



*Management's Discussion and Analysis*  
For the three and nine months ended September 30, 2010

### *Forward Looking Information*

The following Management Discussion and Analysis (MD&A) highlights significant business results and statistics for Inter Pipeline Fund's (Inter Pipeline) three and nine month periods ended September 30, 2010. 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", and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of cash distributions to its unitholders through 2011 and beyond; 2) the maintenance of Inter Pipeline's cash distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections, timing for completion of its Corridor pipeline expansion project, the Polaris diluent pipeline project for the Kearl oil sands mining project (Kearl project) and new pipeline connection to the Sunrise oil sands project (Sunrise project), Cold Lake pipeline expansion for the Foster Creek oil sands project (Foster Creek project), Cochrane desulphurization facility and other capital forecasts; and, 5) Inter Pipeline's current best estimate of the impact of International Financial Reporting Standards (IFRS) on the financial position of Inter Pipeline on transition to IFRS on January 1, 2010 based on Inter Pipeline's interpretation of IFRS standards in place as of September 30, 2010.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the expectations, plans or intentions upon which they are based will occur. Inter Pipeline in no manner represents that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Pipeline Management Inc., the general partner of Inter Pipeline (General Partner) at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements are subject to various risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its subsidiaries; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and natural gas liquids (NGL) extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; the ability to access sufficient capital from internal and external sources; product supply and demand; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection and instability affecting countries in which Inter Pipeline and its subsidiaries operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; potential delays and cost overruns on construction projects, including, but not limited to the Corridor and other projects noted above; Inter Pipeline's ability to make capital investments and amount of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its subsidiaries; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; political and economic conditions in the countries in which Inter Pipeline and its subsidiaries operate; difficulty in obtaining necessary regulatory approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities.

**Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled RISK FACTORS included in Inter Pipeline's MD&A for the year ended December 31, 2009. 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 are expressly qualified by this cautionary note.**

# *Management's Discussion and Analysis*

## **For the three and nine month periods ended September 30, 2010**

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and nine month periods ended September 30, 2010 as compared to the three and nine month periods ended September 30, 2009. The MD&A should be read in conjunction with the MD&A for the quarterly periods ended March 31 and June 30, 2010, the unaudited interim consolidated financial statements of Inter Pipeline for the quarterly periods ended March 31, June 30 and September 30, 2010, the audited consolidated financial statements and MD&A for the year ended December 31, 2009, the Annual Information Form and other information filed by Inter Pipeline at [www.sedar.com](http://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 Canadian generally accepted accounting principles (GAAP). This MD&A reports certain non-GAAP financial measures that are used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the NON-GAAP FINANCIAL MEASURES section for further information on the definition, calculation and reconciliation of non-GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

Management considers if 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.

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## **THIRD QUARTER HIGHLIGHTS**

- Funds from operations\* totalled \$77.2 million in the third quarter
- Payout ratio before sustaining capital\* of 75.0%
- Cash distributions to unitholders totalled \$57.9 million, or \$0.225 per unit
- Generated net income of \$46.6 million or \$0.18 per unit
- Throughput on Inter Pipeline's oil sands and conventional oil pipelines averaged 797,300 barrels per day (b/d) in the third quarter, over 60,000 b/d higher than the comparable period in 2009
- Announced a \$40 million expansion of the Cold Lake pipeline system to transport increased production from the Foster Creek oil sands project
- DBRS Limited (DBRS) upgraded Inter Pipeline's credit rating from BBB to BBB (high) and Inter Pipeline (Corridor) Inc.'s long-term credit rating from A (low) to A

## **SUBSEQUENT EVENT**

- Announced major long-term agreement to transport diluent on the Polaris pipeline system to the Sunrise oil sands project

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

## PERFORMANCE OVERVIEW

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
<i>(millions, except per unit and % amounts)</i>	2010	2009	2010	2009
<b>Revenues</b>				
Oil sands transportation	\$ 36.4	\$ 32.2	\$ 107.7	\$ 96.4
NGL extraction	128.8	127.3	445.3	368.6
Conventional oil pipelines	41.4	36.1	116.7	114.5
Bulk liquid storage	25.1	28.9	74.9	87.9
	\$ 231.7	\$ 224.5	\$ 744.6	\$ 667.4
<b>Funds from operations<sup>(1)(2)(3)(4)</sup></b>				
Oil sands transportation	\$ 18.4	\$ 18.6	\$ 55.9	\$ 54.5
NGL extraction	40.3	40.9	130.2	92.2
Conventional oil pipelines	30.1	27.3	86.0	87.7
Bulk liquid storage <sup>(1)(2)(3)</sup>	5.9	20.7	31.4	41.0
Corporate costs	(17.5)	(16.1)	(52.5)	(49.5)
	\$ 77.2	\$ 91.4	\$ 251.0	\$ 225.9
<b>Per unit<sup>(1)(2)(3)(4)</sup></b>	\$ 0.30	\$ 0.37	\$ 0.98	\$ 0.97
<b>Net income</b>	\$ 46.6	\$ 51.9	\$ 176.1	\$ 134.6
Per unit – basic and diluted	\$ 0.18	\$ 0.21	\$ 0.69	\$ 0.58
<b>Cash distributions<sup>(5)</sup></b>	\$ 57.9	\$ 52.4	\$ 173.3	\$ 147.9
Per unit <sup>(5)</sup>	\$ 0.225	\$ 0.210	\$ 0.675	\$ 0.630
<b>Units outstanding (basic)</b>				
Weighted average	257.2	248.7	256.6	233.1
End of period	257.5	250.8	257.5	250.8
<b>Capital expenditures</b>				
Growth <sup>(4)</sup>	\$ 36.5	\$ 417.0	\$ 101.9	\$ 520.0
Sustaining <sup>(4)</sup>	2.9	4.0	11.0	10.6
	\$ 39.4	\$ 421.0	\$ 112.9	\$ 530.6
<b>Payout ratio before sustaining capital<sup>(4)</sup></b>	75.0%	57.3%	69.0%	65.5%
<b>Payout ratio after sustaining capital<sup>(4)</sup></b>	77.9%	60.0%	72.2%	68.7%
			September 30	December 31
			2010	2009
Total assets			\$ 4,481.8	\$ 4,472.7
Total debt <sup>(6)</sup>			\$ 2,603.1	\$ 2,619.7
Total partners' equity			\$ 1,339.7	\$ 1,320.1
Enterprise value <sup>(4)</sup>			\$ 6,134.0	\$ 5,372.4
Total debt to total capitalization <sup>(4)</sup>			66.0%	66.5%
Total recourse debt to capitalization <sup>(4)</sup>			34.8%	35.7%

- (1) In the third quarter of 2009, funds from operations in the bulk liquid storage business increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statement of cash flows, these proceeds were reclassified from "net change in non-cash working capital" to "proceeds from long-term deferred revenue" which is included in the calculation of funds from operations.
- (2) In the second quarter of 2010, funds from operations in the bulk liquid storage business increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.
- (3) In the third quarter of 2010, funds from operations for the bulk liquid storage business decreased \$4.1 million due to a special defined benefit pension plan contribution.
- (4) Please refer to the NON-GAAP FINANCIAL MEASURES section of this MD&A.
- (5) Cash distributions are calculated based on the number of units outstanding at each record date.
- (6) Total debt reported in the September 30, 2010 consolidated financial statements includes long-term debt of \$2,594.4 million inclusive of discounts and debt transaction costs of \$8.7 million.

### **THREE MONTHS ENDED SEPTEMBER 30, 2010**

Inter Pipeline generated strong financial results in the third quarter of 2010. Funds from operations of \$77.2 million were \$14.2 million or 15.5% lower than the record \$91.4 million generated in 2009. There are two distinct items driving this decrease, both of which are in the bulk liquid storage business. In the third quarter of 2009, record funds from operations included a reclassification of \$10.2 million of cash proceeds received as an advance payment on a long term contract and in the third quarter of 2010, funds from operations were lowered by a \$4.1 million special contribution to a defined benefit pension plan. Excluding the impact of these two items, funds from operations for the third quarter of 2010 would have been \$81.3 million compared to \$81.2 million for the third quarter of 2009. Inter Pipeline's payout ratio before sustaining capital for the third quarter of 2010 was a very strong 75.0%. Operating results from the oil sands transportation and NGL extraction businesses were comparable to the third quarter of 2009 despite full plant outages at the Cochrane and Empress V facilities. The conventional oil pipelines business generated positive operating results when compared to the third quarter of 2009 as increased tariff revenues more than offset declines in midstream marketing revenue.

In the third quarter of 2010, net income of \$46.6 million was \$5.3 million or 10.2% lower than the \$51.9 million earned in the same period in 2009. Net income was unfavourably impacted by an \$18.6 million unrealized change in the mark-to-market value of derivative financial instruments outstanding at September 30, 2010, as compared to a favourable unrealized change of \$0.5 million in the third quarter of 2009. This decrease was partially offset by a lower depreciation and amortization expense as a result of an increase in the estimate of the useful lives of certain pipeline assets and also a \$6.2 million decrease in future income taxes in the third quarter of 2010.

Total cash distributed to unitholders in the third quarter of 2010 increased \$5.5 million or 10.5% to \$57.9 million compared to \$52.4 million distributed in the third quarter of 2009. Increased cash distributions resulted from a higher number of units outstanding during the third quarter of 2010 and a 7.1% per unit increase in monthly cash distributions to \$0.075 per unit effective December 2009. The majority of new units were issued pursuant to a successful public unit offering in June 2009 and new distribution reinvestment plan adopted in May 2009.

Inter Pipeline invested \$39.4 million in capital projects during the quarter while total debt increased \$17.7 million from \$2,585.4 million at June 30, 2010 to \$2,603.1 million at September 30, 2010.

### **NINE MONTHS ENDED SEPTEMBER 30, 2010**

Strong financial performance in the first nine months of 2010 resulted in funds from operations of \$251.0 million, an increase of \$25.1 million or 11.1% over the \$225.9 million generated in the same period of 2009. The primary driver of the increase was strong financial results in the NGL extraction business due to higher realized frac-spread prices from propane-plus sales at the Cochrane NGL extraction facility. Operating results generated by the oil sands transportation business were also higher as a result of increased volumes transported on the Cold Lake pipeline system. These increases were partially offset by lower funds from operations from the bulk liquid storage business due to timing of cash receipts and a defined benefit pension plan contribution as discussed above. The conventional oil pipelines business segment also generated lower funds from operations due to decreased midstream marketing revenue. Inter Pipeline generated a strong payout ratio before sustaining capital of 69.0% for the nine months of 2010.

Net income in the first nine months of 2010 was \$176.1 million or \$41.5 million higher than the \$134.6 million earned in the same period in 2009. The increase was primarily due to strong results from the NGL extraction business noted above and a favourable unrealized change in the fair value of derivative financial instruments of \$1.8 million in 2010 as compared to an unfavourable change in 2009 of \$40.5 million. In 2009 net income was positively impacted by a \$17.9 million gain primarily due to the sale of the Valley pipeline system in April 2009 and a reduction in future income taxes related to changes in provincial SIFT tax rates legislated in March 2009.

Total cash distributed to unitholders in the nine months ended September 30, 2010 increased \$25.4 million or 17.2% to \$173.3 million compared to \$147.9 million distributed in the same period in 2009. As discussed above, the increase in distributions resulted from additional units issued pursuant to an

equity offering in June 2009, a new distribution reinvestment plan and increased monthly cash distributions.

Consolidated debt decreased \$16.6 million from December 31, 2009, to \$2,603.1 million at September 30, 2010, while Inter Pipeline invested approximately \$101.9 million on growth capital projects during this period. Undistributed funds from operations were utilized to reduce indebtedness on Inter Pipeline's \$750 million revolving credit facility. Inter Pipeline's recourse debt to capitalization ratio decreased from 35.7% at December 31, 2009 to a very strong 34.8% at September 30, 2010. When adjusted to include non-recourse debt of \$1,887.8 million held within the Corridor corporate entity, Inter Pipeline's total debt to total capitalization ratio at September 30, 2010 was 66.0%.

## **OUTLOOK**

The development of long-life, high-quality energy infrastructure assets that generate sustainable and predictable long-term cash flows is Inter Pipeline's predominant business strategy. In 2010, Inter Pipeline is making steady progress on initiatives that support this strategy and lead to long-term cash-flow growth. As a result of these initiatives, and strong business fundamentals in all four business segments, Inter Pipeline has clearly stated that it is well positioned to sustain current levels of cash distributions to unitholders through 2011 and beyond. Growth initiatives are primarily focused on three fronts: expansion of the Corridor pipeline system, development of the Polaris diluent transportation system and phased expansion of the Cold Lake pipeline system.

The Corridor pipeline expansion project is nearing completion on schedule at an expected total cost of \$1.85 billion. Final costs are expected to exceed earlier estimates by approximately \$50 million due to higher than anticipated non-controllable costs such as line fill and final tank cost adjustments. These costs will be added to the rate base at actual cost. When in service, bitumen blend transportation capacity on the Corridor system is expected to initially increase from 300,000 b/d to 465,000 b/d. This added capacity will facilitate transportation of increased oil sands production from the Athabasca Oil Sands Project which is owned by Shell, Chevron and Marathon. The expansion is governed by a cost-of-service contract that will generate stable long-term cash flows. The newly installed 463 kilometre mainline has been fully commissioned, and remaining activity is focused on commissioning a 43 kilometre products line. Due to the contractual nature of the Corridor pipeline system, incremental revenue from the expansion will commence no later than January 1, 2011, regardless of final commissioning activities.

Development of the new Polaris diluent transportation system is gaining momentum quickly. The first transportation contract, a 25-year agreement to transport diluent for the Kearl oil sands project announced previously, will anchor initial development of the Polaris system. The Kearl project is owned by Imperial Oil Resources Ventures Limited (Imperial), a jointly owned venture between Imperial Oil Limited and ExxonMobil Canada. Diluent volumes committed under this agreement are contracted at 60,000 b/d; however, Imperial retains an option to further increase capacity commitments to support the phased development of the Kearl project. In the third quarter of 2010, detailed engineering work continued on the project, and long-lead items are being procured in order to meet the estimated 2012 start up date.

Subsequent to quarter end, Inter Pipeline announced a second major agreement to transport diluent on the Polaris system. Starting in late 2013, Inter Pipeline will transport diluent to the Sunrise oil sands project, currently being developed by Husky Oil Operations Limited and BP Canada Energy Company, under a long term ship-or-pay contract. Under terms of the 20-year contract, Inter Pipeline will provide 30,000 b/d of committed capacity. All operating expenses will be recovered on a flow through basis. New pipeline and related facility costs are estimated at \$15 million with long term EBITDA\* of approximately \$27 million per year. Inter Pipeline can earn incremental revenue on throughput volumes above minimum committed levels.

Together, the Kearl and Sunrise diluent transportation agreements will utilize a minimum of 90,000 b/d on the Polaris system, or roughly 75% of its initial capacity, and generate approximately \$67 million in incremental EBITDA\* annually. The total new capital investment associated with both agreements is

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

approximately \$150 million. Inter Pipeline will continue to pursue further opportunities to fully utilize the capacity of the Polaris system.

In the third quarter, Inter Pipeline announced a \$40 million project to increase pipeline capacity on the Cold Lake system to enable transportation of increased production from the Foster Creek oil sands project. Foster Creek is jointly owned by Cenovus and ConocoPhillips under a 50/50 partnership. The project includes the installation of 27 kilometres of new pipeline that will parallel an existing Cold Lake line north of the La Corey terminal. This strategic infrastructure development is consistent with Inter Pipeline's plans to extend the Cold Lake system further north as future demand materializes. New demand for pipeline infrastructure is anticipated to arise either from further development of Foster Creek or other third-party production projects under development. Incremental annual EBITDA\* of \$4.5 million (85% share) is expected to be generated under this agreement once the project is in-service early in 2011.

Inter Pipeline's NGL extraction business segment posted another very strong quarter, despite a nine-day shutdown at the Cochrane extraction facility for planned maintenance. Propane-plus frac-spreads remained at historically high levels in the third quarter of 2010. While strong commodity prices directly benefit overall financial performance through high frac-spreads, Inter Pipeline is shielded from the impact of weaker commodity prices as exposure is limited primarily to one revenue stream, the sale of propane-plus extracted at the Cochrane NGL extraction facility.

Inter Pipeline's balance sheet remained very strong in the third quarter. At September 30, 2010, Inter Pipeline's total recourse debt to capitalization ratio was a low 34.8%. A currently strong balance sheet, along with a solid liquidity position makes Inter Pipeline well prepared to meet an approximately \$465 million equity contribution obligation associated with completion of the Corridor expansion project. This amount will be contributed to Inter Pipeline (Corridor) Inc. on or about January 1, 2011 and funded from Inter Pipeline's existing \$750 million revolving credit facility.

Inter Pipeline's future cash flow profile is anticipated to remain stable and predictable. Cash flow is primarily underpinned by long-term contracts, many of which are cost of service in nature, and not subject to commodity price or volume risk. Cash flow under these types of contracts is expected to grow relative to fee-based or commodity price-sensitive cash flow as further oil sands-related projects develop.

As of January 1, 2011, publicly-traded flow-through entities such as income trusts and limited partnerships will become subject to taxation. Presently many organizations in this segment are implementing changes to their corporate structure and evaluating the sustainability of current cash distribution levels as they become taxable entities.

Inter Pipeline's board of directors engaged in a formal process to consider alternative business structures. After considering the impacts of all relevant variables such as the level of income taxes to be paid, corporate conversion costs, counterparty consent issues and sustainability of distributions, Inter Pipeline's governance committee and other independent directors concluded that there is no material tangible benefit to Inter Pipeline's unitholders that would arise from changing the existing business structure. As a result, Inter Pipeline's board of directors determined that Inter Pipeline will remain structured as a publicly traded limited partnership into the foreseeable future. The board of directors will continue to monitor future events which could affect this decision.

Inter Pipeline believes that it is well positioned to maintain its current level of cash distributions to unitholders despite becoming fully taxable in 2011. This outlook has been consistent for the past several years and remains unchanged. Current cash flows, plus accretive returns from projects under development, are expected to provide sufficient cash flow to maintain distribution levels for the foreseeable future, despite the future tax burden.

The change to a taxable entity will also lead to a more favourable tax treatment of Inter Pipeline's cash distributions in the hands of a taxable investor. In 2011, distributions will be treated for tax purposes in a manner substantially similar to dividends from Canadian public corporations. This dividend treatment, when combined with Inter Pipeline's intent to maintain stable cash distributions at current levels through

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



2011 and beyond, should result in a taxable Canadian investor receiving a favourable after-tax return from owning Inter Pipeline units.

Credit rating agencies continue to recognize the strength of Inter Pipeline's stable and diversified business segments. During the quarter, DBRS increased Inter Pipeline's investment grade credit rating to BBB (high) with a stable trend, up from BBB. DBRS also increased the credit rating of Inter Pipeline's 100% owned subsidiary, Inter Pipeline (Corridor) Inc. (Corridor) to A from A (low). DBRS cited, as main factors for the rating increases, continued progress on the Corridor expansion project and Inter Pipeline's strong balance sheet. Standard & Poor's (S&P) has also assigned an investment grade, long-term corporate credit rating of BBB to Inter Pipeline with a positive outlook. Corridor has been assigned investment grade credit ratings of A3 (stable outlook) and A- (positive outlook) from Moody's Investor Services (Moody's) and S&P, respectively.

## RESULTS OF OPERATIONS

### OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended			Nine Months Ended		
	2010	2009	% change	2010	2009	% change
<i>Volumes (000s b/d)</i>						
Cold Lake (100% basis)	418.5	356.9	17.3	440.3	367.2	19.9
Corridor	215.6	216.0	(0.2)	174.1	211.2	(17.6)
	634.1	572.9	10.7	614.4	578.4	6.2
<i>(millions)</i>						
Revenue <sup>(1)</sup>	\$ 36.4	\$ 32.2	13.0	\$ 107.7	\$ 96.4	11.7
Operating expenses <sup>(1)</sup>	\$ 14.5	\$ 12.0	20.8	\$ 42.2	\$ 35.2	19.9
Funds from operations <sup>(1)(2)</sup>	\$ 18.4	\$ 18.6	(1.1)	\$ 55.9	\$ 54.5	2.6
Capital expenditures <sup>(1)</sup>						
Growth <sup>(2)</sup>	\$ 27.3	\$ 383.0		\$ 81.8	\$ 454.9	
Sustaining <sup>(2)</sup>	(0.1)	0.5		0.5	0.6	
	\$ 27.2	\$ 383.5		\$ 82.3	\$ 455.5	

(1) Cold Lake pipeline system's revenue, operating expenses, funds from operations and capital expenditures are recorded on the basis of Inter Pipeline's 85% ownership interest.

(2) Please refer to the NON-GAAP FINANCIAL MEASURES section.

### Volumes

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake area of Alberta to delivery points in the Hardisty and Edmonton areas. Average volume transported on this system in the third quarter of 2010 increased by 61,600 b/d to 418,500 b/d and year to date 2010 volumes increased 73,100 b/d compared to the same period in 2009. Volumes on this system fluctuate mainly due to the timing of steam injection cycles associated with certain shipper production processes. Inter Pipeline expects to continue to see incremental volume growth on the system as supported by the shippers' long term published forecasts.

The Corridor pipeline system is also a bitumen blend and diluent pipeline system transporting diluted bitumen from the Muskeg River mine near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta. Average Corridor volumes in the third quarter of 2010 were consistent with same period in 2009. Year to date 2010 volumes decreased 37,100 b/d as compared to the same period in 2009 due to turnarounds at the Muskeg River mine and Scotford upgrader which coincided with commissioning activities associated with the Corridor pipeline expansion project in the second quarter of 2010.

### Revenue

Oil sands transportation revenue was approximately \$4.2 million higher in the third quarter of 2010 and \$11.3 million higher year to date 2010 as compared to the same periods in 2009.

Cold Lake revenue increased \$3.3 million in the third quarter and \$11.6 million year to date compared to the same periods in 2009. The increase in Cold Lake revenue was primarily attributable to the increase in volumes shipped and higher power and operating cost recoveries. Generally, over the longer term, volumes transported in excess of the minimum take-or-pay thresholds will add incremental revenue and cash flow to the Cold Lake pipeline system.

The Cold Lake Transportation Services Agreement (Cold Lake TSA) provides a structured return on capital invested in pipelines and facilities that comprise the Cold Lake pipeline system and recovery of substantially all operating costs over the term of the agreement. The founding shippers' annual minimum ship-or-pay commitment under the terms of the Cold Lake TSA is \$27.8 million to the end of December 2011 based on Inter Pipeline's 85% ownership interest (\$32.7 million – 100% basis). Inter Pipeline receives additional capital fees for volumes shipped over and above the defined ship-or-pay amounts. Certain additional facilities on the Cold Lake pipeline system also produce an additional return on capital invested and recovery of associated operating costs.

Corridor's revenue increased \$0.9 million in the third quarter of 2010 compared to the same period in 2009. Average blended short-term and long-term interest rates increased approximately 156 basis points which resulted in a \$1.7 million increase in debt financing costs and related revenue. Fuel and power cost recoveries decreased \$0.8 million as a result of decreased consumption due to lower volumes. For the nine months ended September 30, Corridor's revenue was \$0.3 million lower in 2010 compared to 2009. Operating cost recoveries declined approximately \$2.8 million due to lower non-routine major maintenance, right of way and fuel and power costs. Average blended short-term and long-term interest rates increased approximately 81 basis points which resulted in a \$2.5 million increase in debt financing costs and related revenue.

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 an annual revenue requirement which includes 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 arrangement, Corridor's funds from operations are not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's funds from operations are changes to long-term Government of Canada bond rates which are the basis for the annual return on equity, and changes to the underlying rate base.

### **Operating Expenses**

Operating expenses have a limited impact on Inter Pipeline's cash flow as substantially all expenditures are recovered from the shippers on both the Cold Lake and Corridor pipeline systems.

Operating expenses increased \$2.5 million in the third quarter of 2010 compared to the same period in 2009. The Cold Lake pipeline system incurred \$1.8 million in additional expenditures associated with non-routine maintenance activities, various employee related costs and two major tank maintenance initiatives in the quarter. In addition, power costs on the system increased by approximately \$1.5 million due to increased consumption as a result of higher volumes. This power cost increase was partially offset by reduced power costs on the Corridor pipeline system of \$0.8 million due to lower consumption on that system and a decrease in average Alberta power pool prices. Power prices for the quarter decreased 27.7% from \$49.49/MWh in 2009 to \$35.77/MWh in 2010.

Operating expenses increased \$7.0 million year to date as compared to 2009. Power costs increased \$4.1 million for the reasons noted above as well as an 8.7% increase on a year to date basis from \$48.33/MWh in 2009 to \$52.55/MWh in 2010. Other operating expenses were approximately \$2.9 million higher as a result of increased maintenance and integrity projects on the Cold Lake pipeline system, which were partially offset by lower maintenance expenses on the Corridor pipeline system.

### **Capital Expenditures**

In the third quarter of 2010, approximately \$11.4 million of growth capital was expended on the Corridor pipeline expansion project for a total of \$1,654.0 million spent to date.

Final commissioning of the Corridor pipeline expansion project continued in the third quarter. The new 42-inch diameter pipeline was completed and placed into service in the previous quarter while the new

20-inch diameter product pipeline is expected to be fully commissioned by the end of 2010. The project is comprised of two distinct cost components. The first is a pipeline and facility construction component wherein Inter Pipeline was exposed to potential cost overruns. Inter Pipeline estimates that these costs are approximately \$90 million under budget. The second cost component includes items such as storage tanks, interest during construction, line fill requirements and certain contingency cost factors. Inter Pipeline has no cost overrun exposure for these components as they will be added to the rate base at their actual cost. The Corridor pipeline expansion project is nearing completion on schedule at an expected total cost of \$1.85 billion. Final costs are expected to exceed earlier estimates by approximately \$50 million due to higher than anticipated non-controllable costs such as line fill and final tank cost adjustments. As indicated above, these costs will be added to the rate base at actual cost.

Detailed engineering for Inter Pipeline's Polaris diluent pipeline system continues, with approximately \$4.6 million spent on this project in the third quarter of 2010 for a total of \$9.8 million to date. Beginning in late 2012, the Polaris system will provide diluent transportation services for the Kearl oil sands project utilizing the existing 12-inch diameter pipeline that has been idled as certain segments of the Corridor expansion project have been placed in service. The net book value of the Polaris pipeline will be deducted from Corridor's rate base, estimated to be in the latter half of 2012, prior to entering diluent service for the Kearl project. Total incremental costs to connect the Polaris pipeline to the Kearl project and diluent receipt points in the Edmonton area are currently estimated to be \$135 million.

During the quarter, approximately \$10.4 million was spent on the expansion project on the Cold Lake pipeline system to increase transportation capacity for the Foster Creek oil sands project. Project design of the expansion is nearing completion and construction is expected to begin early in the fourth quarter with completion by the end of the year. The expansion includes installation of 27 kilometers of pipeline on the Cold Lake system. The new pipeline will parallel an existing Cold Lake line north of the La Corey terminal and will position the Cold Lake system to meet near and longer term production targets from the Foster Creek project.

## NGL EXTRACTION BUSINESS SEGMENT

		Three Months Ended September 30						
		2010		2009				
		<i>Mmcf/d</i>	<i>(000s b/d)</i>	<i>Mmcf/d</i>	<i>(000s b/d)</i>			
	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total
Cochrane	1,680	46.2	23.5	69.7	1,975	51.4	28.8	80.2
Empress V (100% basis)	841	17.4	9.5	26.9	739	15.6	8.7	24.3
Empress II	120	2.2	1.4	3.6	72	1.1	0.9	2.0
	2,641	65.8	34.4	100.2	2,786	68.1	38.4	106.5

  

		Nine Months Ended September 30						
		2010		2009				
		<i>Mmcf/d</i>	<i>(000s b/d)</i>	<i>Mmcf/d</i>	<i>(000s b/d)</i>			
	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total
Cochrane	1,789	49.4	25.4	74.8	1,782	50.0	26.9	76.9
Empress V (100% basis)	948	19.0	10.5	29.5	358	7.3	4.3	11.6
Empress II	152	2.5	1.7	4.2	694	12.8	8.2	21.0
	2,889	70.9	37.6	108.5	2,834	70.1	39.4	109.5

(millions)	Three Months Ended			Nine Months Ended		
	2010	2009	% change	2010	2009	% change
Revenue <sup>(1)</sup>	\$ 128.8	\$ 127.3	1.2	\$ 445.3	\$ 368.6	20.8
Shrinkage gas <sup>(1)</sup>	\$ 66.9	\$ 65.1	2.8	\$ 239.1	\$ 200.0	19.6
Operating expenses <sup>(1)</sup>	\$ 21.7	\$ 21.3	1.9	\$ 76.0	\$ 76.4	(0.5)
Funds from operations <sup>(1)(2)</sup>	\$ 40.3	\$ 40.9	(1.5)	\$ 130.2	\$ 92.2	41.2
Capital expenditures <sup>(1)</sup>						
Growth <sup>(2)</sup>	\$ 2.3	\$ 0.7		\$ 3.4	\$ 8.5	
Sustaining <sup>(2)</sup>	1.7	0.4		2.6	2.8	
	\$ 4.0	\$ 1.1		\$ 6.0	\$ 11.3	

(1) Revenue, shrinkage gas, operating expenses, funds from operations and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.

(2) Please refer to the NON-GAAP FINANCIAL MEASURES section.

## Volumes

Processed natural gas volumes at Inter Pipeline's NGL extraction plants averaged 2,641 million cubic feet per day (mmcf/d) in the third quarter and 2,889 mmcf/d year to date in 2010. Third quarter volumes decreased approximately 145 mmcf/d while year to date volumes increased 55 mmcf/d over the same periods in 2009. Throughput at the Cochrane facility decreased in the third quarter due to lower US west-coast demand for natural gas and a planned nine day full plant maintenance outage in September 2010. Year to date throughput volumes at the Cochrane facility were consistent with 2009.

During the third quarter of 2010, throughput volumes at the Empress V facility increased primarily due to higher volumes of natural gas exported from Alberta's eastern border. Year to date 2010 throughput volumes were higher at the Empress V facility due to a construction related plant shut down from January to mid June 2009 to implement an ethane recovery improvement project. This shutdown of the Empress V facility resulted in a short term increase to the gas supply available for processing at the Empress II facility in 2009. Volumes at the Empress II facility decreased approximately 542 mmcf/d year to date 2010 as compared to the same period in 2009, due to the return to service of the Empress V facility, however this reduction in throughput volumes at the Empress II facility has not significantly impacted operating results due to the cost-of-service commercial arrangements related to this facility.

In April 2009, AltaGas Ltd. (AltaGas), through a wholly owned subsidiary, filed an application with the Energy Resources Conservation Board (ERCB) for its Harmattan Co-Stream Project. AltaGas is requesting that the regulator grant it permission to construct facilities that would allow AltaGas to operate a portion of the Harmattan plant as an NGL extraction plant. In September an ERCB Hearing was held for the AltaGas application to allow the Harmattan plant to process up to 490 mmcf/d of NGTL gas for the purpose of extracting NGL's upstream of Inter Pipeline's Cochrane plant. A decision on this application is expected before year end.

## Revenue

The NGL extraction business earns revenue from a combination of commodity based, fee-based and cost-of-service arrangements. Commodity based contracts provide for a sharing of profits from the sale of NGL products between the NGL extraction business and the purchaser. The profit share calculation consists of 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 frac-spread and volume risks. Fee-based contracts provide a fixed fee associated with each barrel of NGL produced and recovery of operating costs, including shrinkage gas costs. There is no commodity price exposure associated with this type of contract; however, fee-based contracts are exposed to volume fluctuations. Cost-of-service contracts provide a structured return on capital invested utilizing a rate base approach and a recovery of operating costs, including shrinkage gas. 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.

In the current year, revenue increased approximately \$1.5 million for the third quarter and \$76.7 million year to date compared to the same periods in 2009. Revenue increased in the third quarter of 2010 due

to increased production at the Empress facilities and also increased shrinkage, fuel gas and electricity cost recoveries from cost-of-service and fee based arrangements. These increases were partially offset by lower volumes at the Cochrane facility due to lower export volumes and the nine day full plant outage.

Year to date 2010, revenue increased by \$76.7 million primarily due to higher realized frac-spreads, increased production at the Empress V facility and an increase in shrinkage, fuel gas and electricity cost recoveries from cost-of-service and fee based arrangements.

## Frac-spread

		Three Months Ended September 30			
<i>(dollars)</i>		2010		2009	
		USD/USG <sup>(1)</sup>	CDN/USG <sup>(1)</sup>	USD/USG <sup>(1)</sup>	CDN/USG <sup>(1)</sup>
Market frac-spread	\$	0.844	\$ 0.877	\$ 0.729	\$ 0.797
Realized frac-spread	\$	0.775	\$ 0.806	\$ 0.744	\$ 0.814

  

		Nine Months Ended September 30			
<i>(dollars)</i>		2010		2009	
		USD/USG <sup>(1)</sup>	CDN/USG <sup>(1)</sup>	USD/USG <sup>(1)</sup>	CDN/USG <sup>(1)</sup>
Market frac-spread	\$	0.865	\$ 0.896	\$ 0.522	\$ 0.599
Realized frac-spread	\$	0.799	\$ 0.828	\$ 0.594	\$ 0.687

(1) The differential between USD/USG and CDN/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 (CDN/USG) based on the average monthly Bank of Canada CDN/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.

In the third quarter of 2010 realized frac-spreads increased from \$0.74 USD/USG in 2009 to \$0.78 USD/USG in 2010, however decreased by approximately \$0.01 CDN/USG when converted to CDN/USG due to the weakening United States dollar. Market frac-spreads in the three month period ended September 30, 2010 were above the 5-year and 15-year simple average market frac-spread of \$0.59 USD/USG and \$0.34 USD/USG, respectively, calculated at December 31, 2009.

## Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the Cochrane and Empress V facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. In the third quarter and year to date 2010, shrinkage gas expense increased approximately \$1.8 million and \$39.1 million, respectively, due to increased AECO natural gas prices as compared to 2009. The weighted average monthly AECO price<sup>1</sup> in the third quarter of 2010 was \$3.53 per gigajoule (GJ) which was approximately 23.0% higher than the weighted average price<sup>1</sup> of \$2.87/GJ in the same period in 2009. Year to date the weighted average monthly AECO price<sup>1</sup> increased 5.2% from \$3.88/GJ in 2009 to \$4.08/GJ in 2010.

<sup>1</sup> Weighted average price calculated from one-month spot prices at AECO as reported in the *Canadian Gas Price Reporter*.

## Operating Expenses

Operating expenses increased \$0.4 million in the third quarter of 2010 as a result of higher fuel costs due to increased AECO natural gas prices. This increase was partially offset by lower general operating expenses compared to the same period in 2009. Year to date 2010 operating costs decreased \$0.4 million as lower general operating costs more than offset higher fuel and power costs which were impacted by increased AECO natural gas prices and higher average Alberta power pool prices compared to 2009.

## Capital Expenditures

During the third quarter of 2010, growth capital expenditures of approximately \$2.1 million were spent on various projects at the Cochrane facility and \$0.2 million at the Empress facilities. The Cochrane facility also expended \$1.7 million on various sustaining capital projects.

## CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
<i>Volumes (000s b/d)</i>	2010	2009	% change	2010	2009	% change
Bow River	107.5	107.9	(0.4)	109.6	115.5	(5.1)
Central/Mid-Saskatchewan/Valley <sup>(1)</sup>	55.7	53.9	3.3	53.7	56.6	(5.1)
	163.2	161.8	0.9	163.3	172.1	(5.1)
<i>(millions)</i>						
Revenue	\$ 41.4	\$ 36.1	14.7	\$ 116.7	\$ 114.5	1.9
Operating expenses	\$ 11.6	\$ 9.0	28.9	\$ 30.7	\$ 27.6	11.2
Funds from operations <sup>(2)</sup>	\$ 30.1	\$ 27.3	10.3	\$ 86.0	\$ 87.7	(1.9)
Revenue per barrel <sup>(3)</sup>	\$ 2.76	\$ 2.42	14.0	\$ 2.62	\$ 2.44	7.4
Capital expenditures						
Growth <sup>(2)</sup>	\$ 1.1	\$ 23.5		\$ 4.5	\$ 31.5	
Sustaining <sup>(2)</sup>	(0.1)	0.3		1.1	1.7	
	\$ 1.0	\$ 23.8		\$ 5.6	\$ 33.2	

(1) Valley pipeline system was sold in April 2009.

(2) Please refer to the NON-GAAP FINANCIAL MEASURES section.

(3) Revenue per barrel represents total revenue of the conventional oil pipelines business segment divided by actual volumes.

## Volumes

Conventional oil pipeline volumes were 163,200 b/d in the third quarter or approximately 1,400 b/d higher than in 2009. Volumes on the Central Alberta pipeline system increased approximately 4,100 b/d as trucked volumes returned to the pipeline due to wider heavy crude oil differentials. Volume declines on other conventional pipeline systems were partially offset by higher shipments south from the Hardisty market hub on the Bow River pipeline system.

Year to date in 2010, conventional oil pipeline volumes were 8,800 b/d lower than in 2009. Volumes on the Bow River pipeline system were approximately 5,900 b/d lower than 2009. Inter Pipeline's truck terminal facilities benefited from increased volumes in 2009 as producers capitalized on favourable heavy crude oil pricing differentials. Volumes migrating off the system in 2010 were offset somewhat by increased volumes transported south on the Bow River system from Hardisty, Alberta. Central Alberta and Mid-Saskatchewan pipeline volumes are approximately 1,100 b/d and 1,200 b/d lower, respectively, than in 2009 also due to natural volume declines. The remainder of the volume decrease is due to the sale of the Valley pipeline system in April 2009.

## Revenue

Conventional oil pipeline revenue increased approximately \$5.3 million in the third quarter and \$2.2 million year to date in 2010. This increase was primarily due to increased revenue from additional volumes on the Bow River Hardisty south pipeline as noted above and from mainline toll increases

averaging 6% in both January and July of 2010, which more than offset volume declines noted above. These revenue increases were partially offset by reduced revenue from a storage and marketing agreement with Nexen due to poorer blending economics in 2010 than in 2009.

### Operating Expenses

In the third quarter of 2010, operating expenses were approximately \$2.6 million higher than 2009 as a result of increased employee related costs, maintenance and remediation programs and also timing of projects in the integrity and right of way programs. Operating expenses increased approximately \$3.1 million year to date 2010 compared to the same period in 2009, primarily due to higher power costs resulting from the increased Bow River Hardisty south system volumes, system maintenance, land remediation and employee costs.

### Capital Expenditures

Growth capital expenditures of \$1.1 million for the quarter include final clean up costs for the Bow River pipeline crude oil stream segregation project and various smaller projects.

## BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
	2010	2009	% change	2010	2009	% change
Utilization	96.5%	96.3%	0.2	96.0%	96.6%	(0.6)
<i>(millions)</i>						
Revenue	\$ 25.1	\$ 28.9	(13.1)	\$ 74.9	\$ 87.9	(14.8)
Operating expenses	\$ 13.2	\$ 16.0	(17.5)	\$ 39.4	\$ 49.8	(20.9)
Funds from operations <sup>(1)(2)(3)(4)</sup>	\$ 5.9	\$ 20.7	(71.5)	\$ 31.4	\$ 41.0	(23.4)
Capital expenditures						
Growth <sup>(4)</sup>	\$ 5.8	\$ 9.8		\$ 12.2	\$ 25.1	
Sustaining <sup>(4)</sup>	1.2	1.7		3.0	3.4	
	\$ 7.0	\$ 11.5		\$ 15.2	\$ 28.5	

- (1) In the third quarter of 2009, funds from operations increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statement of cash flows, these proceeds were reclassified from "net change in non-cash working capital" to "proceeds from long-term deferred revenue" which is included in the calculation of funds from operations.
- (2) In the second quarter of 2010, funds from operations increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.
- (3) In the third quarter of 2010, funds from operations decreased \$4.1 million due to a special defined benefit pension plan contribution.
- (4) Please refer to the NON-GAAP FINANCIAL MEASURES section.

### Utilization

Inter Pipeline, through its wholly owned subsidiary Simon Storage Limited (Simon Storage), owns eight deep-water bulk liquid storage terminals primarily servicing the petrochemical, petroleum and biofuel industries in the UK, Germany and Ireland. Despite the current uncertain European economic environment, demand for bulk liquid storage remains strong with tank utilization averaging 96% year to date in 2010. Demand for storage fluctuated historically due to market conditions within industry sectors and Simon Storage manages these fluctuations through customer and product diversification.

### Revenue

The business activities of Simon Storage consist primarily of bulk liquid storage and handling services that are underpinned by a range of long-term and short-term fee-based contracts. Simon Storage also offers a range of ancillary services to its customers through its engineering and facilities management divisions.

In the third quarter of 2010, revenue was approximately \$3.8 million lower as compared to the same period in 2009. Foreign currency translation adjustments contributed to \$3.2 million of the decrease as

the average Pound Sterling/CDN exchange rate fell from 1.80 in third quarter of 2009 to 1.61 in 2010, a decline of 10.6%. Revenue generated from ancillary activities declined by approximately \$2.8 million primarily due to the sale of the bulk liquid trucking business in the fourth quarter of 2009. Core storage and handling revenue increased approximately \$2.2 million due to new tanks constructed and in-service in the latter part of 2009, increases in storage rates and additional heating services.

On a year to date basis, revenue was \$13.0 million lower in 2010 compared to 2009. The decrease was largely due to foreign currency translation adjustments of \$10.6 million as the average year to date Pound Sterling/CDN exchange rate has fallen from 1.80 in 2009 to 1.59 in 2010, a decline of 11.7%. Ancillary activities declined \$8.3 million mainly due to the sale of the bulk liquid trucking business. These decreases were partially offset by an increase of \$5.9 million in the core storage and handling business for the reasons mentioned above.

### Operating Expenses

In the third quarter and year to date 2010, operating expenses decreased approximately \$2.8 million and \$10.4 million, respectively, compared to the same periods in 2009. The majority of the decline is due to foreign currency translation adjustments in 2010 and the sale of the bulk liquid trucking business in the prior year. These decreases were somewhat offset by increased operating expenses relating to storage and handling as a result of increased power costs and other support charges related to additional handling and heating services.

### Capital Expenditures

Growth capital expenditures were \$5.8 million during the third quarter of 2010 primarily relating to a number of tank replacements, tank life extensions and tank modification projects at Immingham and other terminals. Growth capital expenditures also included approximately \$1.2 million for the acquisition of additional tankage adjacent to Immingham East terminal (increasing overall capacity by 21,000 barrels).

Sustaining capital expenditures consisted of a variety of small projects relating to improvements in terminal infrastructure, maintenance and safety focussed initiatives.

### OTHER EXPENSES

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Depreciation and amortization	\$ 18.2	\$ 24.5	\$ 68.8	\$ 73.5
Gain on disposal of assets	-	1.9	-	(18.0)
Financing charges	10.1	8.6	28.9	28.4
General and administrative	12.0	10.3	32.3	30.5
Unrealized change in fair value of derivative financial instruments	18.6	(0.5)	(1.8)	40.5
Fees to General Partner	1.9	1.9	5.8	5.2
Recovery of (provision for) income taxes	(3.6)	2.6	7.2	(16.4)

### Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets in 2010 was lower than the same periods in 2009. Effective July 1, 2010, Inter Pipeline amended its estimates for calculating depreciation on the oil sands and Bow River pipeline systems. The estimated remaining service lives of these assets have been revised to 80 years to better reflect the number of years over which these pipeline systems will be in operation. The impact of this change for the three and nine months ended September 30, 2010 is a decrease in depreciation and amortization expense by \$7.8 million. This decrease was partially offset by 2009 and 2010 capital expenditure programs for assets now in-service.

### Gain on Disposal of Assets

Inter Pipeline recognized a gain of \$18.0 million primarily relating to the sale of the Valley pipeline system in April 2009 as well as the disposal of other non-core assets in 2009.



## Financing Charges

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Interest on credit facilities	\$ 6.6	\$ 4.9	\$ 16.3	\$ 18.3
Interest on loan payable to General Partner	5.8	6.0	17.3	18.0
Interest on debentures	2.4	0.7	6.3	3.2
Total financing charges	14.8	11.6	39.9	39.5
Capitalized interest	(4.9)	(3.0)	(11.6)	(11.1)
Amortization of transaction costs on long-term debt	0.2	-	0.6	-
	\$ 10.1	\$ 8.6	\$ 28.9	\$ 28.4

Average short-term interest rates were higher in the third quarter of 2010 compared to 2009. The weighted average interest rate on Inter Pipeline's credit facilities has increased approximately 20 basis points from 1.0% in the third quarter of 2009 to approximately 1.2% in 2010. Inter Pipeline's weighted average credit facility debt outstanding increased approximately \$263.7 million to \$1,930.9 million in the third quarter of 2010 compared to \$1,667.2 million in the same period in 2009 primarily due to expenditures on the Corridor expansion project.

On a year to date basis, average short-term interest rates declined compared to 2009. The weighted average interest rate on Inter Pipeline's credit facilities declined approximately 30 basis points from 1.3% in 2009 to approximately 1.0% in 2010. Inter Pipeline's weighted average credit facility debt outstanding increased approximately \$220.8 million to \$1,930.2 million in 2010 compared to \$1,709.4 million in the same period in 2009.

Interest expense on the loans payable to the General Partner decreased \$0.2 million in the third quarter and \$0.7 million year to date in 2010 compared to the same periods in 2009. The decrease is due to the expiration on January 1, 2010 of a temporary 25 bps increase that was added to the loans to accommodate the Corridor expansion. Fixed interest rates on each of the \$91.2 million and \$288.6 million loans outstanding decreased 25 bps to 5.85% and 6.15%, respectively.

In 2010, debenture interest expense increased \$1.7 million in the third quarter and \$3.1 million year to date compared to the same periods in 2009. Interest rates on these debentures are fixed, however Inter Pipeline had swap agreements in place on each of the \$150.0 million series A and B debentures that exchanged the fixed rates for variable rates. On February 2, 2010, the series A debentures matured and the associated interest rate swap agreement was terminated. On the same day, Corridor issued \$150.0 million of 4.897% fixed rate series C senior, unsecured debentures that mature February 3, 2020 without acquiring a corresponding swap agreement.

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

## General and Administrative

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Canada	\$ 10.5	\$ 8.2	\$ 28.0	\$ 24.3
Europe	1.5	2.1	4.3	6.2
	\$ 12.0	\$ 10.3	\$ 32.3	\$ 30.5

In the third quarter of 2010, general and administrative expenses increased \$2.3 million in Canada largely due to higher employee compensation expense. Employee compensation expenses were higher primarily as a result of a revaluation of Inter Pipeline's long term deferred unit rights incentive plan costs due to a higher market value of Inter Pipeline's partnership units. Year to date 2010, Canadian general and administrative expenses increased \$3.7 million compared to 2009 as a result of the revaluation of

the long term incentive plan at September 30, 2010, as well as increases in external services and office rent.

General and administrative expenses were down in Europe approximately \$0.6 million in the third quarter and \$1.9 million year to date in 2010 primarily due to the sale of the bulk liquid trucking business in 2009 and a decline in foreign exchange rates.

### **Unrealized Change in Fair Value of Derivative Financial Instruments**

In the third quarter of 2010, Inter Pipeline's mark-to-market valuation of its derivative financial instruments unfavourably impacted net income by \$18.6 million. The decrease in net income is primarily due to changes in NGL and natural gas forward prices between July and September of 2010 combined with changes in volumes of NGLs under purchase and sale swap contracts which resulted in an unfavourable impact of \$22.5 million. These adjustments were partially offset by \$4.5 million of changes in forward prices of foreign currency swaps for the same period.

Inter Pipeline's year to date 2010 mark-to-market valuation of its derivative financial instruments had a favourable impact on net income of \$1.8 million. Changes in NGL forward prices between January and September 2010, combined with changes in volumes under purchase and sale swap contracts, resulted in a \$9.6 million favourable net income impact. Changes in foreign exchange, heat rate and interest rate swaps also contributed favourably to net income. These increases were largely offset by the mark-to-market valuations of natural gas hedges decreasing net income \$11.3 million.

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

### **Fees to General Partner**

Inter Pipeline paid a management fee to the General Partner of \$1.9 million in the third quarter of 2010 (Q3 2009 - \$1.9 million) for a total of \$5.8 million in 2010 (YTD 2009 - \$5.2 million). This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (Partnership Agreement). A divestiture fee of \$0.1 million was also paid in the second quarter of 2009 related to the sale of the Valley pipeline system.

### **Income Taxes**

Consolidated income tax expense for the three months ended September 30, 2010 decreased \$6.1 million compared to the same period in 2009. In the United Kingdom (UK), tax legislation has been passed which reduced the effective income tax rate from 28.0% to 27.0%, effective April 1, 2011. The effect of recognizing this change in UK income tax rates is a \$1.6 million reduction in future income tax liabilities recognized in the third quarter of 2010. The remaining decrease resulted from changes in temporary differences relating to non-taxable Canadian partnership income earned in the 2010 year.

Consolidated income tax expense for the nine months ended September 30, 2010 increased \$23.6 million from a net recovery of \$16.4 million for the nine months ended September 30, 2009 to an income tax expense of \$7.2 million year to date in 2010. On March 4, 2009, the Government of Canada substantively enacted legislation that repealed the "provincial SIFT tax factor" and replaced it with a "provincial SIFT tax rate." Inter Pipeline calculated the "provincial SIFT tax rate" based on the general provincial corporate income tax rate for each province where it has a permanent establishment. For Inter Pipeline, this legislation reduced the provincial income tax rate for non-corporate entities from 13.0% to approximately 10.0% effective January 1, 2011 onward. This also reduced Inter Pipeline's estimated effective tax rate to 26.5% and 25.0% effective January 1, 2011 and January 1, 2012, respectively. As a result of this rate reduction, future income tax liabilities of non-corporate entities were reduced by \$24.0 million in 2009. The remainder of the variance results from changes in temporary differences relating to non-taxable Canadian partnership income earned in the 2010 year.

## SUMMARY OF QUARTERLY RESULTS

	2008		2009			2010		
<i>(millions, except per unit and % amounts)</i>	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
<b>Revenue</b>								
Oil sands transportation	\$ 35.1	\$ 33.6	\$ 30.6	\$ 32.2	\$ 34.1	\$ 34.9	\$ 36.4	\$ 36.4
NGL extraction <sup>(1)</sup>	149.8	143.2	98.1	127.3	160.5	173.0	143.4	128.8
Conventional oil pipelines	39.4	38.7	39.8	36.1	34.3	37.6	37.7	41.4
Bulk liquid storage	35.5	30.1	28.8	28.9	28.2	26.0	23.9	25.1
	\$ 259.8	\$ 245.6	\$ 197.3	\$ 224.5	\$ 257.1	\$ 271.5	\$ 241.4	\$ 231.7
<b>Funds from operations<sup>(2)</sup></b>								
Oil sands transportation	\$ 17.3	\$ 18.0	\$ 17.9	\$ 18.6	\$ 19.4	\$ 18.6	\$ 18.9	\$ 18.4
NGL extraction <sup>(1)</sup>	13.1	26.2	25.2	40.9	40.8	47.6	42.2	40.3
Conventional oil pipelines	26.3	28.5	31.8	27.3	23.1	28.2	27.7	30.1
Bulk liquid storage <sup>(3)(4)(5)</sup>	11.3	10.5	9.9	20.7	10.3	10.2	15.3	5.9
Corporate costs	(15.9)	(17.1)	(16.3)	(16.1)	(15.5)	(19.2)	(15.8)	(17.5)
	\$ 52.1	\$ 66.1	\$ 68.5	\$ 91.4	\$ 78.1	\$ 85.4	\$ 88.3	\$ 77.2
Per unit <sup>(2)</sup>	\$ 0.23	\$ 0.30	\$ 0.30	\$ 0.37	\$ 0.31	\$ 0.33	\$ 0.34	\$ 0.30
Net income	\$ 102.5	\$ 43.4	\$ 39.3	\$ 51.9	\$ 23.1	\$ 61.7	\$ 67.9	\$ 46.6
Per unit – basic & diluted	\$ 0.46	\$ 0.19	\$ 0.18	\$ 0.21	\$ 0.08	\$ 0.24	\$ 0.27	\$ 0.18
Cash distributions <sup>(6)</sup>	\$ 46.8	\$ 46.9	\$ 48.6	\$ 52.4	\$ 54.5	\$ 57.6	\$ 57.8	\$ 57.9
Per unit <sup>(6)</sup>	\$ 0.210	\$ 0.210	\$ 0.210	\$ 0.210	\$ 0.215	\$ 0.225	\$ 0.225	\$ 0.225
Units outstanding (basic)								
Weighted average	222.8	223.4	227.0	248.7	252.8	255.8	256.6	257.2
End of period	223.1	223.7	246.5	250.8	254.6	256.3	256.9	257.5
Capital expenditures								
Growth <sup>(2)</sup>	\$ 101.0	\$ 57.0	\$ 46.0	\$ 417.0	\$ 53.5	\$ 31.2	\$ 34.2	\$ 36.5
Sustaining <sup>(2)</sup>	5.2	2.9	3.6	4.0	7.4	2.5	5.6	2.9
	\$ 106.2	\$ 59.9	\$ 49.6	\$ 421.0	\$ 60.9	\$ 33.7	\$ 39.8	\$ 39.4
Payout ratio before sustaining capital <sup>(2)</sup>	89.7%	71.0%	71.0%	57.3%	69.8%	67.5%	65.4%	75.0%
Payout ratio after sustaining capital <sup>(2)</sup>	99.7%	74.3%	75.0%	60.0%	77.1%	69.5%	69.9%	77.9%
Total debt <sup>(7)</sup>	\$ 2,349.2	\$ 2,406.5	\$ 2,246.0	\$ 2,610.8	\$ 2,619.7	\$ 2,576.8	\$ 2,585.4	\$ 2,603.1
Total partners' equity	\$ 1,130.2	\$ 1,130.5	\$ 1,315.5	\$ 1,319.3	\$ 1,320.1	\$ 1,314.2	\$ 1,334.2	\$ 1,339.7
Enterprise value <sup>(2)</sup>	\$ 3,921.8	\$ 4,064.0	\$ 4,392.9	\$ 5,038.2	\$ 5,372.4	\$ 5,611.4	\$ 5,655.7	\$ 6,134.0
Total recourse debt to capitalization <sup>(2)</sup>	41.6%	42.2%	32.3%	35.2%	35.7%	34.4%	34.3%	34.8%
Total debt to total capitalization <sup>(2)</sup>	67.5%	68.0%	63.1%	66.4%	66.5%	66.2%	66.0%	66.0%

(1) Significant changes in propane-plus commodity prices and foreign exchange rates resulted in lower revenue and funds from operations in the fourth quarter of 2008 through to the third quarter of 2009.

(2) Please refer to the NON-GAAP FINANCIAL MEASURES section of this MD&A.

(3) In the third quarter of 2009, funds from operations in the bulk liquid storage business increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statement of cash flows, these proceeds were reclassified from "net change in non-cash working capital" to "proceeds from long-term deferred revenue" which is included in the calculation of funds from operations.

(4) In the second quarter of 2010, funds from operations in the bulk liquid storage business increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.

(5) In the third quarter of 2010, funds from operations for the bulk liquid storage business decreased \$4.1 million due to a special defined benefit pension plan contribution.

(6) Cash distributions are calculated based on the number of units outstanding at each record date.

(7) Total debt includes long-term debt and short-term borrowings on demand loans before discounts and debt transaction costs.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital and acquisition programs throughout market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At September 30, 2010, Inter Pipeline had access to committed credit facilities totaling \$2.9 billion, of which approximately \$968.7 million remains unutilized. Inter Pipeline also had access to unutilized demand facilities of approximately \$60 million. These facilities are available to fund foreseeable obligations, with certain amounts available to specific subsidiaries of Inter Pipeline.

Inter Pipeline also ensures a base of equity capital is available for some of its recently announced growth capital projects. Approximately \$31.4 million of equity was issued through the distribution reinvestment plan during the first nine months of 2010.

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

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.

## CAPITAL STRUCTURE

<i>(millions, except % amounts)</i>	Recourse	Non-recourse	September 30 2010	December 31 2009
<b>Credit facilities available</b>				
Corridor syndicated facility	\$ 488.0	\$ 1,654.0	\$ 2,142.0	\$ 2,142.0
Inter Pipeline syndicated facility	750.0	-	750.0	750.0
	1,238.0	1,654.0	2,892.0	2,892.0
Demand facilities <sup>(1)</sup>	20.0	40.0	60.0	60.0
	\$ 1,258.0	\$ 1,694.0	\$ 2,952.0	\$ 2,952.0
<b>Total debt outstanding</b>				
Recourse				
Corridor syndicated facility			\$ 191.0	\$ 123.6
Inter Pipeline syndicated facility			144.5	230.0
Loan payable to General Partner			379.8	379.8
Non-recourse				
Corridor syndicated facility			1,587.8	1,586.3
Corridor debentures			300.0	300.0
<b>Total debt<sup>(1)(2)</sup></b>			<b>2,603.1</b>	<b>2,619.7</b>
Total partners' equity			1,339.7	1,320.1
<b>Total capitalization<sup>(3)</sup></b>			<b>\$ 3,942.8</b>	<b>\$ 3,939.8</b>
Total debt to total capitalization <sup>(3)</sup>			66.0%	66.5%
Total recourse debt to capitalization <sup>(3)</sup>			34.8%	35.7%

(1) At December 31, 2009 and September 30, 2010, outstanding Corridor letters of credit were approximately \$0.3 million which are not included in the demand loan facilities or total debt outstanding in the table above.

(2) At September 30, 2010, total debt includes long-term debt of \$2,594.4 million inclusive of discounts and debt transaction costs of \$8.7 million.

(3) Please refer to the NON-GAAP FINANCIAL MEASURES section of this MD&A.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization and recourse debt to EBITDA\*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensure compliance with all debt covenants. Financial covenants on Inter Pipeline's credit facilities are based on the amount of recourse debt outstanding. Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum recourse debt to EBITDA\* rate of 4.25. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization ratio was a favourable 34.8% at September 30, 2010. Adjusting for the impact of non-recourse debt of \$1,887.8 million, Inter Pipeline's consolidated debt to total capitalization ratio was 66.0%.

At September 30, 2010, approximately \$2,031.3 million or 78.0% of Inter Pipeline's total consolidated debt was exposed to variable interest rates, however debt financing costs related to \$1,928.8 million of Corridor debt outstanding are directly recoverable through the terms of the Corridor FSA. Therefore, Inter Pipeline's direct interest rate risk associated with variable rate debt is only attributable to \$102.5 million or 3.9% of total outstanding debt. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2001, Inter Pipeline entered into two fixed interest rate swap agreements to manage a portion of its variable interest rate risk exposure. In 2007, Inter Pipeline acquired two variable interest rate swap agreements to manage fixed interest rate exposure on Corridor's 5 and 10-year debentures. The interest rate swap associated with Corridor's 5-year debentures was terminated when the underlying debenture matured on February 2, 2010.

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

	September 30, 2010		December 31, 2009	
Maturity date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
<b>Corridor debentures</b>				
- Fixed to floating rate swap				
Series A - February 2, 2010	4.240%	\$ -	4.240%	\$ 150.0
Series B - February 2, 2015	5.033%	150.0	5.033%	150.0
		\$ 150.0		\$ 300.0
<b>Inter Pipeline syndicated facility</b>				
- Floating to fixed rate swap				
December 30, 2011 <sup>(1)</sup>	6.300%	\$ 27.0	6.300%	\$ 27.0
December 31, 2011	6.310%	15.0	6.310%	15.0
		\$ 42.0		\$ 42.0

(1) The notional principal balance of the \$27.0 million interest rate swap is reduced by \$1.0 million each year for the term of the arrangement.

Inter Pipeline has maintained its investment grade, long-term corporate credit rating of BBB with S&P since 2003. In the third quarter of 2010 DBRS upgraded Inter Pipeline's investment grade, long-term corporate credit rating from BBB to BBB (high) with a stable trend. In addition, DBRS also increased the credit rating of Corridor to A from A (low), with a stable trend. Corridor's series B and C debentures have been assigned investment grade credit ratings of A, A3 and A- from DBRS, Moody's and S&P, respectively.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

The following table summarizes Inter Pipeline's commitment profile and future contractual obligations at September 30, 2010. Management intends to finance these commitments through existing credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management polices as discussed in the section above.

<i>(millions)</i>	Less than one			
	Total	year	1 to 5 years	After 5 years
Capital expenditure projects <sup>(1)</sup>				
Oil sands transportation	\$ 372.8	\$ 230.2	\$ 142.6	\$ -
NGL extraction	54.6	0.6	54.0	-
Conventional oil pipelines	9.5	4.5	5.0	-
Bulk liquid storage	13.8	2.8	11.0	-
Growth capital <sup>(2)</sup>	450.7	238.1	212.6	-
Sustaining capital <sup>(2)</sup>	6.0	6.0	-	-
	456.7	244.1	212.6	-
Total debt <sup>(3)</sup>				
Corridor syndicated facility	1,778.8	191.0	1,587.8	-
Inter Pipeline syndicated facility	144.5	-	144.5	-
Loan to General Partner	379.8	-	379.8	-
Corridor debentures	300.0	-	150.0	150.0
	2,603.1	191.0	2,262.1	150.0
Other obligations				
Derivative financial instruments	22.4	19.0	3.4	-
Operating leases <sup>(4)</sup>	83.1	6.6	25.0	51.5
Purchase obligations	90.8	1.1	19.7	70.0
Long term portion of incentive plan	5.4	-	5.4	-
Working capital deficit <sup>(2)</sup>	23.4	23.4	-	-
	\$ 3,284.9	\$ 485.2	\$ 2,528.2	\$ 271.5

(1) Capital expenditure commitments in "less than one year" represent expected expenditures for the remaining months of 2010.

(2) Please refer to the NON-GAAP FINANCIAL MEASURES section of this MD&A.

(3) At September 30, 2010, outstanding Corridor letters of credit of approximately \$0.3 million were not included in the total \$2,603.1 million of debt outstanding in the table above.

(4) Operating lease maturities are based on contract terms as presented at December 31, 2009.

Inter Pipeline plans to invest approximately \$450.7 million in organic growth capital projects over the 2010 to 2012 period which includes final costs on the Corridor pipeline expansion project, capital costs for the \$135 million Polaris oil sands diluent transportation project, \$40 million expansion project on the Cold Lake pipeline system for the Foster Creek oil sands project and \$50 million for a sweetening project at the Cochrane NGL extraction facility. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of \$4.9 million to \$9.7 million phased over the next ten years. Subsequent to September 30, 2010, Inter Pipeline announced a second major agreement to transport diluent on the Polaris system to the Sunrise oil sands project. New pipeline and related facility costs are estimated at \$15 million. Funding of significant capital projects is managed as discussed in the capital structure section.

Inter Pipeline's debt outstanding at September 30, 2010 matures at various dates up to February 2020. Corridor's series B debentures will mature in February 2015 and Corridor's series C debentures mature February 3, 2020. Amounts drawn on tranches A and B of Corridor's syndicated facility will mature in 2012. Amounts drawn on tranches C and D of this facility will mature the earlier of August 2012 and the commencement or suspension true-up date of the Corridor expansion project. Inter Pipeline's loan payable to the General Partner and Inter Pipeline syndicated facility mature in periods between 2012 and 2014.

The following future obligations resulting from normal course of operations would be primarily funded from operations in the respective periods that they become due or may be funded through long-term 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 liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2010, 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 2038.
- (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 \$23.8 million under its employee incentive plan, of which \$18.4 million is included in the working capital deficit.
- (v) Undiscounted asset retirement obligations of \$55.2 million at December 31, 2009 represent an estimate of future obligations for the retirement of NGL extraction and bulk liquid storage assets. Similarly, long term environmental liabilities of \$12.0 million represent an estimate of projects that Inter Pipeline is obligated to remediate in the future. Defined benefit pension obligations of \$11.1 million represent the unfunded portion of the European retirement plans at December 31, 2009. Since there is no specified timing for payment of these obligations, they were excluded in the table above.

## CASH DISTRIBUTIONS TO UNITHOLDERS

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Cash provided by operating activities <sup>(1)(2)(3)</sup>	\$ 72.0	\$ 68.3	\$ 286.5	\$ 196.6
Net change in non-cash working capital <sup>(1)</sup>	5.2	23.0	(35.5)	29.3
Less sustaining capital expenditures <sup>(4)</sup>	(2.9)	(4.0)	(11.0)	(10.6)
Cash available for distribution <sup>(4)</sup>	74.3	87.3	240.0	215.3
Change in discretionary reserves	(16.4)	(34.9)	(66.7)	(67.4)
Cash distributions	\$ 57.9	\$ 52.4	\$ 173.3	\$ 147.9
Cash distributions per unit <sup>(5)</sup>	\$ 0.225	\$ 0.210	\$ 0.675	\$ 0.630
Payout ratio before sustaining capital <sup>(4)</sup>	75.0%	57.3%	69.0%	65.5%
Payout ratio after sustaining capital <sup>(4)</sup>	77.9%	60.0%	72.2%	68.7%
Growth capital expenditures <sup>(4)</sup>	\$ 36.5	\$ 417.0	\$ 101.9	\$ 520.0
Sustaining capital expenditures <sup>(4)</sup>	2.9	4.0	11.0	10.6
	\$ 39.4	\$ 421.0	\$ 112.9	\$ 530.6

- (1) In the third quarter of 2009, funds from operations in the bulk liquid storage business increased by \$10.2 million due to a reclassification of cash proceeds received for customer storage fees paid in advance. On the consolidated statement of cash flows, these proceeds were reclassified from "net change in non-cash working capital" to "proceeds from long-term deferred revenue" which is included in the calculation of funds from operations.
- (2) In the second quarter of 2010, funds from operations in the bulk liquid storage business increased \$5.8 million due to cash proceeds received for customer storage fees paid in advance.
- (3) In the third quarter of 2010, funds from operations for the bulk liquid storage business decreased \$4.1 million due to a special defined benefit pension plan contribution.
- (4) Please refer to the NON-GAAP FINANCIAL MEASURES section of this MD&A.
- (5) Cash distributions are calculated based on the number of units outstanding at each record date.



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

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

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

The discretionary reserve increased approximately \$16.4 million in the third quarter of 2010 and \$66.7 million year to date due primarily to the strong operating results of Inter Pipeline's business segments. Inter Pipeline will continue to manage the discretionary reserve and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

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

	Three Months Ended September 30	Nine Months Ended September 30				Years Ended December 31	
<i>(millions)</i>	2010	2010	2009	2008	2007	2006	
Cash provided by operating activities	\$ 72.0	\$ 286.5	\$ 281.8	\$ 321.1	\$ 234.1	\$ 201.6	
Cash distributions	(57.9)	(173.3)	(202.4)	(186.6)	(171.7)	(160.8)	
Excess	\$ 14.1	\$ 113.2	\$ 79.4	\$ 134.5	\$ 62.4	\$ 40.8	

	Three Months Ended September 30	Nine Months Ended September 30				Years Ended December 31	
<i>(millions)</i>	2010	2010	2009	2008	2007	2006	
Net income (loss)	\$ 46.6	\$ 176.1	\$ 157.7	\$ 249.7	\$ (80.0)	\$ 130.6	
Cash distributions	(57.9)	(173.3)	(202.4)	(186.6)	(171.7)	(160.8)	
(Shortfall) excess	\$ (11.3)	\$ 2.8	\$ (44.7)	\$ 63.1	\$ (251.7)	\$ (30.2)	

Cash distributions in all periods are less than cash provided by operating activities and in the nine months ended September 30, 2010 and year ended 2008 were less than net income. Net income (loss) includes certain non-cash expenses such as depreciation and amortization, future income taxes and unrealized changes in the fair value of derivative financial instruments therefore cash distributions may exceed net income.

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

## **OUTSTANDING UNIT DATA**

Inter Pipeline's outstanding units at September 30, 2010 are as follows:

<i>(millions)</i>	Class A	Class B	Total
Units outstanding	257.2	0.3	257.5

At November 2, 2010 Inter Pipeline had 257.4 million Class A units and 0.3 million Class B units for a total of 257.7 million units outstanding.

## **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 funds from operations. Inter Pipeline endeavours to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline's policy prohibits the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the board of directors through Inter Pipeline's risk management policy.

Inter Pipeline has 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 earnings<sup>1</sup>. 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. The sensitivity analyses in the following sections are based on the value of derivative financial instruments and long-term debt outstanding at September 30, 2010. The analyses are hypothetical and should not be considered to be predictive of future performance.

<sup>1</sup> Some of the sensitivity analyses presented below present the effect of reasonably possible changes in risk variables on essentially a pre-tax basis since prior to 2011, Inter Pipeline is only taxable on corporations within its organizational structure. Therefore the analyses in some of the sections below assume nil income tax impact.

## 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 related notional quantities of natural gas at fixed prices. NGL price swap agreements are transacted in US currency therefore Inter Pipeline also enters into foreign exchange contracts to sell US dollars to convert notional US dollar amounts in the NGL swaps.

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at September 30, 2010 and November 2, 2010. The CDN/USG average prices would approximate the following USD/USG prices based on the average USD/CDN forward curve at September 30, 2010 and November 2, 2010, respectively.

	November 2, 2010			September 30, 2010		
	% Forecast Propane-plus Volumes Hedged	Average Price (CDN/USG)	Average Price (USD/USG)	% Forecast Propane-plus Volumes Hedged	Average Price (CDN/USG)	Average Price (USD/USG)
October to December 2010	49%	\$ 0.74	\$ 0.73	49%	\$ 0.74	\$ 0.72
January to December 2011	49%	\$ 0.77	\$ 0.76	43%	\$ 0.76	\$ 0.73
January to December 2012	12%	\$ 0.78	\$ 0.77	-	-	-

Based on propane-plus volume hedges outstanding at September 30, 2010, the following table illustrates how a 10% change in NGL and AECO natural gas commodity prices or 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:

	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates <sup>(1)</sup>	Change in net income based on 10% decrease in prices/rates <sup>(1)</sup>
NGL <sup>(2)</sup>	\$ 0.3	\$ (10.3)	\$ 10.3
AECO natural gas	(17.2)	2.7	(2.7)
Foreign exchange	0.2	(10.3)	10.3
Frac-spread risk management	\$ (16.7)		

(1) Negative amounts represent a liability increase or asset decrease. Changes related to 2011 contracts are net of tax of 26.5%.

(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. In 2009, Inter Pipeline entered into financial heat rate swap and power price swap contracts to manage power price risk exposure in these businesses.

Based on heat rate swaps outstanding in the NGL extraction business at September 30, 2010, 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 \$0.4 million. A 10% change in AECO natural gas 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 \$0.3 million.

Based on electricity price swap agreements outstanding in the conventional oil pipelines business at September 30, 2010, 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.

### **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 September 30, 2010, a 1% change in interest rates at this date could affect interest expense on credit facilities and consequently pre-tax income by approximately \$4.9 million and \$14.3 million, respectively, for the three and nine months ending September 30, 2010, assuming all other variables remain constant. Of this amount, \$4.5 million and \$13.3 million for the three and nine months ending September 30, 2010, respectively, relates to the \$2.1 billion Corridor credit facility and are also recoverable in pre-tax income through the terms of the Corridor FSA. A 1% change in interest rates at September 30, 2010 could also affect the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage interest rate risk and consequently after-tax income by approximately \$0.4 million, assuming all other variables remain constant.

### **Realized and Unrealized Gains (Losses) on Derivative Instruments - Held-for-Trading**

Derivative financial instruments designated as "held-for-trading" 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 are 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. 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.

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

(millions)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
<b>Realized (loss) gain on derivative financial instruments</b>				
Revenues				
NGL swaps	\$ 2.3	\$ 13.0	\$ 2.5	\$ 48.3
Foreign exchange swaps (frac-spread hedges)	0.2	(2.4)	0.7	(12.9)
	2.5	10.6	3.2	35.4
Shrinkage gas expense				
Natural gas swaps	(5.7)	(9.5)	(12.7)	(22.8)
Operating expenses				
Electricity price swaps	(0.1)	-	0.1	-
Heat rate swaps	0.1	0.7	1.3	1.3
	-	0.7	1.4	1.3
Financing charges				
Interest rate swaps	0.8	2.2	3.0	5.5
Total realized (loss) gain on derivative financial instruments	(2.4)	4.0	(5.1)	19.4
<b>Unrealized (loss) gain on derivative financial instruments</b>				
NGL swaps	(19.4)	(18.4)	9.6	(70.0)
Natural gas swaps	(3.1)	9.7	(11.3)	6.0
Foreign exchange swaps (frac-spread hedges)	4.5	10.5	1.1	25.3
Electricity price swaps	(0.2)	-	-	-
Heat rate swaps	(0.6)	(1.0)	1.7	(2.4)
Interest rate swaps	0.4	(0.1)	1.3	1.2
Transitional transfers <sup>1</sup>	(0.2)	(0.2)	(0.6)	(0.6)
Total unrealized (loss) gain on derivative financial instruments	(18.6)	0.5	1.8	(40.5)
Total (loss) gain on derivative financial instruments	\$ (21.0)	\$ 4.5	\$ (3.3)	\$ (21.1)

(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, 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 September 30, 2010, accounts receivable associated with these two business segments were \$56.0 million or 64% 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 September 30, 2010, 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 quarters ended September 30, 2010 or 2009.

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 \$0.2 million (Q3 2009 - \$0.4 million) in dividends in the third quarter of 2010 from PAC pursuant to their ownership of non-voting shares.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the Partnership Agreement in excess of \$1.01 per unit to \$1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline. 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 September 30, 2010, interest payable to the General Partner on the loan was \$9.9 million (September 30, 2009 - \$10.3 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 default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At September 30, 2010, there were amounts owed to the General Partner by Inter Pipeline of \$0.6 million (September 30, 2009 - \$0.6 million).

## CONTROLS AND PROCEDURES

Management has made no material changes to the design of Inter Pipeline's internal control over financial reporting during the third quarter or year to date 2010.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's consolidated financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 1 *Summary of Significant Accounting Policies* of the December 31, 2009 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

Inter Pipeline's critical accounting estimates as disclosed in its annual 2009 MD&A changed in the current quarter for the following change in estimate:

### Property, Plant and Equipment

Effective July 1, 2010, Inter Pipeline has amended its estimates for calculating depreciation on the oil sands and Bow River pipeline (included in the conventional oil pipelines business) systems. Management conducted a comprehensive review of the estimated useful lives of these assets, having regard for, among other things, the recent negotiation of long-term contracts, the physical life of the pipeline assets as well as the estimated remaining life of crude oil reserves expected to be gathered and shipped on these pipeline systems. The estimated remaining service lives of these assets have been revised to 80 years to better reflect the number of years over which these pipeline systems will be in operation. The impact of this change for the three and nine months ended September 30, 2010 is to decrease depreciation and amortization expense and increase net income by \$7.8 million.

## CHANGES IN ACCOUNTING POLICIES

### FUTURE

#### International Financial Reporting Standards (IFRS)

All Canadian publicly accountable enterprises are required to adopt IFRS for interim and annual reporting periods for fiscal years beginning on or after January 1, 2011. For fiscal 2010, Inter Pipeline will continue to present its results using GAAP. For fiscal 2011, Inter Pipeline will present its results under the principles of IFRS, with fiscal 2010 results restated for comparative purposes beginning with the first quarter of 2011.

Inter Pipeline commenced its IFRS conversion project in 2008 and established a project team to successfully manage the transition to IFRS within the required timeframe. Inter Pipeline's project plan has been designed to ensure full compliance with IFRS, considering the impact on business and accounting processes, contractual and financing arrangements, key metrics, information systems and control environment. The project team reports to a steering committee comprised of senior management with quarterly updates to the audit committee. Inter Pipeline's external auditors have also been involved throughout the process from the initial impact assessment phase to the review of position papers and preliminary transitional adjustments.

Financial Statement Compliance with IFRS	Milestones/ Deadlines
Initial impact assessment phase <ul style="list-style-type: none"><li>➤ Initial identification of the major differences between GAAP and IFRS and assessment of the impact of these differences into high, medium and low categories in terms of the complexity of implementation and prospective timelines.</li></ul>	Completed.

<p>Research and planning phase</p> <ul style="list-style-type: none"> <li>➤ Research specific differences between GAAP and IFRS, long-term and transitional options available and prospective changes to IFRS prior to 2011. Identify potential implications for accounting policies and processes, business management, information systems, control environment and educational requirements. Develop a formal plan and timeline to meet project objectives.</li> </ul>	<p>Research completed subject to monitoring updates as IFRS changes.</p>
<p>Solution development phase</p> <ul style="list-style-type: none"> <li>➤ Quantify and evaluate transitional and long-term options available and select the most appropriate policies.</li> </ul>	<p>Accounting policy options have been assessed and significant policies selected. Preliminary transitional adjustments have been quantified, however are subject to changes in IFRS standards or interpretation of those standards. Financial statements to be prepared in accordance with IFRS for the 2011 fiscal year.</p>
<p>Implementation phase</p> <ul style="list-style-type: none"> <li>➤ Integrate solutions into the underlying financial processes and systems.</li> </ul>	<p>Integration of transitional solutions for quarterly financial reporting are being completed.</p>

Inter Pipeline's IFRS team has made significant progress on its IFRS conversion project. Inter Pipeline has drafted its preliminary transitional opening statement of financial position at January 1, 2010, and first and second quarter 2010 interim financial statements based on the selection of accounting policies and preliminary quantification of the impact of certain elements of IFRS discussed below, and has provided this information to its external auditors for their review. As discussed below, Inter Pipeline's current estimates of the quantitative impact of IFRS on the January 1, 2010 opening statement of financial position may be subject to change, until all applicable IFRS policies are definitively determined and approved and Inter Pipeline's financial statements are audited and approved.

The application of IFRS could still impact Inter Pipeline's consolidated financial statements on transition and in the future. The International Accounting Standards Board (IASB) has a number of ongoing projects with the US Financial Accounting Standards Board (FASB) that could impact Inter Pipeline's consolidated financial statements. The Canadian Accounting Standards Board (AcSB) formed an IFRS Discussion Group to identify issues relating to the application of IFRS in Canada which continues to raise issues on the interpretation and application of IFRS that could impact Inter Pipeline's consolidated financial statements. Inter Pipeline's project team continues to monitor the progress of new standards, proposed amendments to existing accounting standards issued by the IASB and discussions on interpretations of the standards and cumulative impact of IFRS on its consolidated financial statements, debt covenants, significant agreements and key metrics.

Inter Pipeline's compliance group has been monitoring controls over the IFRS conversion project. Significant changes identified and quantified will be reassessed by Inter Pipeline's compliance group to ensure Inter Pipeline's internal controls over financial reporting and disclosure controls in 2011 comply with NI 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian Securities Administrators.

The adoption of IFRS will not have a significant impact on Inter Pipeline's information systems. Financial models have been revised and information system enhancements are being completed for the maintenance of parallel information systems for the 2010 transitional year.



Although IFRS is based on a conceptual framework similar to GAAP, some standards result in significant differences in the recognition, measurement and / or disclosure of certain financial statement elements. A summary of IFRS identified to date, based on IFRS in place as of September 30, 2010, that have an impact on Inter Pipeline, and prospective standards in the exposure draft stage of development that could have an impact on Inter Pipeline's financial statements are discussed in the following sections. The following is a summary of these IFRS and prospective standards and not an exhaustive list of all actual or potential differences, which remain subject to change.

#### **Provisions, Contingent Liabilities and Contingent Assets**

IAS 37 – “*Provisions, contingent liabilities and contingent assets*” (IAS 37) currently requires a provision to be recognized when: (i) there is a present obligation (legal or constructive) as a result of a past transaction or event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. The provision recognized should represent the entity's best estimate of the current value of the obligation using a discount rate that reflects the current market assessment of the time value of money and should not reflect risks for which future cash flow estimates have been adjusted. Provisions are to be reviewed at the end of each reporting period and adjusted accordingly to reflect the entity's best estimate. Changes in discount rates or current decommissioning cost estimates will result in changes to the amount of the provision recorded with an offsetting charge to the value of property, plant and equipment and corresponding changes to the respective accretion or financing charge and depreciation expenses.

IAS 37 suggests that an entity should be able to determine a range of possible outcomes, and therefore should be able to determine a ‘best estimate’ of the obligation using the mid-point of the range if each point in the range is as likely as any other. GAAP also requires an entity to recognize a contingent liability such as an environmental liability, using a best estimate; however requires an entity to record the obligation at the lowest point in the range if no point within the range was a better estimate than any other point.

IAS 37 has numerous differences in requirements compared to GAAP as noted below, with the resulting impact of these differences being an increase to Inter Pipeline's provisions of less than \$18 million on the IFRS opening balance sheet. Inter Pipeline intends to elect under IFRS 1 to measure the present value of its decommissioning obligation in accordance with IAS 37 and recognize the net impact of the cost to the related assets (approximately \$9 million) at the date the liability first arose with the residual amount, net of tax, recorded as a charge to partners' equity on the IFRS opening balance sheet.

- Inter Pipeline has not historically recorded decommissioning obligations for either its conventional oil pipelines or oil sands pipeline assets as the timing of settlement and magnitude of the future obligation was not determinable per the guidance in GAAP. Applying the more prescriptive rules of IFRS, Inter Pipeline will now recognize a decommissioning obligation for all capital assets, including conventional oil pipeline and oil sands pipeline assets on transition to IFRS.
- Under GAAP, Inter Pipeline uses a credit adjusted risk free discount rate to determine the fair value of the decommissioning obligations for its natural gas liquids extraction facilities and certain of its bulk liquid storage assets. Inter Pipeline intends to use a risk free rate to calculate the fair value of its decommissioning obligations which will result in a higher liability than would be calculated using a credit adjusted risk free discount rate.
- Certain assumptions underlying the historic calculation of asset retirement obligations under GAAP are specifically disallowed under IFRS which will result in an increase in Inter Pipeline's decommissioning obligation on transition to IFRS.
- Historically, Inter Pipeline estimated a high and low estimate of outcomes for the majority of its known environmental liabilities recognizing the lowest point of the estimate as no point within the range was determined to be a better estimate than any other point. Also under GAAP, there are no provisions to present value the obligation at each reporting date. Under IFRS, Inter Pipeline will increase its environmental liability to reflect the mid-point of the range of estimates and will discount the liability to its present value at January 1, 2010.

### **Employee Benefits**

IAS 19 – “*Employee Benefits*” provides an entity with three options to recognize actuarial gains or losses. The “corridor approach” allows an entity to recognize actuarial gains or losses as income or expense over a defined amortization period. The second option allows an entity to adopt a more systematic method that would result in faster recognition of gains or losses in income. The third option allows an entity to recognize actuarial gains or losses in other comprehensive income in the period in which they occur providing it applies this policy to all of its defined benefit plans and all actuarial gains and losses. IFRS 1 provides transitional relief to recognize all unrealized actuarial gains or losses outstanding at the date of transition in other comprehensive income. Inter Pipeline intends to elect the third option of recognizing actuarial gains and losses and has retroactively restated the impact associated with immediate recognition of the actuarial gains and losses in comprehensive income at January 1, 2010. This will result in an increase of approximately \$7 million to Inter Pipeline’s net pension obligation, with a corresponding decrease, net of tax, to total partners’ equity on the IFRS opening balance sheet.

### **Share Based Payments**

Similar to GAAP, IFRS 2 – “*Share Based Payments*” (IFRS 2) requires Inter Pipeline to estimate the number of share based payment awards under its deferred unit rights plan (DURs) expected to vest on maturity. Under IFRS 2, Inter Pipeline must include an estimate of awards that may be forfeited prematurely, with changes in the estimate to be accounted for prospectively. GAAP differs as it allows an entity to recognize the effect of actual forfeitures as they occur and does not require an entity to include an estimate of future forfeitures. This will result in a decrease to the total liability and increase to total partners’ equity on the IFRS opening balance sheet of less than \$2 million. On full vesting of the DURs, total compensation expense will represent actual compensation expense under both IFRS and GAAP, however, over the vesting period; there may be timing differences in the recognition of compensation expense.

### **Asset Impairment**

IAS 36 - “*Impairment of Assets*” (IAS 36) is similar to GAAP as both standards require an entity to (i) perform a goodwill impairment test annually and (ii) assess whether there is an indication that its other tangible and intangible assets may be impaired taking into consideration both external and internal sources of information. GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36 requires assets to be assessed for impairment for each cash-generating unit defined as the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows from other assets or group of assets. IAS 36 uses a one-step approach for both testing for and measurement of impairment for each cash-generating unit. Asset carrying values are compared directly with the asset’s fair value or recoverable amount using the higher results from one of two asset valuation models: fair value less costs to sell and value in use. This may potentially result in more write downs where carrying values of assets were previously supported under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. Under IFRS, any write down of asset value (except goodwill) may be reversed in future periods when circumstances have changed such that the impairments have been reduced. GAAP prohibits reversal of impairment losses.

On transition to IFRS, an entity is required to reassess whether there would be impairment of its goodwill applying the requirements of IAS 36. Inter Pipeline assessed its goodwill for impairment in accordance with the requirements of IAS 36 and determined that no impairment existed as at the IFRS transition date of January 1, 2010.

### **Income Taxes**

In transitioning to IFRS, Inter Pipeline’s deferred tax liability will be impacted by the tax effects resulting from the IFRS changes discussed in this section of the MD&A. Inter Pipeline expects to recognize a decrease in the deferred tax liability of approximately \$5 million with a corresponding increase to total partners’ equity on the IFRS opening balance sheet.

### **IFRS 1 First-Time Adoption of International Financial Reporting Standards (IFRS 1)**

IFRS 1 provides a framework for the first time adoption of IFRS with a number of one-time optional exemptions and mandatory exceptions to retrospective application of certain IFRS policies. In general, an entity is required to apply the principles under IFRS on the basis that the entity has prepared its financial

statements in accordance with IFRS since its formation. These one-time optional exemptions and mandatory exceptions are provided to assist entities overcome difficulties associated with reformulating historical accounting information from GAAP to IFRS. IFRS 1 also specifies that adjustments that arise on retrospective conversion to IFRS should be directly recognized in opening retained earnings or partners' equity in Inter Pipeline's case. Inter Pipeline has considered these transitional elections concurrent with the review of IFRS. In addition to the IFRS 1 elections discussed above, the following are additional elections Inter Pipeline intends to adopt on transition to IFRS.

- Inter Pipeline will elect to deem the balance of its cumulative unrealized loss on translating financial statements of self-sustaining foreign operations to be zero at the date of transition. This requires Inter Pipeline to reclassify these cumulative unrealized losses from accumulated other comprehensive loss to partners' equity, which will have no net impact on Inter Pipeline's total partners' equity.
- Under IFRS 1, an entity may elect to fair value an item of property, plant and equipment at its fair value and use that value as its deemed cost prospectively. Inter Pipeline does not intend to elect under the deemed cost provision of IFRS 1 and will continue to use an historical cost asset valuation model on transition to IFRS as management considers historical cost to be a more consistent measure of value given the nature of its assets.
- Capitalization of directly attributable borrowing costs to the cost of property, plant and equipment is mandatory under IAS 23 – “*Borrowing costs*” (IAS 23) but is optional under GAAP. Pursuant to the transitional provisions of IFRS 1, Inter Pipeline intends to apply the requirements of IAS 23 prospectively.
- Business combinations entered into prior to the date of transition will not be retrospectively restated using IFRS principles.

#### **Exposure Draft - Joint Arrangements**

Exposure Draft 9 – “*Joint Arrangements*” (ED 9) is now expected to become an IFRS standard in the fourth quarter of 2010 replacing IAS 31 “*Interests in Joint Ventures*”. ED 9 sets out the basis of accounting required for arrangements whereby assets, operations or entities are under joint control. The exposure draft currently proposes that entities account for interests in jointly controlled entities using the equity method of accounting and proposes elimination of the option to proportionately consolidate these entities.

Currently, Inter Pipeline uses the proportionate consolidation method to account for its 85% interest in the Cold Lake LP and 50% interest in the assets of the Empress V facility. Under the proposed ED 9, Cold Lake LP may be considered a jointly controlled entity, therefore may be required to be accounted for under the equity method of accounting versus proportionate consolidation. Empress V assets would be considered jointly controlled assets, therefore would continue to be accounted for under an accounting method similar to proportionate consolidation. As this is an exposure draft, the full extent of the impact of applying ED 9 cannot be made at this time, pending further certainty as to the final standard on accounting for joint arrangements.

## **2009**

### **Goodwill and Intangible Assets**

In February 2008, the CICA issued Section 3064 – “*Goodwill and Intangible Assets*” and amended Section 1000 – “*Financial Statement Concepts*” to clarify the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized as assets. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Standards concerning goodwill and research and development costs are unchanged from the standards included in the previous Section 3062. The standards are applicable on a retrospective basis with restatement to financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this standard in 2009 had no impact on Inter Pipeline's consolidated financial statements.

### **Credit risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the Emerging Issues Committee (EIC) issued a new abstract EIC-173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The EIC concluded that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative financial instruments. Inter Pipeline had previously incorporated the credit risk of counterparties in fair value calculations.

### **Financial Instrument Disclosures**

During 2009, CICA Handbook Section 3862 “Financial Instruments — Disclosures” (HB 3862) was amended to include enhanced disclosures about inputs to fair value measurement, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The amendments to HB 3862 also clarify and enhance liquidity risk disclosures for financial and derivative financial liabilities and strengthen the relationship between qualitative and quantitative disclosures about liquidity risk. HB 3862 was adopted by Inter Pipeline in the financial statements for the year ended December 31, 2009. The amendments are to be applied prospectively, and comparative information was not required in the first year of adoption.

### **RISK FACTORS**

During the third quarter of 2010, there were no significant changes to Inter Pipeline’s operating activities that would affect the disclosure of risk factors as discussed in its 2009 annual MD&A.

### **NON-GAAP FINANCIAL MEASURES**

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

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

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

<i>(millions)</i>	September 30 2010	December 31 2009
Current assets		
Cash and cash equivalents	\$ 29.4	\$ 18.2
Accounts receivable	87.6	122.1
Prepaid expenses and other deposits	12.1	17.9
Current liabilities		
Cash distributions payable	(19.3)	(19.1)
Accounts payable and accrued liabilities	(123.8)	(136.9)
Deferred revenue	(9.4)	(3.6)
Adjusted working capital deficiency	\$ (23.4)	\$ (1.4)

**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.

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

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net income	\$ 46.6	\$ 51.9	\$ 176.1	\$ 134.6
Depreciation and amortization	18.2	24.5	68.8	73.5
Loss (gain) on disposal of assets	-	1.9	-	(18.0)
Non-cash expenses	1.7	1.0	0.4	2.4
Unrealized change in fair value of derivative financial instruments	18.6	(0.5)	(1.8)	40.5
Future income tax (recovery) expense	(3.8)	2.4	5.8	(17.3)
Proceeds from long-term deferred revenue	-	10.2	5.8	10.2
Defined benefit pension plan contribution	(4.1)	-	(4.1)	-
Funds from operations	77.2	91.4	251.0	225.9
Financing charges	9.8	8.6	28.2	28.4
Divestiture fee to General Partner	-	-	-	0.1
Current income tax expense	0.3	0.2	1.5	0.9
Defined benefit pension plan contribution	4.1	-	4.1	-
EBITDA	\$ 91.4	\$ 100.2	\$ 284.8	\$ 255.3

**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:

<i>(millions, except per unit amounts)</i>	September 30 2010	December 31 2009
Closing unit price	\$ 13.71	\$ 10.81
Total closing number of Class A and B units outstanding	257.5	254.6
	3,530.9	2,752.7
Total debt	2,603.1	2,619.7
Enterprise value	\$ 6,134.0	\$ 5,372.4

**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 September 30			
				2010	2009
<i>(millions)</i>		Growth	Sustaining	Total	Total
Oil sands transportation	\$	27.3	\$ (0.1)	\$ 27.2	\$ 383.5
NGL extraction		2.3	1.7	4.0	1.1
Conventional oil pipelines		1.1	(0.1)	1.0	23.8
Bulk liquid storage		5.8	1.2	7.0	11.5
Corporate		-	0.2	0.2	1.1
	\$	36.5	\$ 2.9	\$ 39.4	\$ 421.0

		Nine Months Ended September 30			
				2010	2009
<i>(millions)</i>		Growth	Sustaining	Total	Total
Oil sands transportation	\$	81.8	\$ 0.5	\$ 82.3	\$ 455.5
NGL extraction		3.4	2.6	6.0	11.3
Conventional oil pipelines		4.5	1.1	5.6	33.2
Bulk liquid storage		12.2	3.0	15.2	28.5
Corporate		-	3.8	3.8	2.1
	\$	101.9	\$ 11.0	\$ 112.9	\$ 530.6

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

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

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

## **ELIGIBLE INVESTORS**

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

## **ADDITIONAL INFORMATION**

Additional information relating to Inter Pipeline, including Inter Pipeline's Annual Information Form, is available on SEDAR at [www.sedar.com](http://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 4th day of November, 2010.**

**Inter Pipeline Fund**

# Consolidated Balance Sheets

(unaudited) (thousands of dollars)	As at September 30 2010	As at December 31 2009
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 29,407	\$ 18,208
Accounts receivable	87,605	122,122
Derivative financial instruments (note 14a)	7,725	3,738
Prepaid expenses and other deposits	12,118	17,927
Current portion of future income taxes (note 7)	5,243	-
<b>Total Current Assets</b>	<b>142,098</b>	<b>161,995</b>
Derivative financial instruments (note 14a)	13,306	9,239
Intangible assets (note 3)	308,665	319,603
Property, plant and equipment (note 4)	3,804,896	3,765,930
Goodwill	212,863	215,947
<b>Total Assets</b>	<b>\$ 4,481,828</b>	<b>\$ 4,472,714</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current Liabilities		
Cash distributions payable (note 5)	\$ 19,335	\$ 19,098
Accounts payable and accrued liabilities (note 12)	123,785	136,909
Derivative financial instruments (note 14a)	18,845	16,655
Deferred revenue	9,387	3,621
Current portion of long-term debt (note 6)	191,000	123,600
<b>Total Current Liabilities</b>	<b>362,352</b>	<b>299,883</b>
Long-term debt (note 6)	2,403,369	2,487,315
Long-term payable	12,152	9,212
Derivative financial instruments (note 14a)	3,297	4,081
Asset retirement obligation	5,223	5,036
Environmental liabilities	12,021	12,299
Employee benefits (notes 9 and 10)	3,131	7,061
Long-term deferred revenue	13,977	8,730
Future income taxes (note 7)	326,625	318,996
<b>Total Liabilities</b>	<b>3,142,147</b>	<b>3,152,613</b>
Commitments (note 4)		
Partners' Equity		
Partners' equity (note 8)	1,408,330	1,373,951
Accumulated other comprehensive loss	(68,649)	(53,850)
<b>Total Partners' Equity</b>	<b>1,339,681</b>	<b>1,320,101</b>
<b>Total Liabilities and Partners' Equity</b>	<b>\$ 4,481,828</b>	<b>\$ 4,472,714</b>

See accompanying notes to the interim consolidated financial statements.



**Inter Pipeline Fund**

## Consolidated Statements of Partners' Equity

Nine Months Ended September 30

(unaudited) (thousands of dollars)

**2010**

2009

	Class A Limited Liability Partnership Units		Class B Unlimited Liability Partnership Units		Total	Total
Balance, beginning of period	\$ 1,372,579	\$ 1,372	\$ 1,373,951	\$ 1,161,547		
Net income for the period	175,972	176	176,148	134,624		
Cash distributions declared (notes 5 and 8)	(173,116)	(173)	(173,289)	(147,910)		
Issuance of Partnership units (note 8)						
Equity issuances, net of issue costs and future income taxes	-	-	-	165,470		
Issued under Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan	31,337	31	31,368	51,846		
Issued under Unit Incentive Option Plan	152	-	152	2,555		
Balance, end of period	\$ 1,406,924	\$ 1,406	\$ 1,408,330	\$ 1,368,132		

## Consolidated Statements of Accumulated Other Comprehensive Loss

Nine Months Ended September 30

(unaudited) (thousands of dollars)

**2010**

2009

Balance, beginning of period	\$ (53,850)	\$ (31,388)
Other comprehensive loss	(14,799)	(17,459)
Balance, end of period	\$ (68,649)	\$ (48,847)

See accompanying notes to the interim consolidated financial statements.

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Inter Pipeline Fund

## Consolidated Statements of Net Income

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
<b>REVENUES</b>				
Operating revenue	\$ 231,663	\$ 224,462	\$ 744,633	\$ 667,408
<b>EXPENSES</b>				
Shrinkage gas	66,908	65,081	239,127	200,040
Operating	60,960	58,380	188,213	188,899
Depreciation and amortization (note 11)	18,235	24,464	68,759	73,542
Financing charges (note 12)	10,059	8,582	28,939	28,443
General and administrative	11,982	10,277	32,298	30,539
Unrealized change in fair value of derivative financial instruments (note 14b)	18,628	(542)	(1,814)	40,481
Management fee to General Partner	1,881	1,854	5,787	5,206
(Gain) loss on disposal of assets	-	1,935	(37)	(17,922)
	188,653	170,031	561,272	549,228
<b>INCOME BEFORE INCOME TAXES</b>	43,010	54,431	183,361	118,180
(Recovery of) provision for income taxes (note 7)				
Current	290	169	1,456	905
Future	(3,841)	2,384	5,757	(17,349)
	(3,551)	2,553	7,213	(16,444)
<b>NET INCOME</b>	\$ 46,561	\$ 51,878	\$ 176,148	\$ 134,624
Net income per Partnership unit (note 8)				
Basic and diluted	\$ 0.18	\$ 0.21	\$ 0.69	\$ 0.58

## Consolidated Statements of Comprehensive Income

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
<b>NET INCOME</b>	\$ 46,561	\$ 51,878	\$ 176,148	\$ 134,624
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	9,424	(31,452)	(15,405)	(18,065)
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 14b)	202	202	606	606
	9,626	(31,250)	(14,799)	(17,459)
<b>COMPREHENSIVE INCOME</b>	\$ 56,187	\$ 20,628	\$ 161,349	\$ 117,165

See accompanying notes to the interim consolidated financial statements.

Inter Pipeline Fund

## Consolidated Statements of Cash Flows

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
<b>OPERATING ACTIVITIES</b>				
Net income	\$ 46,561	\$ 51,878	\$ 176,148	\$ 134,624
Items not involving cash:				
Depreciation and amortization	18,235	24,464	68,759	73,542
(Gain) loss on disposal of assets	-	1,935	(37)	(17,922)
Non-cash expenses	1,718	1,049	409	2,394
Unrealized change in fair value of derivative financial instruments	18,628	(542)	(1,814)	40,481
Future income tax (recovery) expense	(3,841)	2,384	5,757	(17,349)
Proceeds from long-term deferred revenue	-	10,173	5,796	10,173
Defined benefit pension plan contribution	(4,052)	-	(4,052)	-
Funds from operations	77,249	91,341	250,966	225,943
Net change in non-cash working capital (note 16)	(5,231)	(23,028)	35,547	(29,317)
Cash provided by operating activities	72,018	68,313	286,513	196,626
<b>INVESTING ACTIVITIES</b>				
Expenditures on property, plant and equipment	(39,011)	(420,592)	(111,745)	(529,418)
Proceeds on sale of assets	-	11	239	28,275
Net change in non-cash investing working capital (note 16)	217	12,491	(3,728)	(13,169)
Cash used in investing activities	(38,794)	(408,090)	(115,234)	(514,312)
<b>FINANCING ACTIVITIES</b>				
Cash distributions (note 5)	(50,713)	(18,219)	(141,921)	(96,064)
Increase (decrease) in long-term debt	17,146	365,331	(17,494)	262,226
Transaction costs on long-term debt	(9)	-	(849)	-
Issuance of Partnership units, net of issue costs	44	1,402	152	167,182
Net change in non-cash financing working capital (note 16)	65	301	237	1,939
Cash (used in) provided by financing activities	(33,467)	348,815	(159,875)	335,283
Effect of foreign currency translation on foreign currency denominated cash	534	(1,413)	(205)	(1,386)
<b>Increase in cash and cash equivalents</b>	<b>291</b>	<b>7,625</b>	<b>11,199</b>	<b>16,211</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>29,116</b>	<b>22,152</b>	<b>18,208</b>	<b>13,566</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 29,407</b>	<b>\$ 29,777</b>	<b>\$ 29,407</b>	<b>\$ 29,777</b>

See accompanying notes to the interim consolidated financial statements.

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
September 30, 2010  
(tabular amounts in thousands of dollars, except per unit amounts)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These unaudited interim consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles (GAAP) and have been prepared by management following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. The disclosures provided in these interim consolidated financial statements are incremental to those included with the annual consolidated financial statements. These interim consolidated financial statements do not contain all disclosures required by GAAP for annual financial statements, and accordingly, should be read in conjunction with the consolidated financial statements and notes in Inter Pipeline Fund's (Inter Pipeline) annual report for the year ended December 31, 2009.

**Change in Estimate**

Effective July 1, 2010, Inter Pipeline has amended its estimates for calculating depreciation on the oil sands and Bow River pipeline systems. Management conducted a comprehensive review of the estimated useful lives of these assets, having regard for, among other things, the recent negotiation of long-term contracts, the physical life of the pipeline assets as well as the estimated remaining life of crude oil reserves expected to be gathered and shipped on these pipeline systems. The estimated remaining service lives of these assets have been revised to 80 years to better reflect the number of years over which these pipeline systems will be in operation. The impact of this change for the three and nine months ended September 30, 2010 is to decrease depreciation and amortization expense and increase net income by \$7.8 million.

**Future Accounting Changes**

**Business Combinations**

In January 2009, the CICA issued a new accounting standard, section 1582 "Business Combinations", which prospectively establishes principles and requirements of the acquisition method for business combinations and related disclosures that will be effective for Inter Pipeline's 2011 reporting. These recommendations are effective for business combinations occurring after January 1, 2011, although early adoption is permitted.

**Consolidated Financial Statements**

In January 2009, the CICA issued a new accounting standard, section 1601 "Consolidated Financial Statements", which establishes standards for the preparation of consolidated financial statements that will be effective for Inter Pipeline's 2011 reporting. The adoption of these recommendations is not expected to have a material impact on Inter Pipeline.

**Inter Pipeline Fund**

**Notes to Interim Consolidated Financial Statements**

**(unaudited)**

September 30, 2010

(tabular amounts in thousands of dollars, except per unit amounts)

**2. SEGMENT REPORTING**

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

	Three Months Ended September 30, 2010							
	Canada					Europe		Total Canadian and European Operations
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business		
<b>Revenues</b>	\$ 36,440	\$ 128,783	\$ 41,388	\$ -	\$ 206,611	\$ 25,052	\$ 231,663	
<b>Expenses</b>								
Shrinkage gas	-	66,908	-	-	66,908	-	66,908	
Operating	14,516	21,651	11,604	-	47,771	13,189	60,960	
Depreciation and amortization	4,534	6,440	2,358	479	13,811	4,424	18,235	
Financing charges	2,811	-	-	7,288	10,099	(40)	10,059	
General and administrative	802	-	-	9,724	10,526	1,456	11,982	
Unrealized change in fair value of derivative financial instruments	-	18,601	202	(175)	18,628	-	18,628	
Management fee to General Partner	-	-	-	1,881	1,881	-	1,881	
Gain on disposal of assets	-	-	-	-	-	-	-	
<b>Total expenses</b>	22,663	113,600	14,164	19,197	169,624	19,029	188,653	
<b>Income (loss) before income taxes</b>	13,777	15,183	27,224	(19,197)	36,987	6,023	43,010	
Provision for (recovery of) income taxes	1,289	-	-	(3,956)	(2,667)	(884)	(3,551)	
<b>Net income (loss)</b>	\$ 12,488	\$ 15,183	\$ 27,224	\$ (15,241)	\$ 39,654	\$ 6,907	\$ 46,561	
Expenditures on property, plant and equipment	\$ 27,128	\$ 4,078	\$ 942	\$ 196	\$ 32,344	\$ 7,045	\$ 39,389	
	<b>As at September 30, 2010</b>							
Total assets	\$ 2,927,011	\$ 671,383	\$ 472,281	\$ 9,423	\$ 4,080,098	\$ 401,730	\$ 4,481,828	
Goodwill	\$ 156,938	\$ -	\$ -	\$ -	\$ 156,938	\$ 55,925	\$ 212,863	

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
**September 30, 2010**  
(tabular amounts in thousands of dollars, except per unit amounts)

	<b>Three Months Ended September 30, 2009</b>							
	<u>Canada</u>					<u>Europe</u>		
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations	
<b>Revenues</b>	\$ 32,189	\$ 127,280	\$ 36,076	\$ -	\$ 195,545	\$ 28,917	\$ 224,462	
<b>Expenses</b>								
Shrinkage gas	-	65,081	-	-	65,081	-	65,081	
Operating	12,021	21,307	9,031	-	42,359	16,021	58,380	
Depreciation and amortization	9,508	6,413	4,052	258	20,231	4,233	24,464	
Financing charges	1,194	-	-	7,404	8,598	(16)	8,582	
General and administrative	553	-	-	7,576	8,129	2,148	10,277	
Unrealized change in fair value of derivative financial instruments	-	(836)	-	294	(542)	-	(542)	
Management fee to General Partner	-	-	-	1,854	1,854	-	1,854	
(Gain) loss on disposal of assets	-	-	(5)	-	(5)	1,940	1,935	
<b>Total expenses</b>	<b>23,276</b>	<b>91,965</b>	<b>13,078</b>	<b>17,386</b>	<b>145,705</b>	<b>24,326</b>	<b>170,031</b>	
<b>Income (loss) before income taxes</b>	<b>8,913</b>	<b>35,315</b>	<b>22,998</b>	<b>(17,386)</b>	<b>49,840</b>	<b>4,591</b>	<b>54,431</b>	
Provision for (recovery of) income taxes	888	-	-	1,915	2,803	(250)	2,553	
<b>Net income (loss)</b>	<b>\$ 8,025</b>	<b>\$ 35,315</b>	<b>\$ 22,998</b>	<b>\$ (19,301)</b>	<b>\$ 47,037</b>	<b>\$ 4,841</b>	<b>\$ 51,878</b>	
Expenditures on property, plant and equipment	\$ 383,469	\$ 1,103	\$ 23,799	\$ 1,056	\$ 409,427	\$ 11,544	\$ 420,971	
	<b>As at December 31, 2009</b>							
Total assets	\$ 2,863,230	\$ 710,692	\$ 480,979	\$ 5,885	\$ 4,060,786	\$ 411,928	\$ 4,472,714	
Goodwill	\$ 156,938	\$ -	\$ -	\$ -	\$ 156,938	\$ 59,009	\$ 215,947	

**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**

September 30, 2010

(tabular amounts in thousands of dollars, except per unit amounts)

	Nine Months Ended September 30, 2010							
	Canada					Europe		
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations	
<b>Revenues</b>	\$ 107,682	\$ 445,294	\$ 116,689	\$ -	\$ 669,665	\$ 74,968	\$ 744,633	
<b>Expenses</b>								
Shrinkage gas	-	239,127	-	-	239,127	-	239,127	
Operating	42,162	76,010	30,651	-	148,823	39,390	188,213	
Depreciation and amortization	23,779	19,311	11,431	1,279	55,800	12,959	68,759	
Financing charges	7,360	-	-	21,778	29,138	(199)	28,939	
General and administrative	2,292	-	-	25,726	28,018	4,280	32,298	
Unrealized change in fair value of derivative financial instruments	-	(1,094)	37	(757)	(1,814)	-	(1,814)	
Management fee to General Partner	-	-	-	5,787	5,787	-	5,787	
Gain on disposal of assets	-	(15)	(22)	-	(37)	-	(37)	
<b>Total expenses</b>	75,593	333,339	42,097	53,813	504,842	56,430	561,272	
<b>Income (loss) before income taxes</b>	32,089	111,955	74,592	(53,813)	164,823	18,538	183,361	
Provision for (recovery of) income taxes	2,848	-	-	4,508	7,356	(143)	7,213	
<b>Net income (loss)</b>	\$ 29,241	\$ 111,955	\$ 74,592	\$ (58,321)	\$ 157,467	\$ 18,681	\$ 176,148	
Expenditures on property, plant and equipment	\$ 82,327	\$ 5,956	\$ 5,649	\$ 3,750	\$ 97,682	\$ 15,198	\$ 112,880	

**Inter Pipeline Fund**

**Notes to Interim Consolidated Financial Statements**

**(unaudited)**

September 30, 2010

(tabular amounts in thousands of dollars, except per unit amounts)

	Nine Months Ended September 30, 2009							
	Canada					Europe		
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations	
<b>Revenues</b>	\$ 96,455	\$ 368,566	\$ 114,527	\$ -	\$ 579,548	\$ 87,860	\$ 667,408	
<b>Expenses</b>								
Shrinkage gas	-	200,040	-	-	200,040	-	200,040	
Operating	35,165	76,356	27,615	-	139,136	49,763	188,899	
Depreciation and amortization	28,357	18,744	12,231	750	60,082	13,460	73,542	
Financing charges	4,777	-	-	23,610	28,387	56	28,443	
General and administrative	2,267	-	-	22,004	24,271	6,268	30,539	
Unrealized change in fair value of derivative financial instruments	-	41,087	-	(606)	40,481	-	40,481	
Management fee to General Partner	-	-	-	5,206	5,206	-	5,206	
(Gain) loss on disposal of assets	-	(15)	(20,890)	-	(20,905)	2,983	(17,922)	
<b>Total expenses</b>	70,566	336,212	18,956	50,964	476,698	72,530	549,228	
<b>Income (loss) before income taxes</b>	25,889	32,354	95,571	(50,964)	102,850	15,330	118,180	
Provision for (recovery of) income taxes	2,579	-	-	(20,048)	(17,469)	1,025	(16,444)	
<b>Net income (loss)</b>	\$ 23,310	\$ 32,354	\$ 95,571	\$ (30,916)	\$ 120,319	\$ 14,305	\$ 134,624	
Expenditures on property, plant and equipment	\$ 455,497	\$ 11,203	\$ 33,155	\$ 2,168	\$ 502,023	\$ 28,531	\$ 530,554	



**Inter Pipeline Fund**  
**Notes to Interim Consolidated Financial Statements**  
**(unaudited)**  
**September 30, 2010**  
(tabular amounts in thousands of dollars, except per unit amounts)

**3. INTANGIBLE ASSETS**

			September 30 2010	December 31 2009
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Transportation Services Agreement	\$ 93,548	\$ (24,989)	\$ 68,559	\$ 70,978
NGL extraction business				
Customer contracts	287,612	(59,126)	228,486	235,676
Patent	8,727	(3,844)	4,883	5,351
	296,339	(62,970)	233,369	241,027
Bulk liquid storage business				
Customer contracts and relationships	4,471	(1,218)	3,253	3,851
Tradename	4,179	(695)	3,484	3,747
	8,650	(1,913)	6,737	7,598
	\$ 398,537	\$ (89,872)	\$ 308,665	\$ 319,603

**4. PROPERTY, PLANT AND EQUIPMENT**

			September 30 2010	December 31 2009
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Facilities and equipment	\$ 1,055,793	\$ (155,861)	\$ 899,932	\$ 916,766
Construction work in progress	1,679,064	-	1,679,064	1,600,193
Pipeline linefill	74,033	(5,577)	68,456	69,524
	2,808,890	(161,438)	2,647,452	2,586,483
NGL extraction business				
Facilities and equipment	464,277	(88,113)	376,164	386,400
Construction work in progress	10,017	-	10,017	5,638
Spare parts	4,924	-	4,924	4,595
	479,218	(88,113)	391,105	396,633
Conventional oil pipelines business				
Facilities and equipment	827,911	(378,342)	449,569	401,381
Construction work in progress	1,073	-	1,073	55,103
	828,984	(378,342)	450,642	456,484
Corporate				
Office furniture and equipment	22,145	(14,252)	7,893	5,514
	22,145	(14,252)	7,893	5,514
Bulk liquid storage business				
Facilities and equipment	357,175	(55,943)	301,232	299,682
Construction work in progress	6,572	-	6,572	21,134
	363,747	(55,943)	307,804	320,816
	\$ 4,502,984	\$ (698,088)	\$ 3,804,896	\$ 3,765,930

Inter Pipeline has committed to additional expenditures on property, plant and equipment totalling approximately \$456.7 million at September 30, 2010, of which \$244.1 million is due in 1 year and \$212.6 million is due in 1-5 years.

**Inter Pipeline Fund**  
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**5. CASH DISTRIBUTIONS**

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

For the three and nine months ended September 30, 2010, Inter Pipeline declared cash distributions totalling \$57.9 million and \$173.3 million, respectively (three and nine months ended September 30, 2009 - \$52.4 million and \$147.9 million, respectively). Of the total cash distributions, \$7.2 million and \$31.4 million were settled with the issuance of Class A and Class B units under the Premium Distribution™ and Distribution Reinvestment Plan (Plan) for the three and nine months ended September 30, 2010, respectively (three and nine months ended September 30, 2009 - \$34.2 million and \$51.8 million, respectively). As at September 30, 2010, distributions of \$19.3 million were payable on 257.3 million outstanding Class A units and 0.3 million outstanding Class B units at \$0.075 per unit (December 31, 2009 - \$19.1 million payable on 254.3 million outstanding Class A units and 0.3 million outstanding Class B units at \$0.075 per unit).

**6. LONG-TERM DEBT**

	September 30 2010	December 31 2009
\$2,142 million Unsecured Revolving Credit Facility	\$ 1,778,800	\$ 1,709,900
\$750 million Unsecured Revolving Credit Facility	144,500	230,000
Loan Payable to General Partner	379,800	379,800
Corridor Debentures (a)	300,000	300,000
Long-term debt (excluding transaction costs and discounts)	2,603,100	2,619,700
Less: Current portion of long-term debt	(191,000)	(123,600)
	2,412,100	2,496,100
Transaction costs	(13,986)	(13,137)
Accumulated amortization of transaction costs	7,276	5,479
Discount, net of accumulated amortization	(2,021)	(1,127)
Long-term debt	2,403,369	2,487,315
Current portion of long-term debt	191,000	123,600
Long-term debt (including current portion)	\$ 2,594,369	\$ 2,610,915

- (a) On February 2, 2010, the \$150 million of 4.240% Series A debentures matured. On February 2, 2010, Corridor issued \$150 million of 4.897% Series C debentures due February 3, 2020. Corridor Series C debentures are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005 and a supplemental indenture dated February 2, 2010. Interest is payable semi-annually in equal instalments in arrears on February 2 and August 2 of each year, except for 2020 in which case interest is payable on February 3, 2020 for interest accrued for the period from and including August 2, 2019 to and including February 2, 2020.
- (b) At September 30, 2010 Corridor had issued letters of credit valued at \$0.3 million.

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**7. INCOME TAXES**

On March 4, 2009, the Government of Canada substantively enacted legislation that repealed the “provincial SIFT tax factor” and replaced it with the “provincial SIFT tax rate.” The “provincial SIFT tax rate” is calculated based on the general provincial corporate income tax rate for each province in which Inter Pipeline has a permanent establishment. For Inter Pipeline, this legislation reduced the provincial income tax rate for noncorporate entities from 13.0% to approximately 10.0% effective January 1, 2011 onward, which reduced Inter Pipeline’s estimated effective tax rate to 26.5% and 25.0% effective January 1, 2011 and January 1, 2012 respectively. As a result of this rate reduction, future income tax liabilities of non-corporate entities were reduced by \$24.0 million in the first quarter of 2009.

In the bulk liquid storage business, the third quarter 2010 results recognize recent tax legislative changes which have impacted future income taxes. In the United Kingdom (“UK”), tax legislation has been passed which reduced the effective income tax rate from 28.0% to 27.0%, effective April 1, 2011. The effect of recognizing this change in UK income tax rates is a \$1.6 million reduction in future income tax liabilities.

At the end of September 30, 2010 a \$5.2 million current portion of future income asset was recorded (December 31, 2009 - \$nil). This amount is created by temporary differences that will result in deductible amounts in determining taxable income in the following year.

**8. PARTNERS’ EQUITY**

**Units issued and outstanding**

**Authorized**

Unlimited number of Class A limited liability units

Unlimited number of Class B unlimited liability units

**Issued and Outstanding**

	Class A Units	Class B Units	Total
Balance as at December 31, 2009	254,393,244	254,886	254,648,130
Issued under Premium Distribution™ and Distribution Reinvestment Plan (a)	2,856,783	2,863	2,859,646
Issued under Unit Incentive Option Plan	31,500	36	31,536
<b>Balance as at September 30, 2010</b>	<b>257,281,527</b>	<b>257,785</b>	<b>257,539,312</b>

	Class A Units	Class B Units	Total
Balance as at December 31, 2008	222,841,131	223,247	223,064,378
Issuance of units (b)	20,930,000	20,952	20,950,952
Issued under Premium Distribution™ Reinvestment and Optional Unit Purchase Plan	6,240,651	6,254	6,246,905
Issued under Unit Incentive Option Plan	501,000	532	501,532
Balance as at September 30, 2009	250,512,782	250,985	250,763,767

(a) During the three and nine months ended September 30, 2010, Inter Pipeline issued 0.6 million and 2.9 million Class A units respectively to unitholders who elected to participate under the Plan. Inter Pipeline is not committed to issuing additional Class A units under the Plan at September 30, 2010.

(b) On June 18, 2009, Inter Pipeline issued 20.9 million Class A units at \$8.25 per Class A unit. The proceeds of \$164.8 million, net of issuance costs, were applied to reduce outstanding debt. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 20,952 Class B units at a price of \$8.25 per Class B unit.

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**Calculation of Net Income per Partnership unit**

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net income attributable to unitholders – Basic and diluted	\$ 46,561	\$ 51,878	\$ 176,148	\$ 134,624
Weighted-average units outstanding – Basic	257,239,335	248,659,037	256,570,226	233,096,897
Effect of Premium Distribution™ and Distribution Reinvestment Plan	150,269	956,756	150,804	507,024
Effect of Unit Incentive Option Plan	5,936	108,210	14,670	119,630
Weighted-average units outstanding – Diluted	257,395,540	249,724,003	256,735,700	233,723,551
Net income per Partnership unit – Basic and diluted	\$ 0.18	\$ 0.21	\$ 0.69	\$ 0.58

**9. EMPLOYEE BENEFITS**

	September 30	December 31
	2010	2009
Pension (asset) liability	\$ (2,261)	\$ 1,934
Long-term incentive plan liability (note 10)	5,392	5,127
Employee benefits	\$ 3,131	\$ 7,061

**10. LONG-TERM INCENTIVE PLAN AND UNIT INCENTIVE OPTIONS**

The following table summarizes the status of Inter Pipeline's Option Plan and Deferred Unit Rights (DURs) as at September 30, 2010 and changes during the nine months then ended:

	Unit Options			DURs
	Number	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Balance outstanding, December 31, 2009	31,500	\$ 10.48	\$ 5.75	1,752,744
Granted	-	\$ -	\$ -	845,109
Exercised	(31,500)	\$ 10.48	\$ 4.23	(324,216)
Cancelled	-	\$ -	\$ -	(44,124)
Balance outstanding, September 30, 2010	-	\$ -	\$ -	2,229,513

\* The weighted-average exercise price based on the exercise price on the date of grant.  
\*\* The weighted-average exercise price adjusted for the incentive reduction to July 26, 2010.

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For the three months ended September 30, 2010, operating expenses included \$1.8 million and general and administrative expenses included \$4.4 million related to DURs (three months ended September 30, 2009 - \$1.3 million and \$2.7 million, respectively). For the nine months ended September 30, 2010, operating expenses included \$4.0 million and general and administrative expenses included \$9.8 million related to DURs (nine months ended September 30, 2009 - \$3.3 million and \$7.0 million, respectively).

**11. DEPRECIATION AND AMORTIZATION**

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Depreciation of facilities and equipment	\$ 14,431	\$ 20,398	\$ 56,838	\$ 59,612
Depreciation of Corridor linefill	182	443	1,069	1,330
Amortization of intangible assets	3,538	3,536	10,605	10,543
Accretion of asset retirement obligation	84	87	247	253
Impairment of intangible assets	-	-	-	1,804
Total depreciation and amortization	\$ 18,235	\$ 24,464	\$ 68,759	\$ 73,542

**12. FINANCING CHARGES**

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Interest expense on credit facilities	\$ 6,630	\$ 4,826	\$ 16,274	\$ 18,270
Interest on Loan Payable to General Partner (a)	5,771	6,008	17,313	18,025
Interest on Corridor Debentures	2,371	708	6,269	3,165
	14,772	11,542	39,856	39,460
Capitalized interest	(4,934)	(2,975)	(11,579)	(11,066)
Amortization of transaction costs on long-term debt	221	15	662	49
Total financing charges	\$ 10,059	\$ 8,582	\$ 28,939	\$ 28,443

(a) In 2007, due to amendments made for the Corridor expansion, interest costs on the loan payable to the General Partner had increased by 25 basis points, effective until the end of 2009. In January, 2010, this additional interest cost is no longer applicable.

At September 30, 2010, \$9.9 million in interest payable was included in accounts payable and accrued liabilities related to the Loan Payable to the General Partner (December 31, 2009 - \$4.3 million).

**13. CAPITAL DISCLOSURES**

Consistent with the year ended December 31, 2009, capital under management includes long-term debt (excluding discounts and transaction costs) and partners' equity.

At September 30, 2010, Inter Pipeline had access to committed credit facilities totalling \$2,892.0 million, of which \$968.7 million remains unutilized. Inter Pipeline also had access to unutilized demand facilities of \$59.7 million. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

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Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum senior recourse debt to EBITDA\* rate of 4.25 stipulated in the terms of Inter Pipeline's credit facilities. The recourse debt to capitalization and senior recourse debt to EBITDA\* measures below are substantially the same as the coverage ratio terms contained in Inter Pipeline's credit facilities.

	September 30 2010	December 31 2009
Long-term debt (excluding transaction costs and discounts, per note 6)		
Recourse debt	\$ 715,300	\$ 733,400
Non-recourse debt	1,887,800	1,886,300
	2,603,100	2,619,700
Partners' equity	1,339,681	1,320,101
Total capitalization	\$ 3,942,781	\$ 3,939,801
Capitalization (excluding non-recourse debt)	\$ 2,054,981	\$ 2,053,501
Recourse debt to capitalization	34.8%	35.7%

	Twelve Months Ended	
	September 30 2010	December 31 2009
Net income	\$ 199,204	\$ 157,680
Add:		
Depreciation and amortization	97,446	102,229
Loss (gain) on disposal of assets	48	(17,837)
Financing charges	37,427	36,931
Non-cash operating and general and administrative expense	730	3,472
Unrealized change in fair value of derivative financial instruments	22,935	65,230
Provision for (recovery of) income taxes	7,769	(15,888)
Proceeds from long-term deferred revenue	5,796	10,173
EBITDA*	\$ 371,355	\$ 341,990
Recourse debt to EBITDA*	1.9	2.1

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

Inter Pipeline was compliant with all covenants throughout the period.

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**14. FINANCIAL INSTRUMENTS**

**Classification of Financial Assets and Financial Liabilities**

The carrying value of Inter Pipeline's financial assets and liabilities recorded at September 30, 2010 are classified as follows:

	Held For Trading	Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non Financial Asset or Liability*	Carrying Value of Asset or Liability
<b>Assets**</b>						
Cash and cash equivalents	\$ 29,407	\$ -	\$ -	\$ 29,407	\$ -	\$ 29,407
Accounts receivable	-	77,661	-	77,661	9,944	87,605
Prepaid expenses and other deposits	4,025	-	-	4,025	8,093	12,118
Derivatives and other financial instruments***	21,031	-	-	21,031	-	21,031
<b>Liabilities</b>						
Cash distributions payable	-	-	19,335	19,335	-	19,335
Accounts payable and accrued liabilities	4,279	-	90,099	94,378	29,407	123,785
Derivatives and other financial instruments***	22,142	-	-	22,142	-	22,142
Deferred revenue	-	-	4,262	4,262	19,102	23,364
Long-term debt (note 6)****	-	-	2,603,100	2,603,100	-	2,603,100
Long-term payable	12,152	-	-	12,152	-	12,152

\* Not all components of assets and liabilities meet the definition of a financial asset or liability.

\*\* Inter Pipeline does not have any assets that meet the definition of "available-for-sale" or "held-to-maturity."

\*\*\* Derivative financial instruments are recorded at fair value using a discounted cash flow methodology.

\*\*\*\* Carrying values include the current portion of long-term debt and exclude discounts and transaction costs with the respective accumulated amortization.

**a) Fair Value of Financial Instruments**

The fair value of long-term debt and derivative financial instruments are discussed in the following paragraphs. The long-term payable is carried at fair value and represents the unrealized change in fair value of the interest rate swap that is recoverable from the Corridor shippers. The carrying value of all other financial assets and liabilities approximate their fair value due to the relatively short-term maturity.

Due to the short-term maturity of instruments under long-term variable rate revolving credit facilities, it is assumed that the carrying amounts of these financial instruments approximate their fair values. At September 30, 2010, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value*	Fair Value
Loan Payable to General Partner	\$ 379,800	\$ 418,832
Corridor Debentures	\$ 300,000	\$ 321,004

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

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

	September 30 2010	December 31 2009
Current asset	\$ 7,725	\$ 3,738
Long-term asset	13,306	9,239
Current liability	(18,845)	(16,655)
Long-term liability	(3,297)	(4,081)
	\$ (1,111)	\$ (7,759)

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Derivative financial instruments carried at fair value are as follows:

	September 30 2010	December 31 2009
Frac-spread risk management		
NGL swaps	\$ 303	\$ (9,313)
Natural gas swaps	(17,264)	(5,975)
Foreign exchange swaps	231	(854)
	(16,730)	(16,142)
Interest rate risk management		
Interest rate swaps	13,933	8,385
	13,933	8,385
Power price risk management		
Electricity price swaps	(36)	(43)
Heat rate swaps	1,722	41
	1,686	(2)
	\$ (1,111)	\$ (7,759)

**b) Net Gains or Losses**

**Realized and Unrealized Gains (Losses) on Derivative Instruments - Held-for-Trading**

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Revenues				
NGL swaps	\$ 2,307	\$ 13,031	\$ 2,449	\$ 48,294
Foreign exchange swaps (frac-spread)	135	(2,383)	668	(12,916)
	2,442	10,648	3,117	35,378
Shrinkage gas expense				
Natural gas swaps	(5,683)	(9,518)	(12,684)	(22,744)
	(5,683)	(9,518)	(12,684)	(22,744)
Operating expenses				
Electricity price swaps	(117)	-	93	-
Heat rate swaps	130	689	1,324	1,301
	13	689	1,417	1,301
Financing charges				
Interest rate swaps	809	2,162	2,999	5,495
	809	2,162	2,999	5,495
Net realized (loss) gain on derivative financial instruments	\$ (2,419)	\$ 3,981	\$ (5,151)	\$ 19,430



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

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Frac-spread risk management				
NGL swaps	\$ (19,421)	\$ (18,446)	\$ 9,617	\$ (69,990)
Natural gas swaps	(3,102)	9,724	(11,289)	5,997
Foreign exchange swaps	4,515	10,539	1,085	25,285
	(18,008)	1,817	(587)	(38,708)
Interest rate risk management				
Interest rate swaps	377	(92)	1,320	1,212
	377	(92)	1,320	1,212
Power price risk management				
Electricity price swaps	(202)	-	6	-
Heat rate swaps	(593)	(981)	1,681	(2,379)
	(795)	(981)	1,687	(2,379)
Transfer of gains and losses on derivatives previously designated as cash-flow hedges from accumulated other comprehensive income	(202)	(202)	(606)	(606)
Unrealized change in fair value of derivative financial instruments	\$ (18,628)	\$ 542	\$ 1,814	\$ (40,481)

The following table presents a reconciliation of the change in the fair market value of derivative financial instruments used for risk management activities during the nine months ended September 30, 2010:

	Fair Market Value	Total Unrealized Gain (Loss)
Fair value of derivative financial instruments, beginning of period	\$ (7,759)	\$ -
Changes in fair values of contracts in place at beginning of period and contracts entered into during period attributable to market price and other market changes *	1,497	(7,514)
Fair value of contracts realized during period *	5,151	9,934
Changes in values attributable to other comprehensive income	-	(606)
Fair value of derivative financial instruments, end of period	\$ (1,111)	\$ 1,814

\* Gains or losses arising on the Corridor interest rate swaps are recoverable from the shippers. Therefore, the changes in fair value have been recorded as an asset or liability and are excluded from the total unrealized loss shown here.

**Realized and Unrealized Gains (Losses) on Other Classes of Financial Instruments**

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

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**15. RISK MANAGEMENT**

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

**a) Market Risk**

**Frac-spread Risk Management**

Contracts outstanding at September 30, 2010, represented approximately 49% of forecast propane-plus volumes at the Cochrane extraction plant for the period October to December 2010 at average net prices of approximately \$0.74 Cdn/US gallon and 43% of forecast volumes for the period January to December 2011 at average net prices of approximately \$0.76 Cdn/US gallon. These average prices approximated \$0.72 US/US gallon and \$0.73 US/US gallon, respectively, based on the average US\$/Cdn\$ forward curve as at September 30, 2010.

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

	Fair Value of Derivative Financial Instruments	Change in Net Income Based on 10% Increase in Prices/Rates**	Change in Net Income Based on 10% Decrease in Prices/Rates**
NGL*	\$ 303	\$ (10,260)	\$ 10,260
AECO natural gas	(17,264)	2,690	(2,690)
Foreign exchange	231	(10,334)	10,334
Frac-spread risk management	\$ (16,730)		

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

\*\* Negative amounts represent a liability increase or asset decrease. Changes related to 2011 contracts are net of tax of 26.5%.

**Interest Rate Risk Management**

Based on the variable rate debt obligations outstanding at September 30, 2010, a 1% change in interest rates at this date could affect interest expense on credit facilities and consequently pre-tax income by approximately \$4.9 million and \$14.3 million, respectively, for the three and nine months ending September 30, 2010, assuming all other variables remain constant. Of this amount, \$4.5 million and \$13.3 million, respectively, relate to the \$2.1 billion Unsecured Revolving Credit Facility (note 6) and are recoverable through the terms of the Corridor Firm Service Agreement. A 1% change in interest rates at September 30, 2010 could affect the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage interest rate risk, and consequently after-tax income, by approximately \$0.4 million, assuming all other variables remain constant.

**Power Price Risk Management**

Based on heat rate swaps outstanding in the NGL extraction business at September 30, 2010, 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 \$0.4 million. A 10% change in AECO natural gas 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 \$0.3 million.

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Based on electricity price swap agreements outstanding in the conventional oil pipelines business at September 30, 2010, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant, could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately \$0.1 million.

**Foreign Exchange Risk Management**

Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future.

**b) Credit Risk**

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

At September 30, 2010, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval and ongoing monitoring procedures and historical experience.

At September 30, 2010, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At September 30, 2010, accounts receivable associated with these two business segments were \$56.0 million or 64% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business units and customers.

**c) Liquidity Risk**

The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at September 30, 2010, on an undiscounted basis:

	Less Than One			
	Total	Year	1 to 5 Years	After 5 Years
Cash distributions payable	\$ 19,335	\$ 19,335	\$ -	\$ -
Accounts payable and accrued liabilities	123,785	123,785	-	-
Deferred revenue	23,364	9,387	13,977	-
Derivative financial instruments*	22,447	19,060	3,387	-
Long-term debt	2,603,100	191,000	2,262,100	150,000
Long-term payable*	13,056	-	13,056	-
	\$ 2,805,087	\$ 362,567	\$ 2,292,520	\$ 150,000

\* Derivative financial instruments are shown on a net basis. The long-term payable and derivative financial instruments represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2010, based upon contractual maturity dates. Fair values of the long-term payable and derivative financial instruments reported on the balance sheets are shown on a discounted basis.

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**16. SUPPLEMENTAL CASH FLOW INFORMATION****Changes in Non-Cash Working Capital**

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Accounts receivable	\$ 13,819	\$ (22,349)	\$ 34,517	\$ (327)
Prepaid expense and other deposits	9,720	4,715	5,809	(3,706)
Cash distributions payable	65	301	237	1,939
Accounts payable and accrued liabilities	(18,022)	22,459	(14,412)	(43,726)
Deferred revenue	(10,434)	(16,635)	5,766	4,099
Impact of foreign exchange rate differences and other	(97)	1,273	139	1,174
Changes in non-cash working capital	\$ (4,949)	\$ (10,236)	\$ 32,056	\$ (40,547)
These changes relate to the following activities:				
Operating	\$ (5,231)	\$ (23,028)	\$ 35,547	\$ (29,317)
Investing	217	12,491	(3,728)	(13,169)
Financing	65	301	237	1,939
Changes in non-cash working capital	\$ (4,949)	\$ (10,236)	\$ 32,056	\$ (40,547)

**Other Cash Flow Information**

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Cash taxes paid	\$ 26	\$ 114	\$ 508	\$ 1,186
Cash interest paid	\$ 11,779	\$ 7,207	\$ 35,029	\$ 36,440

**17. COMPARATIVE FIGURES**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current period consolidated financial statements.