Management's Discussion and Analysis

For the three and nine months ended September 30, 2012

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights Inter Pipeline Fund's (Inter Pipeline) significant business results and statistics for the three and nine month periods ended September 30, 2012, to provide Inter Pipeline's unitholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of distributions to its unitholders through 2012 and beyond; 2) the maintenance of Inter Pipeline's distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including the Polaris diluent pipeline project for the new pipeline connection to the Sunrise oil sands project (Sunrise project), the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to the Narrows Lake, Christina Lake and Foster Creek oil sands projects and Cochrane liquid sweetening project; 6) timing and cost schedules of Polaris and Cold Lake capital projects, forward EBITDA estimates, and the expectation that binding Transportation Service Agreements will be executed in respect of these projects; and, 7) capital forecasts.

Readers are cautioned not to place undue reliance on forward-looking statements; as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Pipeline Management Inc. (General Partner), the general partner of Inter Pipeline at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; further development of the Cold Lake, Corridor and Polaris pipeline systems; assumptions concerning operational reliability; availability and price of labour and construction materials; 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; inflation; the ability to access sufficient capital from internal and external sources; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection, instability and political and economic conditions in or affecting countries in which Inter Pipeline and its 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; the potential delays and costs of overruns on construction projects, including, but not limited to the Polaris pipeline project for the new pipeline connection to the Sunrise project and future expansions of the Cold Lake and Polaris pipeline systems; 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; difficulty in obtaining necessary regulatory approvals and maintenance of support of such approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. The impact of any one assumption, risk, uncertainty or other factor on a particular forward-looking statement is not determinable with certainty, as these are interdependent and Inter Pipeline's future course of action depends on management's assessment of all information available at the relevant time.

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

Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2012

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

Financial information presented in this MD&A is based on information in Inter Pipeline's interim financial statements prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*.

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles (GAAP), as outlined in the CICA Handbook Part 1, and used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP 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 determines whether information presented in this MD&A is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in Inter Pipeline would likely be influenced or changed if the information was omitted or misstated.

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THIRD QUARTER HIGHLIGHTS

- Funds from operations* (FFO) of $106 million were the third highest quarterly results in Inter Pipeline's history after excluding one time items
- Low quarterly payout ratio before sustaining capital* of 67%
- Total distributions to unitholders surpassed $2 billion since inception, including $71 million declared in the third quarter
- Combined quarterly throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems averaged a record 1,011,100 barrels per day (b/d) or 17,800 b/d higher than third quarter 2011
- Oil sands transportation business generated record FFO* of $44 million and transported record volumes of 836,600 b/d
- Volumes averaged 174,500 b/d on Inter Pipeline's conventional oil pipeline systems representing an increase of 5,200 b/d quarter over quarter
- Announced $2.1 billion integrated oil sands development program for Cold Lake and Polaris pipeline systems
- Polaris pipeline system entered commercial service for the Kearl oil sands project, which is expected to generate approximately $36 million of EBITDA* annually

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

PERFORMANCE OVERVIEW

(millions, except per unit and % amounts)	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Revenues				
Oil sands transportation	$ 77.5	$ 73.0	$ 216.2	$ 213.5
NGL extraction	123.4	158.2	366.4	455.5
Conventional oil pipelines	59.2	45.7	169.2	131.5
Bulk liquid storage	35.7	25.2	116.8	77.9
	$ 295.8	$ 302.1	$ 868.6	$ 878.4
Funds from operations[1]				
Oil sands transportation	$ 44.1	$ 41.8	$ 126.6	$ 126.2
NGL extraction[2]	50.4	62.6	155.9	158.4
Conventional oil pipelines	38.9	35.6	114.7	99.7
Bulk liquid storage	17.6	9.0	60.2	27.8
Corporate costs	(44.6)	(37.1)	(135.7)	(108.0)
	$ 106.4	$ 111.9	$ 321.7	$ 304.1
Per unit[1]	$ 0.39	$ 0.43	$ 1.20	$ 1.17
Net income	$ 65.9	$ 76.6	$ 249.9	$ 202.1
Per unit – basic and diluted	$ 0.24	$ 0.29	$ 0.93	$ 0.78
Distributions[3]	$ 71.3	$ 62.5	$ 211.8	$ 186.6
Per unit[3]	$ 0.2625	$ 0.2400	$ 0.7875	$ 0.7200
Units outstanding (basic)				
Weighted average	271.3	259.9	268.5	259.0
End of period	272.7	261.2	272.7	261.2
Capital expenditures				
Growth[1]	$ 107.4	$ 29.8	$ 213.8	$ 98.4
Sustaining[1]	11.2	5.0	24.5	12.2
	$ 118.6	$ 34.8	$ 238.3	$ 110.6
Payout ratio before sustaining capital[1]	67.0%	55.8%	65.8%	61.4%
Payout ratio after sustaining capital[1]	75.0%	58.5%	71.3%	63.9%

(millions, except per unit and % amounts)	As at September 30 2012	As at December 31 2011
Total assets	$ 5,423.1	$ 4,768.1
Total debt[4]	$ 3,113.6	$ 2,672.1
Total partners' equity	$ 1,594.8	$ 1,419.8
Enterprise value[1]	$ 8,973.1	$ 7,593.3
Total debt to total capitalization[1]	66.1%	65.3%
Total recourse debt to capitalization[1]	47.6%	38.9%

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.
(2) In the third quarter of 2011, FFO[1] increased in the NGL extraction business by $20.5 million due to a one time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction facility from 2007 to 2011.
(3) Distributions are calculated based on the number of units outstanding at each record date.
(4) Total debt reported in the September 30, 2012 consolidated financial statements include long-term debt, short-term debt and commercial paper of $3,099.4 million inclusive of discounts and debt transaction costs of $14.2 million.

THREE MONTHS ENDED SEPTEMBER 30, 2012

In the third quarter of 2012, Inter Pipeline generated strong financial results which were the third highest in Inter Pipeline's history after adjusting for a $20.5 million one time positive adjustment in the third quarter of 2011. Funds from operations* (FFO) of $106.4 million in the third quarter of 2012 were 4.9% or $5.5 million lower than the same period in 2011 of $111.9 million. This decrease primarily results from a one time pricing adjustment of $20.5 million relating to propane-plus sales from 2007 to 2011 at the Cochrane NGL extraction facility which increased FFO* in the third quarter of 2011. Offsetting the decrease caused by the 2011 pricing adjustment were increased throughput volumes and tolls in the conventional oil pipelines business, the acquisition of Inter Terminals in January 2012, and the Polaris pipeline system commencing commercial operations during the quarter. For the third quarter of 2012, Inter Pipeline's payout ratio before sustaining capital* was very positive at 67.0%.

Net income decreased in the third quarter of 2012 by $10.7 million or 14.0% to $65.9 million from $76.6 million in the third quarter of 2011. The decrease in net income is primarily due to the $20.5 million one time 2011 NGL pricing adjustment discussed above, higher depreciation and amortization expense and an unfavourable mark-to-market of derivative financial instruments. These decreases are partially offset by lower deferred income taxes during the quarter.

Total distributions to unitholders in the three months ended September 30, 2012 increased $8.8 million or 14.1% from $62.5 million in the third quarter of 2011 to $71.3 million in 2012. This increase is primarily due to an increase in the monthly rate of distributions by $0.0075 per unit effective December 2011. Strong unitholder participation in Inter Pipeline's distribution reinvestment plan also increased the overall number of units outstanding.

Inter Pipeline's consolidated debt increased $30.9 million to $3,113.6 million at September 30, 2012, from $3,082.7 million at June 30, 2012, while $118.6 million was spent on capital projects.

NINE MONTHS ENDED SEPTEMBER 30, 2012

Inter Pipeline also generated very strong financial results for the nine months ended September 30, 2012, as FFO* increased 5.8% or $17.6 million from $304.1 million in 2011 to $321.7 million in 2012. Inter Pipeline's payout ratio before sustaining capital* is very attractive at 65.8% for the nine months ended September 30, 2012, reflecting the strength in financial results from all business segments. The increase in FFO* was largely due to the acquisition of Inter Terminals and increased throughput volumes and tolls in the conventional oil pipelines business. These increases were partially offset by higher corporate costs and a $20.5 million one time pricing adjustment in 2011, as discussed above.

For the nine months ended September 30, 2012, net income increased $47.8 million or 23.7% to $249.9 million in 2012 compared to $202.1 million in 2011. The increase in net income is primarily due to an unrealized gain on the mark-to-market adjustment of derivative financial instruments, as well as the increase in operating results discussed above. These increases were somewhat offset by higher depreciation and amortization expense and higher deferred income taxes.

Total distributions to unitholders increased 13.5% or $25.2 million from $186.6 million year to date in 2011 to $211.8 million year to date in 2012, for the same reasons mentioned above.

Inter Pipeline's consolidated debt increased $441.5 million from $2,672.1 million at December 31, 2011 to $3,113.6 million at September 30, 2012. During this period, Inter Pipeline completed the $459 million acquisition of Inter Terminals in Denmark which was funded through an existing revolving credit facility, and expended $238.3 million on capital projects. Inter Pipeline's total recourse debt to capitalization* ratio increased from 38.9% at December 31, 2011 to 47.6% at September 30, 2012. Inter Pipeline's total debt to total capitalization ratio* at September 30, 2012, which includes non-recourse debt of $1,665.8 million held within Inter Pipeline's Corridor corporate entity, was 66.1%, up from 65.3% at December 31, 2011.

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

OUTLOOK

Inter Pipeline's long-term business strategy is to acquire and develop long-life, high-quality energy infrastructure assets that generate sustainable and predictable cash flow. With four established business segments, Inter Pipeline is well positioned to undertake a multi-billion dollar expansion of our energy infrastructure asset base. Large scale organic growth initiatives currently underway are expected to underpin stable and increasing returns to unitholders.

Over the next several years, Inter Pipeline's capital expenditure program will be focused on the oil sands transportation business segment where up to $3 billion of organic growth projects have been announced or identified as future opportunities. As Alberta's vast oil sands deposits continue to attract investment capital from around the world, demand for diluent and diluted bitumen transportation services continues to grow. Inter Pipeline is excited to be embarking upon a multi-billion dollar capital expenditure program that will significantly expand diluent and diluted bitumen transportation capabilities between major market hubs in Edmonton and Hardisty, Alberta and the Cold Lake and Athabasca oil sands regions.

In the third quarter, Inter Pipeline announced a $2.1 billion integrated oil sands development program. Over the next three years, Inter Pipeline's largest ever capital expenditure project will expand and integrate the Cold Lake and Polaris pipeline systems, and connect both systems to new production sites in the Cold Lake region. New pipelines and associated infrastructure will provide transportation services to the FCCL Partnership's (FCCL - a business venture between Cenovus Energy and ConocoPhillips), existing Foster Creek and Christina Lake oil sands production sites, and to FCCL's Narrows Lake project which is currently under development.

Inter Pipeline has executed a backstopping agreement for approximately $225 million to support initial engineering, design and early construction work for this capital program. Binding transportation service agreements for these projects are expected to be finalized by the end of the year. These agreements are being structured as cost of service contracts that will not be subject to commodity price movements or throughput volumes. This will ensure that Inter Pipeline receives stable and highly predictable cash flow over the duration of the agreements. Inter Pipeline also has backstopping agreements with producers totaling $255 million with respect to other oil sands related projects.

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

The expansions to the Polaris pipeline system are expected to cost approximately $1.0 billion. A total of approximately 340 km of new pipeline will be constructed, including 50 km of 24-inch diameter pipeline that will connect diluent receipt points in the Edmonton area to the Lamont pump station and 290 km of 30-inch diameter pipeline to connect the Lamont pump station to the Christina Lake production site. Approximately 100 km of new pipeline ranging from 12 to 16 inches in diameter will also be installed as part of the Narrows Lake and Foster Creek connections. Upon completion, the Polaris pipeline system will have approximately 820,000 b/d of diluent delivery capacity to the Athabasca and Cold Lake oil sands regions. With the installation of additional pumping stations and related infrastructure, the Polaris system can be further expanded to an ultimate capacity of 1.2 million b/d.

The projects related to the Foster Creek and Christina Lake facilities are expected to be completed by mid 2014. Those related to the Narrows Lake project are anticipated to be operational in mid 2017.

These transportation arrangements are illustrative of the future growth potential in Inter Pipeline's oil sands transportation business segment. With approximately 430,000 b/d of additional transportation capacity on the Polaris and Cold Lake systems available, Inter Pipeline is aggressively pursuing further diluent and diluted bitumen transportation opportunities. Integration of the two systems, which together cover a central core area of Alberta's oil sands, is indicative of the strong positioning of the Polaris and Cold Lake pipeline systems to capture future business.

In the conventional oil pipelines segment, Inter Pipeline is poised to continue capturing benefits of new drilling and completion technologies currently being utilized, and in particular in the Viking and Pekisko formations that overlay Inter Pipeline's conventional systems. Recent drilling activity levels have stabilized throughput levels and offset historical natural declines in some areas. Production growth in active areas is expected to continue, which may benefit throughput levels on Inter Pipeline's conventional oil pipeline systems over the near term.

Stable cash flows are key to Inter Pipeline's success as is a solid financial position. Our appropriately leveraged balance sheet facilitates ready access to capital markets and promotes strong credit ratings. Inter Pipeline maintains investment grade credit ratings that provide support for Inter Pipeline's strategy of acquiring and developing long-life, high quality energy infrastructure assets. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's). Inter Pipeline's unsecured medium-term notes (MTN) were issued investment grade credit ratings of BBB+ and BBB (high) by S&P and DBRS, respectively.

Inter Pipeline continues to successfully execute its long-term business strategy, a strategy which is well suited to providing stable and growing returns to unitholders. Our extensive energy infrastructure base is well positioned to compete for organic growth opportunities as they arise. With a strong balance sheet and proven project management and operational skills, Inter Pipeline expects to profitably develop our asset base and secure new opportunities for the long-term benefit of our unitholders.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended September 30			Nine Months Ended September 30		
Volumes (000s b/d)	2012	2011	*% change*	2012	2011	*% change*
Cold Lake (100% basis)	490.2	499.5	*(1.9)*	482.7	497.3	*(2.9)*
Corridor	346.4	324.5	*6.7*	321.3	294.6	*9.1*
	836.6	824.0	*1.5*	804.0	791.9	*1.5*
(millions)						
Revenue[1]	$ 77.5	$ 73.0	*6.2*	$ 216.2	$ 213.5	*1.3*
Operating expenses[1]	$ 22.7	$ 21.2	*7.1*	$ 57.0	$ 58.3	*(2.2)*
Funds from operations[1][2]	$ 44.1	$ 41.8	*5.5*	$ 126.6	$ 126.2	*0.3*
Capital expenditures[1]						
Growth[2]	$ 96.0	$ 23.7		$ 156.0	$ 80.3	
Sustaining[2]	0.4	0.3		2.1	0.7	
	$ 96.4	$ 24.0		$ 158.1	$ 81.0	

(1) Cold Lake pipeline system's revenue, operating expenses, FFO[2] and capital expenditures are recorded on the basis of Inter Pipeline's 85% ownership interest.

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

Volumes

In 2012, average volumes transported by the oil sands transportation business increased 12,600 b/d to 836,600 b/d in the third quarter and 12,100 b/d to 804,000 b/d for the nine months ended September 30, compared to the same periods in 2011.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta. Average volumes transported on the Cold Lake pipeline system decreased 1.9% to 490,200 b/d during the third quarter and 2.9% to 482,700 b/d year to date in 2012, compared to the same periods in 2011. Cold Lake volumes fluctuate mainly due to the timing of steam injection cycles associated with certain shipper production processes; however producer maintenance activities also impacted volumes for the three months ended September 30, 2012. In addition to these activities, a turnaround at the Foster Creek oil sands project in May 2012 impacted volumes for the nine months ended September 30, 2012. Inter Pipeline anticipates long term volume growth on the Cold Lake pipeline system, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta, as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. Average volumes transported on the Corridor pipeline system increased 21,900 b/d or 6.7% to 346,400 b/d in the third quarter and 26,700 b/d or 9.1% to 321,300 b/d year to date in 2012, compared to the same periods in 2011. The increase in volume is largely due to increased production levels from Athabasca Oil Sands Project's Jackpine mine.

The Polaris pipeline system currently provides diluent transportation services from the area northeast of Edmonton to the Kearl oil sands project and will begin diluent transportation service for the Sunrise oil sands project in the second half of 2013. Commercial service of the Polaris pipeline system began on August 15, 2012, with the commencement of line fill and wet commissioning activities, which were completed in late September. No diluent volumes were transported to the Kearl oil sands project during the third quarter of 2012.

Revenue

Revenue for the three and nine months ended September 30, 2012, in the oil sands transportation business increased $4.5 million to $77.5 million and $2.7 million to $216.2 million, respectively, compared to the same periods in 2011.

Cold Lake pipeline system revenues decreased slightly by $0.1 million in the third quarter of 2012 and $0.4 million year to date, compared to the same periods in 2011. The decrease in revenue is primarily due to lower operating cost recoveries and decreased mainline volumes transported on the Cold Lake pipeline system, compared to the same periods in 2011. These revenue decreases were partially offset by incremental revenue generated in 2012 associated with volumes that were in excess of the previous ship-or-pay commitment, which expired on December 31, 2011, as well as higher revenues from the Foster Creek extension and the Orion lateral.

The Cold Lake Transportation Services Agreement (Cold Lake TSA) provides for a structured return on capital invested including a defined capital fee that is applied to volumes transported through the pipelines and facilities that comprise the Cold Lake pipeline system, and a recovery of substantially all operating costs. The founding shippers have committed to utilizing these pipelines and paying for such usage over the term of the Cold Lake TSA which extends indefinitely subject to certain provisions in the agreement. Additional returns on capital invested and recovery of associated operating costs are also earned with respect to other agreements between Cold Lake and shippers utilizing the Cold Lake pipeline system.

For the three and nine months ended September 30, 2012, the Corridor pipeline system revenues decreased $1.2 million and $2.7 million, respectively, compared to the same periods in 2011. Revenue decreased primarily due to the transfer of the 12-inch pipeline to the Polaris pipeline system (discussed below) which resulted in a reduction to the Corridor rate base, a lower return on equity due to a decrease in the benchmark long-term Government of Canada (GOC) bond rate, and lower

recoverable operating costs (also discussed below). The long-term GOC benchmark bond interest rate declined approximately 78 basis points for the quarter and 101 basis points year to date 2012, compared to the same periods in 2011. These decreases in revenue were partially offset by an increase in rate base debt financing costs and related revenue.

The Corridor Firm Service Agreement (Corridor FSA) utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of all debt financing costs, operating costs, rate base depreciation and taxes, in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's FFO* is not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's FFO* are changes to the long-term GOC bond rate upon which the annual return on equity is determined, and changes to Corridor's rate base.

The Polaris pipeline system began generating revenues in the third quarter of 2012. Polaris revenue was $5.8 million, consisting of both capital fee revenue and operating cost recoveries.

On August 15, 2012, Corridor's 12-inch diameter pipeline system was transferred to the Polaris pipeline system and removed from Corridor's rate base as commercial service began with the commencement of line fill and wet commissioning activities, which were completed in late September. The Polaris pipeline system currently generates revenue under a 25-year diluent transportation agreement with Imperial Oil Resource Ventures Limited utilizing a cost-of-service approach providing for a return on capital invested and recovery of all operating costs. Throughput volumes or commodity price fluctuations will not impact Polaris' FFO* as a result of this cost-of-service approach.

Operating Expenses

In the oil sands transportation business segment, operating expenses typically have a limited impact on Inter Pipeline's cash flow. On the Cold Lake pipeline system, substantially all operating expenditures are recovered from the shippers; on the Corridor and Polaris pipeline systems there is full recovery of operating expenditures. Operating expenses in the oil sands transportation business increased $1.5 million in the third quarter and decreased $1.3 million year to date 2012, compared to the same periods in 2011.

Cold Lake pipeline system's operating expenses increased $0.9 million in the third quarter of 2012, compared to the same period in 2011. The increase is primarily due to higher right-of-way spending and maintenance costs, which were partially offset by lower power costs. Operating costs decreased $1.3 million year to date 2012, compared to the same period in 2011, as lower power and maintenance costs more than offset higher right-of-way spending and increased integrity costs. Average Alberta power pool prices decreased 17.5% from $94.69/MWh in the third quarter of 2011 to $78.09/MWh in the third quarter of 2012 and 22.0% from $76.26/MWh year to date 2011 to $59.48/MWh year to date 2012.

Operating expenses on the Corridor pipeline system decreased $0.3 million and $0.9 million in the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The decrease in both periods is largely due to lower operating costs associated with the transfer of the 12-inch pipeline to the Polaris pipeline system, as well as lower routine operating costs for the nine months ended September 30, 2012.

Operating expenses on the Polaris pipeline system were $0.9 million for both the three and nine months ended September 30, 2012, primarily relating to employee and routine operating costs.

Capital Expenditures

In the third quarter of 2012, the Cold Lake pipeline system incurred total growth capital expenditures* of $66.6 million. Of this amount, $7.8 million relates to the west leg expansion project, for a total of $24.1 million ($28.4 million – 100%) spent to date. Bitumen blend capacity on the west leg mainline will be increased from approximately 535,000 b/d to 650,000 b/d by expanding existing pump stations

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

and the addition of two new pump stations. The west leg expansion project is expected to cost $90.0 million (100%), with an in service date of mid 2013.

Growth capital expenditures* incurred on Cold Lake's recently announced $1.3 billion (Inter Pipeline's 85% share - $1.1 billion) development plan were $12.3 million in the third quarter of 2012, for a total of $22.8 million spent to date. These expenditures include initial engineering, design and procurement of long lead items. New pipelines, ranging from 20 to 42 inches in diameter, will be constructed to twin the south leg of the Cold Lake mainline from La Corey to Hardisty, to twin the existing pipeline from the Foster Creek facility to La Corey, and to extend the Cold Lake pipeline system north to connect the Narrows Lake project. A total of approximately 400 km of new pipeline will be constructed. In addition, existing facilities will be expanded and new facility connections will be constructed to tie-in the oil sands projects. When completed, the Cold Lake pipeline system's mainline throughput capacity will increase by 550,000 b/d to approximately 1.2 million b/d. The projects related to the Foster Creek facilities are expected to be completed by mid 2014. Those related to the Narrows Lake project are anticipated to be operational in mid 2017.

The remaining growth capital expenditures* on the Cold Lake pipeline system relate to other development projects, most of which are backstopped by potential third party shippers.

The Corridor pipeline system incurred total growth capital expenditures* of $2.5 million in the third quarter of 2012, which primarily related to purchases of emergency response equipment.

Total growth capital expenditures* on the Polaris pipeline system in the third quarter of 2012, were $26.9 million. Facility and pipeline construction activities as well as line fill and wet commissioning activities relating to the connection of the Kearl oil sands project, were completed during the third quarter of 2012, while facility and pipeline construction activities continued on the Sunrise oil sands project. Growth capital expenditures* on these projects were $5.4 million in the third quarter of 2012 for a total of $94.4 million spent to date. The Polaris pipeline system currently provides diluent transportation services for the Kearl oil sands project and will be ready to provide diluent transportation service for the Sunrise oil sands project in the second half of 2013. The Polaris system utilizes an existing 12-inch diameter pipeline that was idled as a result of the completed Corridor expansion project in 2011. Following the successful commissioning of the Polaris pipeline system, approximately $100 million of capital was removed from Corridor's rate base. Total estimated capital expenditures to connect the Polaris pipeline to the Kearl and Sunrise projects, and diluent receipt points in the Edmonton area is $105 million.

The Polaris pipeline system also incurred $13.8 million in growth capital expenditures* in the third quarter of 2012 on its recently announced $1.0 billion development plan relating to initial engineering, design and procurement of long lead items for a total of $16.8 million spent to date. A total of approximately 340 km of new pipeline will be constructed, including a new 50 km 24-inch diameter pipeline tying diluent receipt points in the Edmonton area to Inter Pipeline's Lamont pump station, and a new 290 km 30-inch diameter pipeline to connect the Lamont station to the Christina Lake production site. Approximately 100 km of new pipeline ranging from 12 to 16 inches in diameter will also be installed as part of the Narrows Lake and Foster Creek connections. Upon completion, the Polaris system will have approximately 820,000 b/d of diluent delivery capacity to the Athabasca and Cold Lake oil sands regions. The projects related to the Foster Creek and Christina Lake facilities are expected to be completed by mid 2014. Those related to the Narrows Lake project are anticipated to be operational in mid 2017.

The remaining $7.7 million in growth capital expenditures* on the Polaris pipeline system in the third quarter of 2012 were spent on various other development initiatives.

NGL EXTRACTION BUSINESS SEGMENT

				2012				2011
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,922	54.4	27.5	81.9	1,431	46.5	20.7	67.2
Empress V (100% basis)	625	16.6	8.0	24.6	979	22.9	11.3	34.2
Empress II	-	-	-	-	19	0.4	0.2	0.6
	2,547	71.0	35.5	106.5	2,429	69.8	32.2	102.0

Three Months Ended September 30

				2012				2011
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,799	52.9	25.6	78.5	1,618	49.6	23.1	72.7
Empress V (100% basis)	762	17.2	8.6	25.8	976	23.2	10.9	34.1
Empress II	123	2.4	1.5	3.9	100	1.8	1.0	2.8
	2,684	72.5	35.7	108.2	2,694	74.6	35.0	109.6

Nine Months Ended September 30

	Three Months Ended September 30			Nine Months Ended September 30		
(millions)	2012	2011	*% change*	2012	2011	*% change*
Revenue[1][2]	$ 123.4	$ 158.2	*(22.0)*	$ 366.4	$ 455.5	*(19.6)*
Shrinkage gas[1]	$ 49.1	$ 67.6	*(27.4)*	$ 141.8	$ 216.4	*(34.5)*
Operating expenses[1]	$ 24.0	$ 28.0	*(14.3)*	$ 68.6	$ 80.7	*(15.0)*
Funds from operations[1][2][3]	$ 50.4	$ 62.6	*(19.5)*	$ 155.9	$ 158.4	*(1.6)*
Capital expenditures[1]						
Growth[3]	$ 7.8	$ 1.0		$ 18.0	$ 4.3	
Sustaining[3]	3.0	2.3		3.8	4.3	
	$ 10.8	$ 3.3		$ 21.8	$ 8.6	

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

Volumes

Average natural gas throughput volumes processed at Inter Pipeline's three NGL extraction plants increased 118 million cubic feet per day (mmcf/d) in the third quarter of 2012, compared to the same period in 2011. Year to date 2012, average throughput volumes were comparable to the same period in 2011.

For the three and nine months ended September 30, 2012, average throughput volumes at the Cochrane facility increased 491 mmcf/d and 181 mmcf/d, respectively, compared to the same periods in 2011, due to strong demand for Canadian natural gas in the US west-coast region.

At the Empress V and II facilities, lower natural gas exports from Alberta's eastern border, as well as an unplanned maintenance outage at the Empress V facility for 26 days in September decreased average throughput volumes by 373 mmcf/d in the third quarter and 191 mmcf/d year to date in 2012, compared to the same periods in 2011. Facility throughputs are also largely dependent on successfully attracting border gas flows to the extraction plants.

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.

Revenue decreased $34.8 million to $123.4 million and $89.1 million to $366.4 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The decrease in both periods primarily relates to lower propane-plus and ethane pricing, as well as lower ethane volumes at the Empress V facility largely due to an unplanned facility outage in September 2012. These decreases in revenue were partially offset by higher propane-plus and ethane volumes from the Cochrane facility. In addition, revenue in both periods was lower in 2012 due to a one time price adjustment of $20.5 million in the third quarter of 2011, relating to propane-plus volumes sold from 2007 to 2011 at the Cochrane extraction facility.

Frac-spread

				Three Months Ended September 30
(dollars)		2012		2011
	USD/USG [(1)]	*CAD/USG* [(1)]	*USD/USG* [(1)]	*CAD/USG* [(1)]
Market frac-spread	$ 0.900	$ 0.895	$ 1.303	$ 1.275
Realized frac-spread	$ 0.915	$ 0.910	$ 1.013	$ 0.990

				Nine Months Ended September 30
(dollars)		2012		2011
	USD/USG [(1)]	*CAD/USG* [(1)]	*USD/USG* [(1)]	*CAD/USG* [(1)]
Market frac-spread	$ 1.059	$ 1.060	$ 1.249	$ 1.220
Realized frac-spread	$ 1.019	$ 1.020	$ 1.010	$ 0.987

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

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

Realized frac-spreads in the three and nine months ended September 30, 2012, decreased from $1.01 USD/USG to $0.92 USD/USG and increased from $1.01 USD/USG to $1.02 USD/USG, respectively, compared to the same periods in 2011. Market frac-spreads for the three and nine months ended September 30, 2012, were above the 5-year and 15-year simple average market frac-spread of $0.86 USD/USG and $0.45 USD/USG, respectively, calculated at December 31, 2011.

Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. For the three and nine months ended September 30, 2012, shrinkage gas expense decreased $18.5 million and $74.6 million, respectively, as a result of lower AECO natural gas prices, compared to the same periods in 2011. The weighted average monthly AECO price* decreased 41.1% from $3.53 per gigajoule (GJ) to $2.08/GJ and 41.7% from $3.55/GJ to $2.07/GJ, for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011.

Operating Expenses

Operating expenses for the three and nine months ended September 30, 2012, decreased $4.0 million and $12.1 million, respectively, compared to the same periods in 2011. The decrease in operating expenses for both periods is primarily due to lower fuel and power costs.

Capital Expenditures

In the third quarter of 2012, the NGL extraction business incurred growth capital expenditures† of $7.8 million, of which $6.8 million relates to a liquid sweetening project at the Cochrane facility.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended September 30			Nine Months Ended September 30		
Volumes (000s b/d)	2012	2011	*% change*	2012	2011	*% change*
Bow River	105.7	106.5	*(0.8)*	108.1	107.1	*0.9*
Central Alberta	29.0	26.2	*10.7*	27.2	26.4	*3.0*
Mid-Saskatchewan	39.8	36.6	*8.7*	39.8	34.5	*15.4*
	174.5	169.3	*3.1*	175.1	168.0	*4.2*
(millions)						
Revenue	$ 59.2	$ 45.7	*29.5*	$ 169.2	$ 131.5	*28.7*
Midstream product purchases	$ 8.9	$ -	*100.0*	$ 21.7	$ -	*100.0*
Operating expenses	$ 11.9	$ 11.1	*7.2*	$ 34.0	$ 32.0	*6.3*
Funds from operations(1)	$ 38.9	$ 35.6	*9.3*	$ 114.7	$ 99.7	*15.0*
Revenue per barrel(2)	$ 2.92	$ 2.75	*6.2*	$ 2.89	$ 2.68	*7.8*
Capital expenditures						
Growth(1)	$ 0.8	$ 1.5		$ 30.0	$ 1.9	
Sustaining(1)	0.9	0.3		1.9	1.6	
	$ 1.7	$ 1.8		$ 31.9	$ 3.5	

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

* Weighted average price calculated from one-month spot prices at AECO as reported in the *Canadian Gas Price Reporter*.
† Please refer to the **NON-GAAP FINANCIAL MEASURES** section

Volumes

Average volumes transported on the conventional oil pipelines system increased 3.1% or 5,200 b/d and 4.2% or 7,100 b/d for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. Mid-Saskatchewan pipeline volumes increased 3,200 b/d or 8.7% in the third quarter and 5,300 b/d or 15.4% year to date, compared to the same periods in 2011. The increase in volume is due to production from new horizontal well drilling in the Viking light oil play. Volumes on the Central Alberta pipeline system increased for the three and nine months ended September 30, 2012 by 10.7% or 2,800 b/d and 3.0% or 800 b/d, respectively, compared to the same periods in 2011, primarily due to increased drilling activity and stronger truck terminal throughput. Pipeline volumes on the Bow River pipeline system were fairly consistent in the third quarter and year to date 2012 as compared to the same periods in 2011.

Revenue

Revenues in the conventional oil pipelines business increased $13.5 million and $37.7 million, for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. Revenues increased in both periods primarily as a result of higher revenues from midstream marketing activities, which were previously recorded net of product purchases and trucking costs until April 2012 when Inter Pipeline internalized these activities. Revenue in both periods also increased through a combination of tariff increases and higher transportation volumes as discussed above.

Midstream Product Purchases

Product purchases for Inter Pipeline's midstream marketing activities were $8.9 million and $21.7 million for the three and nine months ended September 30, 2012, respectively. These costs were previously recorded within revenue as discussed above.

Operating Expenses

Operating expenses increased $0.8 million in the third quarter and $2.0 million year to date 2012, compared to the same periods in 2011. The increase in both periods is primarily due to trucking costs for Inter Pipeline's midstream marketing activities as well as higher employee and fuel and power costs, which were partially offset by lower integrity costs.

Capital Expenditures

The conventional oil pipelines business incurred growth capital expenditures[*] of $0.8 million in the third quarter of 2012, primarily relating to facility upgrades and third party connections on the Mid-Saskatchewan pipeline system.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended September 30			Nine Months Ended September 30		
	2012	2011	*% change*	2012	2011	*% change*
Utilization	88.0%	97.8%	*(10.0)*	90.6%	97.9%	*(7.5)*
(millions)						
Revenue	$ 35.7	$ 25.2	*41.7*	$ 116.8	$ 77.9	*49.9*
Operating expenses	$ 15.3	$ 13.8	*10.9*	$ 47.1	$ 40.4	*16.6*
Funds from operations[(1)]	$ 17.6	$ 9.0	*95.6*	$ 60.2	$ 27.8	*116.5*
Capital expenditures						
Growth[(1)]	$ 2.8	$ 3.6		$ 9.8	$ 11.9	
Sustaining[(1)]	5.7	1.5		14.3	4.1	
	$ 8.5	$ 5.1		$ 24.1	$ 16.0	

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

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

Utilization

Inter Pipeline operates a bulk liquid storage business through two wholly owned subsidiaries, Simon Storage Limited (Simon Storage) and Inter Terminals Denmark A/S (Inter Terminals). Simon Storage owns and operates six bulk liquid storage terminals located in the United Kingdom (UK) and Ireland, and two inland terminals located on the Rhine River in Germany, with a combined liquid storage capacity of approximately 8.1 million barrels. Inter Terminals owns and operates four coastal bulk liquid storage terminals located in Denmark, with a combined storage capacity of approximately 10.8 million barrels.

Despite uncertainties in the European economic environment, bulk liquid storage demand has remained relatively strong with tank utilization averaging 88.0% in the third quarter and 90.6% year to date 2012. Utilization rates at Inter Terminals were 85.3% in the third quarter and 89.4% year to date 2012, while Simon Storage utilization rates were 91.3% in the third quarter and 92.0% year to date 2012. The lack of a strong contango in certain petroleum product markets has resulted in the lower utilization rates. Demand for storage fluctuates historically due to market conditions within industry sectors.

Revenue

The business activities of Simon Storage and Inter Terminals consist primarily of bulk liquid storage, handling and blending 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.

Revenue in the bulk liquid storage business for the three and nine months ended September 30, 2012, increased $10.5 million and $38.9 million, respectively, compared to the same periods in 2011. The increase is primarily due to the acquisition of Inter Terminals in January 2012, which increased revenue by $12.0 million in the third quarter and by $43.1 million year to date in 2012. For the three and nine months ended September 30, 2012, revenues from Simon Storage decreased $1.0 million and $3.4 million, respectively, compared to the same periods in 2011. The decrease in both periods is primarily due to lower ancillary services, as well as lower heating and handling revenue, as a result of decreased activity levels. Simon Storage 2011 revenues were positively impacted in the nine months ended September 30, 2011, as a result of contract termination fees and an insurance settlement in that period. Foreign currency translation adjustments also reduced revenues by $0.5 million and $0.8 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The average Euro/CAD exchange rate decreased from 1.38 in the third quarter of 2011 to 1.25 in the third quarter of 2012, and from 1.38 year to date 2011 to 1.28 year to date 2012. The average Pound Sterling/CAD exchange rate decreased from 1.58 to 1.57 in the third quarter of 2011 to 2012 and remained consistent at 1.58 year to date 2011 to 2012.

Operating Expenses

Operating expenses increased by $1.5 million and $6.7 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The increase in both periods is due to the acquisition of Inter Terminals in January 2012 which increased operating expenses by $3.5 million in the third quarter and by $10.0 million year to date 2012. Operating expenses in Simon Storage decreased $1.8 million in the third quarter and $2.9 million year to date in 2012, compared to the same periods in 2011. The decrease in both periods is due to lower operating, fuel and power and ancillary service costs, as a result of decreased activity. Foreign currency translation adjustments also decreased operating costs by $0.2 million and $0.4 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011.

Capital Expenditures

Growth capital expenditures in the bulk liquid storage business were $2.8 million in the third quarter of 2012, which primarily relates to a number of tank replacements, tank life extensions and tank modification projects at Immingham pursuant to long-term storage agreements. Sustaining capital expenditures in the third quarter of 2012 were $5.7 million, primarily relating to environmental performance enhancement initiatives, and other improvement projects on terminal infrastructure and safety at Inter Terminals.

Acquisition of Inter Terminals

On January 11, 2012, Inter Pipeline completed the acquisition of four petroleum storage terminals in Denmark, referred to collectively as Inter Terminals, from a subsidiary of DONG Energy A/S. The acquisition was valued at $459.1 million plus closing adjustments and the assumption of surplus cash, for a total cash consideration of approximately $509.7 million, and was funded from Inter Pipeline's revolving credit facility. The acquisition has more than doubled Inter Pipeline's total bulk liquid storage capacity in Western Europe, adding scale and diversification to European storage operations.

Operating results for Inter Terminals have been included in the consolidated financial statements since January 11, 2012. Inter Terminals contributed $12.0 million and $2.9 million to revenue and net income, respectively, for the three months ended September 30, 2012. Inter Terminals contributed $43.1 million and $12.1 million to revenue and net income, respectively from the date of acquisition to September 30, 2012.

As a result of this transaction, an acquisition fee of $4.6 million was paid during the first quarter of 2012 to the General Partner, pursuant to the terms of the Limited Partnership Agreement (LPA).

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

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

OTHER EXPENSES

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2012	2011	2012	2011
Depreciation and amortization	$ 30.5	$ 24.8	$ 92.3	$ 74.3
Financing charges	24.8	20.5	73.1	59.5
Provision for income taxes	17.9	23.8	73.1	65.0
General and administrative	15.6	11.2	44.6	36.9
Acquisition fee to General Partner	-	-	4.6	-
Management and incentive fees to General Partner	3.4	3.0	10.4	8.2
Unrealized change in fair value of derivative financial instruments	5.6	0.2	(49.6)	4.5
Loss on disposal of assets	0.1	0.2	-	-

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased $5.7 million and $18.0 million for the three and nine months ended September 30, 2012, respectively, primarily due to the acquisition of Inter Terminals.

Financing Charges

(millions)	Three Months Ended September 30 2012	2011	Nine Months Ended September 30 2012	2011
Interest on credit facilities	$ 7.4	$ 7.2	$ 25.9	$ 22.2
Interest on loan payable to General Partner	5.7	5.7	17.3	17.3
Interest on Corridor Debentures	2.6	2.5	7.6	7.5
Interest on MTN Series 1, 2 and 3	9.7	5.4	23.0	12.0
Total interest	25.4	20.8	73.8	59.0
Capitalized interest	(1.7)	(0.3)	(4.4)	(0.7)
Amortization of transaction costs on long-term and short-term debt and commercial paper	0.7	0.3	2.3	0.8
Accretion of provisions and pension plan financing charges	0.4	(0.3)	1.4	0.4
Total financing charges	$ 24.8	$ 20.5	$ 73.1	$ 59.5

Total financing charges increased $4.3 million and $13.6 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The increase in financing charges is primarily due to the acquisition of Inter Terminals in January 2012, which was initially funded through Inter Pipeline's credit facility.

Interest on MTNs increased in the three and nine months ended September 30, 2012, by $4.3 million and $11.0 million, respectively, due to the timing of issuances of the MTN Series 1, 2 and 3.

Interest on credit facilities increased $0.2 million in the third quarter of 2012 and $3.7 million year to date 2012, compared to the same periods in 2011. The increase in interest expense is due to higher fees on the unutilized portion of the revolving facilities, which were partially offset by lower average short-term interest rates and lower debt levels. The weighted average credit facility debt outstanding decreased by $115.3 million from $1,643.1 million in the third quarter of 2011 to $1,527.8 million in the third quarter of 2012. For the nine months ended September 30, 2012 and 2011, the weighted average debt outstanding decreased $29.8 million from $1,782.8 million in 2011 to $1,753.0 million in 2012.

Capitalized interest for the three and nine months ended September 30, 2012 increased by $1.4 million, and $3.7 million, respectively, compared to the same periods in 2011. This increase primarily relates to capitalized interest attributed to the construction of the Polaris and Cold Lake pipeline systems and a liquid sweetening project at the Cochrane NGL extraction facility.

Amortization of transaction costs on long-term and short-term debt and commercial paper increased $0.4 million in the third quarter and $1.5 million year to date in 2012, due to new issuances, compared to the same periods in 2011. Accretion of decommissioning and environmental provisions increased $0.7 million and $1.0 million for the three and nine months ended September 30, 2012, compared to same periods in 2011, due to an increase in decommissioning provisions relating to the acquisition of Inter Terminals.

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

Income Taxes

For the three and nine months ended September 30, 2012, consolidated income tax expense of $17.9 million and $73.1 million decreased $5.9 million and increased $8.1 million, respectively, compared to the same periods in 2011. The decrease in income tax expense for the third quarter is primarily due to lower consolidated income before taxes and the increase in income tax expense for year to date is primarily due to higher consolidated income before taxes.

General and Administrative

(millions)	Three Months Ended September 30 2012		Three Months Ended September 30 2011		Nine Months Ended September 30 2012		Nine Months Ended September 30 2011
Canada	$ 13.3		$ 9.2		$ 36.7		$ 29.8
Europe	2.3		2.0		7.9		7.1
	$ 15.6		$ 11.2		$ 44.6		$ 36.9

Canadian general and administrative expenses increased $4.1 million and $6.9 million for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The increase is primarily due to higher long-term incentive plan costs which are driven by Inter Pipeline's rising unit price, employee costs and external service costs.

Inter Pipeline's European general and administrative costs for the three and nine months ended September 30, 2012, increased $0.3 million and $0.8 million, respectively, compared to the same periods in 2011, primarily due to higher costs for Inter Terminals.

Fees to General Partner

The General Partner earned management fees from Inter Pipeline of $3.0 million in the third quarter (third quarter 2011 - $3.0 million) for a total of $9.2 million for the first nine months in 2012 (nine months ended September 30, 2011 - $8.2 million). This fee is equivalent to 2% of "Operating Cash," as defined in the LPA. In the third quarter of 2012, an incentive fee to the General Partner of $0.4 million was also accrued for a total of $1.2 million year to date 2012, as annualized Distributable Cash for 2012 is expected to be in excess of $1.01 per unit annually (three and nine months ended September 30, 2011 - $nil). Acquisition fees of $4.6 million related to the acquisition of Inter Terminals were also paid to the General Partner in the first quarter of 2012.

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

Unrealized Change in Fair Value of Derivative Financial Instruments

Inter Pipeline's mark-to-market valuation of derivative financial instruments resulted in a decrease to net income of $5.6 million in the third quarter and an increase to net income of $49.6 million for the nine months ended September 30, 2012.

In the third quarter of 2012, net income was unfavourably impacted by $14.8 million for the mark-to-market adjustment on NGL swaps for price and volume changes between July and September of 2012 and by $0.1 million for mark-to-market adjustments on electricity price swaps. These decreases to net income were partially offset by favourable mark-to-market adjustments for natural gas and foreign currency swaps of $5.0 million and $4.3 million, respectively, for price and volume changes between July and September 2012.

Year to date 2012, net income was favourably impacted by mark-to-market adjustments for NGL, natural gas and foreign currency swaps of $36.2 million, $6.9 million and $6.6 million, respectively, for price and volume changes between January and September of 2012. The remaining mark-to-market adjustment for electricity price swaps resulted in a decrease to net income of $0.1 million.

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

SUMMARY OF QUARTERLY RESULTS

(millions, except per unit and % amounts)	2010 Fourth Quarter	2011 First Quarter	2011 Second Quarter	2011 Third Quarter	2011 Fourth Quarter	2012 First Quarter	2012 Second Quarter	2012 Third Quarter
Revenue								
Oil sands transportation	$ 36.8	$ 72.8	$ 67.7	$ 73.0	$ 71.3	$ 70.6	$ 68.1	$ 77.5
NGL extraction	149.1	159.9	137.4	158.2	129.1	136.7	106.3	123.4
Conventional oil pipelines	40.7	43.7	42.1	45.7	46.3	51.2	58.8	59.2
Bulk liquid storage	25.9	26.6	26.1	25.2	26.5	38.7	42.4	35.7
	$ 252.5	$ 303.0	$ 273.3	$ 302.1	$ 273.2	$ 297.2	$ 275.6	$ 295.8
Funds from operations[1]								
Oil sands transportation	$ 17.9	$ 43.1	$ 41.3	$ 41.8	$ 39.5	$ 41.3	$ 41.2	$ 44.1
NGL extraction[2]	46.8	53.0	42.8	62.6	44.1	57.0	48.5	50.4
Conventional oil pipelines	26.8	32.6	31.5	35.6	33.5	40.5	35.3	38.9
Bulk liquid storage	8.4	10.5	8.3	9.0	9.4	19.3	23.3	17.6
Corporate costs	(19.1)	(38.9)	(32.0)	(37.1)	(36.4)	(50.1)	(41.0)	(44.6)
	$ 80.8	$ 100.3	$ 91.9	$ 111.9	$ 90.1	$ 108.0	$ 107.3	$ 106.4
Per unit[1]	$ 0.31	$ 0.39	$ 0.35	$ 0.43	$ 0.35	$ 0.41	$ 0.40	$ 0.39
Net income	$ 60.1	$ 64.5	$ 61.0	$ 76.6	$ 45.8	$ 79.6	$ 104.4	$ 65.9
Per unit – basic & diluted	$ 0.23	$ 0.25	$ 0.24	$ 0.29	$ 0.17	$ 0.30	$ 0.39	$ 0.24
Distributions[3]	$ 59.3	$ 62.0	$ 62.1	$ 62.5	$ 65.1	$ 69.9	$ 70.6	$ 71.3
Per unit[3]	$ 0.2300	$ 0.2400	$ 0.2400	$ 0.2400	$ 0.2475	$ 0.2625	$ 0.2625	$ 0.2625
Units outstanding (basic)								
Weighted average	257.8	258.3	258.8	259.9	262.7	265.7	268.6	271.3
End of period	258.0	258.5	259.1	261.2	264.2	267.2	270.0	272.7
Capital expenditures								
Growth[1]	$ 221.0	$ 40.8	$ 27.8	$ 29.8	$ 34.2	$ 39.6	$ 66.8	$ 107.4
Sustaining[1]	5.7	2.8	4.4	5.0	7.2	6.3	7.0	11.2
	$ 226.7	$ 43.6	$ 32.2	$ 34.8	$ 41.4	$ 45.9	$ 73.8	$ 118.6
Payout ratio before sustaining capital[1]	73.5%	61.8%	67.6%	55.8%	72.3%	64.7%	65.8%	67.0%
Payout ratio after sustaining capital[1]	79.1%	63.6%	71.0%	58.5%	78.5%	68.7%	70.4%	75.0%
Total debt[4]	$ 2,801.2	$ 2,762.4	$ 2,738.2	$ 2,719.1	$ 2,672.1	$ 3,145.8	$ 3,082.7	$ 3,113.6
Total partners' equity	$ 1,328.0	$ 1,339.8	$ 1,346.7	$ 1,404.4	$ 1,419.8	$ 1,493.7	$ 1,559.4	$ 1,594.8
Enterprise value[1]	$ 6,651.2	$ 7,178.1	$ 6,847.2	$ 6,901.1	$ 7,593.3	$ 8,374.5	$ 8,268.8	$ 8,973.1
Total debt to total capitalization[1]	67.8%	67.3%	67.0%	65.9%	65.3%	67.8%	66.4%	66.1%
Total recourse debt to capitalization[1]	41.0%	42.0%	41.5%	40.1%	38.9%	48.2%	46.1%	47.6%

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

Management may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the capital structure, Inter Pipeline may adjust the level of distributions to unitholders, issue new 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 acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At September 30, 2012, Inter Pipeline had access to committed credit facilities totaling $2.3 billion, of which approximately $791.3 million remains unutilized, and demand facilities totaling $45 million of which $44.8 million remains unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

In addition to committed credit facilities, Inter Pipeline issues equity capital from time to time to ensure its balance sheet remains well prepared for expected growth. Approximately $156.7 million of equity was issued through the distribution reinvestment plan during the first nine months of 2012.

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

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

In November 2010, Inter Pipeline filed a short form base shelf prospectus with Canadian regulatory authorities. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) Limited Partnership units; (ii) debt securities and (iii) subscription receipts (collectively, the "Securities") of up to $1.5 billion aggregate initial offering price of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. On January 19, 2011, Inter Pipeline filed a related prospectus supplement for the issuance of up to $1.5 billion of MTNs. The prospectus supplement establishes Inter Pipeline with a MTN program that allows it to issue MTNs in the Canadian market. In 2011, Inter Pipeline issued $325 million MTN Series 1 and $200 million MTN Series 2.

On May 28, 2012 Inter Pipeline issued $400 million of MTN Series 3 due May 30, 2022, in the Canadian public debt market. The MTN Series 3 were issued under Inter Pipeline's short form base shelf prospectus dated November 30, 2010, a related prospectus supplement dated January 19, 2011 and a related pricing supplement dated May 23, 2012. Net proceeds from the offering were used to repay a portion of Inter Pipeline's revolving credit facility. As a result of the issuance of the MTN

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

Series 1, 2 and 3, the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced from $1.5 billion to $575 million.

CAPITAL STRUCTURE

(millions, except % amounts)	Recourse	Non-recourse	September 30 2012	December 31 2011
Credit facilities available				
Corridor syndicated facility	$ -	$ 1,550.0	$ 1,550.0	$ 1,550.0
Inter Pipeline syndicated facility	750.0	-	750.0	750.0
	750.0	1,550.0	2,300.0	2,300.0
Demand facilities[(1)]	20.0	25.0	45.0	45.0
	$ 770.0	$ 1,575.0	$ 2,345.0	$ 2,345.0
Total debt outstanding				
Recourse				
Inter Pipeline syndicated facility			$ 143.0	$ -
Loan payable to General Partner			379.8	379.8
MTN Series 1, 2 and 3			925.0	525.0
Non-recourse				
Corridor syndicated facility			1,365.8	1,467.3
Corridor debentures			300.0	300.0
Total debt[(1)(2)]			3,113.6	2,672.1
Total partners' equity			1,594.8	1,419.8
Total capitalization[(3)]			$ 4,708.4	$ 4,091.9
Total debt to total capitalization[(3)]			66.1%	65.3%
Total recourse debt to capitalization[(3)]			47.6%	38.9%

(1) At September 30, 2012, outstanding Corridor letters of credit were approximately $0.2 million were not included in the total debt outstanding in the table above.
(2) At September 30, 2012, total debt includes long-term debt, short-term debt and commercial paper outstanding of $3,099.4 million inclusive of discounts and debt transaction costs of $14.2 million.
(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to EBITDA* ratio 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 47.6% at September 30, 2012. Adjusting for the impact of non-recourse debt of $1,665.8 million, Inter Pipeline's consolidated debt to total capitalization* ratio at September 30, 2012 was 66.1%.

At September 30, 2012, approximately $1,658.8 million or 53.3% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount $1,515.8 million or 91.4% relates to Corridor debt outstanding and is directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2007, Inter Pipeline acquired an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

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

	June 30		December 31	
	2012		2011	
Maturity date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
Corridor debentures				
- Fixed to floating rate swap				
Series B - February 2, 2015	5.033%	$ 150.0	5.033%	$ 150.0

The following earnings coverage ratios are calculated on a consolidated basis for the twelve month periods ended September 30, 2012 and December 31, 2011.

	Twelve Months Ended	
	September 30	December 31
(times)	2012	2011
Interest coverage on long-term debt [(1)(2)]	5.1	5.1

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.
(2) Net income plus income taxes and interest expense, divided by the sum of interest expense and capitalized interest. Long-term debt for this calculation includes commercial paper and current portion of long-term debt.

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

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

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

The following table summarizes Inter Pipeline's commitment profile and future contractual obligations at September 30, 2012. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects[1]				
Oil sands transportation	$ 513.8	$ 286.7	$ 227.1	$ -
NGL extraction	35.3	7.9	27.4	-
Conventional oil pipelines	5.7	5.7	-	-
Bulk liquid storage	3.9	3.9	-	-
Growth capital[2]	558.7	304.2	254.5	-
Sustaining capital[2]	14.5	14.5	-	-
	573.2	318.7	254.5	-
Total debt[3]				
Corridor syndicated facility[4]	1,365.8	1,365.8	-	-
Inter Pipeline syndicated facility	143.0	-	143.0	-
Loan to General Partner	379.8	91.2	288.6	-
Corridor debentures	300.0	-	150.0	150.0
MTN Series 1, 2, 3	925.0	-	-	925.0
	3,113.6	1,457.0	581.6	1,075.0
Other obligations				
Derivative financial instruments	9.7	8.1	1.6	-
Operating leases	88.0	7.1	27.3	53.6
Purchase obligations	147.5	11.4	35.0	101.1
Long-term portion of incentive plan	5.3	-	5.3	-
Working capital deficit[2]	49.4	49.4	-	-
	$ 3,986.7	$ 1,851.7	$ 905.3	$ 1,229.7

(1) Capital expenditure commitments in "less than one year" represent expected expenditures for the remaining months of 2012.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.
(3) At September 30, 2012, outstanding Corridor letters of credit of approximately $0.2 million were not included in the total $3,113.6 million of debt outstanding in the table above.
(4) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated credit facility that has no repayment requirements until December 2015.

Inter Pipeline plans to invest approximately $558.7 million in organic growth capital projects over the 2012 to 2013 period which includes the remaining capital costs for the $105 million Polaris oil sands diluent transportation project, the $90 million (100%) Cold Lake west leg capacity project and the $53 million liquid sweetening project at the Cochrane NGL extraction facility. In addition, capital costs also include costs relating to initial engineering, design and early construction work to expand and integrate the Cold Lake and Polaris pipeline systems to provide transportation service to the Narrows Lake, Christina Lake and Foster Creek oil sands projects, of which approximately $225 million has been backstopped. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with UK's storage and containment regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $4.8 million to $9.6 million over the next eight years.

Inter Pipeline's debt outstanding at September 30, 2012, matures at various dates up to February 2021. Corridor's Series B debentures mature on February 2, 2015, and Corridor's Series C debentures mature on February 3, 2020. On December 15, 2011, Corridor entered into a $1.55 billion

senior unsecured syndicated revolving credit facility that has an initial maturity date of December 15, 2015. On December 5, 2011, Inter Pipeline entered into a $750 million senior unsecured syndicated revolving credit facility with a maturity date of December 5, 2016. Inter Pipeline's and Corridor's credit facilities can be extended beyond their initial maturity date under certain circumstances. Inter Pipeline's loans payable to the General Partner of $91.2 million and $288.6 million mature on October 28, 2012 and October 28, 2014, respectively. On October 29, 2012, Inter Pipeline repaid the $91.2 million loan to the General Partner, which was funded from Inter Pipeline's credit facility. Inter Pipeline's MTN Series 1, 2 and 3 mature on February 2, 2021, July 30, 2018 and May 30, 2022, respectively.

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

(i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2012, based upon the various contractual maturity dates.

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

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

(iv) Inter Pipeline has obligations of $30.3 million under its employee long-term incentive plan, of which $25.0 million is included in the working capital deficit*.

(v) Present value of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $56.9 million at September 30, 2012. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

DISTRIBUTIONS TO UNITHOLDERS

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2012	2011	2012	2011
Cash provided by operating activities	$ 58.7	$ 96.4	$ 253.7	$ 333.6
Less net change in non-cash operating working capital	47.7	15.5	68.0	(29.5)
Less sustaining capital expenditures[1]	(11.2)	(5.0)	(24.5)	(12.2)
Cash available for distribution[1]	95.2	106.9	297.2	291.9
Change in discretionary reserves[1]	(23.9)	(44.4)	(85.4)	(105.3)
Distributions	$ 71.3	$ 62.5	$ 211.8	$ 186.6
Distributions per unit[2]	$ 0.2625	$ 0.2400	$ 0.7875	$ 0.7200
Payout ratio before sustaining capital[1]	67.0%	55.8%	65.8%	61.4%
Payout ratio after sustaining capital[1]	75.0%	58.5%	71.3%	63.9%
Growth capital expenditures[1]	$ 107.4	$ 29.8	$ 213.8	$ 98.4
Sustaining capital expenditures[1]	11.2	5.0	24.5	12.2
	$ 118.6	$ 34.8	$ 238.3	$ 110.6

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

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

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

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

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

The discretionary reserve* increased approximately $23.9 million in the third quarter of 2012 and $85.4 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 distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

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

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

	Three Months Ended September 30	Nine Months Ended September 30			Years Ended December 31	
(millions)	2012	2012	2011	2010	2009(1)	2008(1)
Cash provided by operating activities	$ 58.7	$ 253.7	$ 460.5	$ 349.6	$ 281.8	$ 321.1
Distributions	(71.3)	(211.8)	(251.7)	(232.6)	(202.4)	(186.6)
(Shortfall) excess	$ (12.6)	$ 41.9	$ 208.8	$ 117.0	$ 79.4	$ 134.5

	Three Months Ended September 30	Nine Months Ended September 30			Years Ended December 31	
(millions)	2012	2012	2011	2010	2009(1)	2008(1)
Net income	$ 65.9	$ 249.9	$ 247.9	$ 236.0	$ 157.7	$ 249.7
Distributions	(71.3)	(211.8)	(251.7)	(232.6)	(202.4)	(186.6)
(Shortfall) excess	$ (5.4)	$ 38.1	$ (3.8)	$ 3.4	$ (44.7)	$ 63.1

(1) IFRS adoption is effective as of January 1, 2011 and restated for 2010 as required for comparative purposes, therefore the 2008 and 2009 annual information is presented on a Canadian GAAP basis.

Distributions in all periods, except the third quarter of 2012, are less than cash provided by operating activities. Distributions were in excess of cash provided by operating activities, in the third quarter of 2012, primarily due to an instalment payment for Canadian income taxes related to the 2012 taxation year of $48.7 million. Distributions were also less than net income in all periods, except for the third quarter of 2012 and for the years ended 2011 and 2009. Net income includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore distributions may exceed net income.

The overall distributions of Inter Pipeline are governed by the LPA, specifically section 5.2, which specifies the terms for Inter Pipeline to make distributions. Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, distributions to unitholders are always equal to Distributable Cash.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at September 30, 2012 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	272.4	0.3	272.7

At November 6, 2012, Inter Pipeline had 273.2 million Class A units and 0.3 million Class B units for a total of 273.5 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 FFO*. Inter Pipeline endeavours to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline prohibits the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the board of directors through Inter Pipeline's risk management policy.

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

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt and short-term debt and commercial paper outstanding at September 30, 2012. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

NGL Extraction Business

Frac-spread Risk Management

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

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at September 30, 2012. The CAD/USG average prices would approximate the following USD/USG prices based on the average USD/CAD forward curve at September 30, 2012.

	September 30, 2012		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
October to December 2012	44%	$ 0.97	$ 0.95
January to December 2013	42%	$ 0.98	$ 0.97

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

Based on propane-plus volume hedges outstanding at September 30, 2012, the following table illustrates how a 10% change in NGL and AECO natural gas commodity prices and foreign exchange rates in isolation could individually impact the mark-to-market valuation of Inter Pipeline's derivative financial instruments and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

(millions)	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates(1)	Change in net income based on 10% decrease in prices/rates(1)
NGL(2)	$ 22.4	$ (7.0)	$ 7.0
AECO natural gas	(8.7)	1.8	(1.8)
Foreign exchange	(0.5)	(8.7)	8.7
Frac-spread risk management	$ 13.2		

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

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its NGL extraction and conventional oil pipelines business segments. When deemed appropriate, Inter Pipeline enters into financial heat rate swap and power price swap contracts to manage power price risk exposure in these businesses. As at September 30, 2012, there are no heat rate agreements outstanding.

During the three and nine months ended September 30, 2012, Inter Pipeline entered into an electricity price swap agreement in the conventional oil pipelines business. At September 30, 2012, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately $0.1 million.

Bulk Liquid Storage Business

Foreign Exchange Risk Management

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

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, 2012, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $3.8 million and $11.3 million, for the three and nine months ended September 30, 2012, respectively, assuming all other variables remain constant. Of these amounts $3.4 million and $10.2 million for the three and nine months ended September 30, 2012, respectively, relate to the $1,550 million unsecured revolving credit facility and are recoverable through the terms of the Corridor FSA, therefore the after-tax income impact on Inter Pipeline for the three and nine months ended September 30, 2012, would be $0.3 million and $0.8 million, respectively.

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

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2012	2011	2012	2011
Realized gain (loss) on derivative financial instruments				
Revenues				
NGL swaps	$ 5.2	$ (9.5)	$ 7.3	$ (25.1)
Foreign exchange swaps (frac-spread hedges)	0.2	1.4	(0.1)	4.7
	5.4	(8.1)	7.2	(20.4)
Shrinkage gas expense				
Natural gas swaps	(4.1)	(3.0)	(12.4)	(9.1)
	(4.1)	(3.0)	(12.4)	(9.1)
Operating expenses				
Electricity price swaps	-	0.5	-	0.9
Heat rate swaps	-	1.8	-	3.7
	-	2.3	-	4.6
Financing charges				
Interest rate swaps	1.2	0.7	3.6	2.1
	1.2	0.7	3.6	2.1
General and administrative				
Foreign exchange swaps	-	-	0.9	-
	-	-	0.9	-
Net realized gain (loss) on derivative financial instruments	2.5	(8.1)	(0.7)	(22.8)
Unrealized change in fair value of derivative financial instruments				
NGL swaps	(14.8)	20.3	36.2	8.2
Natural gas swaps	5.0	1.0	6.9	4.0
Foreign exchange swaps (frac-spread hedges)	4.3	(20.4)	6.6	(16.9)
Electricity price swaps	(0.1)	(0.3)	(0.1)	-
Heat rate swaps	-	(1.1)	-	(0.6)
Interest rate swaps	-	0.5	-	1.4
Transitional transfers [1]	-	(0.2)	-	(0.6)
Unrealized change in fair value of derivative financial instruments	(5.6)	(0.2)	49.6	(4.5)
Total (loss) gain on derivative financial instruments	$ (3.1)	$ (8.3)	$ 48.9	$ (27.3)

(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, 2012, accounts receivable associated with these two business segments were $68.3 million or 59.1% 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, 2012, accounts receivable outstanding meeting the definition of past due and impaired is immaterial.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three month periods ended September 30, 2012 or 2011.

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

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. Officers and directors of the General Partner received a cumulative total of $0.3 million in dividends in the third quarter of 2012 (third quarter of 2011 - $nil million) totaling $1.6 million for the nine months ended September 30, 2012 (nine months ended September 30, 2011 - $0.8 million), from PAC pursuant to their ownership of non-voting shares.

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

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a Private Placement note

issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At September 30, 2012, interest payable to the General Partner on the loan was $9.9 million (December 31, 2011 - $4.1 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of a default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs. On October 29, 2012, Inter Pipeline repaid the first tranche of the loan from the General Partner which amounted to $91.2 million.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At September 30, 2012, there were amounts owed to the General Partner by Inter Pipeline of $1.0 million (December 31, 2011 – $0.9 million).

CONTROLS AND PROCEDURES

There have been no significant changes in Inter Pipeline's internal control over financial reporting (ICFR) during the period January 1, 2012 to September 30, 2012 that have materially affected, or are reasonably likely to materially affect, Inter Pipeline's ICFR.

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

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

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 2 *Summary of Significant Accounting Policies* of the December 31, 2011 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

The amounts recorded for fair value of derivative financial instruments, intangible assets, goodwill, property, plant and equipment, provisions, employee benefits, deferred taxes and depreciation and amortization are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

ACCOUNTING POLICIES ADOPTED IN 2012

Inter Terminals Property, Plant and Equipment

Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from four to 70 years.

Inter Terminals Intangible Assets

Intangible assets consist of customer contracts with agreed guaranteed payments for storage revenue and minimum throughput volumes. These assets are being amortized over the remaining lives of the contracts on a contract-by-contract basis, the majority of which ranges from eight months to 30 months.

Midstream Marketing

On April 1, 2012, Inter Pipeline internalized midstream marketing blending and handling services in its conventional oil pipelines business segment, which were previously provided by a third party. As a result, Inter Pipeline acquired line fill which is accounted for in accordance with Inter Pipeline's existing accounting policies. Volumes purchased by Inter Pipeline to be used in the blending process that are then resold at a pre-arranged agreed-upon differential, are recognized on a net basis. Sales of additional volumes created through the blending process are recognized on a gross basis with corresponding product purchases of blend components.

RISK FACTORS

During the third quarter of 2012, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2011 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", "discretionary reserve", "EBITDA", "funds from operations", "funds from operations per unit", "enterprise value", "interest coverage on long-term debt", "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 and current portion of long-term debt.

(millions)	September 30 2012	December 31 2011
Current assets		
Cash and cash equivalents	$ 43.0	$ 50.0
Accounts receivable	136.2	109.1
Prepaid expenses and other deposits	27.3	10.9
Current liabilities		
Distributions payable	(23.9)	(23.1)
Accounts payable and accrued liabilities	(216.8)	(162.5)
Current income taxes payable	-	(49.8)
Deferred revenue	(15.2)	(4.6)
Adjusted working capital deficiency	$ (49.4)	$ (70.0)

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

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	2012	2011	2012	2011
Net income	$ 65.9	$ 76.6	$ 249.9	$ 202.1
Depreciation and amortization	30.5	24.8	92.3	74.3
Loss on disposal of assets	0.1	0.2	-	-
Non-cash expense (recovery)	2.5	1.7	2.1	(1.0)
Unrealized change in fair value of derivative financial instruments	5.6	0.2	(49.6)	4.5
Deferred income tax expense	1.8	8.4	27.0	22.7
Proceeds from long-term leasehold inducements	-	-	-	1.5
Funds from operations	106.4	111.9	321.7	304.1
Total interest less capitalized interest	23.8	20.5	69.5	58.3
Current income tax expense	16.1	15.4	46.1	42.3
EBITDA	$ 146.3	$ 147.8	$ 437.3	$ 404.7

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:

(millions, except per unit amounts)	September 30 2012	December 31 2011
Closing unit price	$ 21.49	$ 18.63
Total closing number of Class A and B units	272.7	264.2
	5,859.5	4,921.2
Total debt	3,113.6	2,672.1
Enterprise value	$ 8,973.1	$ 7,593.3

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

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

			Three Months Ended September 30	
			2012	2011
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 96.0	$ 0.4	$ 96.4	$ 24.0
NGL extraction	7.8	3.0	10.8	3.3
Conventional oil pipelines	0.8	0.9	1.7	1.8
Bulk liquid storage	2.8	5.7	8.5	5.1
Corporate	-	1.2	1.2	0.6
	$ 107.4	$ 11.2	$ 118.6	$ 34.8

			Nine Months Ended September 30	
			2012	2011
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 156.0	$ 2.1	$ 158.1	$ 81.0
NGL extraction	18.0	3.8	21.8	8.6
Conventional oil pipelines	30.0	1.9	31.9	3.5
Bulk liquid storage	9.8	14.3	24.1	16.0
Corporate	-	2.4	2.4	1.5
	$ 213.8	$ 24.5	$ 238.3	$ 110.6

Interest coverage on long-term debt is calculated as net income before income taxes and interest expense divided by total interest expense. Long-term debt for this calculation includes commercial paper and current portion of long-term debt. This measure is used by the investment community to determine the ease with which interest expense is satisfied on long-term debt.

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

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

Total debt to total capitalization is calculated by dividing the sum of total debt including demand facilities and excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of total debt (as above) and partners' equity. 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 purposes 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. 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 8th day of November, 2012.

Inter Pipeline Fund

Interim Consolidated Balance Sheets

(unaudited) (thousands of Canadian dollars)	**As at September 30 2012**	As at December 31 2011
ASSETS		
Current Assets		
Cash and cash equivalents (note 19)	**$ 43,029**	$ 50,021
Accounts receivable	**136,176**	109,145
Derivative financial instruments (note 16)	**23,422**	5,167
Prepaid expenses and other deposits	**27,340**	10,917
Total Current Assets	**229,967**	175,250
Non-Current Assets		
Derivative financial instruments (note 16)	**10,234**	9,772
Property, plant and equipment (note 5)	**4,574,707**	4,081,036
Goodwill and intangible assets (note 6)	**608,192**	502,009
Total Assets	**$ 5,423,100**	$ 4,768,067
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Distributions payable (note 7)	**$ 23,858**	$ 23,114
Accounts payable and accrued liabilities (note 13)	**216,783**	162,499
Current income taxes payable	**-**	49,753
Derivative financial instruments (note 16)	**8,082**	25,746
Deferred revenue	**15,165**	4,583
Current portion of long-term debt (note 8)	**91,137**	90,989
Commercial paper (note 8)	**1,364,558**	1,464,369
Total Current Liabilities	**1,719,583**	1,821,053
Non-Current Liabilities		
Long-term debt (note 8)	**1,643,670**	1,102,288
Long-term payable	**6,150**	9,772
Derivative financial instruments (note 16)	**1,574**	11,035
Provisions (note 9)	**56,909**	37,018
Employee benefits (note 10)	**7,627**	6,989
Long-term deferred revenue and other liabilities	**15,370**	17,652
Deferred income taxes (note 11)	**377,457**	342,474
Total Liabilities	**3,828,340**	3,348,281
Commitments and contingencies (notes 5 and 14)		
Partners' Equity		
Partners' equity (note 12)	**1,646,879**	1,452,066
Total reserves (note 12)	**(52,119)**	(32,280)
Total Partners' Equity	**1,594,760**	1,419,786
Total Liabilities and Partners' Equity	**$ 5,423,100**	$ 4,768,067

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Fund

Interim Consolidated Statements of Changes in Partners' Equity

(unaudited) (thousands of Canadian dollars)

	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Reserves *(note 12)*	Total Partners' Equity
Balance, January 1, 2012	$ 1,450,617	$ 1,449	$ (32,280)	**$ 1,419,786**
Net income for the period	249,682	250	-	**249,932**
Other comprehensive loss	-	-	(19,839)	**(19,839)**
	1,700,299	1,699	(52,119)	**1,649,879**
Distributions declared (note 7)	(211,630)	(211)	-	**(211,841)**
Issuance of Partnership units (note 12)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	156,565	157	-	**156,722**
Balance, September 30, 2012	$ 1,645,234	$ 1,645	$ (52,119)	**$ 1,594,760**
Balance, January 1, 2011	$ 1,359,377	$ 1,358	$ (32,686)	$ 1,328,049
Net income for the period	201,857	202	-	202,059
Other comprehensive income	-	-	13,796	13,796
	1,561,234	1,560	(18,890)	1,543,904
Distributions declared (note 7)	(186,412)	(186)	-	(186,598)
Issuance of Partnership units (note 12)				
Issued under Premium Distribution™ and Distribution Reinvestment Plan	47,073	47	-	47,120
Balance, September 30, 2011	$ 1,421,895	$ 1,421	$ (18,890)	$ 1,404,426

See accompanying condensed notes to the interim consolidated financial statements.

™ Denotes trademark of Canaccord Capital Corporation.

Inter Pipeline Fund

Interim Consolidated Statements of Net Income

(unaudited) (thousands of Canadian dollars)	Three Months Ended September 30 **2012**	2011	Nine Months Ended September 30 **2012**	2011
REVENUES				
Operating revenues	**$ 295,740**	$ 302,129	**$ 868,572**	$ 878,411
EXPENSES				
Shrinkage gas	**49,021**	67,639	**141,756**	216,401
Midstream product purchases	**8,927**	-	**21,748**	-
Operating	**73,912**	74,093	**206,664**	211,441
Depreciation and amortization	**30,474**	24,871	**92,269**	74,342
Financing charges (note 18)	**24,841**	20,501	**73,104**	59,479
General and administrative	**15,607**	11,233	**44,581**	36,922
Unrealized change in fair value of derivative financial instruments (note 16)	**5,639**	224	**(49,581)**	4,513
Acquisition fee to General Partner (notes 3 and 13)	**-**	-	**4,591**	-
Management and incentive fees to General Partner (note 13)	**3,450**	3,011	**10,411**	8,218
Loss (gain) on disposal of assets	**63**	187	**(28)**	(14)
	211,934	201,759	**545,515**	611,302
INCOME BEFORE INCOME TAXES	**83,806**	100,370	**323,057**	267,109
Provision for income taxes (note 11)				
Current	**16,157**	15,385	**46,156**	42,341
Deferred	**1,729**	8,429	**26,969**	22,709
	17,886	23,814	**73,125**	65,050
NET INCOME	**$ 65,920**	$ 76,556	**$ 249,932**	$ 202,059
Net income per Partnership unit (note 12)				
Basic and diluted	**$ 0.24**	$ 0.29	**$ 0.93**	$ 0.78

Interim Consolidated Statements of Comprehensive Income

(unaudited) (thousands of Canadian dollars)	Three Months Ended September 30 **2012**	2011	Nine Months Ended September 30 **2012**	2011
NET INCOME	**$ 65,920**	$ 76,556	**$ 249,932**	$ 202,059
OTHER COMPREHENSIVE (LOSS) INCOME (note 12)				
Unrealized (loss) gain on translating financial statements of foreign operations	**(9,595)**	14,993	**(18,378)**	16,810
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 16)	**-**	202	**-**	606
Actuarial loss on defined benefit pension plan (note 10)	**(1,556)**	(4,500)	**(1,556)**	(4,500)
Income tax relating to defined benefit pension reserve	**208**	1,053	**95**	880
	(10,943)	11,748	**(19,839)**	13,796
COMPREHENSIVE INCOME	**$ 54,977**	$ 88,304	**$ 230,093**	$ 215,855

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Fund

Interim Consolidated Statements of Cash Flows

(unaudited) (thousands of Canadian dollars)	Three Months Ended September 30 **2012**	2011	Nine Months Ended September 30 **2012**	2011
OPERATING ACTIVITIES				
Net income	**$ 65,920**	$ 76,556	**$ 249,932**	$ 202,059
Items not involving cash:				
Depreciation and amortization	**30,474**	24,871	**92,269**	74,342
Loss (gain) on disposal of assets	**63**	187	**(28)**	(14)
Non-cash expense (recovery)	**2,645**	1,568	**2,170**	(1,038)
Unrealized change in fair value of derivative financial instruments	**5,639**	224	**(49,581)**	4,513
Deferred income tax expense	**1,729**	8,429	**26,969**	22,709
Proceeds from long-term lease inducements	**-**	-	**-**	1,480
Funds from operations	**106,470**	111,835	**321,731**	304,051
Net change in non-cash operating working capital (note 19)	**(47,665)**	(15,403)	**(67,987)**	29,539
Cash provided by operating activities	**58,805**	96,432	**253,744**	333,590
INVESTING ACTIVITIES				
Expenditures on property, plant and equipment	**(118,604)**	(34,750)	**(238,344)**	(110,597)
Proceeds on sale of assets	**242**	152	**333**	353
Acquisition of Inter Terminals (note 3)	**(300)**	-	**(509,713)**	-
Assumption of cash on acquisition of Inter Terminals (note 3)	**-**	-	**48,293**	-
Net change in non-cash investing working capital (note 19)	**56,337**	(4,048)	**54,851**	4,569
Cash used in investing activities	**(62,325)**	(38,646)	**(644,580)**	(105,675)
FINANCING ACTIVITIES				
Cash distributions (note 7)	**(19,613)**	(30,546)	**(55,119)**	(139,478)
Increase (decrease) in debt	**31,071**	(18,868)	**441,461**	(82,247)
Transaction costs on debt	**105**	(1,256)	**(2,350)**	(3,079)
Net change in non-cash financing working capital (note 19)	**236**	171	**744**	253
Cash provided by (used in) financing activities	**11,799**	(50,499)	**384,736**	(224,551)
Effect of foreign currency translation on foreign currency denominated cash	**(72)**	769	**(892)**	710
Increase (decrease) in cash and cash equivalents	**8,207**	8,056	**(6,992)**	4,074
Cash and cash equivalents, beginning of period	**34,822**	18,525	**50,021**	22,507
Cash and cash equivalents, end of period	**$ 43,029**	$ 26,581	**$ 43,029**	$ 26,581
Cash taxes paid	**$ 48,709**	$ 1,044	**$ 98,037**	$ 1,840
Cash interest paid	**$ 24,095**	$ 20,104	**$ 70,201**	$ 52,292

See accompanying condensed notes to the interim consolidated financial statements.

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements (interim financial statements) have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*. These interim financial statements do not contain all disclosures required by International Financial Reporting Standards for annual financial statements, and accordingly, should be read in conjunction with Inter Pipeline Fund's (Inter Pipeline) consolidated financial statements and notes thereto for the year ended December 31, 2011. Inter Pipeline has consistently applied the same accounting policies for all periods presented in these interim financial statements as those used in Inter Pipeline's consolidated financial statements for the year ended December 31, 2011. As discussed in note 2, additional accounting policies have been adopted in 2012 to account for new transactions undertaken by four petroleum storage terminals in Denmark, referred to collectively as Inter Terminals, as well as the internalization of midstream marketing within the conventional oil pipelines business segment.

These interim financial statements were authorized for issue by the Board of Directors of the General Partner on November 8, 2012.

2. ACCOUNTING POLICIES ADOPTED IN 2012

Inter Terminals Property, Plant and Equipment

Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from four to 70 years.

Inter Terminals Intangible Assets

Intangible assets consist of customer contracts with agreed guaranteed payments for storage revenue and minimum throughput volumes. These assets are being amortized over the remaining lives of the contracts on a contract-by-contract basis, the majority of which ranges from eight months to 30 months.

Midstream Marketing

On April 1, 2012, Inter Pipeline internalized the midstream marketing blending and handling services within its conventional oil pipelines business segment, which were previously provided by a third party. As a result, Inter Pipeline acquired line fill which is accounted for in accordance with Inter Pipeline's existing accounting policies. Volumes purchased by Inter Pipeline to be used in the blending process, that are then resold at a pre-arranged agreed-upon differential, are recognized on a net basis. Sales of additional volumes created through the blending process are recognized on a gross basis with corresponding product purchases of blend components.

3. ACQUISITION OF INTER TERMINALS

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

Operating results for Inter Terminals have been included in the interim financial statements since January 11, 2012. Inter Terminals contributed $12.0 million and $2.9 million to revenue and net income, respectively, for the three months ended September 30, 2012. Inter Terminals contributed $43.1 million and $12.1 million to revenue and net income, respectively from the date of acquisition to September 30, 2012. If the acquisition had taken place on January 1, 2012, as opposed to January 11, 2012, the impact on revenue and net income would have been immaterial.

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

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

Cash	$	48,293
Non-cash working capital (note 19)		15,513
Property, plant and equipment (note 5)		342,159
Goodwill (note 6)		110,870
Intangible assets (note 6)		20,281
Decommissioning obligation (note 9)		(18,360)
Deferred income tax liability		(9,043)
	$	509,713

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

4. SEGMENT REPORTING

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

Three Months Ended September 30, 2012

	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 77,472	$ 123,443	$ 59,154	$ -	$ 260,069	$ 35,671	$ 295,740
Expenses							
Shrinkage gas	-	49,021	-	-	49,021	-	49,021
Midstream product purchases	-	-	8,927	-	8,927	-	8,927
Operating	22,680	23,986	11,930	-	58,596	15,316	73,912
Depreciation and amortization	10,451	6,674	2,851	670	20,646	9,828	30,474
Financing charges	9,183	63	162	15,222	24,630	211	24,841
General and administrative	1,591	-	-	11,689	13,280	2,327	15,607
Unrealized change in fair value of derivative financial instruments	-	5,560	-	79	5,639	-	5,639
Management and incentive fees to General Partner	-	-	-	3,450	3,450	-	3,450
Loss (gain) on disposal of assets	-	305	(5)	-	300	(237)	63
Total expenses	43,905	85,609	23,865	31,110	184,489	27,445	211,934
Income (loss) before income taxes	33,567	37,834	35,289	(31,110)	75,580	8,226	83,806
Provision for (recovery of) income taxes	5,814	-	-	14,248	20,062	(2,176)	17,886
Net income (loss)	$ 27,753	$ 37,834	$ 35,289	$ (45,358)	$ 55,518	$ 10,402	$ 65,920
Items not involving cash:							
Depreciation and amortization*	10,451	6,979	2,846	670	20,946	9,591	30,537
Non-cash expense (recovery)	170	132	736	1,637	2,675	(30)	2,645
Unrealized change in fair value of derivative financial instruments	-	5,560	-	79	5,639	-	5,639
Deferred income tax expense (recovery)	5,755	-	-	(1,660)	4,095	(2,366)	1,729
Funds from (used in) operations	$ 44,129	$ 50,505	$ 38,871	$ (44,632)	$ 88,873	$ 17,597	$ 106,470
Expenditures on property, plant and equipment	$ 96,385	$ 10,711	$ 1,713	$ 1,213	$ 110,022	$ 8,582	$ 118,604
							As at September 30, 2012
Property, plant and equipment - net book value	$ 3,053,443	$ 395,960	$ 472,745	$ 7,788	$ 3,929,936	$ 644,771	$ 4,574,707
Goodwill and intangible assets - net book value	$ 219,046	$ 212,948	$ -	$ -	$ 431,994	$ 176,198	$ 608,192
Other assets	$ 60,432	$ 88,161	$ 28,965	$ 2,324	$ 179,882	$ 60,319	$ 240,201
Total assets	$ 3,332,921	$ 697,069	$ 501,710	$ 10,112	$ 4,541,812	$ 881,288	$ 5,423,100

* Includes loss (gain) on disposal of assets

Three Months Ended September 30, 2011

	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 72,950	$ 158,201	$ 45,707	$ -	$ 276,858	$ 25,271	$ 302,129
Expenses							
Shrinkage gas	-	67,639	-	-	67,639	-	67,639
Operating	21,258	28,006	11,090	-	60,354	13,739	74,093
Depreciation and amortization	10,543	6,641	2,323	602	20,109	4,762	24,871
Financing charges	8,531	61	155	12,290	21,037	(536)	20,501
General and administrative	1,391	-	-	7,854	9,245	1,988	11,233
Unrealized change in fair value of derivative financial instruments	-	195	275	(246)	224	-	224
Management fee to General Partner	-	-	-	3,011	3,011	-	3,011
Loss (gain) on disposal of assets	304	-	2	(8)	298	(111)	187
Total expenses	42,027	102,542	13,845	23,503	181,917	19,842	201,759
Income (loss) before income taxes	30,923	55,659	31,862	(23,503)	94,941	5,429	100,370
Provision for (recovery of) income taxes	4,622	-	-	20,105	24,727	(913)	23,814
Net income (loss)	$ 26,301	$ 55,659	$ 31,862	$ (43,608)	$ 70,214	$ 6,342	$ 76,556
Items not involving cash:							
Depreciation and amortization*	10,847	6,641	2,325	594	20,407	4,651	25,058
Non-cash expense (recovery)	149	105	1,090	956	2,300	(732)	1,568
Unrealized change in fair value of derivative financial instruments	-	195	275	(246)	224	-	224
Deferred income tax expense (recovery)	4,565	-	-	5,185	9,750	(1,321)	8,429
Funds from (used in) operations	$ 41,862	$ 62,600	$ 35,552	$ (37,119)	$ 102,895	$ 8,940	$ 111,835
Expenditures on property, plant and equipment	$ 23,937	$ 3,299	$ 1,709	$ 642	$ 29,587	$ 5,163	$ 34,750
							As at December 31, 2011
Property, plant and equipment - net book value	$ 2,924,367	$ 386,931	$ 448,463	$ 7,339	$ 3,767,100	$ 313,936	$ 4,081,036
Goodwill and intangible assets - net book value	$ 221,465	$ 220,606	$ -	$ -	$ 442,071	$ 59,938	$ 502,009
Other assets	$ 44,567	$ 64,859	$ 50,003	$ 321	$ 159,750	$ 25,272	$ 185,022
Total assets	$ 3,190,399	$ 672,396	$ 498,466	$ 7,660	$ 4,368,921	$ 399,146	$ 4,768,067

* Includes loss (gain) on disposal of assets

Nine Months Ended September 30, 2012

	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 216,158	$ 366,402	$ 169,199	$ -	$ 751,759	$ 116,813	$ 868,572
Expenses							
Shrinkage gas	-	141,756	-	-	141,756	-	141,756
Midstream product purchases	-	-	21,748	-	21,748	-	21,748
Operating	56,976	68,615	33,973	-	159,564	47,100	206,664
Depreciation and amortization	31,463	20,055	7,603	2,003	61,124	31,145	92,269
Financing charges	27,963	190	486	43,817	72,456	648	73,104
General and administrative	4,562	-	-	32,091	36,653	7,928	44,581
Unrealized change in fair value of derivative financial instruments	-	(49,660)	-	79	(49,581)	-	(49,581)
Acquisition fee to General Partner	-	-	-	4,591	4,591	-	4,591
Management and incentive fees to General Partner	-	-	-	10,411	10,411	-	10,411
(Gain) loss on disposal of assets	(23)	292	(52)	(8)	209	(237)	(28)
Total expenses	120,941	181,248	63,758	92,984	458,931	86,584	545,515
Income (loss) before income taxes	95,217	185,154	105,441	(92,984)	292,828	30,229	323,057
Provision for (recovery of) income taxes	15,458	-	-	60,566	76,024	(2,899)	73,125
Net income (loss)	$ 79,759	$ 185,154	$ 105,441	$ (153,550)	$ 216,804	$ 33,128	$ 249,932
Items not involving cash:							
Depreciation and amortization*	31,440	20,347	7,551	1,995	61,333	30,908	92,241
Non-cash expense (recovery)	99	140	1,695	318	2,252	(82)	2,170
Unrealized change in fair value of derivative financial instruments	-	(49,660)	-	79	(49,581)	-	(49,581)
Deferred income tax expense (recovery)	15,280	-	-	15,458	30,738	(3,769)	26,969
Funds from (used in) operations	$ 126,578	$ 155,981	$ 114,687	$ (135,700)	$ 261,546	$ 60,185	$ 321,731
Expenditures on property, plant and equipment	$ 158,109	$ 21,731	$ 31,884	$ 2,452	$ 214,176	$ 24,168	$ 238,344

* Includes (gain) loss on disposal of assets

Inter Pipeline Fund

Condensed Notes to Interim Consolidated Financial Statements

(unaudited)

September 30, 2012

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

Nine Months Ended September 30, 2011

	Canada					Europe	
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
Revenues	$ 213,463	$ 455,550	$ 131,467	$ -	$ 800,480	$ 77,931	$ 878,411
Expenses							
Shrinkage gas	-	216,401	-	-	216,401	-	216,401
Operating	58,340	80,708	31,995	-	171,043	40,398	211,441
Depreciation and amortization	31,478	19,697	7,042	1,727	59,944	14,398	74,342
Financing charges	24,443	183	465	34,690	59,781	(302)	59,479
General and administrative	4,343	-	-	25,487	29,830	7,092	36,922
Unrealized change in fair value of derivative financial instruments	-	5,357	(70)	(774)	4,513	-	4,513
Management fee to General Partner	-	-	-	8,218	8,218	-	8,218
(Gain) loss on disposal of assets	304	(12)	2	(8)	286	(300)	(14)
Total expenses	118,908	322,334	39,434	69,340	550,016	61,286	611,302
Income (loss) before income taxes	94,555	133,216	92,033	(69,340)	250,464	16,645	267,109
Provision for (recovery of) income taxes	14,457	-	-	51,397	65,854	(804)	65,050
Net income (loss)	$ 80,098	$ 133,216	$ 92,033	$ (120,737)	$ 184,610	$ 17,449	$ 202,059
Items not involving cash:							
Depreciation and amortization*	31,782	19,685	7,044	1,719	60,230	14,098	74,328
Non-cash expense (recovery)	54	98	665	(886)	(69)	(969)	(1,038)
Unrealized change in fair value of derivative financial instruments	-	5,357	(70)	(774)	4,513	-	4,513
Deferred income tax expense (recovery)	14,313	-	-	11,201	25,514	(2,805)	22,709
Proceeds from long-term lease inducements	-	-	-	1,480	1,480	-	1,480
Funds from (used in) operations	126,247	158,356	99,672	(107,997)	276,278	27,773	304,051
Expenditures on property, plant and equipment	$ 81,075	$ 8,583	$ 3,415	$ 1,511	$ 94,584	$ 16,013	$ 110,597

* Includes (gain) loss on disposal of assets

5. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities and Equipment	Pipeline Line fill	Construction Work in Progress	Total
Cost				
Balance, January 1, 2011	$ 2,754,086	$ 74,033	$ 1,895,152	$ 4,723,271
Additions/transfers from construction*	1,730,633	174,105	150,940	2,055,678
Disposals/completed construction*	(821)	-	(1,904,889)	(1,905,710)
Foreign currency translation adjustment	5,411	-	(180)	5,231
Balance, December 31, 2011	4,489,309	248,138	141,023	4,878,470
Acquisition of Inter Terminals (note 3)	340,881	-	1,278	342,159
Additions/transfers from construction*	33,271	23,858	216,573	273,702
Disposals/completed construction*	(4,431)	-	(31,556)	(35,987)
Foreign currency translation adjustment	(14,859)	-	(22)	(14,881)
Balance, September 30, 2012	**$ 4,844,171**	**$ 271,996**	**$ 327,296**	**$ 5,443,463**
Accumulated Depreciation				
Balance, January 1, 2011	$ 705,758	$ 5,759	$ -	$ 711,517
Depreciation	82,719	2,880	-	85,599
Disposals	(193)	-	-	(193)
Foreign currency translation adjustment	511	-	-	511
Balance, December 31, 2011	788,795	8,639	-	797,434
Depreciation	69,684	2,633	-	72,317
Disposals	(325)	-	-	(325)
Foreign currency translation adjustment	(670)	-	-	(670)
Balance, September 30, 2012	**$ 857,484**	**$ 11,272**	**$ -**	**$ 868,756**
Net Book Value				
At December 31, 2011	$ 3,700,514	$ 239,499	$ 141,023	$ 4,081,036
At September 30, 2012	**$ 3,986,687**	**$ 260,724**	**$ 327,296**	**$ 4,574,707**

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

Inter Pipeline has committed to additional expenditures on property, plant and equipment totaling approximately $573.2 million at September 30, 2012, of which $318.7 million is due in one year and $254.5 million is due in one to five years.

6. GOODWILL AND INTANGIBLE ASSETS

	September 30 2012	December 31 2011
Goodwill	**$ 317,497**	$ 211,150
Intangible assets	**290,695**	290,859
Goodwill and intangible assets	**$ 608,192**	$ 502,009

Goodwill and intangible assets of $110.9 million and $20.3 million, respectively, were recognized through the acquisition of Inter Terminals on January 11, 2012 (note 3).

7. DISTRIBUTIONS

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

For the three and nine months ended September 30, 2012, Inter Pipeline declared distributions totaling $71.3 million and $211.8 million, respectively, or $0.2625 per unit and $0.7875 per unit, respectively (three and nine months ended September 30, 2011 - $62.5 million and $186.6 million, respectively, and $0.24 per unit and $0.72 per unit, respectively). Of the total distributions declared, $51.7 million and $156.7 million were settled with the issuance of units under the Premium Distribution[TM] and Distribution Reinvestment Plan (Plan) for the three and nine months ended September 30, 2012, respectively (three and nine months ended September 30, 2011 - $31.9 million and $47.1 million, respectively). As at September 30, 2012, distributions of $23.9 million were payable on 272.4 million outstanding Class A units and on 0.3 million outstanding Class B units at $0.0875 per unit (December 31, 2011 - $23.1 million payable on 263.9 million outstanding Class A units and on 0.3 million outstanding Class B units at $0.0875 per unit).

On October 4, 2012, Inter Pipeline declared distributions of $0.0875 per unit. The distributions will be paid on or about November 15, 2012 to all unitholders of record on October 22, 2012. The total estimated declared distributions are approximately $23.9 million.

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

	September 30 2012	December 31 2011
$1,550 million Unsecured Revolving Credit Facility (a)	**$ 1,365,750**	$ 1,467,300
$750 million Unsecured Revolving Credit Facility	**143,000**	-
Loan payable to General Partner (b)	**379,800**	379,800
Corridor Debentures (c)	**300,000**	300,000
Senior Unsecured Medium-Term Notes (d)	**925,000**	525,000
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts)	**3,113,550**	2,672,100
Less: Current portion of long-term debt and commercial paper*	**(1,456,902)**	(1,558,452)
	1,656,648	1,113,648
Transaction costs, net of accumulated amortization	**(12,189)**	(12,447)
Discount, net of accumulated amortization	**(1,996)**	(2,007)
Add: Current portion of transaction costs and discounts	**1,207**	3,094
Long-term debt	**1,643,670**	1,102,288
Current portion of long-term debt including transaction costs and discounts	**91,137**	90,989
Commercial paper including transaction costs and discounts* (a)	**1,364,558**	1,464,369
Total debt	**$ 3,099,365**	$ 2,657,646

* Commercial paper issued by Inter Pipeline Corridor Inc. (Corridor) is fully supported and management expects that it will continue to be supported by Corridor's $1,550 million Unsecured Revolving Credit Facility that has no repayment requirements until December 2015.

[TM] Denotes trademark of Canaccord Capital Corporation

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

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

- $91.2 million due October 28, 2012, 5.85%, which is included within the current portion of long-term debt; and
- $288.6 million due October 28, 2014, 6.15%.

On October 29, 2012, Inter Pipeline repaid the $91.2 million tranche, which was funded from Inter Pipeline's credit facility.

(c) Corridor Debentures are defined as the $150 million 5.033% Series B debentures due February 2, 2015 and the $150 million 4.897% Series C debentures due February 3, 2020.

(d) On May 28, 2012, Inter Pipeline issued $400 million of 3.776% Senior Unsecured Medium-Term Notes, Series 3 (MTN Series 3) due May 30, 2022, in the Canadian public debt market. The MTN Series 3 were issued under Inter Pipeline's short form base shelf prospectus dated November 30, 2010, a related prospectus supplement dated January 19, 2011 and a related pricing supplement dated May 23, 2012. The MTN Series 3 bear interest at the rate of 3.776% per annum, payable semi-annually. Proceeds from the offering were used to pay down a portion of Inter Pipeline's $750 million Unsecured Revolving Credit Facility.

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

9. PROVISIONS

	September 30 2012	December 31 2011
Decommissioning obligations	**$ 38,838**	$ 20,274
Environmental liabilities	**18,071**	16,744
Provisions	**$ 56,909**	$ 37,018

Inter Pipeline acquired decommissioning obligations for bulk liquid storage sites as a result of the Inter Terminals acquisition. Assumptions used for expected economic life and inflation in calculating the undiscounted amount of estimated expenditures expected to be incurred were 40 years and 2%, respectively. A long-term risk-free rate of 2.9% was used to discount the future cash flows to a present value, resulting in a decommissioning obligation acquired of $18.4 million (note 3).

10. EMPLOYEE BENEFITS

	September 30 2012	December 31 2011
Pension liability	**$ 2,327**	$ 758
Long-term incentive plan liability	**5,300**	6,231
Employee benefits	**$ 7,627**	$ 6,989

Inter Pipeline recognized an increase in the pension liability of $1.6 million at September 30, 2012. This increase reflects a change in the present value of defined benefit obligations, as a result of revised corporate bond yields and inflation rate. A full actuarial valuation was not performed.

For the three and nine months ended September 30, 2012, employee benefits expense recognized in net income was $21.3 million and $58.9 million, respectively (three and nine months ended September 30, 2011 - $16.4 million and $46.2 million, respectively).

Long-Term Incentive Plan

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

	DURs Number
Balance, January 1, 2011	1,797,820
Granted	731,437
Exercised	(1,048,691)
Forfeitures	(109,887)
Balance, December 31, 2011	1,370,679
Granted	669,954
Exercised	(146,527)
Forfeitures	(30,378)
Balance, September 30, 2012	**1,863,728**

At September 30, 2012, the current portion of the DUR liability included in accounts payable and accrued liabilities was $25.0 million (December 31, 2011 - $12.7 million). At September 30, 2012, 504,071 DURs are exercisable. Inter Pipeline's closing unit price at September 30, 2012 was $21.49.

For the three months ended September 30, 2012, operating expenses included $1.7 million and general and administrative expenses included $5.3 million related to DURs (three months ended September 30, 2011 - $0.9 million and $2.7 million, respectively). For the nine months ended September 30, 2012, operating expenses included $3.5 million and general and administrative expenses included $11.6 million related to DURs (nine months ended September 30, 2011 - $2.6 million and $8.1 million, respectively).

The total intrinsic value of DUR's vested and not exercised as at September 30, 2012 was $11.9 million (December 31, 2011 - $13.2 million).

The weighted average remaining contractual life of the outstanding DURs as at September 30, 2012 was 1.3 years.

11. INCOME TAXES

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

12. PARTNERS' EQUITY

Units Issued, Fully Paid and Outstanding

Authorized

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

Issued, Fully Paid and Outstanding

	Class A Units	Class B Units	Total
Balance, January 1, 2011	257,785,596	258,291	258,043,887
Issued under Premium Distribution™ and Distribution Reinvestment Plan	6,106,849	6,122	6,112,971
Balance, December 31, 2011	263,892,445	264,413	264,156,858
Issued under Premium Distribution™ and Distribution Reinvestment Plan	8,500,393	8,518	8,508,911
Balance, September 30, 2012	**272,392,838**	**272,931**	**272,665,769**

Calculation of Net Income per Partnership Unit

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
Net income attributable to unitholders – basic and diluted	**$ 65,920**	$ 76,556	**$ 249,932**	$ 202,059
Weighted average units outstanding – basic	**271,346,963**	259,858,091	**268,538,772**	258,993,163
Effect of Premium Distribution™ and Distribution Reinvestment Plan	**684,892**	630,027	**715,929**	297,161
Weighted average units outstanding – diluted	**272,031,855**	260,488,118	**269,254,701**	259,290,324
Net income per Partnership unit – basic and diluted	**$ 0.24**	$ 0.29	**$ 0.93**	$ 0.78

Reserves

Reserves are summarized as follows:

	Hedging Reserve	Foreign Currency Translation Reserve	Defined Benefit Pension Reserve	Total Reserves
Balance, January 1, 2011	$ (809)	$ (28,395)	$ (3,482)	$ (32,686)
Other comprehensive income (loss)	606	16,810	(3,620)	13,796
Balance, September 30, 2011	$ (203)	$ (11,585)	$ (7,102)	$ (18,890)
Balance, January 1, 2012	$ -	$ (23,923)	$ (8,357)	$ (32,280)
Other comprehensive loss	-	(18,378)	(1,461)	(19,839)
Balance, September 30, 2012	**$ -**	**$ (42,301)**	**$ (9,818)**	**$ (52,119)**

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13. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the three and nine months ended September 30, 2012 and 2011.

Amounts due to/from the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 8). At September 30, 2012, accounts payable includes $1.0 million owing to the General Partner by Inter Pipeline (December 31, 2011 - $0.9 million).

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

Management fees of $3.0 million and $9.2 million were earned by the General Partner in the three and nine months ended September 30, 2012, respectively (three and nine months ended September 30, 2011 - $3.0 million and $8.2 million, respectively). In addition, incentive fees of $0.4 million and $1.2 million, respectively, (three and nine months ended September 30, 2011 - $nil for both periods) were accrued to the General Partner as annualized Distributable Cash for 2012 is expected to be in excess of $1.01 per unit annually. Acquisition fees of $nil and $4.6 million and disposition fees of $nil and $nil were earned by the General Partner in the three and nine months ended September 30, 2012, respectively (three and nine months ended September 30, 2011 – $nil for both periods).

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At September 30, 2012, accounts payable includes interest payable to the General Partner on the loan of $9.9 million (December 31, 2011 - $4.1 million). On October 29, 2012, Inter Pipeline repaid the $91.2 million tranche to the General Partner.

In the three and nine months ending September 30, 2012, certain of the officers and directors of the General Partner received dividends totaling $0.3 million and $1.6 million, respectively, from Pipeline Asset Corp. pursuant to their non-voting shares (three and nine months ended September 30, 2011 - $nil million and $0.8 million, respectively).

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

14. COMMITMENTS AND CONTINGENCIES

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

As a result of the sale of Lewis Tankers Limited in November 2009, Inter Pipeline provided third party guarantees for minimum payments under commercial vehicle lease agreements that expire between July

2010 and December 2013. The guarantees may be exercised if the purchaser fails to fulfill its payment obligations. At September 30, 2012, the guaranteed lease obligations are approximately $0.3 million.

Inter Pipeline has entered into lease agreements for office space, storage, land and property, plant and equipment for periods ranging from 2012 to 2090. At September 30, 2012, the future minimum lease obligations are approximately $88.0 million.

Inter Pipeline has committed to purchase obligations totaling approximately $147.5 million at September 30, 2012 (refer to note 5 for committed property, plant and equipment expenditures). Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's storage and containment regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $4.8 million to $9.6 million over the next eight years.

15. CAPITAL DISCLOSURES

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

At September 30, 2012, Inter Pipeline had access to committed credit facilities totaling $2,300.0 million, of which $791.3 million remains unutilized. Inter Pipeline also had access to demand facilities of $45.0 million, of which $44.8 million remains unutilized. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

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

	September 30 2012	December 31 2011
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts, per note 8)		
Recourse debt	**$ 1,447,800**	$ 904,800
Non-recourse debt	**1,665,750**	1,767,300
	3,113,550	2,672,100
Partners' equity	**1,594,760**	1,419,786
Total capitalization	**$ 4,708,310**	$ 4,091,886
Capitalization (excluding non-recourse debt)	**$ 3,042,560**	$ 2,324,586
Recourse debt to capitalization*	**47.6%**	38.9%

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

** EBITDA is 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.

	Twelve Months Ended	
	September 30 2012	December 31 2011
Net income	**$ 295,805**	$ 247,932
Add:		
Depreciation and amortization	**117,643**	99,716
Loss on disposal of assets	**9**	23
Financing charges	**93,841**	80,216
Non-cash expense	**736**	26
Unrealized change in fair value of derivative financial instruments	**(39,555)**	14,539
Provision for income taxes	**88,365**	80,290
Proceeds from long-term lease inducements	**-**	1,480
EBITDA*	**$ 556,844**	$ 524,222
Recourse debt to EBITDA*	**2.6**	1.7

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

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

16. FINANCIAL INSTRUMENTS

Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at September 30, 2012, are classified as follows:

	Fair Value Through Profit or Loss	Cash, Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non-Financial Asset or Liability*	Carrying Value of Asset or Liability
Assets**						
Cash and cash equivalents	$ -	$ 43,029	$ -	$ 43,029	$ -	$ 43,029
Accounts receivable	-	127,137	-	127,137	9,039	136,176
Prepaid expenses and other deposits	-	6,293	-	6,293	21,047	27,340
Derivative financial instruments***	33,656	-	-	33,656	-	33,656
Liabilities						
Distributions payable	-	-	23,858	23,858	-	23,858
Accounts payable and accrued liabilities	4,722	-	170,810	175,532	41,251	216,783
Derivative financial instruments***	9,656	-	-	9,656	-	9,656
Deferred revenue and other liabilities	-	-	7,744	7,744	22,791	30,535
Long-term debt, short-term debt and commercial paper (note 8)****	-	-	3,113,550	3,113,550	-	3,113,550
Long-term payable	6,150	-	-	6,150	-	6,150

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

a) Fair Value of Financial Instruments

The fair value of long-term debt, short-term debt and derivative financial instruments are discussed in the following paragraphs. The unrealized gains arising from the interest rate swap contracts payable to the shippers are designated as FVTPL and are carried at fair value. The carrying value of all other financial assets and liabilities approximate their fair value due to the 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, 2012, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value*	Fair Value
Loan Payable to General Partner	$ 379,800	$ 403,635
Corridor Debentures	$ 300,000	$ 331,008
Senior Unsecured Medium-Term Notes	$ 925,000	$ 992,516

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

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

	September 30 2012	December 31 2011
Current asset	**$ 23,422**	$ 5,167
Non-current asset	**10,234**	9,772
Current liability	**(8,082)**	(25,746)
Non-current liability	**(1,574)**	(11,035)
	$ 24,000	$ (21,842)

	September 30 2012	December 31 2011
Frac-spread risk management		
NGL swaps	**$ 22,453**	$ (13,691)
Natural gas swaps	**(8,701)**	(15,573)
Foreign exchange swaps	**(545)**	(7,189)
	13,207	(36,453)
Interest rate risk management		
Interest rate swaps	**10,872**	14,611
	10,872	14,611
Power price risk management		
Electricity price swap	**(79)**	-
	(79)	-
	$ 24,000	$ (21,842)

b) Net Gains or Losses

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
Revenues				
NGL swaps	**$ 5,129**	$ (9,427)	**$ 7,259**	$ (25,048)
Foreign exchange swaps (frac-spread)	**211**	1,395	**(111)**	4,702
	5,340	(8,032)	**7,148**	(20,346)
Shrinkage gas expense				
Natural gas swaps	**(4,085)**	(3,015)	**(12,380)**	(9,124)
	(4,085)	(3,015)	**(12,380)**	(9,124)
Operating expenses				
Electricity price swaps	**-**	457	**-**	872
Heat rate swaps	**-**	1,743	**-**	3,708
	-	2,200	**-**	4,580
Financing charges				
Interest rate swaps	**1,202**	699	**3,590**	2,083
	1,202	699	**3,590**	2,083
General and administrative				
Foreign exchange swaps	**-**	-	**943**	-
	-	-	**943**	-
Net realized gain (loss) on derivative financial instruments	**$ 2,457**	$ (8,148)	**$ (699)**	$ (22,807)

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	
	2012	2011	**2012**	2011
Frac-spread risk management				
NGL swaps	**$ (14,812)**	$ 20,284	**$ 36,144**	$ 8,232
Natural gas swaps	**4,925**	1,024	**6,872**	3,983
Foreign exchange swaps	**4,327**	(20,385)	**6,644**	(16,933)
	(5,560)	923	**49,660**	(4,718)
Interest rate risk management				
Interest rate swaps	**-**	446	**-**	1,379
	-	446	**-**	1,379
Power price risk management				
Electricity price swaps	**(79)**	(275)	**(79)**	70
Heat rate swaps	**-**	(1,116)	**-**	(638)
	(79)	(1,391)	**(79)**	(568)
Transfer of losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	**-**	(202)	**-**	(606)
Unrealized change in fair value of derivative financial instruments	**$ (5,639)**	$ (224)	**$ 49,581**	$ (4,513)

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

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

17. RISK MANAGEMENT

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

a) Market Risk

Frac-Spread Risk Management

Contracts outstanding at September 30, 2012, represented approximately 44% of forecast propane-plus volumes at the Cochrane extraction facility for the period October 1, 2012 to December 31, 2012 at average frac-spread prices of approximately $0.95 CAD/US gallon and 42% of forecast volumes for the period January 1, 2013 to December 31, 2013 at average frac-spread prices of approximately $0.97 CAD/US gallon. These average prices approximated $0.97 USD/US gallon and $0.98 USD/US gallon, respectively, based on the average USD/CAD forward curve as at September 30, 2012.

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

	Fair Value of Derivative Financial Instruments	Change in Net Income Based on 10% Increase in Prices/Rates**	Change in Net Income Based on 10% Decrease in Prices/Rates**
NGL*	$ 22,453	$ (6,968)	$ 6,968
AECO natural gas	(8,701)	1,768	(1,768)
Foreign exchange	(545)	(8,697)	8,697
Frac-spread risk management	$ 13,207		

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

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

Interest Rate Risk Management

Based on the variable rate debt obligations outstanding at September 30, 2012, a 1% change in interest rates at this date could affect interest expense on credit facilities for the three and nine months ended September 30, 2012, by approximately $3.8 million and $11.3 million, respectively, assuming all other variables remain constant. Of these amounts, $3.4 million and $10.2 million, for the three and nine months ended September 30, 2012, respectively, relate to the $1,550 million Unsecured Revolving Credit Facility (note 8) and are recoverable through the terms of Corridor's Firm Service Agreement, therefore the after-tax income impact on Inter Pipeline for the three and nine months ended September 30, 2012, would be $0.3 million and $0.8 million, respectively.

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its NGL extraction business and conventional oil pipelines business segments. Inter Pipeline enters into financial heat rate swap contracts to manage electricity price risk exposure in the NGL extraction business. Inter Pipeline also enters into financial power swap contracts to manage electricity price exposure in the conventional oil pipelines business. As at September 30, 2012, there are no heat rate agreements outstanding.

During the three and nine months ended September 30, 2012, Inter Pipeline entered into an electricity price swap agreement in the conventional oil pipelines business. At September 30, 2012, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk, and consequently after-tax income, by approximately $0.1 million.

Foreign Exchange Risk Management

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

b) Credit Risk

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

At September 30, 2012, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval, ongoing monitoring procedures and historical experience.

At September 30, 2012, accounts receivable outstanding meeting the definition of past due and impaired are immaterial. Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At September 30, 2012, accounts receivable associated with these two business segments were $68.3 million or 59.1% 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, 2012, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Distributions payable	$ 23,858	$ 23,858	$ -	$ -
Accounts payable and accrued liabilities	216,783	216,783	-	-
Deferred revenue and other liabilities	30,535	15,165	9,856	5,514
Derivative financial instruments*	9,683	8,102	1,581	-
Long-term debt, short-term debt and commercial paper**	3,113,550	1,456,902	581,648	1,075,000
Long-term payable*	6,369	-	6,369	-
	$ 3,400,778	$ 1,720,810	$ 599,454	$ 1,080,514

* Derivative financial instruments and the long-term payable represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2012, based upon contractual maturity dates. Fair values of derivative financial instruments and long-term payable reported on the balance sheets are shown on a discounted basis.

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

18. FINANCING CHARGES

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
Interest expense on credit facilities	**$ 7,355**	$ 7,211	**$ 25,904**	$ 22,211
Interest on loan payable to General Partner	**5,771**	5,771	**17,313**	17,313
Interest on Corridor Debentures	**2,552**	2,536	**7,591**	7,521
Interest on Senior Unsecured Medium-Term Notes	**9,731**	5,337	**22,983**	11,973
Total interest	**25,409**	20,855	**73,791**	59,018
Capitalized interest	**(1,745)**	(331)	**(4,393)**	(747)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	**705**	263	**2,277**	769
Accretion of provisions and pension plan financing charges	**472**	(286)	**1,429**	439
Total financing charges	**$ 24,841**	$ 20,501	**$ 73,104**	$ 59,479

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
Accounts receivable	**$ (29,831)**	$ (32,474)	**$ (27,031)**	$ (3,023)
Prepaid expense and other deposits	**286**	5,208	**(16,423)**	4,242
Distributions payable	**236**	171	**744**	253
Accounts payable and accrued liabilities	**65,988**	(2,392)	**54,401**	(12,612)
Deferred revenue	**3,051**	(3,817)	**10,582**	5,031
Current income taxes payable	**(30,430)**	14,385	**(49,753)**	40,567
Working capital acquired (note 3)	**(299)**	-	**15,513**	-
Impact of foreign exchange rate differences and other	**(93)**	(361)	**(425)**	(97)
Changes in non-cash working capital	**$ 8,908**	$ (19,280)	**$ (12,392)**	$ 34,361
These changes relate to the following activities:				
Operating	**$ (47,665)**	$ (15,403)	**$ (67,987)**	$ 29,539
Investing	**56,337**	(4,048)	**54,851**	4,569
Financing	**236**	171	**744**	253
Changes in non-cash working capital	**$ 8,908**	$ (19,280)	**$ (12,392)**	$ 34,361

Cash and Cash Equivalents

	September 30 2012	December 31 2011
Cash on hand and at banks	**$ 34,086**	$ 37,879
Short-term deposits	**8,943**	12,142
	$ 43,029	$ 50,021