inter pipeline

Management's Discussion and Analysis

For the year ended December 31, 2012

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights Inter Pipeline Fund's (Inter Pipeline) significant business results and statistics for the three month period and year ended December 31, 2012, to provide Inter Pipeline's unitholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of distributions to its unitholders through 2012 and beyond; 2) the maintenance of Inter Pipeline's distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including the Polaris diluent pipeline project for the new pipeline connection to the Sunrise oil sands project (Sunrise project), the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to the Narrows Lake, Christina Lake and Foster Creek oil sands projects and Cochrane liquid sweetening project; 6) timing and cost schedules of Polaris and Cold Lake capital projects, forward EBITDA estimates, and the expectation that binding Transportation Service Agreements will be executed in respect of these projects; and, 7) capital forecasts.

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

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

Management's Discussion and Analysis

For the three month period and year ended December 31, 2012

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period and year ended December 31, 2012, as compared to the three month period and year ended December 31, 2011. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements (interim financial statements) and MD&A for the quarterly periods ended March 31, June 30 and September 30, 2012, the MD&A and audited consolidated financial statements for the year ended December 31, 2011, the audited consolidated financial statements for the year ended December 31, 2012, the **Annual Information Form** and other information filed by Inter Pipeline at www.sedar.com.

Financial information presented in this MD&A is based on information in Inter Pipeline's consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles (GAAP), as outlined in the CICA Handbook Part 1, and used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP and additional GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP and additional GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-GAAP and additional GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

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

	Page
2012 HIGHLIGHTS	4
FOURTH QUARTER HIGHLIGHTS	4
PERFORMANCE OVERVIEW	5
OUTLOOK	7
RESULTS OF OPERATIONS	9
SUMMARY OF QUARTERLY RESULTS	22
LIQUIDITY AND CAPITAL RESOURCES	23
DISTRIBUTIONS TO UNITHOLDERS	28
OUTSTANDING UNIT DATA	29
RISK MANAGEMENT AND FINANCIAL INSTRUMENTS	30
TRANSACTIONS WITH RELATED PARTIES	34
CONTROLS AND PROCEDURES	35
CRITICAL ACCOUNTING ESTIMATES	35
FUTURE ACCOUNTING PRONOUNCEMENTS	42
RISK FACTORS	43
NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES	58
ELIGIBLE INVESTORS	60
ADDITIONAL INFORMATION	61

2012 HIGHLIGHTS

- Funds from operations* (FFO) increased to a record $423 million, up $28 million or 7% over 2011 levels
- Low annual payout ratio before sustaining capital* of 68%
- Generated record net income of $307 million
- Total distributions to unitholders surpassed $2 billion since inception, including $285 million declared in 2012
- Throughput volumes on oil sands and conventional oil pipeline systems averaged a record 988,100 barrels per day (b/d), 31,900 b/d higher than 2011
- Oil sands transportation segment achieved record throughput of 812,600 b/d
- Annual throughput volumes averaged 175,500 b/d on Inter Pipeline's conventional oil pipeline systems, an increase of 5,500 b/d over 2011
- Announced $2.2 billion integrated oil sands development program for Cold Lake and Polaris pipeline systems
- Polaris pipeline system entered commercial service for the Kearl oil sands project, which is expected to generate approximately $36 million of EBITDA* annually
- Issued $400 million in senior medium-term notes (MTN) at attractive interest rates
- Completed $459 million acquisition of four petroleum storage terminals in Denmark, more than doubling European storage capacity to 19 million barrels

FOURTH QUARTER HIGHLIGHTS

- Fourth quarter FFO* increased to $101 million, a gain of $11 million or 12% over fourth quarter 2011 levels
- Low quarterly payout ratio before sustaining capital* of 73%
- Announced 5.7% distribution increase to annual rate of $1.11 per unit, Inter Pipeline's ninth consecutive distribution increase
- Combined oil sands and conventional volume levels set a new quarterly record of 1,014,900 b/d
- Announced 5-year agreement to transport diluent for Suncor Energy
- Distributions to unitholders were $73 million or $0.2675 per unit

---

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

PERFORMANCE OVERVIEW

	Three Months Ended December 31		Years Ended December 31		
(millions, except per unit and % amounts)	2012	2011	2012	2011	2010
Revenues					
Oil sands transportation	$ 84.1	$ 71.3	$ 300.3	$ 284.8	$ 144.5
NGL extraction	133.5	129.1	499.9	584.6	594.3
Conventional oil pipelines	62.0	46.3	231.2	177.8	157.4
Bulk liquid storage	38.8	26.5	155.6	104.4	100.9
	$ 318.4	$ 273.2	$ 1,187.0	$ 1,151.6	$ 997.1
Funds from operations[1][2][3][4]					
Oil sands transportation	$ 46.2	$ 39.5	$ 172.8	$ 165.7	$ 73.8
NGL extraction[4]	38.7	44.1	194.6	202.5	176.9
Conventional oil pipelines	38.7	33.5	153.4	133.2	113.0
Bulk liquid storage[2][3]	20.0	9.4	80.2	37.2	39.8
Corporate costs	(42.7)	(36.4)	(178.4)	(144.4)	(71.1)
	$ 100.9	$ 90.1	$ 422.6	$ 394.2	$ 332.4
Per unit[1]	$ 0.37	$ 0.35	$ 1.57	$ 1.52	$ 1.29
Net income	$ 57.3	$ 45.8	$ 307.2	$ 247.9	$ 236.0
Per unit – basic and diluted	$ 0.21	$ 0.17	$ 1.14	$ 0.95	$ 0.92
Distributions[5]	$ 73.4	$ 65.1	$ 285.2	$ 251.7	$ 232.6
Per unit[5]	$ 0.2675	$ 0.2475	$ 1.0550	$ 0.9675	$ 0.9050
Units outstanding (basic)					
Weighted average	273.9	262.7	269.9	259.9	256.9
End of period	275.2	264.2	275.2	264.2	258.0
Capital expenditures					
Growth[1]	$ 125.7	$ 34.2	$ 339.5	$ 132.6	$ 322.9
Sustaining[1]	15.6	7.2	40.1	19.4	16.7
	$ 141.3	$ 41.4	$ 379.6	$ 152.0	$ 339.6
Payout ratio before sustaining capital[1]	72.8%	72.3%	67.5%	63.9%	70.0%
Payout ratio after sustaining capital[1]	86.0%	78.5%	74.6%	67.2%	73.7%

	As at December 31		
(millions, except per unit and % amounts)	2012	2011	2010
Total assets	$ 5,590.2	$ 4,768.1	$ 4,715.6
Total debt[6]	$ 3,127.6	$ 2,672.1	$ 2,801.2
Total partners' equity	$ 1,659.5	$ 1,419.8	$ 1,328.0
Enterprise value[1]	$ 9,593.8	$ 7,593.3	$ 6,651.2
Total debt to total capitalization[1]	65.3%	65.3%	67.8%
Total recourse debt to capitalization[1]	47.0%	38.9%	41.0%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) In the second quarter of 2010, FFO[1] in the bulk liquid storage business increased by $5.8 million due to cash proceeds received for customer storage fees paid in advance.
(3) In the third quarter of 2010, FFO[1] in the bulk liquid storage business decreased $4.1 million due to a special defined benefit pension plan contribution.
(4) In the third quarter of 2011, FFO[1] increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction facility from 2007 to 2011.
(5) Distributions are calculated based on the number of units outstanding at each record date.
(6) Total debt reported in the December 31, 2012 consolidated financial statements of $3,112.0 million, includes long-term debt, short-term debt and commercial paper of $3,127.6 million less discounts and debt transaction costs of $15.6 million.

Year Ended December 31, 2012

Inter Pipeline generated record financial results in 2012 as FFO* increased 7.2% or $28.4 million from $394.2 million in 2011 to $422.6 million in 2012. The increase in FFO* was largely driven by the January 2012 acquisition of a bulk liquid storage business in Denmark, increased throughput volumes and tolls in the conventional oil pipelines business, and commencement of commercial service of the Polaris pipeline system. Inter Pipeline's NGL extraction business also had a strong 2012 despite a decrease in FFO* from 2011, which was due to a $20.5 million one time positive pricing adjustment in 2011. Corporate costs increased in 2012 due to higher income taxes, management fees, employee costs and financing charges as Inter Pipeline continues to grow its business. Inter Pipeline's payout ratio before sustaining capital* of only 67.5% reflects strong financial results from all four business segments.

Net income increased 23.9% or $59.3 million from $247.9 million in 2011 to a record $307.2 million in 2012. In addition to the strong operating results discussed above, net income benefited from a favourable mark-to-market adjustment of its derivative financial instruments at December 31, 2012.

Total distributions to unitholders increased 13.3% or $33.5 million from $251.7 million in 2011 to $285.2 million in 2012, largely due to increases in monthly distributions of $0.0075 per unit in December 2011 and $0.005 per unit in December 2012. This resulted in a new annualized distribution of $1.11 per unit effective December, 2012. Strong unitholder participation in Inter Pipeline's distribution reinvestment plan, which increased the overall number of units outstanding, also contributed to the higher level of overall distributions paid.

Total debt increased $455.5 million from $2,672.1 million at December 31, 2011 to $3,127.6 million at December 31, 2012. The increase was primarily driven by the $459 million acquisition of Inter Terminals in Denmark which was primarily funded through an existing revolving credit facility. Inter Pipeline's $379.6 million capital program in 2012 also contributed to a higher debt balance, which resulted in a total recourse debt to capitalization* ratio of 47.0% at December 31, 2012 compared to 38.9% at December 31, 2011. Adjusting for non-recourse debt of $1,654.0 million held within Inter Pipeline's Corridor corporate entity, Inter Pipeline's total debt to total capitalization ratio* at December 31, 2012 is consistent with December 31, 2011 at 65.3%.

Three Months Ended December 31, 2012

Inter Pipeline also generated strong financial results in the fourth quarter as FFO* increased 12.0% from $90.1 million in 2011 to $100.9 million in 2012. These strong quarterly results were primarily the result of the acquisition of Inter Terminals, increased throughput volumes and tolls in the conventional oil pipelines business, and commencement of commercial service of the Polaris pipeline system. The strong overall results were somewhat offset by lower FFO* in the NGL extraction business primarily due to lower frac-spread pricing, as well as an increase in corporate costs for the same reasons discussed above. Inter Pipeline's payout ratio before sustaining capital* in the fourth quarter of 2012 was very positive at 72.8%.

Net income increased 25.1% from $45.8 million in the fourth quarter of 2011 to $57.3 million in the fourth quarter of 2012, for substantially the same reasons mentioned above.

For the three months ended December 31, 2012, total distributions to unitholders increased 12.7% from $65.1 million in the fourth quarter of 2011 to $73.4 million in 2012, for the same reasons mentioned above.

Inter Pipeline's consolidated debt increased only $14.0 million to $3,127.6 million at December 31, 2012, from $3,113.6 million at September 30, 2012, while $141.3 million was spent on capital projects.

---

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

OUTLOOK

In 2012, Inter Pipeline made key advancements in its long-term development strategy that will accelerate our growth plans, and enhance the predictability and sustainability of cash flows over the next number of years.

Inter Pipeline's long-term business strategy is to acquire and develop long-life, high-quality energy infrastructure assets that generate stable and predictable cash flows. Supported by four well-established business segments, Inter Pipeline has a large energy infrastructure asset base that provides stable cash flows and offers large-scale development opportunities. In 2012, we announced major organic growth projects that will support our long-term objective of providing stable and growing returns to unitholders.

Over the next few years, the majority of Inter Pipeline's capital expenditures will be directed towards the oil sands transportation business segment where demand for new transportation infrastructure is significant and growing. Development of Alberta's oil sands deposits is key to meeting global energy demand in the coming years. Oil sands producers have recognized the significance of these reserves and continue to develop large scale projects that will require additional pipeline infrastructure to strategic market hubs.

As a result, demand for diluent and diluted bitumen transportation services continue to grow. To meet these needs, Inter Pipeline is embarking upon a multi-billion dollar capital expenditure program that will significantly expand diluent and diluted bitumen transportation capabilities between major market hubs in Edmonton and Hardisty, Alberta, and the Cold Lake and Athabasca oil sands regions. Inter Pipeline has announced or commenced preliminary work on up to $3 billion of organic growth projects.

In 2012, Inter Pipeline announced a $2.2 billion integrated oil sands development program that will expand and integrate the Cold Lake and Polaris pipeline systems, and connect both systems to new production sites in the Cold Lake region. This represents the largest capital investment program in Inter Pipeline's history. Anchoring these developments is an arrangement to provide bitumen blend and diluent transportation services to the Foster Creek, Christina Lake and Narrows Lake projects jointly owned by ConocoPhillips and Cenovus Energy (FCCL). For 2013, Inter Pipeline has a planned growth capital expenditure budget of $1.45 billion, the majority of which will be directed towards the Cold Lake and Polaris system expansions.

Inter Pipeline has executed a backstopping agreement for approximately $225 million to support initial engineering, design and early construction work for this capital program. Binding transportation service agreements for these projects are expected to be finalized in the first quarter of 2013. These agreements are being structured as cost-of-service contracts that will not be subject to commodity price movements or throughput volumes. This will ensure that Inter Pipeline receives stable and highly predictable cash flow over the duration of the agreements. Inter Pipeline also has additional backstopping for up to $250 million with respect to other oil sands related projects.

The Cold Lake development plans consist of multiple new projects that will total approximately $1.3 billion (Inter Pipeline's 85% share - $1.1 billion). New pipelines, ranging from 20 to 42 inches in diameter, will be constructed to twin the south leg of the Cold Lake mainline from La Corey to Hardisty, to twin the existing pipeline from the Foster Creek facility to La Corey, and to extend the Cold Lake pipeline system north to Narrows Lake. A total of approximately 400 kilometres (km) of new pipeline will be constructed. In addition, existing facilities will be expanded and new facility connections will be constructed to tie-in the FCCL oil sands projects. When completed, the Cold Lake pipeline system's mainline throughput capacity will increase by 550,000 b/d to approximately 1.2 million b/d. The Cold Lake pipeline system's throughput capacity can be further increased to approximately 1.9 million b/d through the installation of additional pumping facilities and associated infrastructure.

The expansions to the Polaris pipeline system are expected to cost approximately $1.1 billion. A total of approximately 340 km of new pipeline will be constructed, including 50 km of 24-inch diameter pipeline that will connect diluent receipt points in the Edmonton area to Inter Pipeline's Lamont pump station. Further, an additional 290 km of 30-inch diameter pipeline will be constructed to connect the Lamont pump station to the Christina Lake project. Approximately 100 km of new pipeline ranging from 12 to 16 inches in diameter will also be installed as part of the Narrows Lake and Foster Creek connections. Upon completion, the Polaris pipeline system will have approximately 820,000 b/d of diluent delivery capacity to the Athabasca and Cold Lake oil sands regions. With the installation of additional pumping stations and related infrastructure, the Polaris system can be further expanded to an ultimate capacity of 1.2 million b/d.

The projects related to the Foster Creek and Christina Lake facilities for diluent and diluted bitumen transportation are expected to enter commercial service in phases commencing in mid 2014. Those related to the Narrows Lake project are anticipated to be operational in mid 2017.

In late 2012, Inter Pipeline announced an agreement to provide diluent transportation service to Suncor Energy. Under a five year contract, Inter Pipeline will provide 10,000 b/d of diluent transportation service to Suncor at a delivery site on the Polaris system where Suncor will take delivery of diluent for redistribution. Capital expenditures of approximately $10 million will be required to construct a meter station and interconnection. The contract will generate EBITDA of approximately $10 million per year over the life of the contract.

These agreements are indicative of the potential of Inter Pipeline's oil sands transportation infrastructure to generate material increases in throughput volumes and cash flow. When current expansions are complete, over 400,000 b/d of spare transportation capacity will be available on the Polaris and Cold Lake systems. Inter Pipeline continues to aggressively pursue further diluent and diluted bitumen transportation opportunities to utilize this available capacity. Integration of the Polaris and Cold Lake pipeline systems over a central core area of the oil sands region leaves Inter Pipeline well positioned to capture additional transportation business for both diluent and bitumen blend.

In the conventional oil pipelines segment, Inter Pipeline's centrally located gathering systems continue to benefit from new drilling and completion technologies. Most volume growth to date has originated from the Viking and Pekisko formations that underlie Inter Pipeline's conventional pipeline systems; however, drilling activity is now growing in other production zones including the Glauconite and Sunburst zones, which also underlie Inter Pipeline's conventional pipeline systems. If proven successful, these additional play developments may geographically extend the reach of new drilling and completion technologies even further, which should continue to benefit volumes on Inter Pipeline's conventional systems.

Inter Pipeline's NGL extraction segment remains well positioned to continue its track record of strong cash flows. Throughput levels and frac-spread prices remain at very profitable levels. In 2013, Inter Pipeline plans to complete construction of a liquid sweetening unit which will reduce sulphur levels in propane-plus streams. This project will ensure continued access to premium-priced markets for propane-plus products.

Inter Pipeline expects to spend approximately $20 million on organic growth capital projects in the bulk liquid storage segment in 2013. Approximately $10 million will be incurred on tank refurbishments, equipment upgrade projects and new fuel additive facilities at the Simon Storage terminals in the United Kingdom and Germany. In Denmark, approximately $10 million will be incurred to acquire an additional fuel oil storage tank at the Ensted terminal and on new blending equipment.

Inter Pipeline maintains investment grade credit ratings that provide support for Inter Pipeline's strategy of acquiring and developing long-life, high quality energy infrastructure assets. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's).

Considering the above factors, Inter Pipeline enters 2013 well positioned to maintain its long-term record of providing strong investment returns. Inter Pipeline's healthy balance sheet, large portfolio of development opportunities, operational expertise and strong project management skills leave us poised to continue our disciplined growth pattern, which should ultimately provide long-term value to our unitholders.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	2012	2011	*% change*	2012	2011	*% change*
Cold Lake (100% basis)	529.4	470.2	*12.6*	494.4	490.4	*0.8*
Corridor	308.8	299.2	*3.2*	318.2	295.8	*7.6*
	838.2	769.4	*8.9*	812.6	786.2	*3.4*
(millions)						
Revenue(1)	$ 84.1	$ 71.3	*18.0*	$ 300.3	$ 284.8	*5.4*
Operating expenses(1)	$ 27.1	$ 22.5	*20.4*	$ 84.1	$ 80.8	*4.1*
Funds from operations(1)(2)	$ 46.2	$ 39.5	*17.0*	$ 172.8	$ 165.7	*4.3*
Capital expenditures(1)						
Growth(2)	$ 105.7	$ 22.5		$ 261.7	$ 102.8	
Sustaining(2)	0.3	0.5		2.4	1.2	
	$ 106.0	$ 23.0		$ 264.1	$ 104.0	

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

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

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in the Hardisty and Edmonton areas. Inter Pipeline owns an 85% interest in the Cold Lake pipeline system and operates the system pursuant to a long-term Transportation Services Agreement (Cold Lake TSA) with the Cold Lake founding shippers. The shippers have committed to utilizing these pipelines and paying for such usage over the term of the Cold Lake TSA which extends indefinitely subject to certain provisions in the agreement. The Cold Lake TSA provides for a structured return on capital invested, including a defined capital fee that is applied to volumes transported through the pipelines and facilities that comprise the Cold Lake pipeline system, and the recovery of substantially all operating costs. Ship-or-pay provisions resulting in minimum annual toll revenues from the Cold Lake pipeline system were in effect until December 31, 2011. However, because the Cold Lake founding shippers have advanced their projects to the point where both the current and forecast production is in excess of the prior take-or-pay thresholds, it is not anticipated that the expiry of such provisions will have a material impact on Inter Pipeline's financial results. Inter Pipeline anticipates continued volume growth on the Cold Lake Pipeline system which is consistent with the shipper's long-term published forecasts. In addition to the Cold Lake TSA, there are additional agreements between Cold Lake LP and the founding and third party shippers that provide for a return on capital invested and recovery of associated operating costs.

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

The Polaris pipeline system utilizes an existing 12-inch diameter pipeline that was idled as a result of the completed Corridor expansion project in 2011. Following the successful commissioning of the Polaris pipeline system, approximately $100 million of capital was removed from Corridor's rate base. The Polaris pipeline system currently provides diluent transportation service from a diluent receipt point in the area north east of Edmonton to the Kearl oil sands project and is expected to begin diluent transportation service for the Sunrise oil sands project in the second half of 2013. Commercial service of the Polaris pipeline system began on August 15, 2012. The Polaris pipeline system currently generates revenue under a 25-year diluent transportation agreement with Imperial Oil Resource Ventures Limited utilizing a cost-of-service approach providing for a return on capital invested and recovery of all operating costs. Throughput volumes or commodity price fluctuations will not impact Polaris' FFO* as a result of this cost-of-service approach.

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

Volumes

The oil sands transportation business transported average volumes of 838,200 b/d in the fourth quarter of 2012, an increase of 68,800 b/d over fourth quarter 2011 volumes. In the full year of 2012, 812,600 b/d were shipped, which is 26,400 b/d higher than 2011.

Average volumes transported on the Cold Lake pipeline system increased 59,200 b/d or 12.6% to 529,400 b/d during the fourth quarter and 4,000 b/d to 494,400 b/d for the year, compared to the same periods in 2011. Volumes fluctuate on the Cold Lake pipeline system largely due to the timing of steam injection cycles associated with the production processes of certain shippers. Inter Pipeline anticipates long-term volume growth on the Cold Lake pipeline system, which is consistent with shippers' published forecasts.

Average volumes transported on the Corridor pipeline system increased 9,600 b/d to 308,800 b/d in the fourth quarter and 22,400 b/d to 318,200 b/d in 2012, compared to the same periods in 2011. Volume increases result from higher production levels from Athabasca Oil Sands Project's Jackpine mine.

During 2012, no diluent volumes were transported on the Polaris pipeline system to the Kearl oil sands project.

Revenue

Revenue for the three months and year ended December 31, 2012, in the oil sands transportation business increased $12.8 million to $84.1 million and $15.5 million to $300.3 million, respectively, compared to the same periods in 2011.

Cold Lake pipeline system revenue increased $3.8 million in the fourth quarter and $3.4 million in the full year of 2012, compared to the same periods in 2011. The increase in revenue in both periods presented is primarily due to higher volumes transported on the Cold Lake pipeline system and higher operating cost recoveries in 2012 versus 2011.

In the three months and year ended December 31, 2012, Corridor pipeline system revenues decreased $2.9 million and $5.6 million, respectively, compared to the same periods in 2011. The

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

decrease in revenue is primarily due to a reduction in the Corridor rate base due to the transfer of the 12-inch diameter pipeline to the Polaris pipeline system, a reduced return on equity due to a lower benchmark long-term GOC bond rate, and lower recoverable operating costs. The long-term GOC benchmark bond interest rate decreased approximately 39 basis points in the fourth quarter and 86 basis points in 2012, compared to the same periods in 2011. An increase in rate base debt financing costs and related revenue for the three months and year ended December 31, 2012 partially offset the decreases in revenue, compared to the same periods in 2011.

Revenue generated from the Polaris pipeline system was $11.9 million in the fourth quarter and $17.7 million in 2012. The Polaris pipeline system began generating revenue in the third quarter of 2012, consisting of capital fee revenue, operating cost recoveries and the reimbursement of certain construction related expenditures.

Operating Expenses

In the oil sands transportation business segment, operating expenses typically have a limited impact on Inter Pipeline's cash flow. On the Cold Lake pipeline system, substantially all operating expenditures are recovered from the shippers; on the Corridor and Polaris pipeline systems there is full recovery of operating expenditures. In the fourth quarter and full year of 2012, operating expenses in the oil sands transportation business of $27.1 million and $84.1 million were $4.6 million and $3.3 million higher, respectively, compared to the same periods in 2011.

In 2012, Cold Lake pipeline system's operating expenses increased $3.8 million in the fourth quarter and $2.5 million for the full year, compared to the same periods in 2011. The increase in both periods is primarily due to higher general operating costs, employee costs and property taxes. Incremental right-of-way maintenance costs were also incurred in the full year ended 2012. Power costs in the fourth quarter of 2012 were higher than in the fourth quarter of 2011, largely due to increased consumption associated with the increase in volumes and higher power prices. For the full year of 2012, power costs were lower than 2011 primarily due to a decrease in power prices.

Operating expenses decreased $1.5 million and $2.4 million on the Corridor pipeline system for the three months and year ended December 31, 2012, respectively, compared to the same periods in 2011. The decrease in both periods is primarily due to lower operating costs associated with the transfer of the 12-inch pipeline to the Polaris pipeline system, as well as lower integrity costs.

Operating expenses on the Polaris pipeline system were $2.3 million in the fourth quarter and $3.2 million for the year ended December 31, 2012, primarily relating to employee and routine operating costs as well as certain construction related expenditures. There were no such expenses in 2011.

Capital Expenditures

In 2012, the Cold Lake pipeline system incurred total growth capital expenditures[*] of $169.1 million. Of this amount, $34.0 million relates to the west leg expansion project, for a total of $38.3 million ($45.0 million – 100%) spent to date. Bitumen blend capacity on the west leg mainline will be increased from approximately 535,000 b/d to 650,000 b/d by expanding existing pump stations and the addition of two new pump stations. The west leg expansion project is expected to cost $90.0 million (100%), with an in service date of mid 2013.

Growth capital expenditures[*] incurred in 2012 on Cold Lake pipeline's recently announced $1.3 billion (Inter Pipeline's 85% share - $1.1 billion) development plan were $56.8 million, for a total of $59.8 million spent to date. These expenditures include initial engineering, design and procurement of long lead items. New pipelines, ranging from 20 to 42 inches in diameter, will be constructed to twin the south leg of the Cold Lake mainline from La Corey to Hardisty, to twin the existing pipeline from the Foster Creek facility to La Corey, and to extend the Cold Lake pipeline system north to connect the Narrows Lake project. A total of approximately 400 km of new pipeline will be constructed. In addition, existing facilities will be expanded and new facility connections will be constructed to tie-in the production sites. When completed, the Cold Lake pipeline system's mainline throughput capacity will increase by 550,000 b/d to approximately 1.2 million b/d. The projects related to the Foster Creek

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

facilities are expected to be completed and in service by 2015. Those related to the Narrows Lake project are anticipated to be completed for mid 2017.

The remaining Cold Lake pipeline growth capital expenditures* of $78.3 million relate to other projects that are under development.

The Corridor pipeline system incurred total growth capital expenditures* of $7.5 million in 2012, which primarily related to purchases of emergency response equipment.

Total growth capital expenditures* on the Polaris pipeline system in 2012, were $85.1 million. Facility and pipeline construction activities as well as line fill and wet commissioning activities relating to the connection of the Kearl oil sands project were completed during the third quarter of 2012, while facility and pipeline construction activities continued on the Sunrise oil sands project. Growth capital expenditures* on these projects were $25.7 million in 2012 for a total of $100.7 million spent to date. The Polaris pipeline system currently is in a position to provide diluent transportation services for the Kearl oil sands project when required and will be ready to provide diluent transportation service for the Sunrise oil sands project in the second half of 2013. Total estimated capital expenditures to connect the Polaris pipeline to the Kearl and Sunrise projects, and diluent receipt points in the Edmonton area is $105 million.

The Polaris pipeline system also incurred $43.5 million in growth capital expenditures* in 2012, on its recently announced $1.1 billion development plan. These expenditures relate to initial engineering, design and procurement of long lead items. A total of approximately 440 km of new pipeline will be constructed, including a new 50 km 24-inch diameter pipeline tying diluent receipt points in the Edmonton area to Inter Pipeline's Lamont pump station, and a new 290 km 30-inch diameter pipeline to connect the Lamont station to the Christina Lake production site. Approximately 100 km of new pipeline ranging from 12 to 16 inches in diameter will also be installed as part of the Narrows Lake and Foster Creek connections. Upon completion, the Polaris pipeline system will have approximately 820,000 b/d of diluent delivery capacity to the Athabasca and Cold Lake oil sands regions. With the installation of additional pumping stations and related infrastructure, the Polaris pipeline system can be further expanded to an ultimate capacity of approximately 1.2 million b/d. The projects related to the Foster Creek and Christina Lake facilities are expected to be complete and in service by mid 2014. Those related to the Narrows Lake project are anticipated to be completed for mid 2017.

The remaining growth capital expenditures* of $15.9 million on the Polaris pipeline system in 2012 were spent on various other development initiatives.

---

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

NGL EXTRACTION BUSINESS SEGMENT

Three Months Ended December 31

	2012				2011			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,646	49.0	22.3	71.3	1,705	53.8	23.2	77.0
Empress V (100% basis)	905	23.9	10.7	34.6	607	15.2	7.0	22.2
Empress II	-	-	-	-	-	-	-	-
	2,551	72.9	33.0	105.9	2,312	69.0	30.2	99.2

Years Ended December 31

	2012				2011			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,761	51.9	24.8	76.7	1,640	50.7	23.1	73.8
Empress V (100% basis)	798	18.9	9.1	28.0	883	21.2	10.0	31.2
Empress II	92	1.8	1.1	2.9	75	1.3	0.7	2.0
	2,651	72.6	35.0	107.6	2,598	73.2	33.8	107.0

	Three Months Ended December 31			Years Ended December 31		
(millions)	2012	2011	*% change*	2012	2011	*% change*
Revenue[1][2]	$ 133.5	$ 129.1	*3.4*	$ 499.9	$ 584.6	*(14.5)*
Shrinkage gas[1]	$ 64.7	$ 61.7	*4.9*	$ 206.5	$ 278.1	*(25.7)*
Operating expenses[1]	$ 30.3	$ 23.2	*30.6*	$ 98.9	$ 103.9	*(4.8)*
Funds from operations[1][2][3]	$ 38.7	$ 44.1	*(12.2)*	$ 194.6	$ 202.5	*(3.9)*
Capital expenditures[1]						
Growth[3]	$ 11.5	$ 3.5		$ 29.5	$ 7.8	
Sustaining[3]	3.2	1.4		7.0	5.7	
	$ 14.7	$ 4.9		$ 36.5	$ 13.5	

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

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

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

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

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

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

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

Volumes

Inter Pipeline's three NGL extraction facilities processed average natural gas throughput volumes of 2,551 million cubic feet per day (mmcf/d) and 2,651 mmcf/d during the quarter and year ended December 31, 2012, respectively.

At the Cochrane facility, average throughput volumes decreased 59 mmcf/d during the fourth quarter and increased 121 mmcf/d for the full year of 2012, compared to the same periods in 2011. Throughput volumes at the Cochrane facility fluctuate in accordance with demand for Canadian natural gas in the US west-coast region.

At the Empress facilities average throughput volumes increased 298 mmcf/d for the fourth quarter of 2012 versus the fourth quarter of 2011, and decreased 68 mmcf/d for the full year of 2012, compared to 2011. Throughput volumes at the Empress facilities fluctuate in accordance with natural gas exports from Alberta's eastern border and are also largely dependent on successfully attracting border gas flows to the extraction facilities. Throughput volumes in 2012 were also impacted by a 29 day unplanned maintenance outage at the Empress V facility in September and October.

Revenue

Revenue increased $4.4 million to $133.5 million for the fourth quarter and decreased $84.7 million to $499.9 million for 2012, compared to the same periods in 2011. The increase in revenue in the fourth quarter of 2012 is primarily driven by increased ethane production at Empress V, which was partially offset by lower propane-plus and ethane pricing. The decrease in revenue for the full year of 2012 was primarily driven by lower propane-plus and ethane pricing, which was largely offset on a FFO[*] perspective by the decrease in shrinkage gas expense as discussed below. In 2011, revenue was also favourably impacted by a one time pricing adjustment of $20.5 million relating to propane-plus volumes sold from 2007 to 2011 at the Cochrane extraction facility.

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

Frac-spread

(dollars)	Three Months Ended December 31 2012 USD/USG (1)	2012 CAD/USG (1)	2011 USD/USG (1)	2011 CAD/USG (1)
Market frac-spread	$ 0.855	$ 0.848	$ 1.308	$ 1.339
Realized frac-spread	$ 0.911	$ 0.903	$ 0.991	$ 1.015

(dollars)	Years Ended December 31 2012 USD/USG (1)	2012 CAD/USG (1)	2011 USD/USG (1)	2011 CAD/USG (1)
Market frac-spread	$ 1.014	$ 1.013	$ 1.264	$ 1.250
Realized frac-spread	$ 0.995	$ 0.994	$ 1.005	$ 0.994

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

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

Realized frac-spreads decreased from $0.99 USD/USG to $0.91 USD/USG and from $1.01 USD/USG to $1.00 USD/USG for the three months and year ended December 31, 2012, respectively, compared to the same periods in 2011. Market frac-spread for the twelve months ended December 31, 2012, was above the 5-year and 15-year simple average market frac-spread of $0.91 USD/USG and $0.50 USD/USG, respectively, calculated at December 31, 2012.

Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. Shrinkage gas expense increased $3.0 million in the fourth quarter of 2012, compared to the same period in 2011, due to the increase in ethane volumes at Empress V. Lower AECO natural gas prices reduced shrinkage gas expense in the fourth quarter of 2012 and was the driver for the $71.6 million decrease in shrinkage gas expense for the full year of 2012 compared to the full year of 2011. The weighted average monthly AECO price* decreased from $3.29 per gigajoule (GJ) to $2.89/GJ or 12.2% and from $3.48/GJ to $2.28/GJ or 34.5%, for the three months and year ended December 31, 2012, respectively, compared to the same periods in 2011.

Operating Expenses

Operating expenses increased $7.1 million in the fourth quarter of 2012, compared to the same period in 2011. The increase is primarily due to higher operating and maintenance costs, associated with several one time events including a gas turbine exchange and overhaul, and a CO2 plant Freon replacement at the Cochrane facility, as well as higher fuel and power costs. Average Alberta pool prices increased from $76.07/MWh in the fourth quarter of 2011 to $78.70/MWh in the fourth quarter of 2012. For 2012, operating expenses decreased $5.0 million as a result of lower fuel and power

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

costs, which were partially offset by higher operating and maintenance costs. In 2012, average Alberta pool prices decreased 15.6% from $76.21/MWh in 2011 to $64.31/MWh.

Capital Expenditures

In 2012, the NGL extraction business incurred growth capital expenditures* of $29.5 million, of which $26.7 million relates to a liquid sweetening project at the Cochrane facility. The remaining costs relate to various projects at the Cochrane and Empress facilities. Sustaining capital expenditures of $7.0 million were incurred in 2012, primarily relating to the replacement of various processing equipment components and other projects at the Cochrane facility.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	2012	2011	*% change*	2012	2011	*% change*
Bow River	103.3	109.3	*(5.5)*	106.8	107.7	*(0.8)*
Central Alberta	28.6	24.6	*16.3*	27.6	26.0	*6.2*
Mid-Saskatchewan	44.8	41.8	*7.2*	41.1	36.3	*13.2*
	176.7	175.7	*0.6*	175.5	170.0	*3.2*
(millions)						
Revenue	$ 62.0	$ 46.3	*33.9*	$ 231.2	$ 177.8	*30.0*
Midstream product purchases	$ 10.2	$ -	*100.0*	$ 31.9	$ -	*100.0*
Operating expenses	$ 13.1	$ 14.0	*(6.4)*	$ 47.1	$ 46.0	*2.4*
Funds from operations(1)	$ 38.7	$ 33.5	*15.5*	$ 153.4	$ 133.2	*15.2*
Revenue per barrel(2)	$ 2.98	$ 2.68	*11.2*	$ 2.91	$ 2.68	*8.6*
Capital expenditures						
Growth(1)	$ 2.6	$ 3.0		$ 32.6	$ 4.9	
Sustaining(1)	0.2	0.2		2.1	1.8	
	$ 2.8	$ 3.2		$ 34.7	$ 6.7	

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

The conventional oil pipelines business includes the Bow River, Central Alberta and Mid-Saskatchewan pipeline systems located in Alberta and Saskatchewan. The majority of petroleum volumes transported on these conventional gathering systems are under short-term contracts with fixed tolling arrangements and no specific volume commitments. On April 1, 2012, Inter Pipeline internalized midstream marketing activities.

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

Volumes

In 2012, conventional oil pipelines volumes averaged 176,700 b/d in the fourth quarter and 175,500 b/d in the year, an increase of 1,000 b/d and 5,500 b/d, respectively, compared to the same periods in 2011. Average volumes on the Mid-Saskatchewan pipeline increased 3,000 b/d or 7.2% in the fourth quarter of 2012 and 4,800 b/d or 13.2% in the year of 2012, compared to the same periods in 2011, as the growth in horizontal drilling activity continued in the Viking light oil play. Increased drilling activity and stronger truck terminal throughput resulted in higher average volumes on the Central Alberta pipeline of 4,000 b/d or 16.3% in the fourth quarter and 1,600 b/d or 6.2% in the year of 2012, compared to the same periods in 2011. Volumes on the Bow River pipeline declined 6,000 b/d or 5.5% and 900 b/d or 0.8% in the fourth quarter and year of 2012, compared to the same periods in

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

2011. The decrease in volumes is primarily due to lower trucked volumes to the system and natural production declines, as well as a downstream pipeline outage that impacted the fourth quarter of 2012.

Revenue

Revenues for the three and twelve months ended December 31, 2012, in the conventional oil pipelines business increased $15.7 million and $53.4 million, respectively, compared to the same periods in 2011. The increase in revenue is primarily due to higher revenues from midstream marketing activities, which were previously recorded net of product purchases and trucking costs, until the internalization of these activities in April, 2012. Increased tariffs and higher transportation volumes discussed previously also resulted in higher revenues.

Midstream Product Purchases

Inter Pipeline's product purchases for the midstream marketing activities were $10.2 million and $31.9 million for the three months and year ended December 31, 2012, respectively. These costs were previously recorded against revenue as discussed above.

Operating Expenses

Operating expenses decreased $0.9 million in the fourth quarter of 2012, compared to the same period in 2011, due to a decrease in long-term environmental liabilities, partially offset by higher routine operating and trucking costs for Inter Pipeline's midstream marketing activities. For the year of 2012, operating costs increased $1.1 million from 2011 due to higher fuel and power, employee and trucking costs, partially offset by lower leak repair and remediation costs and a decrease in long-term environmental liabilities.

Capital Expenditures

In 2012, $32.6 million was incurred for growth capital expenditures* in the conventional oil pipelines business, of which $24.0 million was expended on line fill for the midstream marketing business. The remainder primarily related to facility upgrades and third party connections on the Mid-Saskatchewan pipeline system.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended December 31			Years Ended December 31		
	2012	2011	*% change*	2012	2011	*% change*
Utilization	88.3%	94.9%	*(7.0)*	90.0%	97.0%	*(7.2)*
(millions)						
Revenue	$ 38.8	$ 26.5	*46.4*	$ 155.6	$ 104.4	*49.0*
Operating expenses	$ 16.0	$ 14.2	*12.7*	$ 63.1	$ 54.6	*15.6*
Funds from operations(1)	$ 20.0	$ 9.4	*112.8*	$ 80.2	$ 37.2	*115.6*
Capital expenditures						
Growth(1)	$ 5.9	$ 5.2		$ 15.7	$ 17.1	
Sustaining(1)	9.7	4.4		24.0	8.5	
	$ 15.6	$ 9.6		$ 39.7	$ 25.6	

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Inter Pipeline operates a bulk liquid storage business through two wholly owned subsidiaries, Simon Storage Limited (Simon Storage) and Inter Terminals Denmark A/S (Inter Terminals). Simon Storage owns and operates six bulk liquid storage terminals located in the United Kingdom (UK) and Ireland, and two inland terminals located on the Rhine River in Germany, with a combined liquid storage capacity of approximately 8.1 million barrels. Inter Terminals owns and operates four coastal bulk

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

liquid storage terminals located in Denmark, with a combined storage capacity of approximately 10.8 million barrels. Business activities consist primarily of storage and handling services contracted through a combination of fixed storage rental and capacity reservation fees and variable throughput fees. The business supports a wide range of activities, including refinery support, inland product distribution and raw material storage for regional manufacturing facilities and has a well diversified customer base, with key customers including Phillips 66, JP Morgan, Statoil, Mabanaft, Greenergy and Harvest Energy. Simon Storage also offers a range of ancillary services to its customers.

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

Utilization

Despite the uncertain European economic environment, demand for bulk liquid storage has remained relatively strong with tank utilization averaging 88.3% and 90.0% for the fourth quarter and full year of 2012, respectively. Utilization rates averaged 89.7% and 91.4% at Simon Storage and averaged 87.2% and 88.9% at Inter Terminals, in the fourth quarter and full year 2012, respectively. Utilization rates were negatively impacted by the absence of strong contango in certain petroleum product futures markets. Demand for storage has fluctuated historically as a result of market conditions within industry sectors, and is typically addressed through product and customer diversification.

Revenue

Revenue in the bulk liquid storage business increased 46.4% or $12.3 million to $38.8 million and 49.0% or $51.2 million to $155.6 million, in the fourth quarter and full year of 2012, respectively, compared to the same periods in 2011. The increases were mostly due to the acquisition of Inter Terminals in January 2012, contributing revenue of $12.7 million in the fourth quarter and $55.8 million in 2012. Revenue from Simon Storage increased $0.1 million in the fourth quarter and decreased $3.3 million in the year ended 2012, compared to the same periods in 2011. The reduction in revenue from Simon Storage in 2012 is primarily due to a planned decrease in the ancillary service business. Foreign currency translation adjustments also reduced revenues by $0.5 million in the fourth quarter and $1.3 million in 2012, compared to the same periods in 2011. The average Euro/CAD exchange rate in the fourth quarter and 2012 decreased from 1.38 in 2011 to 1.29 in 2012. The average Pound Sterling/CAD exchange rate decreased from 1.61 in the fourth quarter of 2011 to 1.59 in the fourth quarter of 2012 and decreased from 1.59 to 1.58 for the year ended 2011 to 2012.

Operating Expenses

Operating expenses increased $1.8 million and $8.5 million in the fourth quarter and full year of 2012, respectively, compared to the same periods in 2011. The increase in both periods is due to the acquisition of Inter Terminals in January 2012, which increased operating expenses $2.9 million in the fourth quarter and $13.0 million in the full year of 2012. Simon Storage's operating expenses decreased $0.8 million in the fourth quarter and $3.9 million in the year ended December 31, 2012, compared to the same periods in 2011. The decrease in both periods is primarily due to lower ancillary service costs. Foreign currency translation adjustments reduced operating costs $0.3 million in the fourth quarter and $0.6 million in the year ended 2012, compared to the same periods in 2011.

Capital Expenditures

In 2012, growth capital expenditures[*] in the bulk liquid storage business were $15.7 million, including the replacement of tanks at Immingham comprising 38,000 barrels for the storage of gas condensate supported by a 10 year storage contract. Growth capital also included the demolition and construction of three tanks comprising 151,000 barrels, and the refurbishment of a fourth tank pursuant to a new five year contract at Immingham. Sustaining capital expenditures in 2012 were $24.0 million, primarily relating to environmental performance enhancement initiatives and other improvement projects to terminal infrastructure and safety facilities at Inter Terminals.

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

Acquisition of Inter Terminals

On January 11, 2012, Inter Pipeline completed the acquisition of four petroleum storage terminals in Denmark, referred to collectively as Inter Terminals, from a subsidiary of DONG Energy A/S. The acquisition was valued at $459.1 million plus closing adjustments and the assumption of surplus cash, for a total cash consideration of approximately $509.7 million, and was funded from Inter Pipeline's revolving 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 $12.7 million and $3.2 million to revenue and net income, respectively, for the three months ended December 31, 2012. Inter Terminals contributed $55.8 million and $15.3 million to revenue and net income, respectively, from the date of acquisition to December 31, 2012.

As a result of this transaction, an acquisition fee of $4.6 million was paid during the first quarter of 2012 to the General Partner, pursuant to the terms of the Limited Partnership Agreement (LPA). Acquisition related costs of $0.2 million (2011 - $3.2 million) have been expensed and included in general and administrative expenses in the consolidated statements of net income.

The acquisition was accounted for using the acquisition method 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 allocation of the consideration transferred was as follows:

Cash	$ 48.3
Non-cash working capital	15.5
Property, plant and equipment	342.2
Goodwill	110.9
Intangible assets	20.3
Decommissioning obligation	(18.4)
Deferred income tax liability	(9.1)
	$ 509.7

OTHER EXPENSES

	Three Months Ended December 31		Years Ended December 31	
(millions)	2012	2011	2012	2011
Depreciation and amortization	$ 30.8	$ 25.4	$ 123.1	$ 99.7
Financing charges	24.5	20.7	97.6	80.2
Provision for income taxes	16.2	15.3	89.3	80.3
General and administrative	19.4	17.9	64.0	54.8
Acquisition fee to General Partner	-	-	4.6	-
Management and incentive fees to General Partner	3.4	2.4	13.8	10.6
Unrealized change in fair value of derivative financial instruments	5.2	10.0	(44.4)	14.5
Loss on disposal of assets	0.2	-	0.2	-

Depreciation and Amortization

For the three and twelve months ended December 31, 2012, depreciation and amortization of tangible and intangible assets increased $5.4 million and $23.4 million, respectively, primarily due to the acquisition of Inter Terminals.

Financing Charges

(millions)	Three Months Ended December 31 2012	Three Months Ended December 31 2011	Years Ended December 31 2012	Years Ended December 31 2011
Interest on credit facilities	$ 7.9	$ 6.4	$ 33.8	$ 28.6
Interest on loan payable to General Partner	4.8	5.8	22.1	23.1
Interest on Corridor Debentures	2.6	2.6	10.2	10.1
Interest on MTN Series 1, 2 and 3	9.7	5.9	32.7	17.9
Total interest	25.0	20.7	98.8	79.7
Capitalized interest	(1.3)	(0.6)	(5.7)	(1.3)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.7	0.4	3.0	1.2
Accretion of provisions and pension plan financing charges	0.1	0.2	1.5	0.6
Total financing charges	$ 24.5	$ 20.7	$ 97.6	$ 80.2

In the three and twelve months ended December 31, 2012, total financing charges increased $3.8 million and $17.4 million, respectively, compared to the same periods in 2011. The increase in financing charges was primarily due to the acquisition of Inter Terminals in January 2012, which was primarily funded utilizing Inter Pipeline's credit facility.

Interest on MTNs increased in the three and twelve months ended December 31, 2012, by $3.8 million and $14.8 million, respectively, due to the timing of issuances of the MTN Series 1, 2 and 3.

Interest on credit facilities increased $1.5 million in the fourth quarter of 2012 and $5.2 million in 2012, compared to the same periods in 2011. Interest expense primarily increased due to higher fees on the unutilized portion of the revolving facilities and higher debt levels. Average short-term interest rates were 1 basis point higher in the fourth quarter and 1 basis point lower in the full year of 2012, compared to the same periods in 2011. The weighted average credit facility debt outstanding increased by $98.1 million from $1,500.3 million in the fourth quarter of 2011 to $1,598.4 million in the fourth quarter of 2012 and $17.5 million from $1,711.6 million in 2011 to $1,729.1 million in 2012.

Interest on the loan payable to the General Partner decreased $1.0 million for the three months and year ended 2012, as Inter Pipeline repaid a $91.2 million tranche of the loan on October 29, 2012.

Capitalized interest for the three and twelve months ended December 31, 2012 increased by $0.7 million and $4.4 million, respectively, compared to the same periods in 2011. This increase primarily relates to capitalized interest attributed to the expansion of the Polaris and Cold Lake pipeline systems and a liquid sweetening project at the Cochrane NGL extraction facility.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper increased $0.3 million in the fourth quarter and $1.8 million in 2012, due to new issuances, compared to the same periods in 2011. Accretion of decommissioning and environmental provisions decreased $0.1 million and increased $0.9 million for the three and twelve months ended December 31, 2012, respectively, compared to same periods in 2011. The increase in the full year of 2012 is primarily due to an increase in decommissioning provisions relating to the acquisition of Inter Terminals.

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

Income Taxes

Consolidated income tax expense increased $0.9 million from $15.3 million in the fourth quarter of 2011 to $16.2 million in the fourth quarter of 2012, and increased $9.0 million from $80.3 million in 2011 to $89.3 million in 2012. The increase in income tax expense in both periods is primarily due to higher consolidated income before taxes.

General and Administrative

	Three Months Ended December 31		Years Ended December 31	
(millions)	2012	2011	2012	2011
Canada	$ 16.3	$ 15.3	$ 53.0	$ 45.1
Europe	3.1	2.6	11.0	9.7
	$ 19.4	$ 17.9	$ 64.0	$ 54.8

Canadian general and administrative expenses increased $1.0 million and $7.9 million for the three months and full year of 2012, respectively, primarily due to higher employee costs, compared to the same periods in 2011. Employee costs increased due to: 1) the addition of new employees required to manage Inter Pipeline's business growth; 2) an increase in long term incentive plan costs resulting from an increase in the market value of Inter Pipeline's Class A limited partnership units (Class A units); and, 3) regular compensation increases to existing employees.

European general and administrative costs increased $0.5 million in the fourth quarter and $1.3 million in 2012, primarily due to the 2012 acquisition of Inter Terminals, compared to the same periods in 2011.

Fees to General Partner

The General Partner earned management fees from Inter Pipeline of $2.8 million in the fourth quarter (fourth quarter 2011 - $2.4 million) for a total of $12.0 million for the year ended 2012 (year ended December 31, 2011 - $10.6 million). This fee is equivalent to 2% of "Operating Cash," as defined in the LPA. In the fourth quarter of 2012, an incentive fee to the General Partner of $0.6 million was also accrued for a total of $1.8 million in 2012, as annualized Distributable Cash for 2012 is in excess of $1.01 per unit annually (three and twelve months ended December 31, 2011 - $nil). Acquisition fees of $4.6 million related to the acquisition of Inter Terminals were also paid to the General Partner in the first quarter of 2012.

See the **TRANSACTIONS WITH RELATED PARTIES** section for additional information on fees to the General Partner.

Unrealized Change in Fair Value of Derivative Financial Instruments

In the fourth quarter and year of 2012, Inter Pipeline's mark-to-market valuation of derivative financial instruments resulted in a decrease to net income of $5.2 million and an increase to net income of $44.4 million, respectively.

In the fourth quarter of 2012, net income decreased by the mark-to-market adjustment on NGL swaps for price and volume changes between October and December of 2012 by $6.3 million and foreign currency swaps by $0.9 million. Net income was favourably impacted by mark-to-market adjustments for natural gas and electricity price swaps by $1.9 million and $0.1 million, respectively, for price and volume changes between October and December 2012.

The mark-to-market adjustment for NGL, natural gas and foreign currency swaps increased net income for the year of 2012, by $29.9 million, $8.8 million and $5.7 million, respectively, for price and volume changes between January and December of 2012.

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

SUMMARY OF QUARTERLY RESULTS

(millions, except per unit and % amounts)	2011 First Quarter	2011 Second Quarter	2011 Third Quarter	2011 Fourth Quarter	2012 First Quarter	2012 Second Quarter	2012 Third Quarter	2012 Fourth Quarter
Revenue								
Oil sands transportation	$ 72.8	$ 67.7	$ 73.0	$ 71.3	$ 70.6	$ 68.1	$ 77.5	$ 84.1
NGL extraction	159.9	137.4	158.2	129.1	136.7	106.3	123.4	133.5
Conventional oil pipelines	43.7	42.1	45.7	46.3	51.2	58.8	59.2	62.0
Bulk liquid storage	26.6	26.1	25.2	26.5	38.7	42.4	35.7	38.8
	$ 303.0	$ 273.3	$ 302.1	$ 273.2	$ 297.2	$ 275.6	$ 295.8	$ 318.4
Funds from operations(1)								
Oil sands transportation	$ 43.1	$ 41.3	$ 41.8	$ 39.5	$ 41.3	$ 41.2	$ 44.1	$ 46.2
NGL extraction(2)	53.0	42.8	62.6	44.1	57.0	48.5	50.4	38.7
Conventional oil pipelines	32.6	31.5	35.6	33.5	40.5	35.3	38.9	38.7
Bulk liquid storage	10.5	8.3	9.0	9.4	19.3	23.3	17.6	20.0
Corporate costs	(38.9)	(32.0)	(37.1)	(36.4)	(50.1)	(41.0)	(44.6)	(42.7)
	$ 100.3	$ 91.9	$ 111.9	$ 90.1	$ 108.0	$ 107.3	$ 106.4	$ 100.9
Per unit(1)	$ 0.39	$ 0.35	$ 0.43	$ 0.35	$ 0.41	$ 0.40	$ 0.39	$ 0.37
Net income	$ 64.5	$ 61.0	$ 76.6	$ 45.8	$ 79.6	$ 104.4	$ 65.9	$ 57.3
Per unit – basic & diluted	$ 0.25	$ 0.24	$ 0.29	$ 0.17	$ 0.30	$ 0.39	$ 0.24	$ 0.21
Distributions(3)	$ 62.0	$ 62.1	$ 62.5	$ 65.1	$ 69.9	$ 70.6	$ 71.3	$ 73.4
Per unit(3)	$ 0.2400	$ 0.2400	$ 0.2400	$ 0.2475	$ 0.2625	$ 0.2625	$ 0.2625	$ 0.2675
Units outstanding (basic)								
Weighted average	258.3	258.8	259.9	262.7	265.7	268.6	271.3	273.9
End of period	258.5	259.1	261.2	264.2	267.2	270.0	272.7	275.2
Capital expenditures								
Growth(1)	$ 40.8	$ 27.8	$ 29.8	$ 34.2	$ 39.6	$ 66.8	$ 107.4	$ 125.7
Sustaining(1)	2.8	4.4	5.0	7.2	6.3	7.0	11.2	15.6
	$ 43.6	$ 32.2	$ 34.8	$ 41.4	$ 45.9	$ 73.8	$ 118.6	$ 141.3
Payout ratio before sustaining capital(1)	61.8%	67.6%	55.8%	72.3%	64.7%	65.8%	67.0%	72.8%
Payout ratio after sustaining capital(1)	63.6%	71.0%	58.5%	78.5%	68.7%	70.4%	75.0%	86.0%
Total debt(4)	$ 2,762.4	$ 2,738.2	$ 2,719.1	$ 2,672.1	$ 3,145.8	$ 3,082.7	$ 3,113.6	$ 3,127.6
Total partners' equity	$ 1,339.8	$ 1,346.7	$ 1,404.4	$ 1,419.8	$ 1,493.7	$ 1,559.4	$ 1,594.8	$ 1,659.5
Enterprise value(1)	$ 7,178.1	$ 6,847.2	$ 6,901.1	$ 7,593.3	$ 8,374.5	$ 8,268.8	$ 8,973.1	$ 9,593.8
Total debt to total capitalization(1)	67.3%	67.0%	65.9%	65.3%	67.8%	66.4%	66.1%	65.3%
Total recourse debt to capitalization(1)	42.0%	41.5%	40.1%	38.9%	48.2%	46.1%	47.6%	47.0%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) In the third quarter of 2011, FFO(1) increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.
(3) Distributions are calculated based on the number of units outstanding at each record date.
(4) Total debt includes long-term debt, short-term debt and commercial paper before discounts and debt transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital and acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At December 31, 2012, Inter Pipeline had access to committed credit facilities totaling $2.3 billion, of which $686.0 million remains unutilized, and demand facilities totaling $45 million of which $44.8 million remains unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

In addition to committed credit facilities, Inter Pipeline issues equity capital from time to time to ensure its balance sheet remains well prepared for expected growth. Approximately $208.8 million of equity was issued through the distribution reinvestment plan during the year ended December 2012.

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

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

In November 2012, Inter Pipeline filed a short form base shelf prospectus with Canadian regulatory authorities. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) Class A units; (ii) debt securities and (iii) subscription receipts (collectively, the "Securities") of up to $3.0 billion aggregate initial offering price of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. This short form base shelf prospectus replaces the previous one filed on November 30, 2010. In 2011, Inter Pipeline issued $325 million MTN Series 1 and $200 million MTN Series 2.

On May 28, 2012 Inter Pipeline issued $400 million of 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. Net proceeds from the offering were used to repay a portion of the amount drawn under Inter Pipeline's revolving credit facility.

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

CAPITAL STRUCTURE

(millions, except % amounts)	Recourse	Non-recourse	December 31 2012	December 31 2011
Credit facilities available				
Corridor syndicated facility	$ -	$ 1,550.0	$ 1,550.0	$ 1,550.0
Inter Pipeline syndicated facility	750.0	-	750.0	750.0
	750.0	1,550.0	2,300.0	2,300.0
Demand facilities(1)	20.0	25.0	45.0	45.0
	$ 770.0	$ 1,575.0	$ 2,345.0	$ 2,345.0
Total debt outstanding				
Recourse				
Inter Pipeline syndicated facility			$ 260.0	$ -
Loan payable to General Partner			288.6	379.8
MTN Series 1, 2 and 3			925.0	525.0
Non-recourse				
Corridor syndicated facility			1,354.0	1,467.3
Corridor debentures			300.0	300.0
Total debt(1)(2)			3,127.6	2,672.1
Total partners' equity			1,659.5	1,419.8
Total capitalization(3)			$ 4,787.1	$ 4,091.9
Total debt to total capitalization(3)			65.3%	65.3%
Total recourse debt to capitalization(3)			47.0%	38.9%

(1) At December 31, 2012, outstanding Corridor letters of credit were approximately $0.2 million were not included in the total debt outstanding in the table above.
(2) Total debt reported in the December 31, 2012 consolidated financial statements of $3,112.0 million, includes long-term debt, short-term debt and commercial paper outstanding of $3,127.6 million less discounts and debt transaction costs of $15.6 million.
(3) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Management's long-term objectives are to remain well below its maximum permitted ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to EBITDA* ratio of 4.25. In 2013, Inter Pipeline's permitted recourse debt to EBITDA* ratio is expected to temporarily increase to accommodate the financing of the oil sands transportation expansion projects. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization* ratio was 47.0% at December 31, 2012. Adjusting for the impact of non-recourse debt of $1,654.0 million, Inter Pipeline's consolidated debt to total capitalization* ratio at December 31, 2012 was 65.3%.

At December 31, 2012, approximately $1,764.0 million or 56.4% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount $1,504.0 million or 85.3% relates to Corridor debt outstanding and is directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2007, Inter Pipeline acquired an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

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

	December 31			
	2012		2011	
Maturity date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
Corridor debentures				
- Fixed to floating rate swap				
Series B - February 2, 2015	5.033%	$ 150.0	5.033%	$ 150.0

The following earnings coverage ratios are calculated on a consolidated basis for the twelve month periods ended December 31, 2012 and 2011.

	Twelve Months Ended December 31	
(times)	2012	2011
Interest coverage(1)(2)	4.8	5.0

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Net income plus income taxes and borrowing costs, divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations.

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

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

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at December 31, 2012. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects(1)				
Oil sands transportation	$ 1,386.2	$ 1,386.2	$ -	$ -
NGL extraction	31.7	31.7	-	-
Conventional oil pipelines	10.4	10.4	-	-
Bulk liquid storage	20.3	20.3	-	-
Growth capital(2)	1,448.6	1,448.6	-	-
Sustaining capital(2)	40.5	40.5	-	-
	1,489.1	1,489.1	-	-
Total debt(3)				
Corridor syndicated facility(4)	1,354.0	1,354.0	-	-
Inter Pipeline syndicated facility	260.0	-	260.0	-
Loan to General Partner	288.6	-	288.6	-
Corridor debentures	300.0	-	150.0	150.0
MTN Series 1, 2, 3	925.0	-	-	925.0
	3,127.6	1,354.0	698.6	1,075.0
Other obligations				
Derivative financial instruments	8.3	8.3	-	-
Operating leases	227.1	8.8	45.0	173.3
Purchase obligations	135.6	15.9	26.1	93.6
Long-term portion of incentive plan	7.2	-	7.2	-
Working capital deficit(2)	94.0	94.0	-	-
	$ 5,088.9	$ 2,970.1	$ 776.9	$ 1,341.9

(1) Capital expenditures classified as "less than one year" represent expected spending for 2013.
(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(3) At December 31, 2012, outstanding Corridor letters of credit of approximately $0.2 million were not included in the total $3,127.6 million of debt outstanding in the table above.
(4) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated credit facility that has no repayment requirements until December 2016.

Inter Pipeline plans to invest approximately $1,450 million in organic growth capital* projects in 2013 which includes the remaining capital costs for the $105 million Polaris oil sands diluent transportation project, the $90 million (100%) Cold Lake west leg capacity project and the $53 million liquid sweetening project at the Cochrane NGL extraction facility. In addition, capital costs also include costs relating to engineering, design and early construction work to expand and integrate the Cold Lake and Polaris pipeline systems to provide transportation service to the Narrows Lake, Christina Lake and Foster Creek oil sands projects, of which approximately $225 million has been backstopped by FCCL. Inter Pipeline also has additional backstopping agreements for up to $250 million with respect to other oil sands related projects.

Inter Pipeline's bulk liquid storage business will incur additional sustaining capital expenditures* in the foreseeable future to comply with UK's storage and containment regulations, see the **RISK FACTORS** section for further information regarding to Post Buncefield Regulation.

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

Inter Pipeline's debt outstanding at December 31, 2012, matures at various dates up to February 2021. Corridor's Series B debentures mature on February 2, 2015, and Corridor's Series C debentures mature on February 3, 2020. On December 15, 2011, Corridor entered into a $1.55 billion senior unsecured syndicated revolving credit facility with an initial maturity date of December 15, 2015. On December 15, 2012, the initial maturity date was extended to December 15, 2016. On December 5, 2011, Inter Pipeline entered into a $750 million senior unsecured syndicated revolving credit facility with an initial maturity date of December 5, 2016. On December 5, 2012, the initial maturity date was extended to December 5, 2017 and Inter Pipeline entered into a new $20 million demand operating facility replacing the previous one entered into on December 5, 2011. Inter Pipeline's and Corridor's credit facilities can be extended beyond their initial maturity date under certain circumstances. Inter Pipeline's loan payable to the General Partner of $288.6 million matures on October 28, 2014. On October 29, 2012, Inter Pipeline repaid a $91.2 million tranche of the loan to the General Partner. Inter Pipeline's MTN Series 1, 2 and 3 mature on February 2, 2021, July 30, 2018 and May 30, 2022, respectively.

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

(i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2012, based upon the various contractual maturity dates.

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

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

(iv) Inter Pipeline has obligations of $23.4 million under its employee long-term incentive plan, of which $16.2 million is included in the working capital deficit[*].

(v) Present value of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $59.9 million at December 31, 2012. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

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

DISTRIBUTIONS TO UNITHOLDERS

	Three Months Ended December 31		Years Ended December 31	
(millions)	2012	2011	2012	2011
Cash provided by operating activities	$ 121.6	$ 126.9	$ 375.3	$ 460.5
Less net change in non-cash operating working capital	(20.7)	(36.8)	47.3	(66.3)
Less sustaining capital expenditures(1)	(15.6)	(7.2)	(40.1)	(19.4)
Cash available for distribution(1)	85.3	82.9	382.5	374.8
Change in discretionary reserves(1)	(11.9)	(17.8)	(97.3)	(123.1)
Distributions	$ 73.4	$ 65.1	$ 285.2	$ 251.7
Distributions per unit(2)	$ 0.2675	$ 0.2475	$ 1.0550	$ 0.9675
Payout ratio before sustaining capital(1)	72.8%	72.3%	67.5%	63.9%
Payout ratio after sustaining capital(1)	86.0%	78.5%	74.6%	67.2%
Growth capital expenditures(1)	$ 125.7	$ 34.2	$ 339.5	$ 132.6
Sustaining capital expenditures(1)	15.6	7.2	40.1	19.4
	$ 141.3	$ 41.4	$ 379.6	$ 152.0

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Distributions are calculated based on the number of units outstanding at each record date.

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

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

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

The discretionary reserve* increased approximately $11.9 million in the fourth quarter of 2012 and $97.3 million in 2012 due primarily to the strong operating results of Inter Pipeline's business

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

segments. Inter Pipeline will continue to manage the discretionary reserve* and future distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

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

	Three Months Ended December 31		Years Ended December 31			
(millions)	2012	2011	2012	2011	2010	2009(1)
Cash provided by operating activities	$ 121.6	$ 126.9	$ 375.3	$ 460.5	$ 349.6	$ 281.8
Distributions	(73.4)	(65.1)	(285.2)	(251.7)	(232.6)	(202.4)
Excess	$ 48.2	$ 61.8	$ 90.1	$ 208.8	$ 117.0	$ 79.4

	Three Months Ended December 31		Years Ended December 31			
(millions)	2012	2011	2012	2011	2010	2009(1)
Net income	$ 57.3	$ 45.8	$ 307.2	$ 247.9	$ 236.0	$ 157.7
Distributions	(73.4)	(65.1)	(285.2)	(251.7)	(232.6)	(202.4)
(Shortfall) excess	$ (16.1)	$ (19.3)	$ 22.0	$ (3.8)	$ 3.4	$ (44.7)

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

Distributions in all periods are less than cash provided by operating activities. Distributions were also less than net income for the years ended 2012 and 2010. Net income includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore distributions may exceed net income.

The overall distributions of Inter Pipeline are governed by the LPA, specifically section 5.2, which specifies the terms for Inter Pipeline to make distributions. 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, distributions to unitholders are always equal to Distributable Cash.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at December 31, 2012 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	274.9	0.3	275.2

At February 19, 2013, Inter Pipeline had 276.5 million Class A units and 0.3 million Class B units for a total of 276.8 million units outstanding.

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

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

MARKET RISK MANAGEMENT

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

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

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

NGL Extraction Business

Frac-spread Risk Management

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

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at December 31, 2012. The CAD/USG average prices would approximate the following USD/USG prices based on the average USD/CAD forward curve at December 31, 2012.

	December 31, 2012		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
January to December 2013	41%	$ 0.97	$ 0.97

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

Based on propane-plus volume hedges outstanding at December 31, 2012, the following table illustrates how a 10% change in NGL and AECO natural gas commodity prices and foreign exchange rates in isolation could individually impact the mark-to-market valuation of Inter Pipeline's derivative financial instruments and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

(millions)	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates[1]	Change in net income based on 10% decrease in prices/rates[1]
NGL[2]	$ 16.2	$ (5.4)	$ 5.4
AECO natural gas	(6.8)	1.3	(1.3)
Foreign exchange	(1.5)	(6.6)	6.6
Frac-spread risk management	$ 7.9		

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

Power Price Risk Management

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

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

Bulk Liquid Storage Business

Foreign Exchange Risk Management

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

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

Corporate

Interest Rate Risk Management

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

Based on the variable rate obligations outstanding at December 31, 2012, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $16.1 million, assuming all other variables remain constant. Of these amounts, $13.5 million for the year ended

December 31, 2012 relates to the $1.55 billion unsecured revolving credit facility and are recoverable through the terms of the Corridor FSA, therefore the after-tax income impact would be $1.9 million.

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

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

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

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

	Three Months Ended December 31		Years Ended December 31	
(millions)	2012	2011	2012	2011
Realized gain (loss) on derivative financial instruments				
Revenues				
NGL swaps	$ 5.1	$ (10.4)	$ 12.4	$ (35.5)
Foreign exchange swaps (frac-spread hedges)	0.3	-	0.2	4.7
	5.4	(10.4)	12.6	(30.8)
Shrinkage gas expense				
Natural gas swaps	(2.5)	(4.7)	(14.9)	(13.8)
	(2.5)	(4.7)	(14.9)	(13.8)
Operating expenses				
Electricity price swaps	-	0.3	-	1.2
Heat rate swaps	-	1.3	-	5.0
	-	1.6	-	6.2
Financing charges				
Interest rate swaps	1.2	0.7	4.8	2.8
	1.2	0.7	4.8	2.8
General and administrative				
Foreign exchange swaps	-	-	0.9	-
	-	-	0.9	-
Net realized gain (loss) on derivative financial instruments	4.1	(12.8)	3.4	(35.6)
Unrealized change in fair value of derivative financial instruments				
NGL swaps	(6.3)	(5.1)	29.9	3.1
Natural gas swaps	1.9	(8.7)	8.8	(4.7)
Foreign exchange swaps (frac-spread hedges)	(0.9)	5.2	5.7	(11.7)
Electricity price swaps	0.1	(0.3)	-	(0.3)
Heat rate swaps	-	(1.4)	-	(2.0)
Interest rate swaps	-	0.5	-	1.9
Transitional transfers (1)	-	(0.2)	-	(0.8)
Unrealized change in fair value of derivative financial instruments	(5.2)	(10.0)	44.4	(14.5)
Total (loss) gain on derivative financial instruments	$ (1.1)	$ (22.8)	$ 47.8	$ (50.1)

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

CREDIT RISK

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

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

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

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. At December 31, 2012, accounts receivable outstanding meeting the definition of past due and impaired is immaterial.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three month period and year ended December 31, 2012 or 2011.

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

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. Officers and directors of the General Partner received a cumulative total of $0.4 million in dividends in the fourth quarter of 2012 (fourth quarter of 2011 - $0.3 million) totaling $2.0 million in 2012 (2011 - $1.1 million), from PAC pursuant to their ownership of non-voting shares.

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 or in the performance of its duties as General Partner of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the LPA. In addition, as an incentive to the General Partner to enhance the profitability of Inter Pipeline and the distributions declared in respect of Inter Pipeline's units, the General Partner is entitled to earn an annual incentive fee calculated as a percentage of available Distributable Cash (as defined in the LPA). The percentage of available Distributable Cash payable to the General Partner as an incentive fee will be 15% of available Distributable Cash in excess of $1.01 per unit annually but less than or equal to $1.10 per unit annually, 25% of available Distributable Cash in excess of $1.10 per unit annually but less than or equal to $1.19 per unit annually and 35% of available Distributable Cash in excess of $1.19 per unit annually. The incentive fee is paid at the time of distribution of Distributable Cash for the last calendar month of each year. In addition, the General Partner is entitled to be paid an acquisition fee equal to 1.0% of the purchase price of any New Assets (as defined in the LPA) acquired by Inter Pipeline, and a disposition fee equal to 0.5% of the sale price of any assets sold by Inter Pipeline. See the Other Expenses section of **RESULTS OF OPERATIONS** for details of fees paid to the General Partner during the period.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At December 31, 2012, interest payable to the General Partner on the loan was $3.2 million (December 31, 2011 - $4.1 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of a default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs. On October 29, 2012, Inter Pipeline repaid the first tranche of the loan from the General Partner which amounted to $91.2 million.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At December 31, 2012, there were amounts owed to the General Partner by Inter Pipeline of $2.7 million (December 31, 2011 – $0.9 million).

CONTROLS AND PROCEDURES

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

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

Inter Pipeline has disclosed in this MD&A any change in Inter Pipeline's ICFR that occurred during the period beginning on January 1, 2012 and ended on December 31, 2012 that has materially affected, or is reasonably likely to materially affect, Inter Pipeline's ICFR.

Management has limited the scope of their design of DC&P and ICFR to exclude controls, policies and procedures of the recently acquired Inter Terminals, the results of which are consolidated in Inter Pipeline's interim financial statements at March 31, June 30 and September 30, 2012 and the audited consolidated financial statements at December 31, 2012.

In January 2012, Inter Pipeline acquired Inter Terminals. Where possible, Inter Terminals has adopted Inter Pipeline's DC&P and ICFR. For business processes unique to Inter Terminals, management is committed to completing DC&P and ICFR before the end of the first quarter of the 2013 fiscal year.

At December 31, 2012, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting as defined under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting excluding Inter Terminals were effective as of December 31, 2012.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material. Information about critical judgments, estimates and assumptions in applying accounting policies for these areas is included in the relevant sections of the notes to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Readers should refer to note 2 Summary of Significant Accounting Policies of the December 31, 2012 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

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

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

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

The fair values of derivative financial instruments are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding. The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. These fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. These estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and differences could be significant. A significant change in commodity prices, foreign exchange rates or interest rate assumptions underlying mark-to-market valuations of derivative financial instruments would change the fair value of derivative financial instruments reported in the consolidated balance sheets and unrealized change in fair value of derivative financial instruments in the consolidated statements of net income.

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

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

Intangible Assets
Inter Pipeline's intangible assets are amortized using an amortization method and term based on estimates of the useful lives of these assets. The carrying values of Inter Pipeline's intangible assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate

that their carrying amounts may not be recoverable. This review requires an estimate of future cash flows to be derived from the utilization of these assets based on assumptions about future events which may be subject to change depending on future economic or technical developments. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a charge against net income.

The Cold Lake TSA intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the Cold Lake TSA expired on December 31, 2011, the term of the Cold Lake TSA extends until the Cold Lake LP gives notice that it forecasts it will earn less than $1.0 million of capital fees in the year. The Cold Lake founding shippers may contract with a third party to transport their dedicated petroleum after giving the Cold Lake LP notice of at least 20 months prior to the effective date and meeting certain conditions. The Cold Lake LP has the right to match any new service offer from a third party. This intangible asset is being amortized on a straight-line basis over 30 years. The remaining amortization period of the Cold Lake TSA is approximately 19 years.

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus and a patented operational process utilized in one of the extraction facilities. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method. Should the useful life or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly. The average remaining period of the customer contracts is approximately 22 years. The patent is being amortized on a straight-line basis over the 14 year life of the patent and has a remaining amortization period of approximately six years.

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

Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting at the date control of a business is obtained. The cost of an acquisition is measured as the aggregate of the fair values of the assets given or equity instruments issued, net of liabilities incurred or assumed. Costs directly associated with the acquisition are expensed. The consideration transferred of an acquired business is allocated to the identifiable assets acquired and liabilities assumed at their estimated fair values on the acquisition date. The excess of the consideration transferred over the amount allocated to net assets is recorded as goodwill. All available information is used to estimate fair values. External consultants are typically engaged to assist in the fair value determination of identifiable intangible assets and other significant assets or liabilities. The preliminary allocation of consideration transferred may be adjusted, as necessary, up to one year after the acquisition closing date due to additional information regarding asset valuation and liabilities assumed.

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

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

Goodwill

Inter Pipeline has goodwill in four of its cash generating units (CGU's): the Corridor and Polaris pipeline systems in the oil sands transportation business and Simon Storage and Inter Terminals in the bulk liquid storage business. Assets are grouped in CGU's which are the lowest levels for which there are separately identifiable cash inflows. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the Corridor, Polaris, Simon Storage and Inter Terminals CGU's. After initial recognition, goodwill is carried at cost less any write downs for impairment. Each fiscal year and as economic events dictate, management reviews the valuation of goodwill, taking into consideration any events or circumstances which might have impaired the value. Inter Pipeline assesses the recoverable amount of the goodwill for impairment on a fair value less costs to sell basis by discounting projected future cash flows generated by these assets at a weighted average cost of capital that reflects the relative risk of the asset. If it is determined that the recoverable amount of the future cash flows is less than the carrying amount of the assets at the time of assessment, an impairment loss would be determined by deducting the fair value less costs to sell on a discounted cash flow basis from the carrying amount. The recoverable amount of the underlying assets and liabilities were assessed and it was determined that there was no impairment of goodwill in 2012. Projected future cash flows used in the goodwill assessment represented management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

Property, Plant and Equipment

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

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

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

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

Expenditures on conventional oil pipelines system expansions and betterments are capitalized. Maintenance and repair costs are expensed as incurred. Pipeline integrity verification and repair costs are also expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are available for use. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 80 year service life of the Bow River pipeline system assets and 30 year service life of the Central Alberta and Mid-Saskatchewan pipeline system assets. These estimates are connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems. Pipeline line fill and tank working inventory for the conventional oil pipelines system represents petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with an appropriate volume of petroleum products to enable a commercial operation of the facilities and pipeline. The cost of line fill includes all direct expenditures for acquiring the petroleum based products. These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system and are carried at cost.

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

Provisions

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

Decommissioning obligations and environmental liabilities are calculated based on current price estimates using current technologies in accordance with current legal or constructive requirements and are adjusted for inflation to when the decommissioning or remediation activity is anticipated. Where a range of estimates exists, the possible outcomes are weighted to determine a probable settlement value or the midpoint is used where all outcomes are equally likely. Inter Pipeline's decommissioning obligations are expected to occur when the assets are no longer economically viable. The economic lives of these assets are estimated based on future expectations involving the supply of petroleum, chemical and other products and demand for certain services and therefore the timing of decommissioning may change significantly in the future. Actual costs and cash outflows may differ from these estimates due to changes in laws or regulations, timing of projects, costs and technology. As a result, there could be material adjustments to the provisions established. If the effect of the time value of money is material, provisions are discounted to their present value using a pre-tax risk-free rate. The provision will accrete to its full value over time through charges to income, or until Inter Pipeline settles the obligation. Recoveries from third parties which are virtually certain to be realized are recorded separately and are not offset against the related provision.

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

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction plants and twelve leased bulk liquid storage facilities, respectively. Inter Pipeline's decommissioning obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the NGL extraction facilities and leased bulk liquid storage sites. The estimated costs for decommissioning obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the plant sites. Decommissioning obligations for the NGL extraction and bulk liquid storage business assets are being accreted over a period of 40 years at rates of 3.9% and 2.9% to 4.15% per annum, respectively, based on their respective estimated discounted values at December 31, 2012 of $6.8 million and $29.9 million, respectively.

Property, plant and equipment related to the conventional oil pipelines and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. The potential cost of future decommissioning activities is a function of several factors, including regulatory requirements at the time of pipeline abandonment, the size of the pipeline and the pipeline's location. Decommissioning requirements can vary considerably, ranging from purging product from the pipeline, refilling with inert gas and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Under current regulations, the estimated cost for the decommissioning obligation include: purging product from the pipeline, refilling with inert gas and capping all open ends; and removal of surface facilities and reclamation of the surface facility sites. Decommissioning obligations for the conventional oil pipelines and oil sands transportation business assets are being accreted over a period of 40 to 290 years at a rate of 3.9% per annum, based on an estimated discounted value at December 31, 2012 of $5.2 million.

Inter Pipeline's environmental remediation obligation relates to a number of projects which have been identified that Inter Pipeline is obligated to remediate in future periods. Based on management's current knowledge of regulations, technology and current plans to remediate these sites, an estimated discounted liability of $18.0 million has been recognized at December 31, 2012. Environmental obligations for the conventional oil pipelines and bulk liquid storage businesses are being accreted over a period of five to ten years at rates of 2.2% to 3.45% and 1.75% to 3.15% per annum, respectively.

Obligations Relating To Employee Pension Plans

Inter Pipeline provides retirement benefits for its UK, Ireland and German employees under three separate defined benefit pension plans. These plans provide benefits based primarily on a combination of years of service and an estimate of final pensionable salary. Inter Pipeline's policy is to fund the amount of benefit as required by governing legislation. Independent actuaries perform the required calculations to determine the pension expense in accordance with GAAP. The most recent actuarial valuations of the UK and Ireland plans were carried out in 2010 and updated in 2012, and an actuarial valuation of the German plan was completed in 2011 and updated in 2012.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Change in Estimate

In 2011, the NGL extraction business recorded additional revenues, as a result of a price adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011. The impact of this change was an increase in revenues in 2011 of $20.5 million.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 9 *Financial Instruments (IFRS 9)*

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

IFRS 10 *Consolidated Financial Statements (IFRS 10)*

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation-Special Purpose Entities and shall be applied to annual periods beginning on or after January 1, 2013. IFRS 10 establishes a single control model based on power, exposure to variable returns and the ability to exercise power to affect the amount of returns. Management has evaluated Inter Pipeline's investment in Cold Lake and determined that under IFRS 10, Inter Pipeline controls the relevant activities of this investment. Control was obtained on January 2, 2003 with the acquisition of 70% ownership of Cold Lake. As a result, Inter Pipeline will consolidate 100% of Cold Lake under IFRS 10, compared to proportionate consolidation of 85% of Cold Lake under IAS 31 Interests in Joint Ventures (IAS 31). A non-controlling interest will be recorded to represent the 15% equity investment in Cold Lake that is not attributable to Inter Pipeline.

IFRS 11 *Joint Arrangements (IFRS 11)*

IFRS 11 replaces IAS 31 and SIC-13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers and shall be applied to annual periods beginning on or after January 1, 2013. IFRS 11 will apply to interests in joint arrangements where there is joint control. The concept of control identified in IFRS 10 above may result in an entity being included in the consolidated financial statements of the parent, where previously IAS 31 was applied. IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer the most significant factor when classifying the joint arrangement as either a joint operation or joint venture. In addition, the option to account for joint ventures using proportionate consolidation has been removed and equity accounting is required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single item. Management performed a review of all arrangements and, with the exception of its investment in Cold Lake which will be accounted in accordance with IFRS 10, determined that the adoption of this standard will not have a material impact on its financial statements.

IFRS 12 *Disclosure of Interests in Other Entities (IFRS 12)*
IFRS 12 shall be applied to annual periods beginning on or after January 1, 2013. The standard provides disclosure requirements for a reporting entity's interests held in other entities including: subsidiaries, joint arrangements, associates, or unconsolidated structured entities. The standard's disclosure requirements help identify the net income or loss and cash flows available to the reporting entity and determine the value of a current or future investment in the reporting entity. The adoption of IFRS 12 is expected to increase the current level of Inter Pipeline's disclosure of interests in other entities.

IFRS 13 *Fair Value Measurement (IFRS 13)*
IFRS 13 shall be applied to annual periods beginning on or after January 1, 2013. The standard defines fair value and provides, in a single IFRS, a framework for measuring fair value when it is required or permitted within IFRS standards. The standard also provides consistent disclosure requirements about fair value measurements. Inter Pipeline does not expect implementation of this standard to have a significant impact on its financial statements.

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

RISK FACTORS

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

Risks Associated with the Pipelines – The Oil Sands Transportation and Conventional Oil Pipelines Businesses

Throughput Risks

Demand Risks

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

Supply Risks

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

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

Competition and Contracts

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

The pipelines are subject to competition for volumes transported by rail, trucking or by other pipelines near the areas serviced by the pipelines. Competing pipelines could be constructed in areas serviced by the pipelines. Rail has emerged as a transportation option as producers seek to access higher value markets due to capacity constraints on certain third party pipelines. There can be no assurance that competition from rail, trucking and/or other pipelines will not result in a reduction in throughput on the pipelines.

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

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

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

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

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

In the event of a major pipeline or facility incident resulting in the release of large quantities of product, dependent on the location, there could be a significant impact to the revenues and continuing operation of the impacted pipeline.

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

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

The Bow River, Central Alberta, Cold Lake, Corridor and Polaris pipeline systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the *Pipeline Act* (Alberta) and *Pipeline Regulation* (Alberta), and by the Energy Resources Conservation Board. The Mid-Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipelines Act* (Saskatchewan) and the *Pipelines*

Regulation (Saskatchewan) and by the Ministry of Energy and Resources in Saskatchewan. None of the pipelines is subject to regulation by the National Energy Board (NEB).

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

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

RISKS ASSOCIATED WITH THE NGL EXTRACTION BUSINESS

Natural Gas Availability and Composition

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

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

Operational Factors

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

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

In the event of a major facility incident, such as a fire or major equipment damage, there could be a significant impact to the revenues and continuing operation of the impacted NGL extraction facility.

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

On December 7, 2010, the Energy Resources Conservation Board approved the application concerning AltaGas Ltd.'s Harmattan Co-stream Project. The Harmattan Co-stream Project, which became operational in late 2012, consists of modifications to the Harmattan facility and a new bypass pipeline around the Cochrane plant for the purpose of extracting NGL from up to 490 mmcf/d of natural gas on the Foothills Pipeline and TransCanada Alberta systems directly upstream of and in parallel to the Cochrane plant. This project may cause a significant reduction in volumes available for processing at the Cochrane plant. The Harmattan Co-Stream Project competes directly with the Cochrane plant for the right to reprocess gas volumes on the Foothills Pipeline and TransCanada Alberta systems.

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

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

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

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

Reliance on Dow Chemical, NOVA Chemicals and Plains Midstream
Dow Chemical, NOVA Chemicals and Plains Midstream are the principal customers of the NGL extraction business and represent the majority of the revenue from the NGL extraction business. Plains Midstream also operates the Empress II plant and the Empress V plant. If, for any reason, any of the aforementioned parties were unable to perform their obligations under the various agreements

with Inter Pipeline, the financial results of the NGL extraction business or the operations of the Empress II plant and the Empress V plant could be negatively impacted.

Regulatory Factors

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

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

Risks Associated with the Bulk Liquid Storage Business

Demand for Bulk Liquid Storage

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

The Inter Terminals business is primarily involved in the storage and handling of liquids for the petroleum refining and trading business. Therefore, a sustained slowdown in the petroleum sector could adversely affect the Inter Terminals business. Sustained periods of backwardation in the oil products markets served by Inter Terminals could also adversely affect the Inter Terminals business.

Simon Storage's Immingham terminals are highly integrated with two local refineries, the Phillips66 Humber refinery and the Total Lindsey refinery. The closure of one or both refineries, or amalgamation under ownership by a single party, could significantly reduce revenue from the Simon Storage business. Inter Terminal's AOT terminal handles all fuel oil exports from a Statoil refinery. Any closure of this refinery could significantly reduce revenue from the Inter Terminals business. Furthermore, if this Statoil refinery were to subsequently be converted into a competing storage facility, revenues from the Inter Terminals business could be significantly reduced.

Customs and Excise Warehouses

Inter Terminals operates approved customs warehouses and Simon Storage operates approved excise warehouses, thereby permitting their respective customers to store products on a duty-suspended basis. Failure to comply with legal and regulatory requirements governing the operation of such warehouses could lead to liability for customs and excise duties, value added tax and penalties, including the withdrawal of the related authorizations which in turn could result in a reduction in commercial activity at the facilities.

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

The UK's regulatory authorities issued a Containment Policy on February 20, 2008 which will require substantially enhanced tank and bund facilities both for new build tankage and for existing facilities at the Simon Storage terminals in the UK. The policy currently applies to storage of fuels and is being implemented. Although the policy states a 10 to 20 year timeline for improvements to be effected, the regulatory authorities have since declared a desired timeline for retrospective improvements of between two and five years for sites categorized by the regulator as higher risk, including the Seal Sands storage terminal. As a consequence, sustaining capital expenditures are likely to increase in the foreseeable future, although the timing of such increases is presently uncertain. However, based upon the policy as currently applied by the regulatory authorities, Simon Storage has estimated that it will incur between $5 million and $7 million on containment costs over the next eight years. The amount of such costs will depend in part on the acceptability to the regulatory authorities of innovative solutions which are being considered by Simon Storage.

Activity restrictions
Inter Terminals operates under environmental permits issued by the Danish Environmental Protection Agency. In connection with the sale of the terminals to Inter Pipeline, the Danish Environmental Protection Agency issued reassessments which included limits on activity levels based on historical activity at the terminals. These limits include measures such as the number of ships calling at a terminal or the volume of product handled by a terminal. Inter Terminals has applied for revised or new environmental permits that support the theoretical maximum activity level for each terminal. Failure to secure these new or revised permits could restrict the growth of the Inter Terminals business.

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

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

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

Land Lease Renewals
Certain storage terminals and associated infrastructure are located on lands leased or licensed from third parties that must be renewed from time to time. Failure to renew the leases or licenses on terms

acceptable to Inter Pipeline could significantly reduce the operations of the bulk liquid storage business.

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

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

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

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

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

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

more new public entities. Such a reorganization would be subject to approval of the Class A unitholders and to such other approvals as may be required, including regulatory, stock exchange and court approvals. In connection with any such reorganization, Inter Pipeline's current distribution policies would be replaced by the dividend or distribution policy, if any, of the successor entity, which may result in a decrease or increase in the cash distributed by such entity compared with the current distributions of Inter Pipeline.

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

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

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

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

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

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

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

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

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

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

In the future, the General Partner may determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the pipelines, the NGL extraction facilities, or the assets of the bulk liquid storage business, or the establishment of reserves for that purpose, would reduce Distributable Cash, and the timing of additions to, and distributions from, such reserves or trusts may result in the realization of taxable income by unitholders in a year prior to that in which funds resulting therefrom are distributed. See ***The Partnership Agreement – Cash Reserves*** in the 2012 **Annual Information Form**.

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

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

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

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

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

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

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

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

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

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

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

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

Possible Downgrade of Investment Grade Credit Rating
Inter Pipeline and its unsecured MTNs have investment grade credit ratings of BBB+ and BBB (high), by S&P and DBRS, respectively. Corridor and its senior unsecured debentures have been assigned investment grade credit ratings of A, A2 and A by DBRS, Moody’s and S&P, respectively. Should these credit ratings fall below investment grade, Inter Pipeline or Corridor may have to provide security, pay additional interest or pay in advance for goods and services. The perceived creditworthiness of Inter Pipeline and changes in its credit ratings may also affect the value of Inter Pipeline’s Class A units. There is no assurance that any credit rating assigned to Inter Pipeline or Corridor will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering or withdrawal of such rating may have an adverse effect on the market value of Inter Pipeline’s Class A units.

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

Liquidity Risk
Liquidity risk is the risk that Inter Pipeline will not be able to meet its financial obligations. To manage this risk, Inter Pipeline forecasts its cash requirements to determine whether sufficient funds will be available. Inter Pipeline’s primary sources of liquidity and capital resources are funds generated from operations and draws under committed credit facilities and the issuance of commercial paper as well

as MTNs. Inter Pipeline maintains a current shelf prospectus with Canadian securities regulators, which enables, subject to market conditions, ready access to Canadian public capital markets. Corridor’s commercial paper is rated R-1 (low) by DBRS. If Corridor’s commercial paper rating falls below this level, Corridor may not be able to issue commercial paper and be required to use higher cost financing to fund its financial obligations.

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

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

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

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

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

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

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

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

Risks Inherent in the Nature of the Partnership

Fluctuating Distributions; Cash Distributions Are Not Guaranteed

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

Nature of the Class A Units

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

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

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

Responsibility of the General Partner

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

Conflicts of Interest

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

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

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

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

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

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

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

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

Limited Voting Rights, Management and Control; Difficulty in Removing General Partner
Class A unitholders generally do not have voting rights in relation to matters involving Inter Pipeline or the General Partner, including with respect to the election of directors of the General Partner. The General Partner manages and controls the activities of Inter Pipeline. Class A unitholders have no

right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General Partner may not be removed by the limited partners. Directors of the General Partner are elected by PAC, the sole shareholder of the General Partner, which is a corporation controlled by John F. Driscoll.

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

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

NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES

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

Non-GAAP Financial Measures

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

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

(millions)	December 31 2012	2011
Current assets		
Cash and cash equivalents	$ 63.9	$ 50.0
Accounts receivable	146.5	109.1
Prepaid expenses and other deposits	30.1	10.9
Current liabilities		
Distributions payable	(25.5)	(23.1)
Accounts payable and accrued liabilities	(294.2)	(162.5)
Current income taxes payable	(8.7)	(49.8)
Deferred revenue	(6.1)	(4.6)
Adjusted working capital deficiency	$ (94.0)	$ (70.0)

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

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

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

	December 31	
(millions, except per unit amounts)	2012	2011
Closing unit price	$ 23.50	$ 18.63
Total closing number of Class A and B units	275.2	264.2
	6,466.2	4,921.2
Total debt	3,127.6	2,672.1
Enterprise value	$ 9,593.8	$ 7,593.3

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

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

			Three Months Ended December 31	
			2012	2011
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 105.7	$ 0.3	$ 106.0	$ 23.0
NGL extraction	11.5	3.2	14.7	4.9
Conventional oil pipelines	2.6	0.2	2.8	3.2
Bulk liquid storage	5.9	9.7	15.6	9.6
Corporate	-	2.2	2.2	0.7
	$ 125.7	$ 15.6	$ 141.3	$ 41.4

			Years Ended December 31	
			2012	2011
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 261.7	$ 2.4	$ 264.1	$ 104.0
NGL extraction	29.5	7.0	36.5	13.5
Conventional oil pipelines	32.6	2.1	34.7	6.7
Bulk liquid storage	15.7	24.0	39.7	25.6
Corporate	-	4.6	4.6	2.2
	$ 339.5	$ 40.1	$ 379.6	$ 152.0

Interest coverage is calculated as net income plus income taxes and borrowing costs divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations. This measure is used by the investment community to determine the ease with which borrowing cost are satisfied.

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

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

Total debt to total capitalization is calculated by dividing the sum of total debt including demand facilities and excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of total debt (as above) and partners' equity. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

Additional GAAP Financial Measures

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

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

	Three Months Ended December 31		Years Ended December 31	
(millions)	2012	2011	2012	2011
Net income	$ 57.3	$ 45.8	$ 307.2	$ 247.9
Depreciation and amortization	30.8	25.4	123.1	99.7
Loss on disposal of assets	0.2	-	0.2	-
Non-cash expense	2.1	2.9	4.2	1.9
Unrealized change in fair value of derivative financial instruments	5.2	10.0	(44.4)	14.5
Deferred income tax expense	5.3	6.0	32.3	28.7
Proceeds from long-term leasehold inducements	-	-	-	1.5
Funds from operations	100.9	90.1	422.6	394.2
Total interest less capitalized interest	23.6	20.1	93.1	78.4
Current income tax expense	10.9	9.3	57.0	51.6
EBITDA	$ 135.4	$ 119.5	$ 572.7	$ 524.2

Total recourse debt to capitalization is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

ELIGIBLE INVESTORS

Pursuant to Inter Pipeline's LPA dated October 9, 1997, as amended, all unitholders are required to be residents of Canada. A copy of the limited partnership agreement can be found at www.interpipelinefund.com. If a unitholder is a non-resident of Canada (Non-Eligible unitholder), he will not be considered to be a member of the partnership effective the date the Class A units were acquired. Inter Pipeline requires all Non-Eligible unitholders to dispose of their Class A units in accordance with the limited partnership agreement.

In most cases, a unitholder with an address outside of Canada will be a Non-Eligible unitholder.

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 21st day of February, 2013.