



Management's Discussion and Analysis
For the three and nine months ended September 30, 2009

Forward Looking Information

The following Management Discussion and Analysis (MD&A) highlights significant business results and statistics for Inter Pipeline Fund's (Inter Pipeline) three and nine months ended September 30, 2009. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements regarding Inter Pipeline's beliefs that it is well positioned to maintain its recently announced increase in the level of cash distributions to its unitholders through 2011 and beyond, that the maintenance of Inter Pipeline's cash distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after tax treatment for Inter Pipeline's unitholders, it is also well positioned to operate and grow in the future and the cash flow projections, timing and completion of its Corridor, Cold Lake, Bow River and Kearl pipeline expansion projects and other capital forecasts.

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

Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled RISK FACTORS included in Inter Pipeline's MD&A for the year ended December 31, 2008.

The forward-looking statements contained in this MD&A are made as of the date of this document, and, except to the extent expressly required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary note.

Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2009

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and nine month periods ended September 30, 2009 as compared to the three and nine month periods ended September 30, 2008. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and MD&A of Inter Pipeline for the quarterly periods ended March 31 and June 30, 2009, the audited consolidated financial statements and MD&A for the year ended December 31, 2008, the **Annual Information Form** and other information filed by Inter Pipeline at www.sedar.com.

Financial information presented in this MD&A, with the exception of non-GAAP financial measures, is based on information in Inter Pipeline's consolidated financial statements. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). This MD&A reports certain non-GAAP financial measures that are used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

Management considers 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* totalled \$81.3 million in the third quarter
- Strong payout ratio before sustaining capital* of 64.4% for the third quarter
- Cash distributions to unitholders totalled \$52.4 million, or \$0.21 per unit during the quarter
- Generated net income of \$51.9 million in the quarter
- Throughput volumes on Inter Pipeline's oil sands transportation and conventional oil pipeline systems averaged 734,700 barrels per day (b/d)
- Construction of the Corridor expansion project mechanically completed on schedule and under budget; firm revenue commencement date of no later than January 1, 2011
- Nexen storage and marketing agreement extended for 3 years
- DBRS upgraded the trend outlook on Inter Pipeline and Corridor debt from stable to positive and Standard & Poor's increased the outlook on Corridor debt from stable to positive

SUBSEQUENT EVENT

- Announced a 7.1% increase to monthly cash distributions to unitholders commencing December 2009 for distributions payable in January 2010

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

PERFORMANCE OVERVIEW

	Three Month Ended September 30		Nine Months Ended September 30	
<i>(millions, except per unit and % amounts)</i>	2009	2008	2009	2008
Revenues				
Oil sands transportation	\$ 32.2	\$ 35.2	\$ 96.4	\$ 111.0
NGL extraction	127.3	231.4	368.6	644.5
Conventional oil pipelines	36.1	39.3	114.5	108.6
Bulk liquid storage	28.9	34.9	87.9	100.7
	\$ 224.5	\$ 340.8	\$ 667.4	\$ 964.8
Funds from operations⁽¹⁾				
Oil sands transportation	\$ 18.6	\$ 15.1	\$ 54.5	\$ 52.5
NGL extraction	40.9	47.8	92.2	120.9
Conventional oil pipelines	27.3	30.1	87.7	80.1
Bulk liquid storage	10.6	10.9	31.0	30.3
Corporate costs	(16.1)	(18.2)	(49.5)	(55.5)
	\$ 81.3	\$ 85.7	\$ 215.9	\$ 228.3
Per unit⁽¹⁾	\$ 0.33	\$ 0.39	\$ 0.93	\$ 1.03
Net income	\$ 51.9	\$ 76.8	\$ 134.6	\$ 147.2
Per unit – basic and diluted	\$ 0.21	\$ 0.34	\$ 0.58	\$ 0.66
Cash distributions⁽²⁾	\$ 52.4	\$ 46.7	\$ 147.9	\$ 139.8
Per unit ⁽²⁾	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.63
Units outstanding (basic)				
Weighted average	248.7	222.3	233.1	221.8
End of period ⁽²⁾	250.8	222.5	250.8	222.5
Capital expenditures				
Growth ⁽¹⁾	\$ 417.0	\$ 151.6	\$ 520.0	\$ 500.7
Sustaining ⁽¹⁾	4.0	3.5	10.6	8.2
	\$ 421.0	\$ 155.1	\$ 530.6	\$ 508.9
Payout ratio before sustaining capital⁽¹⁾	64.4%	54.5%	68.5%	61.2%
Payout ratio after sustaining capital⁽¹⁾	67.7%	56.9%	72.0%	63.5%
			September 30 2009	December 31 2008
Total assets			\$ 4,488.6	\$ 4,125.7
Total debt ⁽³⁾			\$ 2,610.8	\$ 2,349.2
Total partners' equity			\$ 1,319.3	\$ 1,130.2
Enterprise value ⁽¹⁾			\$ 5,038.2	\$ 3,921.8
Total debt to total capitalization ⁽¹⁾			66.4%	67.5%
Total recourse debt to capitalization ⁽¹⁾			35.2%	41.6%

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

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

(3) Total debt includes long-term debt of \$2,610.8 million before discounts and debt transaction costs of \$9.4 million reported in the September 30, 2009 consolidated financial statements.

THREE MONTHS ENDED SEPTEMBER 30, 2009

Inter Pipeline continued to generate very strong financial results in the three month period ended September 30, 2009, although slightly lower than the record results of the same period in 2008. Consolidated funds from operations of \$81.3 million were \$4.4 million or 5.1% lower than in the third quarter of 2008; however Inter Pipeline still achieved an attractive payout ratio before sustaining capital of 64.4%. Operating results in the NGL extraction business were down in the third quarter of 2009 primarily due to lower realized frac-spread prices from propane-plus sales at the Cochrane NGL extraction facility compared to record frac-spread prices realized in 2008. Lower third quarter 2009 operating results in the conventional oil pipelines and bulk liquid storage businesses were more than offset by positive results in the oil sands transportation business and reductions in corporate costs.

Net income of \$51.9 million in the third quarter of 2009 was \$24.9 million lower than the \$76.8 million earned in the same period in 2008. In 2008, net income benefited from a favourable \$21.0 million unrealized change in the mark-to-market value of derivative financial instruments outstanding at September 30, 2008 compared to a favourable \$0.5 million change at September 30, 2009.

Total cash distributed to unitholders in the third quarter of 2009 increased \$5.7 million or 12.2% to \$52.4 million compared to \$46.7 million distributed in 2008. This is due to a higher number of units outstanding in 2009 over 2008. Inter Pipeline issued approximately 20.9 million additional units in a successful \$173 million public equity offering in June 2009, and approximately 5.3 million additional units since implementing a new distribution reinvestment plan in May 2009.

Inter Pipeline's consolidated debt increased \$364.8 million to \$2,610.8 million at September 30, 2009 up from \$2,246.0 million outstanding at June 30, 2009. This increase was driven primarily by Inter Pipeline expending approximately \$417.0 million on growth capital projects during the quarter. In spite of this increase, Inter Pipeline's recourse debt to capitalization ratio was only 35.2% at September 30, 2009 compared to 42.6% at September 30, 2008. Adjusting for the inclusion of non-recourse debt of \$1,892.9 million held within the Corridor corporate entity, Inter Pipeline's consolidated debt to total capitalization ratio at September 30, 2009 was 66.4%.

NINE MONTHS ENDED SEPTEMBER 30, 2009

In the nine months ended September 30, 2009, funds from operations of \$215.9 million were \$12.4 million or 5.4% lower than the \$228.3 million generated in 2008. The main reason for the decrease is lower frac-spreads realized from propane-plus sales at Inter Pipeline's Cochrane NGL extraction facility. While continuing to improve throughout 2009, the frac-spread pricing environment declined from the near-record highs realized in 2008 lowering the comparative operating results of the NGL extraction business. Inter Pipeline's other three business segments had stronger financial results when compared to the same period in 2008. In total, Inter Pipeline's four diversified business segments combined to generate a positive payout ratio before sustaining capital of 68.5% for the first nine months of 2009.

Net income of \$134.6 million in the first nine months of 2009 was \$12.6 million lower than the \$147.2 million earned in the same period in 2008. This reduction is primarily a combination of unfavourable unrealized changes in the fair value of derivative financial instruments in 2009, offset primarily by a \$20.9 million gain recognized on the sale of Inter Pipeline's Valley pipeline system in April 2009, and favourable changes in provincial SIFT tax rates legislated in March 2009.

Total cash distributed to unitholders in the nine months ended September 30, 2009 increased \$8.1 million or 5.8% to \$147.9 million compared to \$139.8 million distributed in the same period in 2008. This is a result of additional units issued pursuant to the equity offering in June 2009 and new distribution reinvestment plan discussed above.

Since December 2008, consolidated debt increased \$261.6 million to \$2,610.8 million at September 30, 2009 while Inter Pipeline expended approximately \$520.0 million on growth capital projects in the same period. Proceeds from a successful \$173 million public equity offering and new distribution reinvestment plan were utilized to reduce indebtedness on Inter Pipeline's \$750 million revolving credit facility.

OUTLOOK

Inter Pipeline's fundamental strategy is to invest in long-life, high quality energy infrastructure assets which generate stable, predictable and sustainable cash flows. In 2009, significant progress has been made in advancing existing projects and initiating others that align with this strategy. The largest project is the \$1.8 billion Corridor capacity expansion project which achieved a major milestone in the third quarter. In addition, several other growth initiatives which were announced earlier in 2009, are progressing according to schedule. Continued success with these projects has added greater certainty to future cash flows, which contributed to Inter Pipeline announcing on October 21, 2009, a six cent per unit or 7.1% annual increase in distributions to unitholders, effective for payment in January 2010. Inter Pipeline continues to believe that it is well positioned to maintain this higher distribution level through 2011 and beyond despite becoming a taxable entity in 2011.

The Corridor pipeline capacity expansion project reached a significant milestone in the third quarter with the completion of construction activity. The project, designed to increase capacity by 165,000 b/d to 465,000 b/d, is now mechanically complete and has been successfully dry-commissioned. Construction expenditures for which Inter Pipeline was responsible were approximately \$100 million under budget. As a result, Inter Pipeline's exposure to major capital cost overruns has been eliminated. As of September 30, 2009, \$1.6 billion has been spent on the project. The overall \$1.8 billion estimated completion cost remains unchanged from the original budget as costs of certain non-controllable items, such as the remaining costs of the tankage, line fill and interest are forecast to be slightly higher than expected. There is no risk to Inter Pipeline for these items as they will be added to the Corridor rate base at their actual cost. Incremental pipeline capacity added as a result of this project will accommodate additional bitumen blend volumes from the Athabasca Oil Sands Project, a joint venture between Shell Canada Energy, Chevron Canada Limited and Marathon Oil Canada Corporation. Construction included installation of 467 kilometres of 42-inch diameter pipe and 43 kilometres of 20-inch mainline pipe and the addition of four new pump stations. The in-service date for the expansion is expected to be late 2010, with incremental revenue from the expansion beginning no later than January 1, 2011.

Earlier in 2009, Inter Pipeline announced the signing of a 25-year agreement to transport diluent to the Fort McMurray region for Imperial Oil and ExxonMobil Canada's Kearl oil sands development. Approximately \$135 million will be invested over the next three years to connect an existing 12-inch pipeline currently utilized by Corridor to the Kearl project and to a diluent receipt point in the Edmonton area. In the third quarter, preliminary engineering and land work commenced on the project. Diluent deliveries are expected to begin late in 2012, generating initial incremental earnings before interest, taxes, depreciation and amortization (EBITDA) of approximately \$40 million per year. Imperial's initial volume commitment of 60,000 b/d will utilize roughly half the potential capacity of this line, with an option to increase its capacity commitment. Inter Pipeline expects further volume growth from the Kearl project or other interested parties to utilize the remaining capacity on this system, which will generate additional cash flows.

Also announced earlier in 2009, was a major reconfiguration of Inter Pipeline's Bow River pipeline system. The Bow River segregation project will enable shipment of a distinct segregated crude oil stream from the oil storage and marketing hub at Hardisty, Alberta to refining customers in Montana. The estimated \$72 million project includes construction of 128 kilometres of new pipeline and facility modifications. Inter Pipeline has received firm shipping commitments to transport 30,000 b/d of segregated crude oil from Hardisty under a seven year ship-or-pay contract that is not subject to commodity price or volume risk. In the third quarter, facility and pipeline construction is proceeding according to plan. Stream segregation capability is expected to be fully available in the first quarter of 2010 and incremental cash flow from this project is expected to be approximately \$16.5 million per year.

New ethane recovery enhancement facilities at Inter Pipeline's Empress V NGL extraction plant continued to undergo testing in the third quarter. The facilities are designed to produce an incremental 7,000 b/d of ethane for sale to Dow Chemical under a long term sales agreement. Commissioning activities have not been fully completed due to lower than anticipated natural gas flows at the plant in the third quarter;

however, indications are that incremental ethane production will meet design targets once commissioning activities are completed.

Frac-spreads in the NGL extraction business continued to gain strength throughout the year. Recent realized frac-spreads of \$0.74 USD per US gallon (USD/USG) for the quarter are higher than frac-spreads received in the first half of 2009 and well above the 15-year average of \$0.32 USD/USG. Including recent hedges entered into in October 2009, Inter Pipeline has hedged approximately 36% and 32% of its future propane-plus production for the remainder of 2009 and 2010, respectively. The hedges have been placed at average prices of approximately \$0.75 CDN/USG (\$0.70 USD/USG) for 2009 and \$0.71 CDN/USG (\$0.66 USD/USG) in 2010.

In April 2009, AltaGas Income Trust (AltaGas), through a wholly owned subsidiary, filed an application with the Energy Resources Conservation Board (ERCB) for its Harmattan Co-Stream Project. AltaGas is requesting that the regulator grant it permission to construct facilities that would allow AltaGas to operate a portion of the Harmattan plant as an NGL extraction plant. The Harmattan plant would interconnect with the TransCanada Pipeline upstream of Inter Pipeline's Cochrane NGL extraction facility and access the same gas supply as the Cochrane facility. Inter Pipeline continues to believe that the proposed construction of these redundant facilities at the Harmattan facility is not in the Alberta public interest. Inter Pipeline expects the ERCB to schedule a regulatory hearing in the first quarter of 2010 to decide on the disposition of the Harmattan application.

In 2007, the federal government formally enacted the Tax Fairness Plan. This legislation will cause Canadian businesses structured as Specified Investment Flow Through ("SIFT") entities to pay income taxes at rates similar to Canadian corporations, commencing January 1, 2011. Prior to this date the income of a SIFT entity is effectively taxed at the unitholder level. Inter Pipeline, as a publicly traded limited partnership, is a SIFT entity and will therefore be subject to income taxes starting in 2011.

In order to evaluate the implications of the Tax Fairness Plan on Inter Pipeline, the governance committee and all other independent directors of Inter Pipeline's board of directors engaged in a formal process to consider if an alternative business structure, such as converting to a corporation, would be beneficial. In evaluating alternative structures consideration was given to possible impacts on Inter Pipeline including the level of income taxes to be paid, corporate conversion costs, counterparty consent issues and sustainability of distributions. The governance committee and all other independent directors' review of these impacts did not reveal any material tangible benefit to Inter Pipeline's unitholders should it change its existing business structure. As a result, Inter Pipeline's board of directors has determined that Inter Pipeline will remain structured as a publicly traded limited partnership into the foreseeable future. The board of directors will continue to monitor future events which could affect this decision.

Since the Tax Fairness Plan was enacted, Inter Pipeline has stated that it is well positioned to maintain its current level of cash distributions to unitholders despite becoming fully taxable in 2011. This outlook remains unchanged. Furthermore, subsequent to quarter end, Inter Pipeline announced a 7.1% increase to its monthly distributions. The new monthly distribution amount, effective for payment in January, 2010, will be \$0.075 per unit. Strong fundamentals within each of Inter Pipeline's four business segments support the increase, as do expectations that capital investment projects described above will contribute significantly to future cash flows. Total EBITDA contributions from these projects is expected to be approximately \$200 million per year, or about 60% of 2008 EBITDA levels, once all of these projects enter service. Inter Pipeline anticipates that this increase will more than offset tax burdens that arise in 2011 and thereafter.

The change to a taxable entity will also lead to a more favourable tax treatment of Inter Pipeline's distributions in the hands of a taxable investor. In 2011, these distributions will be treated for tax purposes substantially similar to dividends from Canadian public corporations. This dividend treatment, when combined with Inter Pipeline's intent to maintain stable cash distributions through 2011 and beyond, should result in a taxable Canadian investor receiving a favourable after tax return from owning Inter Pipeline units.

Inter Pipeline remains well positioned to operate and grow in the future. Business fundamentals are strong and based on long life energy infrastructure assets that generate sustainable, long-term cash flows. Significant unutilized credit capacity and long remaining tenure on existing credit facilities provide Inter Pipeline with flexibility in renegotiating its committed credit facilities.

Inter Pipeline's banking syndicate is well diversified with commitments from 16 major Canadian and international lending institutions. Central to Inter Pipeline's credit capacity are two fully committed credit facilities that are used to operate and grow the business. With almost \$1.0 billion in unutilized credit capacity available on existing committed credit facilities and terms extending well into 2012, Inter Pipeline's credit position remains strong and secure.

Both Standard & Poor's (S&P) and DBRS have assigned an investment grade, long-term corporate credit rating of BBB to Inter Pipeline. Inter Pipeline's 100% owned subsidiary, Inter Pipeline (Corridor) Inc. ("Corridor"), has been assigned investment grade credit ratings of A (low), A3 and A- from DBRS, Moody's and S&P, respectively. In August, DBRS issued a revised outlook on both Corridor and Inter Pipeline, increasing the trend outlook from stable to positive. S&P had previously increased Inter Pipeline's trend outlook to positive. S&P also increased the outlook on Corridor from stable to positive in August. Factors contributing to these positive changes include recent issuances of equity, continued success on the Corridor expansion project and accretive organic projects recently announced.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
<i>Volumes (000s b/d)</i>	2009	2008	% change	2009	2008	% change
Cold Lake (100% basis)	356.9	328.4	8.7	367.2	345.2	6.4
Corridor	216.0	222.9	(3.1)	211.2	206.9	2.1
	572.9	551.3	3.9	578.4	552.1	4.8

<i>(millions, except % amounts)</i>						
	2009	2008	% change	2009	2008	% change
Revenue ⁽¹⁾	\$ 32.2	\$ 35.2	(8.5)	\$ 96.4	\$ 111.0	(13.2)
Operating expenses ⁽¹⁾	\$ 12.0	\$ 14.9	(19.5)	\$ 35.2	\$ 41.5	(15.2)
Funds from operations ⁽¹⁾⁽²⁾	\$ 18.6	\$ 15.1	23.2	\$ 54.5	\$ 52.5	3.8
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 383.0	\$ 143.1		\$ 454.9	\$ 469.3	
Sustaining ⁽²⁾	0.5	(0.3)		0.6	0.4	
Total	\$ 383.5	\$ 142.8		\$ 455.5	\$ 469.7	

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

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

Volumes

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake area of Alberta to delivery points in the Hardisty and Edmonton areas. Average volume transported on this system increased by 28,500 b/d in the third quarter and 22,000 b/d year to date compared to the same periods in 2008. Volumes on this system fluctuate largely due to the timing of steam injection cycles associated with each of the shipper's production processes. Going forward IPF expects to see incremental volume growth on the system as supported by the shippers' long term published forecasts.

The Corridor pipeline system is also a bitumen blend and diluent pipeline system transporting diluted bitumen from the Muskeg River mine near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta. Average Corridor volumes were slightly lower in the third quarter; however,

volumes are higher year to date in 2009 as the shippers did not experience the same weather and maintenance related production issues as in the first nine months of 2008.

Revenue

Oil sands transportation revenue was approximately \$3.0 million lower in the third quarter of 2009 compared to the same period in 2008. The decrease in revenue was primarily driven by lower debt recoveries as a result of lower interest rates, in addition to lower operating cost recoveries. For similar reasons, year to date revenue was \$14.6 million lower in 2009 compared to 2008.

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

In the third quarter of 2009, Cold Lake revenue was approximately \$0.2 million higher than in 2008 which was primarily attributable to an increase in volumes shipped. Year to date, Cold Lake revenue in 2009 was relatively consistent with 2008. Lower power cost recoveries of approximately \$1.0 million were primarily offset by increases in revenue due to higher volumes shipped and additional pipeline interconnection revenue.

The Corridor pipeline system is operated pursuant to a long-term Firm Service Agreement (Corridor FSA). The Corridor FSA utilizes a rate base cost-of-service approach to establish an annual revenue requirement which includes recovery of debt financing costs, all operating costs, rate base depreciation and taxes in addition to providing a return on equity. As a result of this cost-of-service arrangement, Corridor's funds from operations are not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's funds from operations are changes to long-term Government of Canada bond rates which are the basis for the annual return on equity, and changes to the underlying rate base. The initial term of the Corridor FSA is 25 years, extending through 2028 with options for further extensions.

Corridor's revenue was \$3.2 million lower in the third quarter of 2009 compared to the same period in 2008. Average short term interest rates declined approximately 280 basis points which resulted in a \$3.1 million decline in debt financing costs and related revenue. Operating cost recoveries declined approximately \$1.3 million due to lower power and other operating expenditures during the period. The remaining variance relates to 2008 whereby a change in interim quarterly estimates decreased the reported revenue in 2008.

Year to date, Corridor's revenue was \$14.6 million lower in 2009 compared to the same period in 2008. Average short term interest rates declined approximately 280 basis points which resulted in a \$9.9 million decline in debt financing costs and related revenue. Similarly, long-term bond interest rates declined approximately 20 basis points between the periods, which reduced return on equity and funds from operations by approximately \$0.5 million. Operating cost recoveries declined approximately \$3.4 million due to lower power and other operating expenditures during the period. The same change in interim quarterly estimates discussed above made up the final component of the variance in Corridor's revenue.

Operating Expenses

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

Fuel and power costs decreased \$2.2 million to \$4.2 million in the third quarter of 2009, largely due to a decline in average Alberta power pool prices. The impact of rate decreases was partially offset by an

increase in power consumption due to an increase in throughput volumes on the Cold Lake pipeline system. Published power prices decreased 38.3% from \$80.22/MWh in the third quarter of 2008 to \$49.49/MWh in the same period in 2009. The trend was similar year to date as average published power prices decreased from \$88.20/MWh in 2008 to \$48.33/MWh in 2009 contributing to the \$6.3 million power cost savings realized in 2009 compared to the same period in 2008.

Operating expenditures in the oil sands transportation business decreased approximately \$0.6 million in the third quarter of 2009 and \$0.1 million year to date. In the third quarter, Corridor's operating expenses were \$0.4 million higher due to integrity and maintenance projects. Cold Lake's operating expenses were \$1.0 million lower mostly due to the large amount of right-of-way work which took place in the third quarter of 2008 which was not required in 2009.

Year to date, Cold Lake's operating expenditures were approximately \$0.2 million lower due to higher expenditures on right-of-way projects in 2008. Expenditures on non-routine maintenance on the Corridor pipeline system were approximately \$0.2 million higher in 2009 compared to the same period in 2008.

Capital Expenditures

In the third quarter of 2009, approximately \$376.3 million of growth capital was expended on the Corridor pipeline expansion project for a total of \$1,574.9 million spent to date. The project is now mechanically complete and all facilities have been dry commissioned. Corridor is now focusing on plans for the addition of line fill and wet commissioning. During the third quarter Inter Pipeline purchased three product storage tanks for use at the Muskeg River mine site and Scotford upgrader and expect additional tank costs to be incurred prior to commissioning.

The total forecast cost for the project is still estimated to be \$1.8 billion. The project is comprised of two distinct cost components. The first is a pipeline and facility construction component wherein Inter Pipeline was exposed to potential cost overruns. Inter Pipeline estimated that these costs are under budget by approximately \$100 million. The second cost component includes items such as storage tanks, interest during construction, line fill requirements and certain contingency cost factors. Inter Pipeline has no price risk exposure for these components as they will be added to the rate base at their actual cost.

Preliminary engineering for the Kearl diluent pipeline project began this quarter. Commencing in late 2012, Inter Pipeline will provide diluent transportation services to Imperial Oil and ExxonMobil Canada's Kearl sands project utilizing a 12-inch pipeline that will be idled upon commencement of the Corridor expansion project. After the 12-inch pipeline is removed from current service, its capital base will be deducted from Corridor's rate base. Total costs to connect the existing pipeline to the Kearl Project and diluent receipt points in the Edmonton area are currently estimated to be \$135 million.

A quarter point pump station expansion of the south leg of the Cold Lake pipeline system is substantially complete at an estimated cost to Inter Pipeline of \$55 million. Two new quarter point pump stations were commissioned in the first quarter of 2009 and are available to transport additional volumes from the Cold Lake shippers. This project increased the capacity of the Cold Lake pipeline system from 460,000 b/d to approximately 560,000 b/d.

NGL EXTRACTION BUSINESS SEGMENT

	Three Months Ended September 30							
	2009				2008			
	<i>Mmcf/d</i>		<i>(000s b/d)</i>		<i>Mmcf/d</i>		<i>(000s b/d)</i>	
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	1,975	51.4	28.8	80.2	1,680	49.8	27.4	77.2
Empress V (100% basis)	739	15.6	8.7	24.3	902	13.4	10.5	23.9
Empress II	72	1.1	0.9	2.0	664	15.4	7.7	23.1
	2,786	68.1	38.4	106.5	3,246	78.6	45.6	124.2

Nine Months Ended September 30								
2009					2008			
	<i>Mmcf/d</i>		<i>(000s b/d)</i>		<i>Mmcf/d</i>		<i>(000s b/d)</i>	
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	1,782	50.0	26.9	76.9	1,740	49.1	27.2	76.3
Empress V (100% basis)	358	7.3	4.3	11.6	886	13.2	10.4	23.6
Empress II	694	12.8	8.2	21.0	697	15.2	8.2	23.4
	2,834	70.1	39.4	109.5	3,323	77.5	45.8	123.3

<i>(millions, except % amounts)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	% change	2009	2008	% change
Revenue ⁽¹⁾	\$ 127.3	\$ 231.4	(45.0)	\$ 368.6	\$ 644.5	(42.8)
Shrinkage gas ⁽¹⁾	\$ 65.1	\$ 140.3	(53.6)	\$ 200.0	\$ 399.9	(50.0)
Operating expenses ⁽¹⁾	\$ 21.3	\$ 43.2	(50.7)	\$ 76.4	\$ 123.7	(38.2)
Funds from operations ⁽¹⁾⁽²⁾	\$ 40.9	\$ 47.8	(14.4)	\$ 92.2	\$ 120.9	(23.7)
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 0.7	\$ 0.7		\$ 8.5	\$ 7.0	
Sustaining ⁽²⁾	0.4	0.9		2.8	1.2	
Total	\$ 1.1	\$ 1.6		\$ 11.3	\$ 8.2	

(1) Results of operations and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.

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

Volumes

Inter Pipeline's NGL extraction plants processed an average of 2,786 million cubic feet per day (mmcf/d) and 2,834 mmcf/d of natural gas during the three and nine months ended September 30, 2009, respectively. This is approximately 460 mmcf/d lower than the third quarter and 489 mmcf/d lower than year to date 2008 periods due to the lower flow of natural gas east through the Empress facilities. Lower throughput volumes at the Empress II facility have not significantly impacted operating results due to the cost-of-service processing arrangements related to this facility. Since completion of construction of a deep cut expansion project in June 2009, throughput volumes returned to the Empress V facility in the third quarter of 2009. Although throughput volumes at Empress V were 163 mmcf/d lower than in 2008, ethane recovery rates were approximately 2,200 b/d higher as a result of the expansion project. Commissioning activities have not been fully completed due to lower than anticipated flows at the plant; however, indications are that incremental ethane production is expected to meet design targets.

Volumes through the Cochrane facility increased in the third quarter and year to date in 2009 primarily due to higher US west-coast demand for natural gas. Production levels at the Cochrane facility were also higher as a result of the increase in throughput volumes; however, this was somewhat offset by a lower composition of NGL liquids in the natural gas stream when compared to 2008.

Revenue

The NGL extraction business earns revenue from a combination of cost-of-service, fee-based and commodity based arrangements. Cost-of-service contracts provide a structured return on new 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. 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. 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. NGL commodity based contracts are exposed to frac-spread and volume risks.

Revenue was approximately \$104.1 million lower in the third quarter and \$275.9 million lower year to date in 2009 primarily as a result of lower natural gas and other commodity prices. Inter Pipeline recovers a significant portion of its shrinkage and fuel gas costs through its cost-of-service and fee-based contracts, which is recognized as revenue. These “flow through” costs were much lower than in the same periods in 2008 and account for a significant portion of the decline in revenue in both periods. A portion of the decline in revenue, shrinkage costs and funds from operations results from declines in frac-spread as discussed below.

Frac-spread

<i>(actual dollars)</i>	Three Months Ended September 30			
	2009		2008	
	<i>USD/USG</i>	<i>CDN/USG</i>	<i>USD/USG</i>	<i>CDN/USG</i>
Market frac-spread	\$ 0.729	\$ 0.797	\$ 0.980	\$ 1.022
Realized frac-spread	\$ 0.744	\$ 0.814	\$ 0.916	\$ 0.953

<i>(actual dollars)</i>	Nine Months Ended September 30			
	2009		2008	
	<i>USD/USG</i>	<i>CDN/USG</i>	<i>USD/USG</i>	<i>CDN/USG</i>
Market frac-spread	\$ 0.522	\$ 0.599	\$ 0.962	\$ 0.980
Realized frac-spread	\$ 0.594	\$ 0.687	\$ 0.795	\$ 0.811

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 USD/USG. This price is converted to Canadian dollars per US gallon (CDN/USG) based on the average monthly Bank of Canada CDN/USD noon rate. The 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-priced hedge 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, 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 third quarter and year to date 2009 were down from 2008 near-record levels due to a decline in NGL commodity prices; however, these prices were well above the 15-year simple average market frac-spread (to December 31, 2008) of \$0.32 USD/USG. The differential between USD/USG and CDN/USG frac-spreads is due to fluctuations in exchange rates between US and Canadian dollars between 2008 and 2009.

Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the Cochrane and Empress V facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. In 2009, shrinkage gas expense decreased approximately \$75.2 million in the third quarter and \$199.9 million year to date as a result of a decline in AECO natural gas prices and lower throughput volumes. The weighted average monthly AECO price¹ was \$2.87 per gigajoule (GJ) in the third quarter of 2009, which was approximately 67.3% lower than the weighted average price¹ of \$8.78/GJ in the same period in 2008. Year to date in 2009, the weighted average monthly AECO price¹ decreased 52.3% from \$8.14/GJ in 2008 to \$3.88/GJ.

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

Operating Expenses

Operating expenses were approximately \$21.9 million lower in the third quarter and \$47.3 million year to date when compared to the same periods in 2008. Fuel and power costs decreased approximately \$17.9 million in the third quarter and \$43.4 million year to date as a result of declines in average Alberta power pool prices and AECO natural gas prices in 2009. Operating expenses in 2008 were approximately \$4.0 million higher than in 2009 due to major pressure vessel maintenance at the Empress II facility in the third quarter of 2008.

Capital Expenditures

In the third quarter of 2009, growth capital was expended on equipment upgrades at the Empress II facility. Year to date, the majority of the expenditures were made to complete construction of the Empress V ethane recovery improvement project in June 2009.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
<i>Volumes (000s b/d)</i>	2009	2008	% change	2009	2008	% change
Bow River	107.9	132.3	(18.4)	115.5	130.9	(11.8)
Central/Mid Saskatchewan/Valley ⁽¹⁾	53.9	66.7	(19.2)	56.6	69.5	(18.6)
	161.8	199.0	(18.7)	172.1	200.4	(14.1)
<i>(millions, except % amounts)</i>						
Revenue	\$ 36.1	\$ 39.3	(8.1)	\$ 114.5	\$ 108.6	5.4
Operating expenses	\$ 9.0	\$ 9.2	(2.2)	\$ 27.6	\$ 29.5	(6.4)
Funds from operations ⁽²⁾	\$ 27.3	\$ 30.1	(9.3)	\$ 87.7	\$ 80.1	9.5
Revenue per barrel ⁽³⁾	\$ 2.42	\$ 2.14	13.1	\$ 2.44	\$ 1.98	23.2
Capital expenditures						
Growth ⁽²⁾	\$ 23.5	\$ 1.2		\$ 31.5	\$ 1.6	
Sustaining ⁽²⁾	1.4	1.7		3.8	3.7	
Total	\$ 24.9	\$ 2.9		\$ 35.3	\$ 5.3	

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

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

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

Sale of Valley Pipeline System

Effective April 2009, Inter Pipeline sold the Valley pipeline system assets for consideration of \$28.0 million plus closing adjustments. Valley pipeline system was a non-core asset with average throughput volumes of approximately 2,700 b/d or 1.4% of the total conventional oil pipeline volumes in 2008.

Volumes

Conventional oil pipeline volumes were approximately 37,200 b/d lower in the third quarter and 28,300 b/d lower year to date in 2009 compared to the same periods in 2008. In the third quarter of 2009, approximately 14,100 b/d of the volume decline related to various producers transferring their crude oil volumes away from truck terminal facilities located on the Central Alberta pipeline to capitalize on a narrowing of heavy crude oil pricing differentials. These unusual pricing conditions started in the second quarter of 2009 but have recently begun to reverse which has most volumes starting to return to the Central Alberta system.

The remaining 23,100 decline in volumes was split between two other factors. First, decreased demand on the Bow River Hardisty South pipeline, also resulting from the recent trend in heavy crude oil pricing relationships, as well as a seasonal turnaround at a US refinery accounted for roughly half the remaining volume variance. Second, natural production declines in the areas serviced by these pipelines also contributed to the decline in volumes.

Year to date in 2009, in addition to the events noted above, the sale of the Valley pipeline system also contributed to the comparative decline in total volumes.

Revenue

In the third quarter of 2009, revenues declined approximately \$3.2 million as a result of lower volumes and the impact of recent crude oil pricing trends on crude oil blending practices under the Nexen agreement. In July 2009, Inter Pipeline signed a new agreement with Nexen extending the existing arrangement for an additional three years with improved terms.

Year to date 2009, revenues were approximately \$5.9 million higher than in 2008 primarily due to additional revenues generated under the Nexen storage and marketing agreement. Mainline toll increases averaged 6% effective January 1, 2009 and July 1, 2009, respectively which partially compensated for the volume decline in 2009.

Operating Expenses

Operating expenses decreased approximately \$0.2 million overall in the third quarter of 2009 compared to 2008. Power costs were lower by approximately \$0.6 million due to a combination of lower rates and lower consumption resulting from the decrease in volumes. In addition expenditures on tank integrity projects were also approximately \$0.6 million lower in 2009 when compared to the same period in 2008. Employee compensation costs were approximately \$1.1 million higher partially due to a revaluation of a unit based long term employee incentive plan during the quarter.

Year to date operating expenses decreased approximately \$1.9 million primarily due to a continuing trend of lower power costs and lower remediation costs. Remediation project accruals in 2009 were comparatively lower than in 2008, and accruals for remediation projects related to the Valley pipeline were reversed upon sale of the pipeline system. Employee compensation costs were higher as discussed above when compared to 2008.

Capital Expenditures

Growth capital expenditures in the third quarter and year to date 2009 relate to the engineering and construction of a Bow River pipeline crude oil stream segregation project. This project involves construction of 128 kilometers of new pipeline and related facility modifications at an estimated capital cost of \$72 million. Engineering is complete and all long lead time items have been procured. Construction of the project is proceeding on time and on budget with commissioning activities expected to commence in the last quarter of 2009.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended			Nine Months Ended		
	September 30			September 30		
<i>(millions, except % amounts)</i>	2009	2008	% change	2009	2008	% change
Utilization	96.3%	95.5%	0.8	96.6%	95.1%	1.6
<i>(millions, except % amounts)</i>						
Revenue	\$ 28.9	\$ 34.9	(17.2)	\$ 87.9	\$ 100.7	(12.7)
Operating expenses	\$ 16.0	\$ 20.7	(22.7)	\$ 49.8	\$ 60.9	(18.2)
Funds from operations ⁽¹⁾	\$ 10.6	\$ 10.9	(2.8)	\$ 31.0	\$ 30.3	2.3
Capital expenditures						
Growth ⁽¹⁾	\$ 9.8	\$ 6.6		\$ 25.1	\$ 22.8	
Sustaining ⁽¹⁾	1.7	1.2		3.4	2.9	
Total	\$ 11.5	\$ 7.8		\$ 28.5	\$ 25.7	

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

Utilization

Inter Pipeline's European bulk liquid storage and handling business, Simon Storage Limited (Simon Storage), owns eight storage terminals primarily servicing the petrochemical, petroleum and biofuel industries in the UK, Germany and Ireland. In the third quarter of 2009, Simon Storage finalized construction on two new tanks expanding its storage capacity by 82,200 barrels to approximately 7.9 million barrels. Utilization rates in 2009 have increased overall as demand for bulk liquid product storage continues to be strong, particularly at the Immingham, UK and Mannheim, Germany terminals. At the end of September 2009, unutilized capacity was only 307,000 barrels or 3.9% of total capacity.

Revenue

Storage and handling contracts typically contain a combination of term rental and throughput-based service or handling fees and range in length from under one year to 30 years. Simon Storage also offers a range of ancillary services to its customers through its bulk liquid trucking, engineering, training and facilities management divisions.

In the third quarter of 2009, revenue was approximately \$6.0 million lower than in 2008. Foreign currency translation adjustments accounted for approximately \$2.5 million of the decline and another \$2.6 million related to the ancillary businesses (see related declines in operating expenses below) as Simon Storage focuses on its higher margin storage and handling business. Overall, storage and handling revenue decreased by approximately \$1.2 million. Fees for term storage increased marginally with the increased utilization, however were offset by lower handling and other service fees due to lower throughput volumes. Demand for heated storage was also lower compared to the same period in 2008.

Year to date in 2009, revenue was approximately \$12.8 million lower than in 2008. Foreign currency translation adjustments and revenue related to the ancillary businesses declined \$7.5 million and \$7.3 million, respectively, whereas storage and handling revenue increased approximately \$1.5 million. Storage rental income combined with contract modification fees resulted in a revenue increase of approximately \$2.6 million, which was partially offset by lower handling fees as a result of lower throughput volumes when compared to 2008.

Operating Expenses

Operating expenses were also lower by approximately \$4.7 million in the third quarter and \$11.1 million year to date compared to the same periods in 2008. In the third quarter of 2009, operating expenses in the storage and handling business were approximately \$0.7 million lower due to lower heating and other costs while year to date, expenses were relatively consistent with the same period in 2008. As discussed in the revenue section, foreign currency translation adjustments contributed \$1.4 million (YTD - \$4.6 million) and decreased activity in the ancillary businesses contributed another \$2.3 million (YTD - \$6.6 million) to the remaining reduction in operating expenses.

Capital Expenditures

Inter Pipeline spent approximately \$7.2 million of the \$25.1 million spent year to date in growth capital expenditures on the construction of an additional 318,000 barrels of tankage at its Immingham terminals in response to growing demand for bulk liquid storage and handling facilities. Six new tanks have been commissioned and two additional new tanks are expected to be completed during the fourth quarter of 2009. In addition, approximately \$4.6 million of an estimated \$7.9 million of growth capital has been spent at the Immingham terminal for the conversion of two tanks comprising 79,000 barrels of tankage, to support a ten-year contract with Total UK Limited to store molten sulphur. Other growth capital expenditures in 2009 related to a number of tank replacements, tank life extension and tank modification projects.

Inter Pipeline spent approximately \$0.8 million in 2009 for a total of approximately \$2.5 million to date on projects in compliance with the Buncefield and associated COMAH containment regulations that have been introduced since February 2008.

OTHER EXPENSES

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Depreciation and amortization	\$ 26.4	\$ 24.8	\$ 76.5	\$ 70.3
Gain on sale of Valley pipeline system	-	-	(20.9)	-
Financing charges	8.6	14.9	28.4	46.5
General and administrative	10.3	9.3	30.5	27.2
Unrealized change in fair value of derivative financial instruments	(0.5)	(21.0)	40.5	(19.5)
Fees to General Partner	1.9	2.1	5.2	5.7
Income tax expense (recovery)	2.6	5.5	(16.4)	31.9

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets in 2009 was higher than the same periods in 2008 as a result of Inter Pipeline's 2008 and 2009 capital expenditure programs for assets now in-service.

Gain on Sale of Valley Pipeline System

Inter Pipeline recognized a gain of \$20.9 million on the sale of the Valley pipeline system in April 2009. Consideration for the assets was \$28.0 million plus closing adjustments.

Financing Charges

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Interest on credit facilities	\$ 4.9	\$ 14.3	\$ 18.3	\$ 44.9
Interest on loan payable to General Partner	6.0	6.0	18.0	18.0
Interest on debentures	0.7	2.9	3.2	9.5
Total financing charges	11.6	23.2	39.5	72.4
Capitalized interest	(3.0)	(8.3)	(11.1)	(25.9)
Net financing charges	\$ 8.6	\$ 14.9	\$ 28.4	\$ 46.5

Average short term interest rates were substantially lower in the third quarter of 2009 compared to 2008. The weighted average interest rate on Inter Pipeline's credit facilities has declined approximately 280 basis points from 3.8% in the third quarter of 2008 to approximately 1.0% in 2009. Inter Pipeline's weighted average credit facility debt outstanding increased approximately \$230.0 million to \$1,667.2 million in the third quarter of 2009 compared to \$1,437.2 million in the same period in 2008. The majority of this increase results from financing the Corridor expansion project. A portion of interest expense attributable to the Corridor pipeline expansion has been capitalized along with other related capital expenditures.

On a year to date basis, average short term interest rates also decreased substantially compared to 2008. The weighted average interest rate on Inter Pipeline's credit facilities declined approximately 200 basis points from 3.3% in 2008 to approximately 1.3% in 2009. Inter Pipeline's weighted average credit facility debt outstanding increased approximately \$340.4 million to \$1,709.4 million in 2009 compared to \$1,369.0 million in the same period in 2008.

Interest expense on the loan payable to the General Partner was consistent in both periods due to the fixed rate of interest on the loan and no change in principal balance during the period. In 2008, the fixed rate of interest on this loan increased by 25 basis points which will be in effect until the end of 2009.

Debenture interest expense decreased approximately \$2.2 million in the third quarter for a total of \$6.3 million year to date due to lower short term interest rates in 2009 compared to 2008. While interest rates

on these debentures are fixed rates, Inter Pipeline also has interest rate swap agreements in place that exchange the fixed rates to variable rates.

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

General and Administrative

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Canada	\$ 8.2	\$ 6.8	\$ 24.3	\$ 19.8
Europe	2.1	2.5	6.2	7.4
Total general and administrative	\$ 10.3	\$ 9.3	\$ 30.5	\$ 27.2

In Canada, general and administrative expenses increased \$1.4 million in the third quarter and \$4.5 million year to date in 2009. These increases are primarily attributed to revaluation of employee unit incentive programs, annual compensation and technology expenditures.

In Europe, general and administrative expenses were down approximately \$0.4 million in the third quarter for a total of \$1.2 million year to date in 2009 primarily due to changes in employee compensation programs.

Unrealized Change in Fair Value of Derivative Financial Instruments

Changes in forward commodity prices contributed to most of the \$0.5 million favourable change in the third quarter and \$40.5 million unfavourable change year to date in 2009 in the mark-to-market valuation of Inter Pipeline's derivative financial instruments and net income during the third quarter of 2009. The change in NGL forward prices between June and September 2009, combined with changes in the volumes of NGLs under purchase and sale swap contracts during the period, resulted in an unfavourable \$18.4 million change in the mark-to-market value of contracts. The change in forward prices of natural gas hedges and foreign currency swaps between June and September 2009 resulted in a favourable \$20.2 million change in the mark-to-market value during the same period.

Similarly, the change in NGL forward prices between January and September 2009, combined with the changes in the volumes under purchase and sale swap contracts, resulted in a \$70.0 million unfavourable change in the mark-to-market value of contracts. A favourable \$31.3 million change in the mark-to-market value of natural gas hedges and foreign currency swaps year to date in 2009 partially offset the impact of changes in NGL forward prices.

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

Fees to General Partner

Inter Pipeline paid a management fee to the General Partner of \$1.9 million (Q3 2008 - \$2.1 million) for a total of \$5.2 million (YTD 2008 - \$5.7 million) in 2009. This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (Partnership Agreement). A divestiture fee of \$0.1 million (2008 - \$nil) was paid in the second quarter of 2009 related to the sale of the Valley pipeline system.

Income Taxes

Consolidated income tax expense for the nine months ended September 30, 2009 decreased \$48.3 million from an income tax expense of \$31.9 million in 2008 to a net recovery of \$16.4 million in 2009. On March 4, 2009, the Government of Canada substantively enacted legislation that repealed the "provincial SIFT tax factor" and replaced it with a "provincial SIFT tax rate." Inter Pipeline calculated the "provincial SIFT tax rate" based on the general provincial corporate income tax rate for each province where it has a permanent establishment. For Inter Pipeline, this legislation reduced the provincial income tax rate for non-corporate entities from 13.0% to approximately 10.0% effective January 1, 2011 onward. This also reduced Inter Pipeline's estimated effective tax rate to 26.5% and 25.0% effective January 1,

2011 and January 1, 2012 respectively. As a result of this rate reduction, future income tax liabilities of non-corporate entities were reduced by \$24.0 million. The remainder of the variance results from changes in temporary differences relating to non-taxable Canadian partnership income.

SUMMARY OF QUARTERLY RESULTS

	2007		2008			2009		
<i>(millions, except per unit and % amounts)</i>	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
Revenue								
Oil sands transportation	\$ 38.0	\$ 37.3	\$ 38.5	\$ 35.2	\$ 35.1	\$ 33.6	\$ 30.6	\$ 32.2
NGL extraction ⁽¹⁾	205.2	214.7	198.4	231.4	149.8	143.2	98.1	127.3
Conventional oil pipelines	31.9	33.9	35.4	39.3	39.4	38.7	39.8	36.1
Bulk liquid storage	35.7	32.1	33.8	34.9	35.5	30.1	28.8	28.9
	\$ 310.8	\$ 318.0	\$ 306.1	\$ 340.8	\$ 259.8	\$ 245.6	\$ 197.3	\$ 224.5
Funds from operations⁽²⁾								
Oil sands transportation	\$ 20.2	\$ 18.5	\$ 19.0	\$ 15.1	\$ 17.3	\$ 18.0	\$ 17.9	\$ 18.6
NGL extraction ⁽¹⁾	50.7	43.2	29.9	47.8	13.1	26.2	25.2	40.9
Conventional oil pipelines	22.3	24.4	25.6	30.1	26.3	28.5	31.8	27.3
Bulk liquid storage	9.0	9.3	10.1	10.9	11.3	10.5	9.9	10.6
Corporate costs	(22.7)	(19.6)	(17.7)	(18.2)	(15.9)	(17.1)	(16.3)	(16.1)
	\$ 79.5	\$ 75.8	\$ 66.9	\$ 85.7	\$ 52.1	\$ 66.1	\$ 68.5	\$ 81.3
Per unit ⁽²⁾	\$ 0.39	\$ 0.34	\$ 0.30	\$ 0.39	\$ 0.23	\$ 0.30	\$ 0.30	\$ 0.33
Net income ⁽³⁾	\$ 75.9	\$ 60.1	\$ 10.3	\$ 76.8	\$ 102.5	\$ 43.4	\$ 39.3	\$ 51.9
Per unit – basic & diluted ⁽³⁾	\$ 0.37	\$ 0.27	\$ 0.05	\$ 0.34	\$ 0.46	\$ 0.19	\$ 0.18	\$ 0.21
Cash distributions ⁽⁴⁾	\$ 44.0	\$ 46.5	\$ 46.6	\$ 46.7	\$ 46.8	\$ 46.9	\$ 48.6	\$ 52.4
Per unit ⁽⁴⁾	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21
Units outstanding (basic)								
Weighted average	205.8	221.2	221.8	222.3	222.8	223.4	227.0	248.7
End of period	220.9	221.6	222.1	222.5	223.1	223.7	246.5	250.8
Capital expenditures								
Growth ⁽²⁾	\$ 167.6	\$ 230.5	\$ 118.7	\$ 151.6	\$ 101.0	\$ 57.0	\$ 46.0	\$ 417.0
Sustaining ⁽²⁾	5.2	1.6	3.1	3.5	5.2	2.9	3.6	4.0
	\$ 172.8	\$ 232.1	\$ 121.8	\$ 155.1	\$ 106.2	\$ 59.9	\$ 49.6	\$ 421.0
Payout ratio before sustaining capital ⁽²⁾	55.4%	61.3%	69.7%	54.5%	89.7%	71.0%	71.0%	64.4%
Payout ratio after sustaining capital ⁽²⁾	59.3%	62.6%	73.1%	56.9%	99.7%	74.3%	75.0%	67.7%
Total debt ⁽⁵⁾	\$ 1,887.8	\$ 2,035.7	\$ 2,146.3	\$ 2,264.8	\$ 2,349.2	\$ 2,406.5	\$ 2,246.0	\$ 2,610.8
Total partners' equity	\$ 1,064.2	\$ 1,098.9	\$ 1,064.9	\$ 1,075.7	\$ 1,130.2	\$ 1,130.5	\$ 1,315.5	\$ 1,319.3
Enterprise value ⁽²⁾	\$ 3,984.0	\$ 4,151.7	\$ 4,374.2	\$ 4,376.7	\$ 3,921.8	\$ 4,064.0	\$ 4,392.9	\$ 5,038.2
Total recourse debt to capitalization ⁽²⁾	44.3%	41.8%	42.7%	42.6%	41.6%	42.2%	32.3%	35.2%
Total debt to total capitalization ⁽²⁾	64.0%	64.9%	66.8%	67.8%	67.5%	68.0%	63.1%	66.4%

(1) A significant decline in propane-plus commodity prices and foreign exchange rates resulted in lower revenue, shrinkage gas and funds from operations in the fourth quarter of 2008. See the NGL Extraction section in RESULTS OF OPERATIONS section for further discussion.

- (2) Please refer to the NON-GAAP FINANCIAL MEASURES section of this MD&A.
- (3) During the fourth quarter of 2007, Inter Pipeline recalculated the estimate for the “specified investment flow-through” (SIFT) tax reported in the third quarter of 2007. The recalculation resulted in a \$7.7 million increase in the SIFT tax liability at September 30, 2007 resulting in a \$7.7 million decrease in net income in the third quarter of 2007 and increase in net income in the fourth quarter of 2007.
- (4) Cash distributions are calculated based on the number of units outstanding at each record date.
- (5) Total debt includes long-term debt and demand loans before discounts and debt transaction costs and the equity portion of convertible debentures that matured December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital and acquisition programs throughout market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital programs. Inter Pipeline generally relies on committed credit facilities and cash flow from operations to fund capital requirements. At September 30, 2009, Inter Pipeline had access to committed credit facilities totaling \$2.9 billion, of which almost \$1.0 billion remains unutilized. Inter Pipeline also had access to unutilized demand facilities of \$60 million.

Inter Pipeline intends to provide a base of equity capital for some of its recently announced organic growth capital projects. In 2009, Inter Pipeline raised in excess of \$245.0 million through equity transactions and proceeds from the sale of the Valley pipeline which have been temporarily used to reduce indebtedness under its credit facilities. Proceeds of \$172.7 million (\$164.6 million net) were raised in a successful equity offering in June 2009 and approximately \$56.9 million of equity has been generated through the new distribution reinvestment plan in the first five months since implementation in May 2009. Inter Pipeline received proceeds of \$28.0 million net of closing adjustments on the sale of the Valley pipeline system in April 2009.

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

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

CAPITAL STRUCTURE

<i>(millions, except % amounts)</i>	Recourse	Non-recourse	September 30 2009	December 31 2008
Credit facilities available				
Corridor syndicated facility	\$ 488.0	\$ 1,654.0	\$ 2,142.0	\$ 2,142.0
Inter Pipeline syndicated facility	750.0	-	750.0	750.0
	1,238.0	1,654.0	2,892.0	2,892.0
Demand facilities ⁽¹⁾	20.0	40.0	60.0	86.8
	\$ 1,258.0	\$ 1,694.0	\$ 2,952.0	\$ 2,978.8
Total debt outstanding				
Recourse				
Corridor syndicated facility			\$ 98.1	\$ -
Inter Pipeline syndicated facility			240.0	425.0
Loan payable to General Partner			379.8	379.8
Non-recourse				
Corridor syndicated facility			1,592.9	1,236.5
Corridor debentures			300.0	300.0
Demand loan facilities			-	7.9
Total debt⁽¹⁾⁽²⁾			2,610.8	2,349.2
Total partners' equity			1,319.3	1,130.2
Total capitalization⁽³⁾			\$ 3,930.1	\$ 3,479.4
Total debt to total capitalization ⁽³⁾			66.4%	67.5%
Total recourse debt to capitalization ⁽³⁾			35.2%	41.6%

(1) At September 30, 2009, outstanding Corridor letters of credit were approximately \$2.2 million which are not included in the demand loan facilities or total debt outstanding in the table above.

(2) Total debt includes long-term debt of \$2,610.8 million before discounts and debt transaction costs of \$9.4 million.

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

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital is monitored through a number of measures, including total recourse debt to capitalization and recourse debt to EBITDA. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensure compliance with all debt covenants. Financial covenants on Inter Pipeline's credit facilities are based on the amount of recourse debt outstanding. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization ratio was a favourable 35.2% at September 30, 2009. Adjusting for the impact of non-recourse debt of \$1,892.9 million, Inter Pipeline's consolidated debt to total capitalization ratio at September 30, 2009 was 66.4%.

Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum coverage ratios stipulated in the terms of Inter Pipeline's credit facilities. In 2009, Inter Pipeline's permitted recourse debt to EBITDA ratio has been temporarily increased to accommodate the financing of the Corridor expansion project.

At September 30, 2009, approximately \$2,188.0 million or 83.8% of Inter Pipeline's total consolidated debt was exposed to variable interest rates, however the debt financing costs related to \$1,991.0 million of Corridor credit facilities and debentures outstanding are directly recoverable through the terms of the Corridor FSA. Therefore, Inter Pipeline's direct interest rate risk associated with variable rate debt is only attributable to \$197.0 million or 7.5% of total outstanding debt. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2001, Inter Pipeline entered into two fixed interest rate swap agreements to manage a portion of its variable interest rate risk

exposure. In 2007, Inter Pipeline acquired two variable interest rate swap agreements to manage fixed interest rate exposure on Corridor's 5 and 10 year debentures.

Maturity date	2009		2008	
	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (<i>millions</i>)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (<i>millions</i>)
Corridor debentures				
- Fixed to floating rate swap				
Series A - February 2, 2010	4.240%	\$ 150.0	4.240%	\$ 150.0
Series B - February 2, 2015	5.033%	150.0	5.033%	150.0
		\$ 300.0		\$ 300.0
Inter Pipeline syndicated facility				
- Floating to fixed rate swap				
December 30, 2011 ⁽¹⁾	6.300%	\$ 28.0	6.300%	\$ 29.0
December 31, 2011	6.310%	15.0	6.310%	15.0
		\$ 43.0		\$ 44.0

(1) The notional principal balance of the \$28.0 million interest rate swap is reduced by \$1.0 million each year for the term of the arrangement.

Inter Pipeline has maintained its investment grade, long-term corporate credit rating of BBB with S&P since 2003. DBRS assigned Inter Pipeline an investment grade, long-term corporate credit rating of BBB coinciding with its acquisition of Corridor in 2007. Corridor's series A and B debentures have been assigned investment grade credit ratings of A(low), A3 and A- from DBRS, Moody's and S&P, respectively. During the third quarter of 2009, DBRS issued a revised outlook on both Corridor and Inter Pipeline, increasing the trend outlook from stable to positive. S&P also increased the outlook on Corridor from stable to positive in August 2009. Factors contributing to this positive change include recent issuance of equity, continued success on the Corridor expansion project and the accretive organic projects recently announced.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

The following table summarizes Inter Pipeline's commitment profile and future contractual obligations at September 30, 2009. Management intends to finance these commitments through existing credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management polices as discussed above.

<i>(millions)</i>	Less than one			
	Total	year	1 to 5 years	After 5 years
Capital expenditure projects ⁽¹⁾				
Oil sands transportation	\$ 367.2	\$ 25.4	\$ 341.8	\$ -
NGL extraction	5.7	5.7	-	-
Conventional oil pipelines	40.5	32.7	7.8	-
Bulk liquid storage	11.0	11.0	-	-
Growth capital ⁽²⁾	424.4	74.8	349.6	-
Sustaining capital ⁽²⁾	14.8	14.8	-	-
	439.2	89.6	349.6	-
Total debt ⁽³⁾				
Corridor syndicated facility	1,691.0	-	1,691.0	-
Inter Pipeline syndicated facility	240.0	-	240.0	-
Loan to General Partner	379.8	-	91.2	288.6
Corridor debentures	300.0	150.0	-	150.0
	2,610.8	150.0	2,022.2	438.6
Other obligations				
Derivative financial instruments	19.7	15.9	3.8	-
Operating leases ⁽⁴⁾	82.6	6.8	25.8	50.0
Purchase obligations ⁽⁴⁾	25.0	4.0	14.1	6.9
Long term portion of incentive plan	3.5	-	3.5	-
Working capital deficit ⁽²⁾	23.9	23.9	-	-
	\$ 3,204.7	\$ 290.2	\$ 2,419.0	\$ 495.5

(1) Capital expenditures "less than one year" represent expected expenditures for the remaining three months of 2009.

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

(3) At September 30, 2009, outstanding Corridor letters of credit of approximately \$2.2 million were not included in the total \$2,610.8 million of debt outstanding in the table above.

(4) Operating lease maturities and purchase obligations are based on contract terms as presented at December 31, 2008.

Inter Pipeline plans to invest approximately \$424.4 million in organic growth capital projects over the 2009 to 2011 period which includes the recently announced \$72 million Bow River expansion and \$135 million Kearl oil sands projects. Details of these new capital programs are discussed in further detail in the **OUTLOOK** section. Funding of significant capital projects is managed through the capital structure as discussed earlier.

Components of Inter Pipeline's recourse debt consisting of the loan payable to the General Partner and Inter Pipeline syndicated facility mature in periods between 2012 and 2014. Amounts drawn on tranches A and B of Corridor's syndicated facility mature in 2012. Amounts drawn on tranches C and D will mature on the earliest of 2012 and the commencement or suspension true-up date of the Corridor expansion project. The Corridor series A and series B debentures mature in February 2010 and 2015, respectively.

Other future obligations in the normal course of operations would be primarily funded from operations in the respective periods that they become due or if related to significant capital projects, may be funded through long-term debt.

- (i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2009, 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 to 2038.

- (iii) Working capital deficit results primarily from capital expenditures outstanding in accounts payable at the end of a period. Inter Pipeline has obligations of \$15.0 million under its employee incentive plan, of which \$11.5 million is included in the working capital deficit.
- (iv) Undiscounted asset retirement obligations of \$53.2 million at December 31, 2008 represent an estimate of future obligations for the retirement of NGL extraction and bulk liquid storage assets. Similarly, long term environmental liabilities of \$12.7 million represents an estimate of projects that Inter Pipeline is obligated to remediate in the future, Defined benefit pension obligations of \$2.5 million represent the unfunded portion of the plans at December 31, 2008. Since there is no specified timing for payment of these obligations, they were excluded in the table above.

On June 15, 2007, pursuant to the Corridor FSA, Inter Pipeline entered into a guarantee in favour of the Corridor shippers for the payment and performance of all obligations of Corridor, the General Partner or the operator (if the operator was not Inter Pipeline). This guarantee does not include those obligations for repayment of borrowed money or similar financial obligations incurred by these entities (except for funding certain cost overruns). 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.

CASH DISTRIBUTIONS TO UNITHOLDERS

<i>(millions, except per unit and % amounts)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Cash provided by operating activities	\$ 68.3	\$ 69.2	\$ 196.6	\$ 254.8
Net change in non-cash working capital	13.0	16.5	19.3	(26.5)
Less sustaining capital expenditures ⁽¹⁾	(4.0)	(3.5)	(10.6)	(8.2)
Cash available for distribution ⁽¹⁾	77.3	82.2	205.3	220.1
Change in discretionary reserves	(24.9)	(35.5)	(57.4)	(80.3)
Cash distributions	\$ 52.4	\$ 46.7	\$ 147.9	\$ 139.8
Cash distributions per unit ⁽²⁾	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.63
Payout ratio before sustaining capital ⁽¹⁾	64.4%	54.5%	68.5%	61.2%
Payout ratio after sustaining capital ⁽¹⁾	67.7%	56.9%	72.0%	63.5%
Growth capital expenditures ⁽¹⁾	\$ 417.0	\$ 151.6	\$ 520.0	\$ 500.7
Sustaining capital expenditures ⁽¹⁾	4.0	3.5	10.6	8.2
	\$ 421.0	\$ 155.1	\$ 530.6	\$ 508.9

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

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

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

"Cash available for distribution" is a non-GAAP financial measure that the General Partner uses in managing Inter Pipeline's business and in assessing future cash requirements that impact the determination of future distributions to unitholders. Inter Pipeline defines cash available for distribution as cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. The impact of net change in non-cash working capital is excluded in the calculation of "Cash

available for distribution” primarily to compensate for the seasonality of working capital throughout the year. Certain Inter Pipeline revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the recognition of revenue. Within a 12 month calendar year, there is minimal variation between revenue recognized and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of cash available for distribution to mitigate the quarterly impact this difference has on cash available for distribution. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, but to focus the results on cash that is generated in any reporting period.

In addition, in determining actual cash distributions, Inter Pipeline applies a discretionary reserve to cash available for distribution, which is designed to ensure stability of distributions over economic and industry cycles and to enable Inter Pipeline to absorb the impact of material one-time events. Therefore, not all cash available for distribution is necessarily distributed to unitholders. The reconciliation is prepared using reasonable and supportable assumptions, reflecting Inter Pipeline’s planned courses 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 \$24.9 million in the third quarter of 2009 (YTD 2009 - \$57.4 million) due primarily to the strong operating results of Inter Pipeline’s business segments. Inter Pipeline will continue to manage the discretionary reserve and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

The tables below show Inter Pipeline’s cash distributions paid relative to cash provided by operating activities and net income (loss) for the periods indicated. See the **OUTLOOK** section of this report and **RISK FACTORS** section of the 2008 annual MD&A for further information regarding the sustainability of cash distributions.

	Three months ended		Nine months ended		Years Ended	
	September 30		September 30		December 31	
<i>(millions)</i>	2009	2009	2008	2007	2006	2005
Cash provided by operating activities	\$ 68.3	\$ 196.6	\$ 321.1	\$ 234.1	\$ 201.6	\$ 171.8
Cash distributions	(52.4)	(147.9)	(186.6)	(171.7)	(160.8)	(137.7)
Excess	\$ 15.9	\$ 48.7	\$ 134.5	\$ 62.4	\$ 40.8	\$ 34.1

	Three months ended		Nine months ended		Years ended	
	September 30		September 30		December 31	
<i>(millions)</i>	2009	2009	2008	2007	2006	2005
Net income (loss)	\$ 51.9	\$ 134.6	\$ 249.7	\$ (80.0)	\$ 130.6	\$ 89.3
Cash distributions	(52.4)	(147.9)	(186.6)	(171.7)	(160.8)	(137.7)
Excess (shortfall)	\$ (0.5)	\$ (13.3)	\$ 63.1	\$ (251.7)	\$ (30.2)	\$ (48.4)

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

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

Partner's discretion to establish reserves under the Partnership Agreement, cash distributed to unitholders is always equal to Distributable Cash.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at September 30, 2009 are as follows:

<i>(millions)</i>	Class A	Class B	Total
Units outstanding	250.5	0.3	250.8
Units reserved for issuance upon exercise of vested Unit Incentive Options	0.1	-	0.1

At November 3, 2009 Inter Pipeline had 251.9 million Class A units and 0.3 million Class B units for a total of 252.2 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 and foreign exchange risk and to assist with stabilizing funds from operations. Inter Pipeline endeavors to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline's policy disallows the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the board of directors through Inter Pipeline's risk management policy.

Inter Pipeline has the following types of derivative financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price and heat rate swap agreements and interest rate swap agreements. The mark-to-market or fair value of these financial instruments are 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 pre-tax earnings¹ with the exception of the interest rate swap sensitivity analysis which has been presented on an after-tax income basis. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion. The sensitivity analyses in the following sections are based on the value of derivative financial instruments and long-term debt outstanding at September 30, 2009. The analyses are hypothetical and should not be considered to be predictive of future performance.

NGL Extraction Business

Frac-spread Risk Management

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

¹ Sensitivity analyses presented below present the effect of reasonably possible changes in risk variables on essentially a pre-tax basis since prior to 2011, Inter Pipeline is only taxable on entities within its corporate structure that are corporations. Therefore the analyses in the sections below (except Interest Rate Risk Management) assume nil income tax impact.

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, 2009 and November 3, 2009. The CDN/USG average prices would approximate the following USD/USG prices based on the average USD/CDN forward curve at September 30, 2009 and November 3, 2009, respectively.

	November 3, 2009				September 30, 2009			
	% Forecast Propane-plus Volumes Hedged	Average Price (CDN/USG)	Average Price (USD/USG)	% Forecast Propane-plus Volumes Hedged	Average Price (CDN/USG)	Average Price (USD/USG)		
October to December 2009	36%	\$ 0.75	\$ 0.70	36%	\$ 0.75	\$ 0.70		
January to December 2010	32%	\$ 0.71	\$ 0.66	22%	\$ 0.70	\$ 0.66		

Based on propane-plus volume hedges outstanding at September 30, 2009, the following table illustrates how a 10% change in NGL and AECO natural gas commodity prices or foreign exchange rates in isolation could individually impact the mark-to-market valuation of Inter Pipeline's derivative financial instruments and consequently pre-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 ⁽¹⁾	Change in net income based on 10% decrease in prices/rates ⁽¹⁾
NGL ⁽²⁾	\$ 23.7	\$ (7.0)	\$ 7.0
AECO natural gas	(11.6)	3.0	(3.0)
Foreign exchange	(3.3)	(9.4)	9.4
Frac-spread risk management	\$ 8.8		

(1) Negative amounts represent a liability increase or asset decrease.

(2) Assumes that a commodity price change will impact all propane, normal butane, iso butane and pentanes plus products linearly.

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its NGL extraction business segment. In 2008, Inter Pipeline entered into financial heat rate swap contracts to manage electricity price risk exposure in this business.

Based on heat rate swaps outstanding at September 30, 2009, 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 pre-tax income by approximately \$0.1 million. A 10% change in AECO natural gas prices in isolation with all other variables held constant, could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently pre-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, 2009, a 1% change in interest rates at this date could affect interest expense on credit facilities and consequently pre-tax income by approximately \$4.9 million and \$14.4 million for the three and nine months ended September 30, 2009, assuming all other variables remain constant. Of this amount, \$4.3 million and \$12.6 million, respectively, relate to the \$2.1 billion Corridor credit facility and are also recoverable in pre-tax income through the terms of the Corridor FSA. A 1% change in interest rates at September 30, 2009 could also affect the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage interest rate risk and consequently after-tax income by approximately \$0.8 million, assuming all other variables remain constant.

Realized and Unrealized Gain (Loss) on Derivative Instruments - Held-for-Trading

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

The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are not 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.

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

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2009	2008	2009	2008
Realized gain (loss) on derivative financial instruments				
Revenues				
NGL swaps	\$ 13.0	\$ (7.6)	\$ 48.3	\$ (28.6)
Foreign exchange swaps	(2.4)	0.8	(12.9)	3.9
	10.6	(6.8)	35.4	(24.7)
Shrinkage gas expense				
Natural gas swaps	(9.5)	2.1	(22.8)	2.4
Operating expenses				
Electricity price swaps	-	0.1	-	0.5
Heat rate swaps	0.7	0.1	1.3	0.1
	0.7	0.2	1.3	0.6
Financing charges				
Interest rate swaps	2.2	0.3	5.5	0.1
	\$ 4.0	\$ (4.2)	\$ 19.4	\$ (21.6)
Unrealized gain (loss) on derivative financial instruments				
NGL swaps	\$ (18.4)	\$ 63.9	\$ (70.0)	\$ 37.2
Natural gas swaps	9.7	(36.2)	6.0	(5.1)
Foreign exchange swaps	10.5	(7.0)	25.3	(13.6)
Power price swaps	(1.0)	0.8	(2.4)	2.0
Interest rate swaps	(0.1)	(0.4)	1.2	(0.8)
Transitional transfers ¹	(0.2)	(0.1)	(0.6)	(0.2)
	0.5	21.0	(40.5)	19.5
Total gain (loss) on derivative financial instruments	\$ 4.5	\$ 16.8	\$ (21.1)	\$ (2.1)

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

CREDIT RISK

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are investment grade corporations in the energy and chemical industry sectors. At September 30, 2009, accounts receivable associated with these two business segments were \$76.4 million or 67% 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 derivative financial instruments, Inter Pipeline believes the risks of non-performance of counterparties are minimal as cash and derivative financial instruments outstanding are held with major financial institutions and investment grade corporations.

In the current market environment, Inter Pipeline is actively monitoring the risk of non-performance of its customers and financial counterparties. At September 30, 2009, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three or nine month periods ended September 30, 2009 or 2008.

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. The entitlement to retain these shares of PAC and to receive dividends is tied, in part, to the continuing employment or service as a director or officer of the General Partner. Officers and directors of the General Partner received \$0.4 million (Q3 2008 - \$0.5 million) in the third quarter of 2009 for a cumulative total of \$0.8 million (YTD 2008 - \$0.9 million) in dividends in 2009 from PAC pursuant to their ownership of non-voting shares.

Under the Partnership Agreement, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the Partnership Agreement. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the Partnership Agreement in excess of \$1.01 per unit to \$1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline. See the **Other Expenses** section of **RESULTS OF OPERATIONS** for details of fees paid to the General Partner during the period.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for \$379.8 million. At the same time, the General Partner had received \$379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At September 30, 2009, interest payable to the General Partner on the loan was \$10.3 million (September 30, 2008 - \$10.3 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. In 2007, due to amendments made for the Corridor expansion project, interest rates were increased by 25 basis points until the end of 2009. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 basis points over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At September 30, 2009, there were amounts owed to the General Partner by Inter Pipeline of \$0.6 million (September 30, 2008 – \$0.8 million).

CONTROLS AND PROCEDURES

Management has made no material changes to the design of Inter Pipeline's internal control over financial reporting during the third quarter of 2009.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's consolidated financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 1 of the December 31, 2008 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

There were no changes in Inter Pipeline's critical accounting estimates as disclosed in its annual 2008 MD&A, that affected the disclosure or the accounting for its operations for the periods ended September 30, 2009.

CHANGES IN ACCOUNTING POLICIES

FUTURE

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board (AcSB) confirmed that all Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

Inter Pipeline commenced its IFRS conversion project in 2008 and established a project team to successfully manage the transition to IFRS within the required timeframe. The project team consists of a steering committee, project and functional team leaders which include management from finance, investor relations, tax and compliance and information technology, among others. Quarterly updates are provided to the audit committee.

The two key elements of the project plan are: financial statement compliance with IFRS and the collateral business impact. Financial statement compliance with IFRS consists of four phases as discussed in the following table. The collateral business impact element of the project will ensure that teams consider, on a timely basis, the implication of any prospective change in accounting standards on other areas of the business. This includes, but is not limited to, information system infrastructure and processes, business agreements and financing arrangements, key metrics and the control environment.

The amendments to HB 3862 will be adopted by Inter Pipeline in the financial statements for the year ended December 31, 2009. The amendments are to be applied prospectively, and comparative information is not required in the first year of adoption.

2009

Goodwill and Intangible Assets

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

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

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

RISK FACTORS

During the third quarter of 2009, there were no significant changes to Inter Pipeline’s operating activities that would affect the disclosure of risk factors as discussed in its 2008 annual MD&A.

NON-GAAP FINANCIAL MEASURES

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

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

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

<i>(millions)</i>	September 30 2009	December 31 2008
Total current assets	\$ 194.7	\$ 231.4
Total current liabilities	(358.2)	(269.5)
Working capital deficiency before exclusions	(163.5)	(38.1)
Exclusions:		
Net fair value of derivative financial instruments	(10.4)	(44.1)
Short-term borrowings	-	7.9
Current portion of long-term debt	150.0	-
Adjusted working capital deficiency	\$ (23.9)	\$ (74.3)

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

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

<i>(millions)</i>	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Net income	\$ 51.9	\$ 76.8	\$ 134.6	\$ 147.2
Depreciation and amortization	26.4	24.8	76.5	70.3
Gain on sale of Valley pipeline system	-	-	(20.9)	-
Non-cash expenses	1.1	0.5	2.5	0.9
Unrealized change in fair value of derivative financial instruments	(0.5)	(21.0)	40.5	(19.5)
Future income tax expense	2.4	4.6	(17.3)	29.4
Funds from operations	81.3	85.7	215.9	228.3
Financing charges	8.6	14.9	28.4	46.5
Divestiture fee to General Partner	-	-	0.1	-
Current income tax expense	0.2	0.8	0.9	2.5
EBITDA	\$ 90.1	\$ 101.4	\$ 245.3	\$ 277.3

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

<i>(millions, except per unit amounts)</i>	September 30 2009	December 31 2008
Closing unit price	\$ 9.68	\$ 7.05
Total closing number of Class A and B units outstanding	250.8	223.1
	2,427.4	1,572.6
Total debt	2,610.8	2,349.2
Enterprise value	\$ 5,038.2	\$ 3,921.8

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	
					2009	2008
<i>(millions)</i>	Growth	Sustaining	Total	Total		
Oil sands transportation	\$ 383.0	\$ 0.5	\$ 383.5	\$ 142.8		
NGL extraction	0.7	0.4	1.1	1.6		
Conventional oil pipelines	23.5	1.4	24.9	2.9		
Bulk liquid storage	9.8	1.7	11.5	7.8		
Total	\$ 417.0	\$ 4.0	\$ 421.0	\$ 155.1		

					Nine months ended September 30	
					2009	2008
<i>(millions)</i>	Growth	Sustaining	Total	Total		
Oil sands transportation	\$ 454.9	\$ 0.6	\$ 455.5	\$ 469.7		
NGL extraction	8.5	2.8	11.3	8.2		
Conventional oil pipelines	31.5	3.8	35.3	5.3		
Bulk liquid storage	25.1	3.4	28.5	25.7		
Total	\$ 520.0	\$ 10.6	\$ 530.6	\$ 508.9		

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

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

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

ELIGIBLE INVESTORS

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

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's Annual Information Form, is available on SEDAR at www.sedar.com. 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 5th day of November, 2009.

Inter Pipeline Fund

Consolidated Balance Sheets

(unaudited) (thousands of dollars)	As at September 30 2009	As at December 31 2008
ASSETS		
Current Assets		
Cash and cash equivalents (note 16)	\$ 29,777	\$ 13,566
Accounts receivable	124,458	124,131
Fair value of derivative financial instruments (note 14b)	26,018	82,940
Prepaid expenses and other deposits	14,434	10,728
Total Current Assets	194,687	231,365
Fair value of derivative financial instruments (note 14b)	14,163	39,160
Intangible assets (note 4)	328,769	341,687
Property, plant and equipment (note 5)	3,733,896	3,292,873
Goodwill	217,048	220,582
Total Assets	\$ 4,488,563	\$ 4,125,667
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Short-term borrowings (note 7)	\$ -	\$ 7,896
Cash distributions payable (note 6)	17,553	15,614
Accounts payable and accrued liabilities (note 12)	154,726	200,904
Fair value of derivative financial instruments (note 14b)	15,621	38,818
Deferred revenue	20,347	6,219
Current portion of long-term debt (note 7)	150,000	-
Total Current Liabilities	358,247	269,451
Long-term debt (note 7)	2,451,371	2,329,799
Long-term payable	11,061	18,159
Fair value of derivative financial instruments (note 14b)	3,615	12,912
Asset retirement obligation	6,520	6,336
Environmental liabilities	12,653	12,721
Pension liabilities	2,248	2,457
Long-term incentive plan (note 10)	3,553	1,353
Future income taxes (note 8)	320,010	342,320
Total Liabilities	3,169,278	2,995,508
Commitments (notes 5, 13 and 15)		
Partners' Equity		
Partners' equity (note 9)	1,368,132	1,161,547
Accumulated other comprehensive loss	(48,847)	(31,388)
Total Partners' Equity	1,319,285	1,130,159
Total Liabilities and Partners' Equity	\$ 4,488,563	\$ 4,125,667

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Consolidated Statements of Partners' Equity

(unaudited) (thousands of dollars)	Nine Months Ended September 30			
	2009		2008	
	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Total	Total
Balance, beginning of period	\$ 1,160,386	\$ 1,161	\$ 1,161,547	\$ 1,082,485
Net income for the period	134,489	135	134,624	147,215
Cash distributions declared (note 6)	(147,762)	(148)	(147,910)	(139,768)
Issuance of Partnership units (note 9)				
Equity issuances, net of issue costs and future income taxes	165,305	165	165,470	(105)
Issued under Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan	51,795	51	51,846	10,395
Issued under Unit Incentive Option Plan	2,553	2	2,555	1,941
Balance, end of period	\$ 1,366,766	\$ 1,366	\$ 1,368,132	\$ 1,102,163

Consolidated Statements of Accumulated Other Comprehensive Loss

(unaudited) (thousands of dollars)	Nine Months Ended September 30	
	2009	2008
Balance, beginning of period	\$ (31,388)	\$ (18,294)
Other comprehensive loss	(17,459)	(8,138)
Balance, end of period	\$ (48,847)	\$ (26,432)

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Capital Corporation.

Inter Pipeline Fund

Consolidated Statements of Net Income

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
REVENUES				
Operating revenue	\$ 224,462	\$ 340,763	\$ 667,408	\$ 964,833
EXPENSES				
Shrinkage gas	65,081	140,341	200,040	399,862
Operating	58,380	88,118	188,899	255,612
Depreciation and amortization (note 11)	26,381	24,790	76,477	70,275
Gain on sale of Valley pipeline (note 5)	18	-	(20,857)	-
Financing charges (note 12)	8,582	14,869	28,443	46,529
General and administrative	10,277	9,324	30,539	27,224
Unrealized change in fair value of derivative financial instruments (note 14c)	(542)	(21,026)	40,481	(19,464)
Management fee to General Partner	1,854	2,087	5,206	5,725
	170,031	258,503	549,228	785,763
INCOME BEFORE INCOME TAXES	54,431	82,260	118,180	179,070
Provision for (recovery of) income taxes (note 8)				
Current	169	850	905	2,481
Future	2,384	4,606	(17,349)	29,374
	2,553	5,456	(16,444)	31,855
NET INCOME	\$ 51,878	\$ 76,804	\$ 134,624	\$ 147,215
Net income per Partnership unit (note 9)				
Basic and diluted	\$ 0.21	\$ 0.34	\$ 0.58	\$ 0.66

Consolidated Statements of Comprehensive Income

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
NET INCOME	\$ 51,878	\$ 76,804	\$ 134,624	\$ 147,215
OTHER COMPREHENSIVE LOSS				
Unrealized loss on translating financial statements of self-sustaining foreign operations	(31,452)	(23,114)	(18,065)	(8,399)
Transfer of losses on derivatives previously designated as cash flow hedges to net income	202	87	606	261
	(31,250)	(23,027)	(17,459)	(8,138)
COMPREHENSIVE INCOME	\$ 20,628	\$ 53,777	\$ 117,165	\$ 139,077

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Consolidated Statements of Cash Flows

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
OPERATING ACTIVITIES				
Net income	\$ 51,878	\$ 76,804	\$ 134,624	\$ 147,215
Depreciation and amortization	26,381	24,790	76,477	70,275
Gain on sale of Valley pipeline	18	-	(20,857)	-
Amortization of transaction costs on long-term debt (note 12)	15	20	49	67
Non-cash operating and general and administrative expense	1,178	463	2,489	856
Unrealized change in fair value of derivative financial instruments	(542)	(21,026)	40,481	(19,464)
Future income tax expense (recovery)	2,384	4,606	(17,349)	29,374
Funds from operations	81,312	85,657	215,914	228,323
Net change in non-cash working capital (note 16)	(12,999)	(16,448)	(19,288)	26,529
Cash provided by operating activities	68,313	69,209	196,626	254,852
INVESTING ACTIVITIES				
Expenditures on property, plant and equipment	(420,592)	(154,730)	(529,418)	(514,728)
Proceeds on sale of assets (note 5)	11	35	28,275	149
Net change in non-cash investing working capital (note 16)	12,491	16,312	(13,169)	10,782
Cash used in investing activities	(408,090)	(138,383)	(514,312)	(503,797)
FINANCING ACTIVITIES				
Cash distributions declared (note 6)	(52,364)	(46,705)	(147,910)	(139,768)
Increase in long-term debt and short-term borrowings	365,331	117,613	262,226	376,871
Issuance of Partnership units, net of issue costs	35,547	3,770	219,028	12,196
Net change in non-cash financing working capital (note 16)	301	29	1,939	96
Cash provided by financing activities	348,815	74,707	335,283	249,395
Effect of foreign currency translation on foreign denominated cash	(1,413)	(249)	(1,386)	131
Increase in cash and cash equivalents	7,625	5,284	16,211	581
Cash and cash equivalents, beginning of period	22,152	8,115	13,566	12,818
Cash and cash equivalents, end of period	\$ 29,777	\$ 13,399	\$ 29,777	\$ 13,399

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Notes to Interim Consolidated Financial Statements

(unaudited)

September 30, 2009

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles (“GAAP”) and have been prepared by management following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2008, except as discussed in note 2 below. The disclosures provided in these interim consolidated financial statements are incremental to those included with the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes in Inter Pipeline Fund’s (“Inter Pipeline”) annual report for the year ended December 31, 2008.

2. CHANGES IN ACCOUNTING POLICY

On January 1, 2009, Inter Pipeline adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

a) Goodwill and Intangible Assets

In February 2008, the CICA issued accounting standard Section 3064 “Goodwill and intangible assets”, replacing accounting standard Section 3062 “Goodwill and other intangible assets” and accounting standard Section 3450 “Research and development costs”. Section 3064 revises the requirements for the recognition, measurement, presentation and disclosure of intangible assets. Standards concerning goodwill and research and development costs are unchanged from the standards included in the previous Section 3062. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The adoption of Section 3064 did not impact Inter Pipeline’s consolidated financial statements.

b) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee (“EIC”) issued a new abstract EIC-173 “Credit risk and the fair value of financial assets and financial liabilities”. The EIC concluded that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of the financial assets and financial liabilities, including derivative instruments. Inter Pipeline had previously incorporated the credit risk of counterparties in fair value calculations.

Inter Pipeline Fund
Notes to Interim Consolidated Financial Statements
(unaudited)
September 30, 2009
(tabular amounts in thousands of dollars, except per unit amounts)

c) Future Accounting Changes

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

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

In June 2009, CICA Handbook section 3862 "Financial Instruments – Disclosures" was amended to include enhanced disclosures about inputs to fair value measurement, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices in active markets that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The amendments to HB 3862 will be adopted by Inter Pipeline in the financial statements for the year ended December 31, 2009. The amendments are to be applied prospectively, and comparative information is not required in the first year of adoption.

Inter Pipeline Fund

Notes to Interim Consolidated Financial Statements

(unaudited)

September 30, 2009

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

	Nine Months Ended September 30, 2009							
	Canada					Europe		Total Canadian and European
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Operations	
Revenues	\$ 96,455	\$ 368,566	\$ 114,527	\$ -	\$ 579,548	\$ 87,860	\$ 667,408	
Expenses								
Shrinkage gas	-	200,040	-	-	200,040	-	200,040	
Operating	35,165	76,356	27,615	-	139,136	49,763	188,899	
Depreciation and amortization	28,357	18,729	12,948	-	60,034	16,443	76,477	
Gain on sale of Valley pipeline	-	-	(20,857)	-	(20,857)	-	(20,857)	
Financing charges	4,777	-	-	23,610	28,387	56	28,443	
General and administrative	2,267	-	-	22,004	24,271	6,268	30,539	
Unrealized change in fair value of derivative financial instruments	-	41,087	-	(606)	40,481	-	40,481	
Management fee to General Partner	-	-	-	5,206	5,206	-	5,206	
Total expenses	70,566	336,212	19,706	50,214	476,698	72,530	549,228	
Income (loss) before income taxes	25,889	32,354	94,821	(50,214)	102,850	15,330	118,180	
Provision for (recovery of) income taxes	2,579	-	-	(20,048)	(17,469)	1,025	(16,444)	
Net income (loss)	\$ 23,310	\$ 32,354	\$ 94,821	\$ (30,166)	\$ 120,319	\$ 14,305	\$ 134,624	
Expenditures on property, plant and equipment	\$ (455,497)	\$ (11,203)	\$ (35,323)	\$ -	\$ (502,023)	\$ (28,531)	\$ (530,554)	

Inter Pipeline Fund

Notes to Interim Consolidated Financial Statements

(unaudited)

September 30, 2009

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

	Nine Months Ended September 30, 2008							
	Canada					Europe		Total Canadian and European Operations
	Oil Sands Transportation Business	NGL Extraction Business	Conventional Oil Pipelines Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business		
	\$	\$	\$	\$	\$	\$	\$	
Revenues	110,976	644,543	108,561	-	864,080	100,753	964,833	
Expenses								
Shrinkage gas	-	399,862	-	-	399,862	-	399,862	
Operating	41,502	123,701	29,542	-	194,745	60,867	255,612	
Depreciation and amortization	26,625	18,758	12,867	-	58,250	12,025	70,275	
Financing charges	14,349	-	-	32,390	46,739	(210)	46,529	
General and administrative	2,759	-	-	17,082	19,841	7,383	27,224	
Unrealized change in fair value of derivative financial instruments	-	(20,796)	(37)	1,369	(19,464)	-	(19,464)	
Management fee to General Partner	-	-	-	5,725	5,725	-	5,725	
Total expenses	85,235	521,525	42,372	56,566	705,698	80,065	785,763	
Income (loss) before income taxes	25,741	123,018	66,189	(56,566)	158,382	20,688	179,070	
Provision for income taxes	2,664	-	-	25,508	28,172	3,683	31,855	
Net income (loss)	\$ 23,077	\$ 123,018	\$ 66,189	\$ (82,074)	\$ 130,210	\$ 17,005	\$ 147,215	
Expenditures on property, plant and equipment	\$ (469,705)	\$ (8,194)	\$ (5,316)	\$ -	\$ (483,215)	\$ (25,704)	\$ (508,919)	

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4. INTANGIBLE ASSETS

			September 30 2009	December 31 2008
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Transportation Services Agreement	\$ 93,548	\$ (21,763)	\$ 71,785	\$ 74,204
NGL extraction business				
Customer contracts	287,611	(49,538)	238,073	245,263
Patent	8,727	(3,220)	5,507	5,974
	296,338	(52,758)	243,580	251,237
Bulk liquid storage business				
Customer contracts and relationships	11,084	(1,518)	9,566	12,130
Tradename	4,427	(589)	3,838	4,116
	15,511	(2,107)	13,404	16,246
	\$ 405,397	\$ (76,628)	\$ 328,769	\$ 341,687

5. PROPERTY, PLANT AND EQUIPMENT

			September 30 2009	December 31 2008
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
Oil sands transportation business				
Facilities and equipment	\$ 1,045,827	\$ (127,255)	\$ 918,572	\$ 895,192
Construction work in progress	1,584,965	-	1,584,965	1,177,428
Pipeline linefill	74,033	(4,065)	69,968	71,299
	2,704,825	(131,320)	2,573,505	2,143,919
NGL extraction business				
Facilities and equipment	463,125	(72,888)	390,237	364,761
Construction work in progress	4,391	-	4,391	29,665
Spare parts	4,505	-	4,505	4,416
	472,021	(72,888)	399,133	398,842
Conventional oil pipelines business				
Facilities and equipment	783,083	(375,718)	407,365	423,520
Construction work in progress	35,849	-	35,849	4,763
	818,932	(375,718)	443,214	428,283
Bulk liquid storage business				
Facilities and equipment	348,192	(40,570)	307,622	308,769
Construction work in progress	10,422	-	10,422	13,060
	358,614	(40,570)	318,044	321,829
	\$ 4,354,392	\$ (620,496)	\$ 3,733,896	\$ 3,292,873

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On March 30, 2009, Inter Pipeline entered into an agreement with a third party to sell the Valley pipeline system ("Valley pipeline"), which was part of its Canadian conventional oil pipelines business segment. The Valley pipeline was considered a non-core asset with limited growth potential. On April 7, 2009, Inter Pipeline completed the sale for proceeds of \$28.3 million, including closing adjustments of \$0.3 million. The Valley pipeline's carrying value as of the date of closing was \$7.4 million. For the nine months ended September 30, 2009, Inter Pipeline recognized a gain on the sale of the Valley pipeline of \$20.9 million. For the nine months ended September 30, 2009, net income includes \$0.2 million related to the Valley pipeline's operations (nine months ended September 30, 2008 - \$1.3 million).

Inter Pipeline has committed to additional expenditures on property, plant and equipment totaling approximately \$439.2 million at September 30, 2009.

6. CASH DISTRIBUTIONS

Section 5.2 of the LPA requires that Inter Pipeline 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, 2009, Inter Pipeline declared cash distributions totaling \$52.4 million and \$147.9 million respectively (three and nine months ended September 30, 2008 - \$46.7 million and \$139.8 million respectively). As at September 30, 2009 distributions of \$17.6 million were payable on 250.5 million outstanding Class A units and 0.3 million outstanding Class B units at \$0.07 per unit (December 31, 2008 - \$15.6 million payable to 222.8 million outstanding Class A units and 0.2 million outstanding Class B units at \$0.07 per unit).

7. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

	September 30 2009	December 31 2008
\$2,142 million Unsecured Revolving Credit Facility	\$ 1,691,000	\$ 1,236,500
\$750 million Unsecured Revolving Credit Facility	240,000	425,000
Loan Payable to General Partner	379,800	379,800
Corridor Debentures	300,000	300,000
	2,610,800	2,341,300
Less: Current portion of Corridor Debentures	150,000	-
	2,460,800	2,341,300
Transaction costs	(13,065)	(13,065)
Accumulated amortization of transaction costs	5,086	3,900
Discount, net of accumulated amortization	(1,450)	(2,336)
Long-term debt	2,451,371	2,329,799
Current portion of long-term debt	150,000	-
Facility agreement (c)	-	7,896
Long-term debt and short-term borrowings	\$ 2,601,371	\$ 2,337,695

- (a) At September 30, 2009 letters of credit valued at \$2.2 million were issued by Corridor. In addition, at September 30, 2009 Cold Lake L.P. had issued letters of credit valued at \$3.3 million based on Inter Pipeline's 85% proportionate interest. The Cold Lake L.P. letters of credit have been cash collateralized with cash held in the form of guaranteed investment certificates.

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- (b) Effective February 13, 2009, fees on amounts borrowed under the \$20 million demand facility are based on a prime rate plus 75 basis points, while unborrowed amounts are charged standby fees of 20 basis points. Previously, amounts borrowed under this facility bore interest at the same applicable rates as the \$750 million Unsecured Revolving Credit Facility, with no fees payable on undrawn amounts. No amounts were drawn on this facility at September 30, 2009 or December 31, 2008.
- (c) In July 2009, the facility agreement was repaid and cancelled.

8. INCOME TAXES

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

9. PARTNERS’ EQUITY

Units issued and outstanding

Authorized

Unlimited number of Class A limited liability units

Unlimited number of Class B unlimited liability units

Issued and Outstanding

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

	Class A Units	Class B Units	Total
Balance as at December 31, 2007	220,659,122	221,017	220,880,139
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	1,132,986	1,144	1,134,130
Issued under Unit Incentive Option Plan	529,735	561	530,296
Balance as at September 30, 2008	222,321,843	222,722	222,544,565

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- (a) On May 7, 2009, Inter Pipeline Fund adopted a Premium Distribution™ and Distribution Reinvestment Plan (“Plan”), commencing with May 2009 cash distributions. The Plan replaces Inter Pipeline’s previous Distribution Reinvestment Plan, and the Optional Unit Purchase component under the previous plan has been discontinued. Under the Distribution Reinvestment component of the Plan, eligible unitholders may reinvest their cash distributions to purchase additional units issued from treasury at a 5% discount to the average market price of Inter Pipeline units or, under the Premium Distribution™ component of the Plan, eligible unitholders may elect to exchange these additional units for a cash payment equal to 102% of the regular cash distribution on the applicable distribution payment date. As at September 30, 2009, Inter Pipeline was committed to issuing 1.3 million Class A units to unitholders who elected to participate under the Premium Distribution™ and Distribution Reinvestment Plan in lieu of receiving cash distributions. These units were issued on October 15, 2009.
- (b) On June 18, 2009, Inter Pipeline issued 20.9 million Class A units at \$8.25 per Class A unit. The proceeds of \$164.6 million, net of issuance costs, were applied to reduce outstanding debt. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 20,952 Class B units at a price of \$8.25 per Class B unit.

Calculation of Net Income per Partnership unit

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net income attributable to unitholders –				
Basic and diluted	\$ 51,878	\$ 76,804	\$ 134,624	\$ 147,215
Weighted-average units outstanding –				
Basic	248,659,037	222,333,387	233,096,897	221,787,357
Effect of Premium Distribution™ and Distribution Reinvestment Plan	956,756	-	507,024	-
Effect of unit options	108,210	208,022	119,630	310,666
Weighted-average units outstanding –				
Diluted	249,724,003	222,541,409	233,723,551	222,098,023
Net income per Partnership unit –				
Basic and diluted	\$ 0.21	\$ 0.34	\$ 0.58	\$ 0.66

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10. LONG-TERM INCENTIVE PLAN AND UNIT INCENTIVE OPTIONS

The following table summarizes the status of Inter Pipeline's Option Plan and DURs as at September 30, 2009, and changes during the nine months then ended:

	Unit Options			DURs
	Number	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Balance outstanding, December 31, 2008	748,500	\$ 9.00	\$ 7.52	1,482,605
Granted	-	\$ -	-	1,189,694
Exercised	(501,000)	\$ 8.65	\$ 4.11	(504,921)
Cancelled	(102,000)	\$ 10.45	\$ 7.05	(59,546)
Balance outstanding, September 30, 2009	145,500	\$ 9.18	\$ 5.07	2,107,832

* The weighted-average exercise price based on the exercise price on the date of grant.

** The weighted-average exercise price adjusted for the incentive reduction to September 30, 2009.

For the three months ended September 30, 2009, operating expenses included \$1.3 million and general and administrative expenses included \$2.7 million related to DURs (three months ended September 30, 2008 - \$0.3 million and \$0.8 million, respectively). For the nine months ended September 30, 2009, operating expenses included \$3.3 million and general and administrative expenses included \$7.0 million related to DURs (nine months ended September 30, 2008 - \$1.7 million and \$3.7 million, respectively).

11. DEPRECIATION AND AMORTIZATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Depreciation of facilities and equipment	\$ 20,398	\$ 18,988	\$ 59,612	\$ 56,277
Depreciation of Corridor linefill	443	443	1,330	1,330
Amortization of intangible assets	3,536	3,526	10,543	10,582
Loss on disposal of property, plant and equipment	1,917	1,647	2,935	1,493
Accretion of asset retirement obligation	87	186	253	593
Impairment of intangible assets	-	-	1,804	-
Total depreciation and amortization	\$ 26,381	\$ 24,790	\$ 76,477	\$ 70,275

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12. FINANCING CHARGES

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Interest expense on credit facilities	\$ 4,826	\$ 14,273	\$ 18,270	\$ 44,868
Interest on Loan Payable to General Partner	6,008	6,008	18,025	18,025
Interest on Corridor Debentures	708	2,892	3,165	9,490
	11,542	23,173	39,460	72,383
Capitalized interest	(2,975)	(8,324)	(11,066)	(25,921)
Amortization of transaction costs on long-term debt	15	20	49	67
Total financing charges	\$ 8,582	\$ 14,869	\$ 28,443	\$ 46,529

At September 30, 2009, \$10.3 million in interest payable was included in accounts payable and accrued liabilities related to the Loan Payable to the General Partner (December 31, 2008 - \$4.3 million).

13. CAPITAL DISCLOSURES

Consistent with the year ended December 31, 2008, capital under management includes long-term debt (excluding discounts and transaction costs), short-term borrowings and partners' equity.

At September 30, 2009, Inter Pipeline had access to committed credit facilities totaling \$2.9 billion, of which \$961.0 million remains unutilized. Inter Pipeline also had access to unutilized demand facilities of \$57.8 million.

Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum coverage ratios stipulated in the terms of Inter Pipeline's credit facilities. In 2009, Inter Pipeline's permitted recourse debt to EBITDA ratio has been temporarily increased to accommodate the financing of the Corridor expansion project. The recourse debt to capitalization and recourse debt to EBITDA measures below are substantially the same as the coverage ratio terms contained in Inter Pipeline's credit facilities.

	September 30 2009	December 31 2008
Long-term debt (excluding transaction costs and discounts, per note 7)		
Recourse debt	\$ 717,900	\$ 804,800
Non-recourse debt	1,892,900	1,536,500
	2,610,800	2,341,300
Short-term borrowings - non-recourse (note 7)	-	7,896
Partners' equity	1,319,285	1,130,159
Total capitalization	\$ 3,930,085	\$ 3,479,355
Capitalization (excluding non-recourse debt)	\$ 2,037,185	\$ 1,934,959
Recourse debt to capitalization	35.2%	41.6%

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	Twelve Months Ended	
	September 30 2009	December 31 2008
Net income	\$ 237,143	\$ 249,734
Add:		
Depreciation and amortization	99,189	92,987
Gain on sale of Valley pipeline	(20,857)	-
Financing charges	42,133	60,219
Non-cash operating and general and administrative expense	591	(1,042)
Unrealized change in fair value of derivative financial instruments	(14,438)	(74,383)
(Recovery of) provision for income taxes	(32,408)	15,891
EBITDA*	\$ 311,353	\$ 343,406
 Recourse debt to EBITDA*	 2.3	 2.3

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

Inter Pipeline was compliant with all covenants throughout the period.

14. FINANCIAL INSTRUMENTS

a) Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at September 30, 2009 are classified as follows:

	Held for trading	Loans and receivables	Other financial liabilities	Carrying value of financial asset or liability	Non financial asset or liability*	Balance sheet
Assets**						
Cash and cash equivalents	\$ 29,777	\$ -	\$ -	\$ 29,777	\$ -	\$ 29,777
Accounts receivable	-	97,958	-	97,958	26,500	124,458
Prepaid expenses and other deposits	8,663	-	-	8,663	5,771	14,434
Derivative financial instruments***	40,181	-	-	40,181	-	40,181
Liabilities						
Cash distributions payable	-	-	17,553	17,553	-	17,553
Accounts payable and accrued liabilities	5,301	-	129,229	134,530	20,196	154,726
Derivative financial instruments***	19,236	-	-	19,236	-	19,236
Deferred revenue	-	-	7,112	7,112	13,235	20,347
Long-term debt (note 7)****	-	-	2,610,800	2,610,800	-	2,610,800
Long-term payable	11,061	-	-	11,061	-	11,061

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

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

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

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

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b) Fair Value of Financial Instruments

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

Due to the short-term maturity of instruments under long-term variable rate revolving credit facilities, it is assumed that the carrying amounts of these financial instruments approximate their fair values. At September 30, 2009, 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	\$ 394,256
Corridor Debentures	\$ 300,000	\$ 310,990

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

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

	September 30 2009	December 31 2008
Current asset	\$ 26,018	\$ 82,940
Long-term asset	14,163	39,160
Current liability	(15,621)	(38,818)
Long-term liability	(3,615)	(12,912)
	\$ 20,945	\$ 70,370

Derivative financial instruments carried at fair value are as follows:

	September 30 2009	December 31 2008
Frac-spread risk management		
NGL swaps	\$ 23,689	\$ 93,396
Natural gas swaps	(11,587)	(17,470)
Foreign exchange swaps	(3,346)	(28,533)
	8,756	47,393
Interest rate risk management		
Interest rate swaps	11,848	20,185
	11,848	20,185
Power price risk management		
Heat rate swaps	341	2,792
	341	2,792
	\$ 20,945	\$ 70,370

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c) Net Gains or Losses

Realized and Unrealized Gain (Loss) on Derivative Instruments - Held-for-Trading

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Revenues				
NGL swaps	\$ 13,031	\$ (7,590)	\$ 48,294	\$ (28,579)
Foreign exchange swaps	(2,383)	743	(12,916)	3,853
	10,648	(6,847)	35,378	(24,726)
Shrinkage gas expense				
Natural gas swaps	(9,518)	2,139	(22,744)	2,390
	(9,518)	2,139	(22,744)	2,390
Operating expenses				
Electricity price swaps	-	146	-	563
Heat rate swaps	689	89	1,301	89
	689	235	1,301	652
Financing charges				
Interest rate swaps	2,162	280	5,495	122
	2,162	280	5,495	122
Net realized gain (loss) on derivative financial instruments	\$ 3,981	\$ (4,193)	\$ 19,430	\$ (21,562)

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	
	2009	2008	2009	2008
Frac-spread risk management				
NGL swaps	\$ (18,446)	\$ 63,962	\$ (69,990)	\$ 37,213
Natural gas swaps	9,724	(36,210)	5,997	(5,083)
Foreign exchange swaps	10,539	(7,021)	25,285	(13,629)
	1,817	20,731	(38,708)	18,501
Interest rate risk management				
Interest rate swaps	(92)	(385)	1,212	(763)
	(92)	(385)	1,212	(763)
Power price risk management				
Electricity price swaps	-	(347)	-	(308)
Heat rate swaps	(981)	1,114	(2,379)	2,295
	(981)	767	(2,379)	1,987
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	(202)	(87)	(606)	(261)
Unrealized change in fair value of derivative financial instruments	\$ 542	\$ 21,026	\$ (40,481)	\$ 19,464

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The following table presents a reconciliation of the change in the fair market value of derivative financial instruments used for risk management activities during the nine months ended September 30, 2009:

	Fair Market Value	Total Unrealized Loss
Fair value of derivative financial instruments, beginning of period	\$ 70,370	\$ -
Changes in fair values of contracts in place at beginning of period and contracts entered into during period attributable to market price and other market changes	(29,995)	(27,684)
Fair value of contracts realized during period	(19,430)	(12,191)
Changes in values attributable to other comprehensive income	-	(606)
Fair value of derivative financial instruments, end of period	\$ 20,945	\$ (40,481)

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.

15. RISK MANAGEMENT

There were no changes in Inter Pipeline's financial risk exposure as compared to its December 31, 2008 position.

a) Market Risk

Frac-spread Risk Management

Contracts outstanding at September 30, 2009, represented approximately 36% of forecast volumes at the Cochrane extraction plant for the period October to December 2009 at average net prices of approximately \$0.75 Cdn/US gallon and 22% of forecast volumes for the period January to December 2010 at average net prices of approximately \$0.70 Cdn/US gallon. These average prices approximated \$0.70 US/US gallon and \$0.66 US/US gallon, respectively, based on the average US\$/Cdn\$ forward curve as at September 30, 2009.

Contracts outstanding at December 31, 2008, represented approximately 32% of forecast volumes at the Cochrane extraction plant for the period January to December 2009 at average net prices of approximately \$0.83 Cdn/US gallon and 11% for the period January to December 2010 at average net prices of approximately \$0.81 Cdn/US gallon. These average prices approximated \$0.68 US/US gallon and \$0.67 US/US gallon, respectively, based on the average US\$/Cdn\$ forward curve as at December 31, 2008.

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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 pre-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*	\$ 23,689	\$ (7,025)	\$ 7,025
AECO natural gas	(11,587)	3,002	(3,002)
Foreign exchange	(3,346)	(9,375)	9,375
Frac-spread risk management	\$ 8,756		

* Assumes that a commodity price change will impact all propane, normal butane, iso butane 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, 2009, a 1% change in interest rates at this date could affect interest expense on credit facilities and consequently pre-tax income by approximately \$4.9 million and \$14.4 million, respectively, for the three and nine months ending September 30, 2009, assuming all other variables remain constant. Of this amount, \$4.3 million and \$12.6 million, respectively, relate to the \$2.1 billion Unsecured Revolving Credit Facility (note 7) and are recoverable through the terms of the Corridor FSA. A 1% change in interest rates at September 30, 2009 could affect the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage interest rate risk and consequently after-tax income by approximately \$0.8 million, assuming all other variables remain constant.

Power Price Risk Management

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 pre-tax income by approximately \$0.1 million. A 10% change in AECO natural gas prices in isolation with all other variables held constant, could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently pre-tax income by approximately \$0.1 million.

Foreign Exchange Risk Management

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

b) Credit Risk

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

At September 30, 2009, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval and ongoing monitoring procedures and historical experience. At September 30, 2009, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

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

September 30, 2009

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

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 investment grade corporations in the energy and chemical industry sectors. At September 30, 2009, accounts receivable associated with these two business segments were \$76.4 million or 67% 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, 2009 on an undiscounted basis:

	Total	Less than one		
		year	1 to 5 years	After 5 years
Cash distributions payable	\$ 17,553	\$ 17,553	\$ -	\$ -
Accounts payable and accrued liabilities	134,530	134,530	-	-
Long-term payable*	12,058	-	11,125	933
Derivative financial instruments*	19,669	15,869	3,800	-
Deferred revenue	7,112	7,112	-	-
Long-term debt	2,610,800	150,000	2,022,152	438,648
Commitments**	546,824	100,313	389,595	56,916
	\$ 3,348,546	\$ 425,377	\$ 2,426,672	\$ 496,497

* Derivative financial instruments are shown on a net basis. The long-term payable and derivative financial instruments represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2009, based upon contractual maturity dates. Fair values of the long-term payable and derivative financial instruments reported on the balance sheet are shown on a discounted basis.

** Commitments include amounts related to capital expenditures, operating leases and purchase obligations. Capital expenditures "less than one year" represent expected expenditures for the remaining three months of 2009. Operating lease maturities and purchase obligations are based on contract terms as at December 31, 2008.

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

September 30, 2009

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

16. SUPPLEMENTAL CASH FLOW INFORMATION**Restricted Cash**

At September 30, 2009, there is a restricted cash balance of \$3.3 million in the form of guaranteed investment certificates held by Cold Lake L.P. as collateral for its issued letters of credit (December 31, 2008 - \$2.5 million).

Changes in Non-Cash Working Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Accounts receivable	\$ (22,349)	\$ (13,132)	\$ (327)	\$ 17,676
Prepaid expense and other deposits	4,715	5,097	(3,706)	6,801
Cash distributions payable	301	29	1,939	96
Accounts payable and accrued liabilities	22,459	21,534	(43,726)	8,930
Deferred revenue	(6,606)	(14,276)	14,128	3,674
Impact of foreign exchange rate differences and other	1,273	641	1,174	230
Changes in non-cash working capital	\$ (207)	\$ (107)	\$ (30,518)	\$ 37,407
These changes relate to the following activities:				
Operating	\$ (12,999)	\$ (16,448)	\$ (19,288)	\$ 26,529
Investing	12,491	16,312	(13,169)	10,782
Financing	301	29	1,939	96
Changes in non-cash working capital	\$ (207)	\$ (107)	\$ (30,518)	\$ 37,407

Other Cash Flow Information

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Cash taxes paid	\$ 114	\$ 1,390	\$ 1,186	\$ 2,079
Cash interest paid	\$ 7,207	\$ 21,528	\$ 36,440	\$ 71,169