fees of $1.8 million were accrued to the General Partner as Inter Pipeline's annual Distributable Cash for 2012 was in excess of $1.01 per unit annually (2011 - $nil). Acquisition fees of $4.6 million and disposition fees of $nil were earned by the General Partner in the year ended December 31, 2012 (2011 – $nil and $nil respectively).

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At December 31, 2012, accounts payable includes interest payable to the General Partner on the loan of $3.2 million (December 31, 2011 - $4.1 million). The General Partner has earned $0.2 million from Inter Pipeline in interest income during the year (2011 - $0.2 million) on a net basis, after paying interest expense to the ultimate note holders. On October 29, 2012, Inter Pipeline repaid $91.2 million to the General Partner (note 9).

In 2012, certain of the officers and directors of the General Partner received a total of $2.0 million in dividends from PAC pursuant to their non-voting shares (2011 - $1.1 million).

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Key Management Personnel

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

	December 31 2012	December 31 2011
Short-term employee benefits*	**$ 4,971**	$ 4,340
Unit-based payments**	**9,882**	8,294
Total compensation***	**$ 14,853**	$ 12,634

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

* * Unit-based payments consist of the compensation expense recognized for DURs outstanding at the period end and DURs exercised by key management personnel during the period (see note 11(a) for a discussion of the DURP).

* * * Post employment benefits, other long-term benefits and termination benefits are not applicable for Inter Pipeline's key management personnel in the year ended December 31, 2012 and 2011.

15. COMMITMENTS AND CONTINGENCIES

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

As a result of the sale of Lewis Tankers Limited in November 2009, Inter Pipeline provided third party guarantees for minimum payments under commercial vehicle lease agreements that expire between July 2010 and December 2013. The guarantees may be exercised if the purchaser fails to fulfill its payment obligations. At December 31, 2012, the guaranteed lease obligations are approximately $0.2 million.

Inter Pipeline has committed to purchase obligations totaling approximately $135.6 million at December 31, 2012 (refer to note 6 for committed property, plant and equipment expenditures). Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $5.0 million to $7.0 million over the next eight years.

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage, property, plant and equipment and land for periods ranging from 2013 to 2090. Certain leases contain extension and renewal options. The future minimum annual lease payments for these lease commitments are:

Less than one year	$ 8,842
One to five years	44,955
After five years	173,306
	$ 227,103

16. CAPITAL DISCLOSURES

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Inter Pipeline maintains flexibility in its capital structure to fund growth capital and acquisition programs throughout market and industry cycles. Inter Pipeline projects its funding requirements to ensure appropriate sources of financing are available to meet future financial obligations and capital programs. Inter Pipeline generally relies on committed credit facilities and funds from operations to finance ongoing capital requirements. At December 31, 2012, Inter Pipeline had access to committed credit facilities totaling $2,300.0 million, of which $686.0 million remains unutilized. Inter Pipeline also had access to unutilized demand facilities of $44.8 million. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

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

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

Management's long-term objectives are to remain well below its maximum permitted ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to EBITDA** rate of 4.25 stipulated in the terms of Inter Pipeline's credit agreements. In 2013, Inter Pipeline's permitted recourse debt to EBITDA** is expected to temporarily increase to accommodate the financing of the oil sands transportation expansion projects. The recourse debt to capitalization* and senior recourse debt to EBITDA** measures below are similar to the coverage ratio terms contained in Inter Pipeline's credit agreements. EBITDA** calculated below includes all net income associated with non-recourse subsidiaries, while the credit agreements only include distributed earnings.

	December 31 2012	December 31 2011
Long-term debt, short-term debt and commercial paper		
Recourse debt	**$ 1,473,648**	$ 904,800
Non-recourse debt	**1,653,950**	1,767,300
	3,127,598	2,672,100
Partners' equity	**1,659,451**	1,419,786
Total capitalization	**$ 4,787,049**	$ 4,091,886
Capitalization (excluding non-recourse debt)	**$ 3,133,099**	$ 2,324,586
Recourse debt to capitalization*	**47.0%**	38.9%

* Recourse debt to capitalization is an additional GAAP measure and is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline.

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

	December 31 2012	December 31 2011
Net income	$ 307,153	$ 247,932
Add:		
Depreciation and amortization	123,132	99,716
Loss on disposal of assets	179	23
Financing charges	97,618	80,216
Non-cash (recovery) expense	(234)	26
Unrealized change in fair value of derivative financial instruments	(44,363)	14,539
Provision for income taxes	89,255	80,290
Proceeds from long-term lease inducements	-	1,480
EBITDA*	$ 572,740	$ 524,222
Recourse debt to EBITDA*	2.6	1.7

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

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

17. FINANCIAL INSTRUMENTS

Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at December 31, 2012, are classified as follows:

	FVTPL	Cash, Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non Financial Asset or Liability*	Carrying Value of Asset or Liability
Assets**						
Cash and cash equivalents	$ -	$ 63,902	$ -	$ 63,902	$ -	$ 63,902
Accounts receivable	-	136,119	-	136,119	10,426	146,545
Prepaid expenses and other deposits	-	8,077	-	8,077	21,982	30,059
Derivative financial instruments***	25,681	-	-	25,681	-	25,681
Liabilities						
Distributions payable	-	-	25,452	25,452	-	25,452
Accounts payable and accrued liabilities	4,570	-	257,702	262,272	31,968	294,240
Derivative financial instruments***	8,336	-	-	8,336	-	8,336
Deferred revenue and other liabilities	-	-	12	12	23,020	23,032
Long-term debt, short-term debt and commercial paper (note 9)****	-	-	3,127,598	3,127,598	-	3,127,598
Long-term payable	4,865	-	-	4,865	-	4,865

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

a) Fair Value of Financial Instruments

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Due to the short-term maturity of instruments under long-term variable rate revolving credit facilities, it is assumed that the carrying amounts of these financial instruments approximate their fair values. At December 31, 2012, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value*	Fair Value
Loan payable to General Partner	$ 288,648	$ 308,971
Corridor Debentures	$ 300,000	$ 329,178
Senior Unsecured Medium-Term Notes	$ 925,000	$ 986,776

* Carrying value excludes transaction costs, discount and accumulated amortization.

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

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

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

	December 31 2012	December 31 2011
Current asset	**$ 20,816**	$ 5,167
Non-current asset	**4,865**	9,772
Current liability	**(8,336)**	(25,746)
Non-current liability	**-**	(11,035)
	$ 17,345	$ (21,842)

Derivative financial instruments carried at fair value are as follows:

	December 31 2012	December 31 2011
Frac-spread risk management		
NGL swaps	**$ 16,246**	$ (13,691)
Natural gas swaps	**(6,776)**	(15,573)
Foreign exchange swaps	**(1,535)**	(7,189)
	7,935	(36,453)
Interest rate risk management		
Interest rate swaps	**9,435**	14,611
	9,435	14,611
Power price risk management		
Electricity price swap	**(25)**	-
	(25)	-
	$ 17,345	$ (21,842)

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Net Gains or Losses

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

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

	December 31 2012	December 31 2011
Revenues		
NGL swaps	**$ 12,444**	$ (35,465)
Foreign exchange swaps (frac-spread)	**146**	4,737
	12,590	(30,728)
Shrinkage gas expense		
Natural gas swaps	**(14,894)**	(13,817)
	(14,894)	(13,817)
Operating expenses		
Electricity price swap	**-**	1,164
Heat rate swaps	**-**	5,010
	-	6,174
Financing charges		
Interest rate swaps	**4,788**	2,760
	4,788	2,760
General and administrative		
Foreign exchange swap	**943**	-
	943	-
Net realized gain (loss) on derivative financial instruments	**$ 3,427**	$ (35,611)

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

	December 31 2012	December 31 2011
Frac-spread risk management		
NGL swaps	**$ 29,937**	$ 3,071
Natural gas swaps	**8,797**	(4,661)
Foreign exchange swaps	**5,654**	(11,708)
	44,388	(13,298)
Interest rate risk management		
Interest rate swaps	**-**	1,918
	-	1,918
Power price risk management		
Electricity price swaps	**(25)**	(279)
Heat rate swaps	**-**	(2,071)
	(25)	(2,350)
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	**-**	(809)
Unrealized change in fair value of derivative financial instruments	**$ 44,363**	$ (14,539)

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

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

18. RISK MANAGEMENT

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

a) Market Risk

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

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt, short-term debt and commercial paper outstanding at December 31, 2012. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

Frac-Spread Risk Management

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

Contracts outstanding at December 31, 2012, represented approximately 41% of forecast propane-plus volumes at the Cochrane extraction facility for the period January 1, 2013 to December 31, 2013 at average frac-spread prices of approximately $0.97 CAD/US gallon. These average prices approximated $0.97 USD/US gallon, based on the average USD/CAD forward curve as at December 31, 2012.

The following table illustrates how a 10% change in NGL and AECO natural gas commodity prices and foreign exchange rates in isolation could individually impact the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage frac-spread risk and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

	Fair Value of Derivative Financial Instruments	Change in Net Income Based on 10% Increase in Prices/Rates**	Change in Net Income Based on 10% Decrease in Prices/Rates**
NGL*	$ 16,246	$ (5,410)	$ 5,410
AECO natural gas	(6,776)	1,317	(1,317)
Foreign exchange	(1,535)	(6,637)	6,637
Frac-spread risk management	$ 7,935		

* Assumes that a commodity price change will impact all propane, normal butane, isobutane and pentanes-plus products linearly.

** Negative amounts represent a liability increase or asset decrease.

Interest Rate Risk Management

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

In 2007, Inter Pipeline assumed fixed-to-floating interest rate swap agreements with a Canadian chartered bank to manage its interest rate cash flow exposure on $300.0 million of Corridor's 5 and 10 year fixed rate debentures. On February 2, 2010, the $150 million 4.240% Series A debentures matured and Corridor issued $150 million of 4.897% Series C debentures due February 3, 2020. A swap agreement was not entered into for the Series C debentures. At December 31, 2012, Inter Pipeline manages its interest rate cash flow exposure with the remaining fixed-to-floating interest rate swap on the $150 million 5.033% Series B Corridor debentures.

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

Based on the variable rate debt obligations outstanding at December 31, 2012, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $16.1 million, assuming all other variables remain constant. Of these amounts, $13.5 million for the year ended December 31, 2012, relates to the $1.55 billion Unsecured Revolving Credit Facility (note 9) and is recoverable through the terms of Corridor's FSA, therefore the after-tax income impact would be $1.9 million.

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its conventional oil pipelines and NGL extraction business segments. Inter Pipeline enters into financial heat rate swap contracts to manage electricity price risk exposure in the NGL extraction business. Inter Pipeline also enters into financial power swap contracts to manage electricity price risk exposure in the conventional oil pipelines business. As at December 31, 2012, there are no heat rate price swap agreements outstanding.

During the year ended December 31, 2012, Inter Pipeline entered into an electricity price swap agreement in the conventional oil pipelines business. At December 31, 2012, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk, and consequently after-tax income, by approximately $0.1 million.

Foreign Exchange Risk Management

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.

Inter Pipeline entered into a forward foreign exchange agreement on February 1, 2012, as a result of cash assumed on the acquisition of Inter Terminals, to sell EUR 36.4 million at a rate of 1.3165 CAD per EUR. The agreement was settled on June 25, 2012, which resulted in a realized gain of $0.9 million.

b) Credit Risk

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

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

At December 31, 2012, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval, ongoing monitoring procedures and historical experience. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other form of credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis.

At December 31, 2012, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2012, accounts receivable associated with these two business segments were $97.6 million or 66.6% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business units and customers.

c) Liquidity Risk

Liquidity risk is the risk that suitable sources are not available to fund business operations, commercial strategies or meet financial obligations (refer to note 16 for capital disclosures and note 15 for commitments and contingencies). The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at December 31, 2012, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Distributions payable	$ 25,452	$ 25,452	$ -	$ -
Accounts payable and accrued liabilities	294,240	294,240	-	-
Deferred revenue and other liabilities	23,032	6,074	11,490	5,468
Derivative financial instruments*	8,391	8,391	-	-
Long-term debt, short-term debt and commercial paper**	3,127,598	1,353,950	698,648	1,075,000
Long-term payable*	5,185	-	5,185	-
	$ 3,483,898	$ 1,688,107	$ 715,323	$ 1,080,468

* Derivative financial instruments are shown on a net basis. Derivative financial instruments and the long-term payable represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2012, based upon contractual maturity dates. Fair values of derivative financial instruments and the long-term payable reported on the balance sheets are shown on a discounted basis.

** Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2016.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

19. FINANCING CHARGES

	December 31 2012	December 31 2011
Interest expense on credit facilities	$ 33,821	$ 28,577
Interest on loan payable to General Partner	22,136	23,084
Interest on Corridor Debentures	10,148	10,084
Interest on Senior Unsecured Medium-Term Notes	32,714	17,928
Total interest	98,819	79,673
Capitalized interest	(5,671)	(1,256)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	2,953	1,180
Accretion of provisions and pension plan financing charges	1,517	619
Financing charges	$ 97,618	$ 80,216

20. EXPENSES BY NATURE

	December 31 2012	December 31 2011
Fuel and power	$ 95,979	$ 107,263
External services	57,875	52,523
Employee costs	86,991	68,287
Property taxes	23,104	22,057
Materials and supplies	21,782	19,200
Transportation and storage	55,807	49,717
Other	15,658	21,049
Total expenses by nature	$ 357,196	$ 340,096
Allocated to:		
Operating	293,150	285,272
General and administrative	64,046	54,824
	$ 357,196	$ 340,096

21. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	December 31 2012	December 31 2011
Accounts receivable	$ (37,400)	$ 20,356
Prepaid expense and other deposits	(19,142)	2,201
Distributions payable	2,338	2,470
Accounts payable and accrued liabilities	132,010	3,997
Deferred revenue	1,491	(1,756)
Current income taxes payable	(41,068)	48,989
Working capital acquired (note 4)	15,513	-
Impact of foreign exchange rate differences and other	(179)	211
Changes in non-cash working capital	$ 53,563	$ 76,468
These changes relate to the following activities:		
Operating	$ (47,338)	$ 66,288
Investing	100,489	7,710
Financing	412	2,470
Changes in non-cash working capital	$ 53,563	$ 76,468

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Cash and Cash Equivalents

	December 31 2012	December 31 2011
Cash on hand and at banks	**$ 52,527**	$ 37,879
Short-term deposits	**11,375**	12,142
	$ 63,902	$ 50,021

22. MAJOR CUSTOMERS

In 2012, Plains Midstream, one of the principal customers of the NGL extraction business, accounted for 25% (2011 – Dow Chemical Canada and BP Canada accounted for 47%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with this customer is minimal.

23. JOINT ARRANGEMENTS

85% Interest in Cold Lake

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

	December 31 2012	December 31 2011
Revenues	**$ 108,278**	$ 104,896
Expenses	**(58,190)**	(55,910)
Provision for income taxes	**(225)**	(219)
Proportionate share of net income	**$ 49,863**	$ 48,767

	December 31 2012	December 31 2011
Current assets	**$ 37,252**	$ 24,974
Non-current assets	**653,494**	490,401
Current liabilities	**(5,230)**	(7,278)
Non-current liabilities	**(347)**	(283)
Proportionate share of net assets	**$ 685,169**	$ 507,814

At December 31, 2012, there were $959.4 million of commitments to purchase property, plant and equipment and $55.2 million of purchase obligations related to Inter Pipeline's interest in the Cold Lake entity. Cold Lake's commitments and purchase obligations are included in total commitments and contingencies disclosed in notes 6 and 15.

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

50% Interest in Empress V Extraction Facility

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

	December 31 2012	December 31 2011
Revenues	**$ 85,145**	$ 110,031
Expenses	**(74,540)**	(101,216)
Proportionate share of net income	**$ 10,605**	$ 8,815

	December 31 2012	December 31 2011
Current assets	**$ 90,079**	$ 11,085
Non-current assets	**100,422**	104,392
Current liabilities	**(17,038)**	(7,847)
Non-current liabilities	**(726)**	(655)
Proportionate share of net assets	**$ 172,737**	$ 106,975

At December 31, 2012, there were no commitments to purchase property, plant and equipment and no purchase obligations related to Inter Pipeline's interest in the jointly controlled Empress V extraction facility asset.