Inter Pipeline Fund

Interim Consolidated Balance Sheets

(unaudited) (thousands of Canadian dollars)		**As at March 31 2012**		As at December 31 2011
ASSETS				
Current Assets				
Cash and cash equivalents (note 18)	**$**	**73,939**	$	50,021
Accounts receivable		**109,482**		109,145
Derivative financial instruments (note 15)		**5,146**		5,167
Prepaid expenses and other deposits		**24,483**		10,917
Total Current Assets		**213,050**		175,250
Non-Current Assets				
Derivative financial instruments (note 15)		**7,705**		9,772
Property, plant and equipment (note 4)		**4,453,534**		4,081,036
Goodwill and intangible assets (note 5)		**635,975**		502,009
Total Assets	**$**	**5,310,264**	$	4,768,067
LIABILITIES AND PARTNERS' EQUITY				
Current Liabilities				
Cash distributions payable (note 6)	**$**	**23,378**	$	23,114
Accounts payable and accrued liabilities (note 12)		**148,947**		162,499
Current income taxes payable (note 10)		**16,092**		49,753
Derivative financial instruments (note 15)		**24,085**		25,746
Deferred revenue		**16,442**		4,583
Current portion of long-term debt (note 7)		**91,037**		90,989
Commercial paper (note 7)		**1,451,738**		1,464,369
Total Current Liabilities		**1,771,719**		1,821,053
Non-Current Liabilities				
Long-term debt (note 7)		**1,588,144**		1,102,288
Long-term payable		**7,705**		9,772
Derivative financial instruments (note 15)		**9,970**		11,035
Provisions (note 8)		**56,285**		37,018
Employee benefits (note 9)		**3,265**		6,989
Long-term deferred revenue and other liabilities		**16,703**		17,652
Deferred income taxes (note 10)		**362,786**		342,474
Total Liabilities		**3,816,577**		3,348,281
Commitments and contingencies (notes 4 and 13)				
Subsequent event (note 6)				
Partners' Equity				
Partners' equity (note 11)		**1,515,462**		1,452,066
Total reserves (note 11)		**(21,775)**		(32,280)
Total Partners' Equity		**1,493,687**		1,419,786
Total Liabilities and Partners' Equity	**$**	**5,310,264**	$	4,768,067

See accompanying notes to the condensed interim consolidated financial statements.

Inter Pipeline Fund

Interim Consolidated Statements of Changes in Partners' Equity

(unaudited) (thousands of Canadian dollars)

	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Reserves *(note 11)*	Total Partners' Equity
Balance, January 1, 2012	$ 1,450,617	$ 1,449	$ (32,280)	**$ 1,419,786**
Net income for the period	79,554	80	-	**79,634**
Other comprehensive income	-	-	10,505	**10,505**
	1,530,171	1,529	(21,775)	**1,509,925**
Cash distributions declared (note 6)	(69,804)	(70)	-	**(69,874)**
Issuance of Partnership units (note 11)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	53,582	54	-	**53,636**
Balance, March 31, 2012	$ 1,513,949	$ 1,513	$ (21,775)	**$ 1,493,687**
Balance, January 1, 2011	$ 1,359,377	$ 1,358	$ (32,686)	$ 1,328,049
Net income for the period	64,416	65	-	64,481
Other comprehensive income	-	-	2,317	2,317
	1,423,793	1,423	(30,369)	1,394,847
Cash distributions declared (note 6)	(61,946)	(62)	-	(62,008)
Issuance of Partnership units (note 11)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	6,967	7	-	6,974
Balance, March 31, 2011	$ 1,368,814	$ 1,368	$ (30,369)	$ 1,339,813

See accompanying notes to the condensed interim consolidated financial statements.

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Inter Pipeline Fund

Interim Consolidated Statements of Net Income

(unaudited) (thousands of Canadian dollars)	Three Months Ended March 31 2012	2011
REVENUES		
Operating revenue	**$ 297,224**	$ 302,990
EXPENSES		
Shrinkage gas	**55,970**	77,979
Operating	**67,782**	72,010
Depreciation and amortization	**27,662**	24,406
Financing charges (note 17)	**23,281**	18,935
General and administrative	**15,143**	12,636
Unrealized change in fair value of derivative financial instruments (note 15)	**(3,067)**	10,300
Acquisition fee to General Partner (notes 2 and 12)	**4,591**	-
Management and incentive fees to General Partner (note 12)	**3,704**	2,836
Gain on disposal of assets	**-**	(87)
	195,066	219,015
INCOME BEFORE INCOME TAXES	**102,158**	83,975
Provision for income taxes (note 10)		
Current	**15,665**	15,335
Deferred	**6,859**	4,159
	22,524	19,494
NET INCOME	**$ 79,634**	$ 64,481
Net income per Partnership unit (note 11)		
Basic and diluted	**$ 0.30**	$ 0.25

Interim Consolidated Statements of Comprehensive Income

(unaudited) (thousands of Canadian dollars)	Three Months Ended March 31 2012	2011
NET INCOME	**$ 79,634**	$ 64,481
OTHER COMPREHENSIVE INCOME (LOSS) (note 11)		
Unrealized gain on translating financial statements of foreign operations	**10,618**	2,115
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 15)	**-**	202
Income tax relating to defined benefit pension reserve (note 10)	**(113)**	-
	10,505	2,317
COMPREHENSIVE INCOME	**$ 90,139**	$ 66,798

See accompanying notes to the condensed interim consolidated financial statements.

Inter Pipeline Fund

Interim Consolidated Statements of Cash Flows

(unaudited) (thousands of Canadian dollars)	Three Months Ended March 31 **2012**	2011
OPERATING ACTIVITIES		
Net income	**$ 79,634**	$ 64,481
Items not involving cash:		
Depreciation and amortization	**27,662**	24,406
Gain on disposal of assets	**-**	(87)
Non-cash recovery	**(3,104)**	(4,413)
Unrealized change in fair value of derivative financial instruments	**(3,067)**	10,300
Deferred income tax expense	**6,859**	4,159
Proceeds from long-term lease inducements	**-**	1,480
Funds from operations	**107,984**	100,326
Net change in non-cash operating working capital (note 18)	**(46,927)**	36,456
Cash provided by operating activities	**61,057**	136,782
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(45,903)**	(43,634)
Proceeds on sale of assets	**-**	87
Acquisition of Inter Terminals (note 2)	**(509,873)**	-
Assumption of cash on acquisition of Inter Terminals (note 2)	**48,293**	-
Net change in non-cash investing working capital (note 18)	**13,171**	9,334
Cash used in investing activities	**(494,312)**	(34,213)
FINANCING ACTIVITIES		
Cash distributions (note 6)	**(16,238)**	(55,034)
Increase (decrease) in debt	**472,815**	(39,102)
Transaction costs on debt	**(704)**	(1,997)
Net change in non-cash financing working capital (note 18)	**264**	39
Cash provided by (used in) financing activities	**456,137**	(96,094)
Effect of foreign currency translation on foreign currency denominated cash	**1,036**	89
Increase in cash and cash equivalents	**23,918**	6,564
Cash and cash equivalents, beginning of period	**50,021**	22,507
Cash and cash equivalents, end of period	**$ 73,939**	$ 29,071

Cash taxes paid	**$ 49,324**	$ 590
Cash interest paid	**$ 23,884**	$ 13,420

See accompanying notes to the condensed interim consolidated financial statements.

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

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements (interim financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting* (IAS 34). These interim financial statements do not contain all disclosures required by IFRS for annual financial statements, and accordingly, should be read in conjunction with Inter Pipeline Fund's (Inter Pipeline) consolidated financial statements and notes thereto for the year ended December 31, 2011. Inter Pipeline has consistently applied the same accounting policies for all periods presented in these interim financial statements as those used in Inter Pipeline's consolidated financial statements for the year ended December 31, 2011. During the period, Inter Pipeline completed the acquisition of four storage terminal businesses in Denmark, whose accounting policies are aligned with Inter Pipeline's and no new policies were adopted (note 2).

These interim financial statements were authorized for issue by the Board of Directors of the General Partner on May 3, 2012.

2. ACQUISITION OF INTER TERMINALS

On January 11, 2012, Inter Pipeline completed the acquisition, and thereby obtained control, of four petroleum storage terminals in Denmark, referred to collectively as Inter Terminals, from a subsidiary of DONG Energy A/S, through the purchase of 100% of 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 $509.9 million and was funded from Inter Pipeline's existing 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 $13.6 million and $5.5 million to revenue and net income, respectively from the date of acquisition to March 31, 2012. If the acquisition had taken place on January 1, 2012, the impact on revenue and net income would have been immaterial.

As a result of this transaction, an acquisition fee of $4.6 million was paid during the period to the General Partner, pursuant to the terms of the Limited Partnership Agreement (LPA).

The acquisition was accounted for by the acquisition method as 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. Inter Pipeline has provisionally allocated the consideration transferred, subject to closing adjustments or changes in estimates, as follows:

Cash	$	48,293
Non-cash working capital (note 18)		14,932
Property, plant and equipment (note 4)		342,634
Goodwill (note 5)		114,374
Intangible assets (note 5)		20,721
Decommissioning obligation (note 8)		(18,360)
Deferred income tax liability		(12,721)
	$	509,873

The goodwill of $114.4 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 $195.4 million arising on this acquisition is different to goodwill recognized for accounting purposes as a result of specific Danish tax laws.

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

3. SEGMENT REPORTING

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

Three Months Ended March 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	$ 70,639	$ 136,656	$ 51,239	$ -	$ 258,534	$ 38,690	$ 297,224
Expenses							
Shrinkage gas	-	55,970	-	-	55,970	-	55,970
Operating	17,980	23,514	10,161	-	51,655	16,127	67,782
Depreciation and amortization	10,528	6,690	2,371	643	20,232	7,430	27,662
Financing charges	9,498	63	162	13,399	23,122	159	23,281
General and administrative	1,590	-	-	10,843	12,433	2,710	15,143
Unrealized change in fair value of derivative financial instruments	-	(3,664)	-	597	(3,067)	-	(3,067)
Acquisition fee to General Partner	-	-	-	4,591	4,591	-	4,591
Management and incentive fees to General Partner	-	-	-	3,704	3,704	-	3,704
Total expenses	39,596	82,573	12,694	33,777	168,640	26,426	195,066
Income (loss) before income taxes	31,043	54,083	38,545	(33,777)	89,894	12,264	102,158
Provision for (recovery of) income taxes	4,728	-	-	18,903	23,631	(1,107)	22,524
Net income (loss)	$ 26,315	$ 54,083	$ 38,545	$ (52,680)	$ 66,263	$ 13,371	$ 79,634
Items not involving cash:							
Depreciation and amortization	10,528	6,690	2,371	643	20,232	7,430	27,662
Non-cash (recovery) expense	(187)	(100)	(385)	(2,436)	(3,108)	4	(3,104)
Unrealized change in fair value of derivative financial instruments	-	(3,664)	-	597	(3,067)	-	(3,067)
Deferred income tax expense (recovery)	4,669	-	-	3,700	8,369	(1,510)	6,859
Funds from (used in) operations	$ 41,325	$ 57,009	$ 40,531	$ (50,176)	$ 88,689	$ 19,295	$ 107,984
Expenditures on property, plant and equipment	$ 29,466	$ 5,253	$ 3,696	$ 550	$ 38,965	$ 6,938	$ 45,903
							As at March 31, 2012
Property, plant and equipment - net book value	$ 2,944,112	$ 388,047	$ 449,788	$ 7,246	$ 3,789,193	$ 664,341	$ 4,453,534
Goodwill and intangible assets - net book value	$ 220,658	$ 218,054	$ -	$ -	$ 438,712	$ 197,263	$ 635,975
Other assets	$ 40,549	$ 52,448	$ 16,304	$ 280	$ 109,581	$ 111,174	$ 220,755
Total assets	$ 3,205,319	$ 658,549	$ 466,092	$ 7,526	$ 4,337,486	$ 972,778	$ 5,310,264

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

Three Months Ended March 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	$ 72,756	$ 159,880	$ 43,752	$ -	$ 276,388	$ 26,602	$ 302,990
Expenses							
Shrinkage gas	-	77,979	-	-	77,979	-	77,979
Operating	19,846	28,681	10,168	-	58,695	13,315	72,010
Depreciation and amortization	10,449	6,421	2,365	550	19,785	4,621	24,406
Financing charges	8,075	61	328	10,331	18,795	140	18,935
General and administrative	1,420	-	-	9,523	10,943	1,693	12,636
Unrealized change in fair value of derivative financial instruments	-	10,960	(384)	(276)	10,300	-	10,300
Management fee to General Partner	-	-	-	2,836	2,836	-	2,836
Gain on disposal of assets	-	-	-	-	-	(87)	(87)
Total expenses	39,790	124,102	12,477	22,964	199,333	19,682	219,015
Income (loss) before income taxes	32,966	35,778	31,275	(22,964)	77,055	6,920	83,975
Provision for income taxes	4,925	-	-	15,208	20,133	(639)	19,494
Net income (loss)	$ 28,041	$ 35,778	$ 31,275	$ (38,172)	$ 56,922	$ 7,559	$ 64,481
Items not involving cash							
Depreciation and amortization*	10,449	6,421	2,365	550	19,785	4,534	24,319
Non-cash recovery	(232)	(135)	(647)	(3,299)	(4,313)	(100)	(4,413)
Unrealized change in fair value of derivative financial instruments	-	10,960	(384)	(276)	10,300	-	10,300
Deferred income tax expense (recovery)	4,882	-	-	825	5,707	(1,548)	4,159
Proceeds from long-term lease inducements	-	-	-	1,480	1,480	-	1,480
Funds from (used in) operations	$ 43,140	$ 53,024	$ 32,609	$ (38,892)	$ 89,881	$ 10,445	$ 100,326
Expenditures on property, plant and equipment	$ 36,181	$ 2,247	$ 388	$ 652	$ 39,468	$ 4,166	$ 43,634
							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 gain on disposal of assets

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

4. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities & Equipment	Pipeline Line fill	Construction Work in Progress	Total
Cost				
Balance at 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 at December 31, 2011	4,489,309	248,138	141,023	4,878,470
Acquisition of Inter Terminals (note 2)	341,356	-	1,278	342,634
Additions/transfers from construction*	15,526	-	45,444	60,970
Disposals/completed construction*	-	-	(15,067)	(15,067)
Foreign currency translation adjustment	8,699	-	114	8,813
Balance at March 31, 2012	**$ 4,854,890**	**$ 248,138**	**$ 172,792**	**$ 5,275,820**
Accumulated Depreciation				
Balance at 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 at December 31, 2011	788,795	8,639	-	797,434
Depreciation	23,268	726	-	23,994
Foreign currency translation adjustment	858	-	-	858
Balance at March 31, 2012	**$ 812,921**	**$ 9,365**	**$ -**	**$ 822,286**
Net Book Value				
At December 31, 2011	$ 3,700,514	$ 239,499	$ 141,023	$ 4,081,036
At March 31, 2012	**$ 4,041,969**	**$ 238,773**	**$ 172,792**	**$ 4,453,534**

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

Inter Pipeline has committed to additional expenditures on property, plant and equipment totaling approximately $390.8 million at March 31, 2012, of which $321.1 million is due in one year and $69.7 million is due in one to five years.

5. GOODWILL AND INTANGIBLE ASSETS

	March 31 2012	December 31 2011
Goodwill	**$ 327,713**	$ 211,150
Intangible assets	**308,262**	290,859
Goodwill and intangible assets	**$ 635,975**	$ 502,009

Goodwill and intangible assets of $114.4 million and $20.7 million, respectively, were recognized through the acquisition of Inter Terminals on January 11, 2012 (note 2).

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

6. CASH DISTRIBUTIONS

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

For the three months ended March 31, 2012, Inter Pipeline declared cash distributions totaling $69.9 million, or $0.2625 per unit, of which $53.6 million was settled with the issuance of Class A units under the Premium Distribution[TM] and Distribution Reinvestment Plan (Plan) (three months ended March 31, 2011 - $62.0 million, $0.24 per unit and $7.0 million, respectively). As at March 31, 2012, distributions of $23.4 million were payable on 266.9 million outstanding Class A units and 0.3 million outstanding Class B units at $0.0875 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 April 5, 2012, Inter Pipeline declared cash distributions of $0.0875 per unit. The distributions will be paid on or about May 15, 2012 to all unitholders of record on April 23, 2012. The total estimated declared distributions are approximately $23.5 million.

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

	March 31 2012	December 31 2011
$1,550 million Unsecured Revolving Credit Facility (a)	**$ 1,455,000**	$ 1,467,300
$750 million Unsecured Revolving Credit Facility (b)	**486,000**	-
Loan payable to General Partner	**379,800**	379,800
Corridor Debentures (c)	**300,000**	300,000
Unsecured Medium-Term Notes (d)	**525,000**	525,000
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts)	**3,145,800**	2,672,100
Less: Current portion of long-term debt and commercial paper*	**(1,546,152)**	(1,558,452)
	1,599,648	1,113,648
Transaction costs, net of accumulated amortization	**(11,989)**	(12,447)
Discount, net of accumulated amortization	**(2,892)**	(2,007)
Add: Current portion of transaction costs and discounts	**3,377**	3,094
Long-term debt	**1,588,144**	1,102,288
Current portion of long-term debt including transaction costs and discounts	**91,037**	90,989
Commercial paper including transaction costs and discounts* (a)	**1,451,738**	1,464,369
Total debt	**$ 3,130,919**	$ 2,657,646

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

[TM] Denotes trademark of Canaccord Capital Corporation

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

(a) At March 31, 2012, letters of credit of $0.2 million were issued by Corridor.

(b) At March 31, 2012, demand facility borrowings were $6.5 million. The borrowings are included within cash and cash equivalents on the consolidated balance sheet.

(c) Corridor Debentures are defined as 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.

(d) Unsecured Medium-Term Notes are defined as the $325 million 4.967% Series 1 notes due February 2, 2021, and the $200 million 3.839% Series 2 notes due July 30, 2018.

8. PROVISIONS

		March 31 2012		December 31 2011
Decommissioning obligations	$	39,332	$	20,274
Environmental liabilities		16,953		16,744
Provisions	$	56,285	$	37,018

Inter Pipeline acquired decommissioning obligations for bulk liquid storage sites as a result of the Inter Terminals acquisition. Assumptions used for expected economic life and inflation in calculating the undiscounted amount of estimated expenditures expected to be incurred were 40 years and 2%, respectively. A long-term risk-free rate of 2.9% was used to discount the future cash flows to a present value, resulting in a decommissioning obligation acquired of $18.4 million (note 2).

9. EMPLOYEE BENEFITS

		March 31 2012		December 31 2011
Pension liability	$	763	$	758
Long-term incentive plan liability		2,502		6,231
Employee benefits	$	3,265	$	6,989

For the three months ended March 31, 2012 employee benefits expense recognized in net income was $19.3 million (March 31, 2011 - $16.9 million).

Long-Term Incentive Plan

The following table summarizes the status of Inter Pipeline's Deferred Unit Rights (DURs) as at March 31, 2012 and December 31, 2011 and changes during the three months and year then ended:

	DURs Number
Balance outstanding, January 1, 2011	1,797,820
Granted	731,437
Exercised	(1,048,691)
Forfeitures	(109,887)
Balance outstanding, December 31, 2011	1,370,679
Granted	627,117
Exercised	(56,186)
Forfeitures	(6,677)
Balance outstanding, March 31, 2012	**1,934,933**

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

At March 31, 2012, the current portion of the liability included in accounts payable and accrued liabilities was $20.4 million (December 31, 2011 - $12.7 million). At March 31, 2012, 594,412 DURs are exercisable. Inter Pipeline's closing unit price at March 31, 2012 was $19.57.

For the three months ended March 31, 2012, operating expenses included $1.2 million and general and administrative expenses included $4.1 million related to DURs (three months ended March 31, 2011 - $1.1 million and $3.7 million, respectively).

The total intrinsic value of DUR's vested and not exercised as at March 31, 2012 was $12.7 million (December 31, 2011 - $13.2 million).

The weighted average remaining contractual life of the outstanding DURs as at March 31, 2012 was 1.74 years.

10. INCOME TAXES

In the bulk liquid storage business, the 2012 results recognize recent tax legislative changes which have impacted deferred income taxes. In the United Kingdom (UK), tax legislation was passed in 2012 which reduced the effective income tax rate from 25% to 24%, effective April 1, 2012. The effect of recognizing this change in UK income tax rates is a $1.7 million reduction in deferred income tax liabilities.

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

11. 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.

Issued, Fully Paid and Outstanding

	Class A Units	Class B Units	Total
Balance as at January 1, 2011	257,785,596	258,291	258,043,887
Issued under Premium Distribution™ and Distribution Reinvestment Plan	6,106,849	6,122	6,112,971
Balance as at December 31, 2011	263,892,445	264,413	264,156,858
Issued under Premium Distribution™ and Distribution Reinvestment Plan	3,021,941	3,027	3,024,968
Balance as at March 31, 2012	**266,914,386**	**267,440**	**267,181,826**

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

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:

	Three Months Ended March 31	
	2012	2011
Net income attributable to unitholders – Basic and diluted	**$ 79,634**	$ 64,481
Weighted average units outstanding – Basic	**265,675,934**	258,287,974
Effect of Premium Distribution™ and Distribution Reinvestment Plan	**756,352**	101,237
Weighted average units outstanding – Diluted	**266,432,286**	258,389,211
Net income per Partnership unit – Basic and diluted	**$ 0.30**	$ 0.25

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	202	2,115	-	2,317
Balance, March 31, 2011	$ (607)	$ (26,280)	$ (3,482)	$ (30,369)
Balance, January 1, 2012	$ -	$ (23,923)	$ (8,357)	$ (32,280)
Other comprehensive income (loss)	-	10,618	(113)	10,505
Balance, March 31, 2012	**$ -**	**$ (13,305)**	**$ (8,470)**	**$ (21,775)**

12. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the three months ended March 31, 2012 and 2011.

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 7). At March 31, 2012, accounts payable includes $1.1 million owing to the General Partner by Inter Pipeline (December 31, 2011 - $0.9 million).

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 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.

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Management fees of $3.3 million were earned by the General Partner in the period ended March 31, 2012 (March 31, 2011 - $2.8 million) and an incentive fee of $0.4 million (March 31, 2011 - $nil) was accrued to the General Partner as annualized Distributable Cash for 2012 is expected to be in excess of $1.01 per unit annually. Acquisition fees of $4.6 million and disposition fees of $nil were earned by the General Partner in the period ended March 31, 2012 (March 31, 2011 – $nil and $nil, respectively).

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At March 31, 2012, accounts payable includes interest payable to the General Partner on the loan of $9.9 million (December 31, 2011 - $4.1 million).

In the period ended March 31, 2012, certain of the officers and directors of the General Partner received a total of $0.9 million in dividends from Pipeline Asset Corp. pursuant to their non-voting shares (March 31, 2011 - $0.3 million).

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

13. COMMITMENTS AND CONTINGENCIES

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

As a result of the sale of Lewis Tankers Limited in November 2009, Inter Pipeline provided third party guarantees for minimum payments under commercial vehicle lease agreements that expire between July 2010 and December 2013. The guarantees may be exercised if the purchaser fails to fulfill its payment obligations. At March 31, 2012, the guaranteed lease obligations are approximately $0.5 million.

Inter Pipeline has entered into lease agreements for office space, storage, property, plant and equipment and land for periods ranging from 2012 to 2090. At March 31, 2012, the future minimum lease obligations are approximately $88.0 million.

Inter Pipeline has committed to purchase obligations totaling approximately $176.3 million at March 31, 2012 (refer to note 4 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 storage and containment regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $4.8 million to $9.6 million over the next eight years.

14. CAPITAL DISCLOSURES

Consistent with the year ended December 31, 2011, capital under management includes long-term debt, short-term debt and commercial paper (excluding discounts and transaction costs) and partners' equity.

At March 31, 2012, Inter Pipeline had access to committed credit facilities totaling $2,300.0 million, of which $359.0 million remains unutilized. Inter Pipeline also had access to demand facilities of $45.0 million, of which $38.3 million remains unutilized. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

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

Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to EBITDA** rate of 4.25 stipulated in the terms of Inter Pipeline's credit agreements. The recourse debt to capitalization and senior recourse debt to EBITDA** measures below are substantially the same as the coverage ratio terms contained in Inter Pipeline's credit agreements. EBITDA** calculated below includes all net income associated with non-recourse subsidiaries, while the credit agreements only include distributed earnings.

	March 31 2012	December 31 2011
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts, per note 7)		
Recourse debt	**$ 1,390,800**	$ 904,800
Non-recourse debt	**1,755,000**	1,767,300
	3,145,800	2,672,100
Partners' equity	**1,493,687**	1,419,786
Total capitalization	**$ 4,639,487**	$ 4,091,886
Capitalization (excluding non-recourse debt)	**$ 2,884,487**	$ 2,324,586
Recourse debt to capitalization*	**48.2%**	38.9%

	Twelve Months Ended March 31 2012	Twelve Months Ended December 31 2011
Net income	**$ 263,085**	$ 247,932
Add:		
Depreciation and amortization	**102,972**	99,716
Loss on disposal of assets	**110**	23
Financing charges	**84,562**	80,216
Non-cash expense	**625**	26
Unrealized change in fair value of derivative financial instruments	**1,172**	14,539
Provision for income taxes	**83,320**	80,290
Proceeds from long-term lease inducements	**-**	1,480
EBITDA**	**$ 535,846**	$ 524,222
Recourse debt to EBITDA**	**2.6**	1.7

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

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

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

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

15. FINANCIAL INSTRUMENTS

Classification of Financial Assets and Financial Liabilities

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

	Fair Value Through Profit or Loss	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	$ -	$ 73,939	$ -	$ 73,939	$ -	$ 73,939
Accounts receivable	-	100,078	-	100,078	9,404	109,482
Prepaid expenses and other deposits	-	6,177	-	6,177	18,306	24,483
Derivative financial instruments***	12,851	-	-	12,851	-	12,851
Liabilities						
Cash distributions payable	-	-	23,378	23,378	-	23,378
Accounts payable and accrued liabilities	4,477	-	109,878	114,355	34,592	148,947
Derivative financial instruments***	34,055	-	-	34,055	-	34,055
Deferred revenue and other liabilities	-	-	11,068	11,068	22,077	33,145
Long-term debt, short-term debt and commercial paper (note 7)****	-	-	3,145,800	3,145,800	-	3,145,800
Long-term payable	7,705	-	-	7,705	-	7,705

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

Due to the short-term maturity of instruments under long-term variable rate revolving credit facilities, it is assumed that the carrying amounts of these financial instruments approximate their fair values. At March 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	$ 379,800	$ 409,994
Corridor Debentures	$ 300,000	$ 329,604
Unsecured Medium-Term Notes, Series 1 & 2	$ 525,000	$ 567,154

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

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

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

	March 31 2012	December 31 2011
Current asset	$ 5,146	$ 5,167
Non-current asset	7,705	9,772
Current liability	(24,085)	(25,746)
Non-current liability	(9,970)	(11,035)
	$ (21,204)	$ (21,842)

Derivative financial instruments carried at fair value are as follows:

	March 31 2012	December 31 2011
Frac-spread risk management		
NGL swaps	$ (9,466)	$ (13,691)
Natural gas swaps	(20,483)	(15,573)
Foreign exchange swaps	(2,840)	(7,189)
	(32,789)	(36,453)
Interest rate risk management		
Interest rate swaps	12,182	14,611
	12,182	14,611
Foreign exchange risk management		
Foreign exchange swaps	(597)	-
	(597)	-
	$ (21,204)	$ (21,842)

b) Net Gains or Losses

Realized and Unrealized (Loss) Gain on Derivative Instruments – FVTPL

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

	Three Months Ended March 31 2012	2011
Revenues		
NGL swaps	$ (2,043)	$ (7,051)
Foreign exchange swaps (frac-spread)	(33)	1,523
	(2,076)	(5,528)
Shrinkage gas expense		
Natural gas swaps	(3,496)	(3,070)
	(3,496)	(3,070)
Operating expenses		
Electricity price swaps	-	337
Heat rate swaps	-	1,367
	-	1,704
Financing charges		
Interest rate swaps	1,196	688
	1,196	688
Net realized loss on derivative financial instruments	$ (4,376)	$ (6,206)

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

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

	Three Months Ended March 31	
	2012	2011
Frac-spread risk management		
NGL swaps	**$ 4,225**	$ (18,500)
Natural gas swaps	**(4,910)**	2,704
Foreign exchange swaps	**4,349**	3,932
	3,664	(11,864)
Interest rate risk management		
Interest rate swaps	**-**	478
	-	478
Power price risk management		
Electricity price swaps	**-**	384
Heat rate swaps	**-**	904
	-	1,288
Foreign exchange risk management		
Foreign exchange swaps	**(597)**	-
	(597)	-
Transfer of losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	**-**	(202)
Unrealized change in fair value of derivative financial instruments	**$ 3,067**	$ (10,300)

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.

16. RISK MANAGEMENT

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

a) Market Risk

Frac-Spread Risk Management

Contracts outstanding at March 31, 2012, represented approximately 59% of forecast propane-plus volumes at the Cochrane extraction plant for the period April 1, 2012 to December 31, 2012 at average frac-spread prices of approximately $0.95 CAD/US gallon and 48% of forecast volumes for the period January 1, 2013 to December 31, 2013 at average frac-spread prices of approximately $0.97 CAD/US gallon. These average prices approximated $0.95 USD/US gallon and $0.96 USD/US gallon, respectively, based on the average USD/CAD forward curve as at March 31, 2012.

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

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*	$ (9,466)	$ (13,655)	$ 13,655
AECO natural gas	(20,483)	2,062	(2,062)
Foreign exchange	(2,840)	(13,066)	13,066
Frac-spread risk management	$ (32,789)		

* 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

Based on the variable rate debt obligations outstanding at March 31, 2012, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $4.8 million for the three months ended March 31 2012, assuming all other variables remain constant. Of this amount, $3.6 million relates to the $1,550 million Unsecured Revolving Credit Facility (note 7) and is recoverable through the terms of Corridor's Firm Service Agreement, therefore the after-tax income impact on Inter Pipeline would be $0.9 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 exposure in the conventional oil pipelines business. As at March 31, 2012 there are no heat rate or electricity price swap agreements outstanding.

Foreign Exchange Risk Management

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

In association with the acquisition of Inter Terminals (note 2), Inter Pipeline entered into a forward foreign exchange agreement on February 1, 2012 to sell EUR 36.4 million at a rate of 1.3165 CAD per EUR, with a settlement date up to April 30, 2012. On March 20, 2012 Inter Pipeline cancelled the existing agreement and entered into another forward foreign exchange agreement to sell EUR 36.4 million at a rate of 1.3170 CAD per EUR with a settlement date up to June 29, 2012. A 10% change in the Euro forward exchange rate would have no after-tax impact on net income.

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

b) Credit Risk

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

At March 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.

At March 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 March 31, 2012, accounts receivable associated with these two business segments were $66.5 million or 61% 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

The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at March 31, 2012, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Cash distributions payable	$ 23,378	$ 23,378	$ -	$ -
Accounts payable and accrued liabilities	148,947	148,947	-	-
Deferred revenue and other liabilities	33,145	16,442	10,626	6,077
Derivative financial instruments*	34,573	24,316	10,257	-
Long-term debt, short-term debt and commercial paper**	3,145,800	1,546,152	924,648	675,000
Long-term payable*	8,097	-	8,097	-
	$ 3,393,940	$ 1,759,235	$ 953,628	$ 681,077

* 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 March 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 2015.

17. FINANCING CHARGES

	Three Months Ended March 31	
	2012	2011
Interest expense on credit facilities	**$ 9,571**	$ 7,719
Interest on loan payable to General Partner	**5,771**	5,771
Interest on Corridor Debentures	**2,518**	2,479
Interest on MTN Series 1 and Series 2 notes	**5,955**	2,604
Total interest	**23,815**	18,573
Capitalized interest	**(1,843)**	(237)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	**831**	218
Accretion of provisions	**478**	381
Total financing charges	**$ 23,281**	$ 18,935

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

18. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	Three Months Ended March 31	
	2012	2011
Accounts receivable	**$ (337)**	$ 24,111
Prepaid expense and other deposits	**(13,566)**	3,433
Cash distributions payable	**264**	39
Accounts payable and accrued liabilities	**(13,190)**	(12,012)
Deferred revenue	**11,859**	15,352
Current income taxes payable	**(33,661)**	14,750
Working capital acquired (note 2)	**14,932**	-
Impact of foreign exchange rate differences and other	**207**	156
Changes in non-cash working capital	**$ (33,492)**	$ 45,829
These changes relate to the following activities:		
Operating	**$ (46,927)**	$ 36,456
Investing	**13,171**	9,334
Financing	**264**	39
Changes in non-cash working capital	**$ (33,492)**	$ 45,829

Cash and Cash Equivalents

	March 31 2012	December 31 2011
Cash on hand and at banks	**$ 67,040**	$ 37,879
Short-term deposits	**6,899**	12,142
	$ 73,939	$ 50,021