Inter Pipeline Fund

Interim Consolidated Balance Sheets

(unaudited) (thousands of Canadian dollars)		**As at June 30 2012**		As at December 31 2011
ASSETS				
Current Assets				
Cash and cash equivalents (note 19)	**$**	**34,822**	$	50,021
Accounts receivable		**106,345**		109,145
Derivative financial instruments (note 16)		**30,721**		5,167
Prepaid expenses and other deposits		**27,626**		10,917
Total Current Assets		**199,514**		175,250
Non-Current Assets				
Derivative financial instruments (note 16)		**18,572**		9,772
Property, plant and equipment (note 5)		**4,488,610**		4,081,036
Goodwill and intangible assets (note 6)		**617,501**		502,009
Total Assets	**$**	**5,324,197**	$	4,768,067
LIABILITIES AND PARTNERS' EQUITY				
Current Liabilities				
Cash distributions payable (note 7)	**$**	**23,622**	$	23,114
Accounts payable and accrued liabilities (note 13)		**150,728**		162,499
Current income taxes payable		**30,430**		49,753
Derivative financial instruments (note 16)		**13,594**		25,746
Deferred revenue		**12,114**		4,583
Current portion of long-term debt (note 8)		**91,087**		90,989
Commercial paper (note 8)		**1,447,593**		1,464,369
Total Current Liabilities		**1,769,168**		1,821,053
Non-Current Liabilities				
Long-term debt (note 8)		**1,528,803**		1,102,288
Long-term payable		**7,134**		9,772
Derivative financial instruments (note 16)		**5,144**		11,035
Provisions (note 9)		**56,882**		37,018
Employee benefits (note 10)		**4,257**		6,989
Long-term deferred revenue and other liabilities		**16,045**		17,652
Deferred income taxes (note 11)		**377,368**		342,474
Total Liabilities		**3,764,801**		3,348,281
Commitments and contingencies (notes 5 and 14)				
Partners' Equity				
Partners' equity (note 12)		**1,600,572**		1,452,066
Total reserves (note 12)		**(41,176)**		(32,280)
Total Partners' Equity		**1,559,396**		1,419,786
Total Liabilities and Partners' Equity	**$**	**5,324,197**	$	4,768,067

See accompanying condensed notes to the 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 12)*	Total Partners' Equity
Balance, January 1, 2012	$ 1,450,617	$ 1,449	$ (32,280)	**$ 1,419,786**
Net income for the period	183,828	184	-	**184,012**
Other comprehensive loss	-	-	(8,896)	**(8,896)**
	1,634,445	1,633	(41,176)	**1,594,902**
Cash distributions declared (note 7)	(140,354)	(141)	-	**(140,495)**
Issuance of Partnership units (note 12)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	104,884	105	-	**104,989**
Balance, June 30, 2012	$ 1,598,975	$ 1,597	$ (41,176)	**$ 1,559,396**
Balance, January 1, 2011	$ 1,359,377	$ 1,358	$ (32,686)	$ 1,328,049
Net income for the period	125,378	125	-	125,503
Other comprehensive income	-	-	2,048	2,048
	1,484,755	1,483	(30,638)	1,455,600
Cash distributions declared (note 7)	(124,022)	(124)	-	(124,146)
Issuance of Partnership units (note 12)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	15,199	15	-	15,214
Balance, June 30, 2011	$ 1,375,932	$ 1,374	$ (30,638)	$ 1,346,668

See accompanying condensed notes to the interim consolidated financial statements.

™ Denotes trademark of Canaccord Capital Corporation.

Inter Pipeline Fund

Interim Consolidated Statements of Net Income

(unaudited) (thousands of Canadian dollars)	Three Months Ended June 30 **2012**	Three Months Ended June 30 2011	Six Months Ended June 30 **2012**	Six Months Ended June 30 2011
REVENUES				
Operating revenue	**$ 275,608**	$ 273,292	**$ 572,832**	$ 576,282
EXPENSES				
Shrinkage gas	**36,765**	70,783	**92,735**	148,762
Midstream product purchases	**12,821**	-	**12,821**	-
Operating	**64,970**	65,338	**132,752**	137,348
Depreciation and amortization	**34,133**	25,065	**61,795**	49,471
Financing charges (note 18)	**24,982**	20,043	**48,263**	38,978
General and administrative	**13,831**	13,053	**28,974**	25,689
Unrealized change in fair value of derivative financial instruments (note 16)	**(52,153)**	(6,011)	**(55,220)**	4,289
Acquisition fee to General Partner (notes 3 and 13)	**-**	-	**4,591**	-
Management and incentive fees to General Partner (note 13)	**3,257**	2,371	**6,961**	5,207
Gain on disposal of assets	**(91)**	(114)	**(91)**	(201)
	138,515	190,528	**333,581**	409,543
INCOME BEFORE INCOME TAXES	**137,093**	82,764	**239,251**	166,739
Provision for income taxes (note 11)				
Current	**14,334**	11,621	**29,999**	26,956
Deferred	**18,381**	10,121	**25,240**	14,280
	32,715	21,742	**55,239**	41,236
NET INCOME	**$ 104,378**	$ 61,022	**$ 184,012**	$ 125,503
Net income per Partnership unit (note 12)				
Basic and diluted	**$ 0.39**	$ 0.24	**$ 0.69**	$ 0.49

Interim Consolidated Statements of Comprehensive Income

(unaudited) (thousands of Canadian dollars)	Three Months Ended June 30 **2012**	Three Months Ended June 30 2011	Six Months Ended June 30 **2012**	Six Months Ended June 30 2011
NET INCOME	**$ 104,378**	$ 61,022	**$ 184,012**	$ 125,503
OTHER COMPREHENSIVE (LOSS) INCOME (note 12)				
Unrealized (loss) gain on translating financial statements of foreign operations	**(19,401)**	(298)	**(8,783)**	1,817
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 16)	**-**	202	**-**	404
Income tax relating to defined benefit pension reserve	**-**	(173)	**(113)**	(173)
	(19,401)	(269)	**(8,896)**	2,048
COMPREHENSIVE INCOME	**$ 84,977**	$ 60,753	**$ 175,116**	$ 127,551

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Fund

Interim Consolidated Statements of Cash Flows

(unaudited) (thousands of Canadian dollars)	Three Months Ended June 30 **2012**	2011	Six Months Ended June 30 **2012**	2011
OPERATING ACTIVITIES				
Net income	**$ 104,378**	$ 61,022	**$ 184,012**	$ 125,503
Items not involving cash:				
Depreciation and amortization	**34,133**	25,065	**61,795**	49,471
Gain on disposal of assets	**(91)**	(114)	**(91)**	(201)
Non-cash expense (recovery)	**2,629**	1,807	**(475)**	(2,606)
Unrealized change in fair value of derivative financial instruments	**(52,153)**	(6,011)	**(55,220)**	4,289
Deferred income tax expense	**18,381**	10,121	**25,240**	14,280
Proceeds from long-term lease inducements	**-**	-	**-**	1,480
Funds from operations	**107,277**	91,890	**215,261**	192,216
Net change in non-cash operating working capital (note 19)	**26,605**	8,486	**(20,322)**	44,942
Cash provided by operating activities	**133,882**	100,376	**194,939**	237,158
INVESTING ACTIVITIES				
Expenditures on property, plant and equipment	**(73,837)**	(32,213)	**(119,740)**	(75,847)
Proceeds on sale of assets	**91**	114	**91**	201
Acquisition of Inter Terminals (note 3)	**460**	-	**(509,413)**	-
Assumption of cash on acquisition of Inter Terminals (note 3)	**-**	-	**48,293**	-
Net change in non-cash investing working capital (note 19)	**(14,657)**	(717)	**(1,486)**	8,617
Cash used in investing activities	**(87,943)**	(32,816)	**(582,255)**	(67,029)
FINANCING ACTIVITIES				
Cash distributions (note 7)	**(19,268)**	(53,898)	**(35,506)**	(108,932)
(Decrease) increase in debt	**(62,425)**	(24,103)	**410,390**	(63,379)
Transaction costs on debt	**(1,751)**	-	**(2,455)**	(1,823)
Net change in non-cash financing working capital (note 19)	**244**	43	**508**	82
Cash (used in) provided by financing activities	**(83,200)**	(77,958)	**372,937**	(174,052)
Effect of foreign currency translation on foreign currency denominated cash	**(1,856)**	(148)	**(820)**	(59)
Decrease in cash and cash equivalents	**(39,117)**	(10,546)	**(15,199)**	(3,982)
Cash and cash equivalents, beginning of period	**73,939**	29,071	**50,021**	22,507
Cash and cash equivalents, end of period	**$ 34,822**	$ 18,525	**$ 34,822**	$ 18,525

Cash taxes paid	**$ 4**	$ 206	**$ 49,328**	$ 796
Cash interest paid	**$ 22,222**	$ 18,768	**$ 46,106**	$ 32,188

See accompanying condensed notes to the interim consolidated financial statements.

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 34 – *Interim Financial Reporting*. These interim financial statements do not contain all disclosures required by International Financial Reporting Standards 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. As discussed in note 2, additional accounting policies have been adopted for the first time to account for new transactions undertaken by four petroleum storage terminals in Denmark, referred to collectively as Inter Terminals, and resulting from internalization of midstream marketing within the conventional oil pipelines business segment.

These interim financial statements were authorized for issue by the Board of Directors of the General Partner on August 2, 2012.

2. ACCOUNTING POLICIES ADOPTED IN 2012

Inter Terminals Property, Plant and Equipment

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.

Inter Terminals Intangible Assets

Intangible assets 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 ranges from eight months to 30 months.

Midstream Marketing

On April 1, 2012, Inter Pipeline internalized midstream marketing blending and handling services in its conventional oil pipelines business segment, which were previously provided by a third party. As a result, Inter Pipeline acquired line fill which is accounted for in accordance with Inter Pipeline's existing accounting policies. 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.

3. 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 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 $509.4 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 interim financial statements since January 11, 2012. Inter Terminals contributed $17.5 million and $3.7 million to revenue and net income, respectively, for the three months ended June 30, 2012. Inter Terminals contributed $31.1 million and $9.2 million to revenue and net income, respectively from the date of acquisition to June 30, 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 during the period to the General Partner, pursuant to the terms of the Limited Partnership Agreement (LPA).

The acquisition was accounted for using 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. The preliminary allocation of the consideration transferred, subject to closing adjustments or changes in estimates, was as follows:

Cash	$	48,293
Non-cash working capital (note 19)		15,214
Property, plant and equipment (note 5)		342,159
Goodwill (note 6)		111,216
Intangible assets (note 6)		20,720
Decommissioning obligation (note 9)		(18,360)
Deferred income tax liability		(9,829)
	$	509,413

The goodwill of $111.2 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 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)

4. SEGMENT REPORTING

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

Three Months Ended June 30, 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	$ 68,047	$ 106,303	$ 58,806	$ -	$ 233,156	$ 42,452	$ 275,608
Expenses							
Shrinkage gas	-	36,765	-	-	36,765	-	36,765
Midstream product purchases	-	-	12,821	-	12,821	-	12,821
Operating	16,316	21,115	11,882	-	49,313	15,657	64,970
Depreciation and amortization	10,484	6,691	2,381	690	20,246	13,887	34,133
Financing charges	9,282	64	162	15,196	24,704	278	24,982
General and administrative	1,381	-	-	9,559	10,940	2,891	13,831
Unrealized change in fair value of derivative financial instruments	-	(51,556)	-	(597)	(52,153)	-	(52,153)
Management and incentive fees to General Partner	-	-	-	3,257	3,257	-	3,257
Gain on disposal of assets	(23)	(13)	(47)	(8)	(91)	-	(91)
Total expenses	37,440	13,066	27,199	28,097	105,802	32,713	138,515
Income (loss) before income taxes	30,607	93,237	31,607	(28,097)	127,354	9,739	137,093
Provision for (recovery of) income taxes	4,916	-	-	27,415	32,331	384	32,715
Net income (loss)	$ 25,691	$ 93,237	$ 31,607	$ (55,512)	$ 95,023	$ 9,355	$ 104,378
Items not involving cash:							
Depreciation and amortization*	10,461	6,678	2,334	682	20,155	13,887	34,042
Non-cash expense (recovery)	116	108	1,344	1,117	2,685	(56)	2,629
Unrealized change in fair value of derivative financial instruments	-	(51,556)	-	(597)	(52,153)	-	(52,153)
Deferred income tax expense (recovery)	4,856	-	-	13,418	18,274	107	18,381
Funds from (used in) operations	$ 41,124	$ 48,467	$ 35,285	$ (40,892)	$ 83,984	$ 23,293	$ 107,277
Expenditures on property, plant and equipment	$ 32,258	$ 5,767	$ 26,475	$ 689	$ 65,189	$ 8,648	$ 73,837
							As at June 30, 2012
Property, plant and equipment - net book value	$ 2,966,692	$ 389,676	$ 473,882	$ 7,245	$ 3,837,495	$ 651,115	$ 4,488,610
Goodwill and intangible assets - net book value	$ 219,852	$ 215,501	$ -	$ -	$ 435,353	$ 182,148	$ 617,501
Other assets	$ 56,480	$ 75,252	$ 25,496	$ 238	$ 157,466	$ 60,620	$ 218,086
Total assets	$ 3,243,024	$ 680,429	$ 499,378	$ 7,483	$ 4,430,314	$ 893,883	$ 5,324,197

* Includes gain on disposal of assets

Inter Pipeline Fund
Condensed Notes to Interim Consolidated Financial Statements
(unaudited)
June 30, 2012
(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Three Months Ended June 30, 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	$ 67,757	$ 137,469	$ 42,008	$ -	$ 247,234	$ 26,058	$ 273,292
Expenses							
Shrinkage gas	-	70,783	-	-	70,783	-	70,783
Operating	17,236	24,021	10,737	-	51,994	13,344	65,338
Depreciation and amortization	10,486	6,635	2,354	575	20,050	5,015	25,065
Financing charges	7,837	61	155	11,896	19,949	94	20,043
General and administrative	1,532	-	-	8,110	9,642	3,411	13,053
Unrealized change in fair value of derivative financial instruments	-	(5,798)	39	(252)	(6,011)	-	(6,011)
Management fee to General Partner	-	-	-	2,371	2,371	-	2,371
Gain on disposal of assets	-	(12)	-	-	(12)	(102)	(114)
Total expenses	37,091	95,690	13,285	22,700	168,766	21,762	190,528
Income (loss) before income taxes	30,666	41,779	28,723	(22,700)	78,468	4,296	82,764
Provision for income taxes	4,910	-	-	16,084	20,994	748	21,742
Net income (loss)	$ 25,756	$ 41,779	$ 28,723	$ (38,784)	$ 57,474	$ 3,548	$ 61,022
Items not involving cash:							
Depreciation and amortization*	10,486	6,623	2,354	575	20,038	4,913	24,951
Non-cash expense (recovery)	137	128	395	1,284	1,944	(137)	1,807
Unrealized change in fair value of derivative financial instruments	-	(5,798)	39	(252)	(6,011)	-	(6,011)
Deferred income tax expense	4,866	-	-	5,191	10,057	64	10,121
Funds from (used in) operations	$ 41,245	$ 42,732	$ 31,511	$ (31,986)	$ 83,502	$ 8,388	$ 91,890
Expenditures on property, plant and equipment	$ 20,957	$ 3,037	$ 1,318	$ 217	$ 25,529	$ 6,684	$ 32,213
							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)

Six Months Ended June 30, 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	$ 138,686	$ 242,959	$ 110,045	$ -	$ 491,690	$ 81,142	$ 572,832
Expenses							
Shrinkage gas	-	92,735	-	-	92,735	-	92,735
Midstream product purchases	-	-	12,821	-	12,821	-	12,821
Operating	34,296	44,629	22,043	-	100,968	31,784	132,752
Depreciation and amortization	21,012	13,381	4,752	1,333	40,478	21,317	61,795
Financing charges	18,780	127	324	28,595	47,826	437	48,263
General and administrative	2,971	-	-	20,402	23,373	5,601	28,974
Unrealized change in fair value of derivative financial instruments	-	(55,220)	-	-	(55,220)	-	(55,220)
Acquisition fee to General Partner	-	-	-	4,591	4,591	-	4,591
Management and incentive fees to General Partner	-	-	-	6,961	6,961	-	6,961
Gain on disposal of assets	(23)	(13)	(47)	(8)	(91)	-	(91)
Total expenses	77,036	95,639	39,893	61,874	274,442	59,139	333,581
Income (loss) before income taxes	61,650	147,320	70,152	(61,874)	217,248	22,003	239,251
Provision for (recovery of) income taxes	9,644	-	-	46,318	55,962	(723)	55,239
Net income (loss)	$ 52,006	$ 147,320	$ 70,152	$ (108,192)	$ 161,286	$ 22,726	$ 184,012
Items not involving cash:							
Depreciation and amortization*	20,989	13,368	4,705	1,325	40,387	21,317	61,704
Non-cash (recovery) expense	(71)	8	959	(1,319)	(423)	(52)	(475)
Unrealized change in fair value of derivative financial instruments	-	(55,220)	-	-	(55,220)	-	(55,220)
Deferred income tax expense (recovery)	9,525	-	-	17,118	26,643	(1,403)	25,240
Funds from (used in) operations	$ 82,449	$ 105,476	$ 75,816	$ (91,068)	$ 172,673	$ 42,588	$ 215,261
Expenditures on property, plant and equipment	$ 61,724	$ 11,020	$ 30,171	$ 1,239	$ 104,154	$ 15,586	$ 119,740

* Includes gain on disposal of assets

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

Six Months Ended June 30, 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	$ 140,513	$ 297,349	$ 85,760	$ -	$ 523,622	$ 52,660	$ 576,282
Expenses							
Shrinkage gas	-	148,762	-	-	148,762	-	148,762
Operating	37,082	52,702	20,905	-	110,689	26,659	137,348
Depreciation and amortization	20,935	13,056	4,719	1,125	39,835	9,636	49,471
Financing charges	15,912	122	310	22,400	38,744	234	38,978
General and administrative	2,952	-	-	17,633	20,585	5,104	25,689
Unrealized change in fair value of derivative financial instruments	-	5,162	(345)	(528)	4,289	-	4,289
Management fee to General Partner	-	-	-	5,207	5,207	-	5,207
Gain on disposal of assets	-	(12)	-	-	(12)	(189)	(201)
Total expenses	76,881	219,792	25,589	45,837	368,099	41,444	409,543
Income (loss) before income taxes	63,632	77,557	60,171	(45,837)	155,523	11,216	166,739
Provision for income taxes	9,835	-	-	31,292	41,127	109	41,236
Net income (loss)	$ 53,797	$ 77,557	$ 60,171	$ (77,129)	$ 114,396	$ 11,107	$ 125,503
Items not involving cash:							
Depreciation and amortization*	20,935	13,044	4,719	1,125	39,823	9,447	49,270
Non-cash recovery	(95)	(7)	(425)	(1,842)	(2,369)	(237)	(2,606)
Unrealized change in fair value of derivative financial instruments	-	5,162	(345)	(528)	4,289	-	4,289
Deferred income tax expense (recovery)	9,748	-	-	6,016	15,764	(1,484)	14,280
Proceeds from long-term lease inducements	-	-	-	1,480	1,480	-	1,480
Funds from (used in) operations	84,385	95,756	64,120	(70,878)	173,383	18,833	192,216
Expenditures on property, plant and equipment	$ 57,138	$ 5,284	$ 1,706	$ 869	$ 64,997	$ 10,850	$ 75,847

* Includes gain on disposal of assets

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

5. 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 3)	340,881	-	1,278	342,159
Additions/transfers from construction*	21,977	23,858	95,012	140,847
Disposals/completed construction*	(256)	-	(21,107)	(21,363)
Foreign currency translation adjustment	(6,576)	-	11	(6,565)
Balance at June 30, 2012	**$ 4,845,335**	**$ 271,996**	**$ 216,217**	**$ 5,333,548**
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	46,397	1,452	-	47,849
Disposals	(256)	-	-	(256)
Foreign currency translation adjustment	(89)	-	-	(89)
Balance at June 30, 2012	**$ 834,847**	**$ 10,091**	**$ -**	**$ 844,938**
Net Book Value				
At December 31, 2011	$ 3,700,514	$ 239,499	$ 141,023	$ 4,081,036
At June 30, 2012	**$ 4,010,488**	**$ 261,905**	**$ 216,217**	**$ 4,488,610**

* 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 $508.2 million at June 30, 2012, of which $461.3 million is due in one year and $46.9 million is due in one to five years.

6. GOODWILL AND INTANGIBLE ASSETS

	June 30 2012	December 31 2011
Goodwill	**$ 320,076**	$ 211,150
Intangible assets	**297,425**	290,859
Goodwill and intangible assets	**$ 617,501**	$ 502,009

Goodwill and intangible assets of $111.2 million and $20.7 million, respectively, were recognized through the acquisition of Inter Terminals on January 11, 2012 (note 3).

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

7. CASH DISTRIBUTIONS

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

For the three and six months ended June 30, 2012, Inter Pipeline declared cash distributions totaling $70.6 million and $140.5 million, respectively, or $0.2625 per unit and $0.5250 per unit, respectively (three and six months ended June 30, 2011 - $62.1 million and $124.1 million, respectively and $0.24 per unit and $0.48 per unit, respectively). Of the total cash distributions, $51.4 million and $105.0 million were settled with the issuance of Class A units under the Premium Distribution[TM] and Distribution Reinvestment Plan (Plan) for the three and six months ended June 30, 2012, respectively (three and six months ended June 30, 2011 - $8.2 million and $15.2 million, respectively). As at June 30, 2012, distributions of $23.6 million were payable on 269.7 million outstanding Class A units and on 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 on 0.3 million outstanding Class B units at $0.0875 per unit).

On July 5, 2012, Inter Pipeline declared cash distributions of $0.0875 per unit. The distributions will be paid on or about August 15, 2012 to all unitholders of record on July 23, 2012. The total estimated declared distributions are approximately $23.7 million.

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

	June 30 2012	December 31 2011
$1,550 million Unsecured Revolving Credit Facility (a)	**$ 1,450,890**	$ 1,467,300
$750 million Unsecured Revolving Credit Facility	**27,000**	-
Loan payable to General Partner	**379,800**	379,800
Corridor Debentures (b)	**300,000**	300,000
Senior Unsecured Medium-Term Notes (c)	**925,000**	525,000
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts)	**3,082,690**	2,672,100
Less: Current portion of long-term debt and commercial paper*	**(1,542,042)**	(1,558,452)
	1,540,648	1,113,648
Transaction costs, net of accumulated amortization	**(12,999)**	(12,447)
Discount, net of accumulated amortization	**(2,208)**	(2,007)
Add: Current portion of transaction costs and discounts	**3,362**	3,094
Long-term debt	**1,528,803**	1,102,288
Current portion of long-term debt including transaction costs and discounts	**91,087**	90,989
Commercial paper including transaction costs and discounts* (a)	**1,447,593**	1,464,369
Total debt	**$ 3,067,483**	$ 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 Corridor's $1,550 million Unsecured Revolving Credit Facility that has no repayment requirements until December 2015.

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

(a) At June 30, 2012, letters of credit of $0.2 million were issued by Corridor.

(b) 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.

(c) 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 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 May 23, 2012. The MTN Series 3 bear interest at the rate of 3.776% per annum, payable semi-annually. Proceeds from the offering were used to pay down a portion of Inter Pipeline's $750 million Unsecured Revolving Credit Facility.

Senior Unsecured Medium-Term Notes are defined as the $325 million 4.967% Series 1 notes due February 2, 2021, the $200 million 3.839% Series 2 notes due July 30, 2018, and the $400 million 3.776% Series 3 notes due May 30, 2022.

9. PROVISIONS

	June 30 2012	December 31 2011
Decommissioning obligations	**$ 38,883**	$ 20,274
Environmental liabilities	**17,999**	16,744
Provisions	**$ 56,882**	$ 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 3).

10. EMPLOYEE BENEFITS

	June 30 2012	December 31 2011
Pension liability	**$ 735**	$ 758
Long-term incentive plan liability	**3,522**	6,231
Employee benefits	**$ 4,257**	$ 6,989

For the three and six months ended June 30, 2012, employee benefits expense recognized in net income was $18.3 million and $37.6 million, respectively (three and six months ended June 30, 2011 - $13.8 million and $29.8 million, respectively).

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

Long-Term Incentive Plan

The following table summarizes the status of Inter Pipeline's Deferred Unit Rights (DURs) as at June 30, 2012 and December 31, 2011 and changes during the six months and year then ended, respectively:

	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	(82,747)
Forfeitures	(21,209)
Balance outstanding, June 30, 2012	**1,893,840**

At June 30, 2012, the current portion of the DUR liability included in accounts payable and accrued liabilities was $21.6 million (December 31, 2011 - $12.7 million). At June 30, 2012, 567,851 DURs are exercisable. Inter Pipeline's closing unit price at June 30, 2012 was $19.21.

For the three months ended June 30, 2012, operating expenses included $0.6 million and general and administrative expenses included $2.2 million related to DURs (three months ended June 30, 2011 - $0.6 million and $1.7 million, respectively). For the six months ended June 30, 2012, operating expenses included $1.8 million and general and administrative expenses included $6.3 million related to DURs (six months ended June 30, 2011 - $1.7 million and $5.4 million, respectively).

The total intrinsic value of DUR's vested and not exercised as at June 30, 2012 was $12.0 million (December 31, 2011 - $13.2 million).

The weighted average remaining contractual life of the outstanding DURs as at June 30, 2012 was 1.5 years.

11. 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 (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 $1.7 million (2011 - $3.7 million) reduction in deferred income tax liabilities.

12. PARTNERS' EQUITY

Units Issued, Fully Paid and Outstanding

Authorized

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

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

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	5,807,310	5,819	5,813,129
Balance as at June 30, 2012	**269,699,755**	**270,232**	**269,969,987**

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 June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Net income attributable to unitholders – basic and diluted	**$ 104,378**	$ 61,022	**$ 184,012**	$ 125,503
Weighted average units outstanding – basic	**268,562,560**	258,816,168	**267,119,247**	258,553,530
Effect of Premium Distribution™ and Distribution Reinvestment Plan	**798,601**	129,774	**731,618**	115,584
Weighted average units outstanding – diluted	**269,361,161**	258,945,942	**267,850,865**	258,669,114
Net income per Partnership unit – basic and diluted	**$ 0.39**	$ 0.24	**$ 0.69**	$ 0.49

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	404	1,817	(173)	2,048
Balance, June 30, 2011	$ (405)	$ (26,578)	$ (3,655)	$ (30,638)
Balance, January 1, 2012	$ -	$ (23,923)	$ (8,357)	$ (32,280)
Other comprehensive loss	-	(8,783)	(113)	(8,896)
Balance, June 30, 2012	**$ -**	**$ (32,706)**	**$ (8,470)**	**$ (41,176)**

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13. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the three and six months ended June 30, 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 8). At June 30, 2012, accounts payable includes $0.7 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.

Management fees of $2.9 million and $6.2 million were earned by the General Partner in the three and six months ended June 30, 2012, respectively, (three and six months ended June 30, 2011 - $2.4 million and $5.2 million, respectively) and incentive fees of $0.4 million and $0.8 million, respectively (three and six months ended June 30, 2011 - $nil and $nil, respectively) were 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 six months ended June 30, 2012, (three and six months ended June 30, 2011 – $nil for both periods).

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At June 30, 2012, accounts payable includes interest payable to the General Partner on the loan of $4.1 million (December 31, 2011 - $4.1 million).

In the three and six months ending June 30, 2012, certain of the officers and directors of the General Partner received dividends totaling $0.4 million and $1.3 million, respectively, from Pipeline Asset Corp. pursuant to their non-voting shares (three and six months ended June 30, 2011 - $0.5 million and $0.8 million, respectively).

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

14. COMMITMENTS AND CONTINGENCIES

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

As a result of the sale of Lewis Tankers Limited in November 2009, Inter Pipeline provided third party guarantees for minimum payments under commercial vehicle lease agreements that expire between July 2010 and December 2013. The guarantees may be exercised if the purchaser fails to fulfill its payment obligations. At June 30, 2012, the guaranteed lease obligations are approximately $0.4 million.

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

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 June 30, 2012, the future minimum lease obligations are approximately $88.0 million.

Inter Pipeline has committed to purchase obligations totaling approximately $157.9 million at June 30, 2012 (refer to note 5 for committed property, plant and equipment expenditures). Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the 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.

15. CAPITAL DISCLOSURES

Capital under management includes long-term debt, short-term debt and commercial paper (excluding discounts and transaction costs) and partners' equity.

At June 30, 2012, Inter Pipeline had access to committed credit facilities totaling $2,300.0 million, of which $822.1 million remains unutilized. Inter Pipeline also had access to demand facilities of $45.0 million, of which $44.8 million remains unutilized. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

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.

	June 30 2012	December 31 2011
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts, per note 8)		
Recourse debt	**$ 1,331,800**	$ 904,800
Non-recourse debt	**1,750,890**	1,767,300
	3,082,690	2,672,100
Partners' equity	**1,559,396**	1,419,786
Total capitalization	**$ 4,642,086**	$ 4,091,886
Capitalization (excluding non-recourse debt)	**$ 2,891,196**	$ 2,324,586
Recourse debt to capitalization*	**46.1%**	38.9%

* 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)

	Twelve Months Ended June 30 2012	Twelve Months Ended December 31 2011
Net income	**$ 306,441**	$ 247,932
Add:		
Depreciation and amortization	**112,040**	99,716
Loss on disposal of assets	**133**	23
Financing charges	**89,501**	80,216
Non-cash expense	**859**	26
Unrealized change in fair value of derivative financial instruments	**(44,970)**	14,539
Provision for income taxes	**94,293**	80,290
Proceeds from long-term lease inducements	**-**	1,480
EBITDA*	**$ 558,297**	$ 524,222
Recourse debt to EBITDA*	**2.4**	1.7

* 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.

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

16. FINANCIAL INSTRUMENTS

Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at June 30, 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	$ -	$ 34,822	$ -	$ 34,822	$ -	$ 34,822
Accounts receivable	-	97,397	-	97,397	8,948	106,345
Prepaid expenses and other deposits	-	2,530	-	2,530	25,096	27,626
Derivative financial instruments***	49,293	-	-	49,293	-	49,293
Liabilities						
Cash distributions payable	-	-	23,622	23,622	-	23,622
Accounts payable and accrued liabilities	4,655	-	140,556	145,211	5,517	150,728
Derivative financial instruments***	18,738	-	-	18,738	-	18,738
Deferred revenue and other liabilities	-	-	6,827	6,827	21,332	28,159
Long-term debt, short-term debt and commercial paper (note 8)****	-	-	3,082,690	3,082,690	-	3,082,690
Long-term payable	7,134	-	-	7,134	-	7,134

* 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, short-term debt and commercial paper and exclude discounts and transaction costs with the respective accumulated amortization.

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

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 unrealized gains arising from the interest rate swap contracts payable to the shippers are designated as FVTPL and are 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 June 30, 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	$ 405,847
Corridor Debentures	$ 300,000	$ 328,497
Senior Unsecured Medium-Term Notes	$ 925,000	$ 972,940

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

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

	June 30 2012	December 31 2011
Current asset	**$ 30,721**	$ 5,167
Non-current asset	**18,572**	9,772
Current liability	**(13,594)**	(25,746)
Non-current liability	**(5,144)**	(11,035)
	$ 30,555	$ (21,842)

	June 30 2012	December 31 2011
Frac-spread risk management		
NGL swaps	**$ 37,264**	$ (13,691)
Natural gas swaps	**(13,626)**	(15,573)
Foreign exchange swaps	**(4,872)**	(7,189)
	18,766	(36,453)
Interest rate risk management		
Interest rate swaps	**11,789**	14,611
	11,789	14,611
	$ 30,555	$ (21,842)

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

b) Net Gains or Losses

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

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:

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Revenues				
NGL swaps	**$ 4,173**	$ (8,570)	**$ 2,130**	$ (15,621)
Foreign exchange swaps (frac-spread)	**(289)**	1,784	**(322)**	3,307
	3,884	(6,786)	**1,808**	(12,314)
Shrinkage gas expense				
Natural gas swaps	**(4,799)**	(3,039)	**(8,295)**	(6,109)
	(4,799)	(3,039)	**(8,295)**	(6,109)
Operating expenses				
Electricity price swaps	**-**	78	**-**	415
Heat rate swaps	**-**	598	**-**	1,965
	-	676	**-**	2,380
Financing charges				
Interest rate swaps	**1,192**	696	**2,388**	1,384
	1,192	696	**2,388**	1,384
General and administrative				
Foreign exchange swaps	**943**	-	**943**	-
	943	-	**943**	-
Net realized gain (loss) on derivative financial instruments	**$ 1,220**	$ (8,453)	**$ (3,156)**	$ (14,659)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Frac-spread risk management				
NGL swaps	**$ 46,731**	$ 6,448	**$ 50,956**	$ (12,052)
Natural gas swaps	**6,857**	255	**1,947**	2,959
Foreign exchange swaps	**(2,032)**	(480)	**2,317**	3,452
	51,556	6,223	**55,220**	(5,641)
Interest rate risk management				
Interest rate swaps	**-**	455	**-**	933
	-	455	**-**	933
Power price risk management				
Electricity price swaps	**-**	(39)	**-**	345
Heat rate swaps	**-**	(426)	**-**	478
	-	(465)	**-**	823
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)	**-**	(404)
Unrealized change in fair value of derivative financial instruments	**$ 52,153**	$ 6,011	**$ 55,220**	$ (4,289)

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

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

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

17. RISK MANAGEMENT

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

a) Market Risk

Frac-Spread Risk Management

Contracts outstanding at June 30, 2012, represented approximately 50% of forecast propane-plus volumes at the Cochrane extraction plant for the period July 1, 2012 to December 31, 2012 at average frac-spread prices of approximately $0.96 CAD/US gallon and 49% 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 $0.94 USD/US gallon and $0.95 USD/US gallon, respectively, based on the average USD/CAD forward curve as at June 30, 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*	$ 37,264	$ (7,919)	$ 7,919
AECO natural gas	(13,626)	1,983	(1,983)
Foreign exchange	(4,872)	(10,762)	10,762
Frac-spread risk management	$ 18,766		

* 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 June 30, 2012, a 1% change in interest rates at this date could affect interest expense on credit facilities for the three and six months ended June 30, 2012, by approximately $3.7 million and $7.4 million, respectively, assuming all other variables remain constant. Of these amounts, $3.6 million and $7.2 million, for the three and six months ended June 30, 2012, respectively, relate to the $1,550 million Unsecured Revolving Credit Facility (note 8) and are recoverable through the terms of Corridor's Firm Service Agreement, therefore the after-tax income impact on Inter Pipeline for the three and six months ended June 30, 2012, would be $0.1 million for both periods.

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its NGL extraction business and conventional oil pipelines 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 June 30, 2012, there are no heat rate or electricity price swap agreements outstanding.

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

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 business 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.

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 June 30, 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 June 30, 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 June 30, 2012, accounts receivable associated with these two business segments were $54.7 million or 53.4% 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 June 30, 2012, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Cash distributions payable	$ 23,622	$ 23,622	$ -	$ -
Accounts payable and accrued liabilities	150,728	150,728	-	-
Deferred revenue and other liabilities	28,159	12,114	10,240	5,805
Derivative financial instruments*	19,033	13,740	5,293	-
Long-term debt, short-term debt and commercial paper**	3,082,690	1,542,042	465,648	1,075,000
Long-term payable*	7,482	-	7,482	-
	$ 3,311,714	$ 1,742,246	$ 488,663	$ 1,080,805

* 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 June 30, 2012, based upon contractual maturity dates. Fair values of derivative financial instruments and 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.

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

18. FINANCING CHARGES

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Interest expense on credit facilities	**$ 8,978**	$ 7,281	**$ 18,549**	$ 15,000
Interest on loan payable to General Partner	**5,771**	5,771	**11,542**	11,542
Interest on Corridor Debentures	**2,521**	2,506	**5,039**	4,985
Interest on Senior Unsecured Medium-Term Notes	**7,297**	4,032	**13,252**	6,636
Total interest	**24,567**	19,590	**48,382**	38,163
Capitalized interest	**(805)**	(179)	**(2,648)**	(416)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	**741**	288	**1,572**	506
Accretion of provisions	**479**	344	**957**	725
Total financing charges	**$ 24,982**	$ 20,043	**$ 48,263**	$ 38,978

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011	**2012**	2011
Accounts receivable	**$ 3,137**	$ 5,340	**$ 2,800**	$ 29,451
Prepaid expense and other deposits	**(3,143)**	(4,399)	**(16,709)**	(966)
Cash distributions payable	**244**	43	**508**	82
Accounts payable and accrued liabilities	**1,603**	1,797	**(11,587)**	(10,220)
Deferred revenue	**(4,328)**	(6,504)	**7,531**	8,848
Current income taxes payable	**14,338**	11,427	**(19,323)**	26,182
Working capital acquired (note 3)	**(282)**	-	**15,214**	-
Impact of foreign exchange rate differences and other	**623**	108	**266**	264
Changes in non-cash working capital	**$ 12,192**	$ 7,812	**$ (21,300)**	$ 53,641
These changes relate to the following activities:				
Operating	**$ 26,605**	$ 8,486	**$ (20,322)**	$ 44,942
Investing	**(14,657)**	(717)	**(1,486)**	8,617
Financing	**244**	43	**508**	82
Changes in non-cash working capital	**$ 12,192**	$ 7,812	**$ (21,300)**	$ 53,641

Cash and Cash Equivalents

	June 30 2012	December 31 2011
Cash on hand and at banks	**$ 25,404**	$ 37,879
Short-term deposits	**9,418**	12,142
	$ 34,822	$ 50,021