Management's Discussion and Analysis

For the year ended December 31, 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 month period and year ended December 31, 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: 1) 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; 2) 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 taxable unitholders; and, 3) it is also well positioned to operate and grow in the future and the cash flow projections, timing and completion of its Corridor and Bow River pipeline system expansion projects, new diluent pipeline project for the Kearl oil sands development, Cochrane desulphurization facility 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 and other pipeline system projects noted above; Inter Pipeline's ability to make capital investments and amount of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its subsidiaries; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; political and economic conditions in the countries in which Inter Pipeline and its subsidiaries operate; difficulty in obtaining necessary regulatory approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities.

Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled RISK FACTORS included in this MD&A. 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 fourth quarter and year ended December 31, 2009

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period and year ended December 31, 2009 as compared to the three month period and year ended December 31, 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, June 30 and September 30, 2009, the audited consolidated financial statements for the year ended December 31, 2009, 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.

Page

2009 HIGHLIGHTS 4
FOURTH QUARTER HIGHLIGHTS 4
SUBSEQUENT EVENT 4
PERFORMANCE OVERVIEW 5
OUTLOOK 7
RESULTS OF OPERATIONS 9
SUMMARY OF QUARTERLY RESULTS 21
LIQUIDITY AND CAPITAL RESOURCES 22
CASH DISTRIBUTIONS TO UNITHOLDERS 27
OUTSTANDING UNIT DATA 28
RISK MANAGEMENT AND FINANCIAL INSTRUMENTS 29
TRANSACTIONS WITH RELATED PARTIES 32
CONTROLS AND PROCEDURES 33
CRITICAL ACCOUNTING ESTIMATES 33
CHANGES IN ACCOUNTING POLICIES 37
RISK FACTORS 41
NON-GAAP FINANCIAL MEASURES 53
ELIGIBLE INVESTORS 55
ADDITIONAL INFORMATION 55
CONSOLIDATED FINANCIAL STATEMENTS 56

2009 HIGHLIGHTS

- Funds from operations* increased to a record $294 million, up $14 million or 5% from 2008
- Low annual payout ratio before sustaining capital* of 69%
- Cash distributions to unitholders totalled $202 million or $0.845 per unit, up from $187 million distributed in 2008
- Generated net income of $158 million, including a $65 million negative adjustment related to an unrealized change in the fair value of derivative financial instruments
- Throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems averaged 751,800 barrels per day (b/d)
- Corridor pipeline system expansion project is mechanically complete; construction phase completed on schedule and under budget
- Entered into a 25-year, 60,000 b/d ship-or-pay diluent transportation contract for the Kearl oil sands project
- Successfully raised over $260 million in equity capital in 2009
- Maintained investment grade credit ratings; DBRS and Standard & Poor's increased trend outlooks on Inter Pipeline debt
- Conservative year end recourse debt to capitalization ratio of only 36%

FOURTH QUARTER HIGHLIGHTS

- Funds from operations* increased $26 million or approximately 50% to $78 million
- Payout ratio before sustaining capital* of 70% for the quarter
- Cash distributions to unitholders were $54 million or $0.215 per unit during the quarter
- Generated net income of $23 million for the quarter
- Increased monthly distributions by 7.1% to $0.075 per unit
- Completed construction on the Bow River oil segregation project; new facilities were in commercial service January 2010
- Inter Pipeline's oil sands and conventional oil pipeline systems transported 755,500 b/d in the quarter

SUBSEQUENT EVENT

- Inter Pipeline (Corridor) Inc. successfully closed a $150 million debenture offering

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

PERFORMANCE OVERVIEW

(millions, except per unit and % amounts)	Three months ended December 31 2009	2008	Years ended December 31 2009	2008	2007
Revenues					
Oil sands transportation	$ 34.1	$ 35.1	$ 130.6	$ 146.0	$ 109.0
NGL extraction	160.5	149.8	529.1	794.3	756.7
Conventional oil pipelines	34.3	39.4	148.9	148.0	122.8
Bulk liquid storage	28.2	35.5	116.0	136.3	156.5
	$ 257.1	$ 259.8	$ 924.6	$ 1,224.6	$ 1,145.0
Funds from operations[1]					
Oil sands transportation	$ 19.4	$ 17.3	$ 73.9	$ 69.8	$ 58.7
NGL extraction	40.8	13.1	133.1	134.0	145.7
Conventional oil pipelines	23.1	26.3	110.8	106.5	86.5
Bulk liquid storage	10.4	11.3	41.4	41.6	44.0
Corporate costs	(15.5)	(15.9)	(65.0)	(71.4)	(88.0)
	$ 78.2	$ 52.1	$ 294.2	$ 280.5	$ 246.9
Per unit[1]	$ 0.31	$ 0.23	$ 1.24	$ 1.26	$ 1.21
Net income	$ 23.1	$ 102.5	$ 157.7	$ 249.7	$ (80.0)
Per unit – basic and diluted	$ 0.08	$ 0.46	$ 0.66	$ 1.12	$ (0.39)
Cash distributions[2]	$ 54.5	$ 46.8	$ 202.4	$ 186.6	$ 171.7
Per unit[2]	$ 0.215	$ 0.210	$ 0.845	$ 0.840	$ 0.840
Units outstanding (basic)					
Weighted average	252.8	222.8	238.1	222.0	203.4
End of period[2]	254.6	223.1	254.6	223.1	220.9
Capital expenditures					
Growth[1]	$ 53.5	$ 101.0	$ 573.4	$ 601.7	$ 363.9
Sustaining[1]	7.4	5.2	18.0	13.4	12.2
	$ 60.9	$ 106.2	$ 591.4	$ 615.1	$ 376.1
Payout ratio before sustaining capital[1]	69.6%	89.7%	68.8%	66.5%	69.5%
Payout ratio after sustaining capital[1]	76.9%	99.7%	73.3%	69.9%	73.2%

	As at December 31 2009	2008	2007
Total assets	$ 4,472.7	$ 4,125.7	$ 3,549.8
Total debt[3]	$ 2,619.7	$ 2,349.2	$ 1,887.8
Total partners' equity	$ 1,320.1	$ 1,130.2	$ 1,064.2
Enterprise value [1]	$ 5,372.4	$ 3,921.8	$ 3,984.0
Total debt to total capitalization[1]	66.5%	67.5%	64.0%
Total recourse debt to capitalization[1]	35.7%	41.6%	44.3%

(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 totalling $2,610.9 million before discounts and debt transaction costs of $8.8 million reported in the December 31, 2009 consolidated financial statements.

YEAR ENDED DECEMBER 31, 2009

Inter Pipeline generated record financial results in 2009, with the oil sands transportation and conventional oil pipelines businesses leading the growth in funds from operations. Funds from operations were $294.2 million in 2009, approximately $13.7 million or 4.9% higher than $280.5 million generated in 2008. The NGL extraction business's financial results were consistent with 2008 as propane-plus frac-spreads rebounded in 2009 to rates realized in early 2008. Business results for the bulk liquid storage business were consistent with 2008 as facility utilization rates remained strong. Funds from operations from Inter Pipeline's four diversified business segments, combined with lower corporate costs, resulted in a positive payout ratio before sustaining capital of 68.8% for 2009.

Net income of $157.7 million for 2009 was $92.0 million lower than the $249.7 million earned in 2008. In 2008, net income benefited from a $74.4 million unrealized gain on the mark-to-market value of derivative financial instruments outstanding at December 31, 2008 compared to a $65.2 million unrealized loss at December 31, 2009. This variance was partially offset by a $24.0 million favourable variance due to changes in provincial SIFT tax rates legislated in March 2009 and a net $17.8 million gain recognized on the disposition of Inter Pipeline's Valley pipeline system and other assets in 2009.

Total cash distributions to unitholders in 2009 increased $15.8 million or 8.5% to $202.4 million compared to $186.6 million distributed in 2008. This increase in cash distributions is primarily the result of a higher overall number of Class A units outstanding during 2009. The majority of new units were issued pursuant to a new distribution reinvestment plan adopted in May 2009 and a successful $173 million public equity offering in June 2009. In October 2009, Inter Pipeline announced a monthly cash distribution increase of $0.005 per unit to $0.075 per unit for distributions declared in December 2009 and beyond. This rate increase will result in an annualized cash distribution increase of $0.06 per unit to $0.90 per unit.

Total debt increased $270.5 million from $2,349.2 million to $2,619.7 million at December 31, 2009 while Inter Pipeline spent approximately $591.4 million on capital projects. Undistributed funds from operations, net proceeds of $246.0 million from the public equity offering and a new distribution reinvestment plan were utilized to reduce indebtedness on Inter Pipeline's $750 million revolving credit facility. Inter Pipeline lowered its recourse debt to capitalization ratio from 41.6% at December 31, 2008 to 35.7% at December 31, 2009. Adjusting for the inclusion of non-recourse debt of $1,886.3 million held within the Corridor corporate entity, Inter Pipeline's total debt to total capitalization ratio at December 31, 2009 was 66.5%.

THREE MONTHS ENDED DECEMBER 31, 2009

Inter Pipeline also generated strong financial results in the fourth quarter of 2009 driven by significantly higher frac-spreads in the NGL extraction business compared to the same period in 2008. Consolidated funds from operations for the quarter of $78.2 million were $26.1 million or 50.1% higher than the $52.1 million generated in 2008 which resulted in an attractive payout ratio before sustaining capital of 69.6%. Operating results in the oil sands transportation business were also higher primarily due to an increase in volumes transported on the Cold Lake pipeline system. Lower operating results in the conventional oil pipelines and bulk liquid storage businesses were partially offset by a reduction in corporate costs.

Net income of $23.1 million in the fourth quarter of 2009 was $79.4 million lower than the $102.5 million earned in the same period in 2008. In 2008, net income benefited from a favourable $54.9 million unrealized gain as a result of the mark-to-market value of derivative financial instruments outstanding at December 31, 2008, compared to a $24.7 million unrealized loss in the fourth quarter of 2009.

Total cash distributed to unitholders in the fourth quarter of 2009 increased $7.7 million or 16.5% to $54.5 million compared to $46.8 million distributed in 2008. As discussed in the annual results above, this is primarily due to additional Class A units outstanding.

Inter Pipeline's total debt increased $8.9 million to $2,619.7 million during the quarter while Inter Pipeline spent approximately $60.9 million on capital projects.

OUTLOOK

In 2009, Inter Pipeline successfully continued to execute its long term strategy of developing long-life, high quality energy infrastructure assets that will provide sustained and predictable cash flows into the future. Implementation of this strategy in 2009 resulted in $2 billion worth of organic growth projects being advanced. The centre of growth activity for 2009 continued to be the $1.8 billion Corridor pipeline capacity expansion project. When in service, this project will substantially increase consolidated funds from operations and become a key element in allowing Inter Pipeline to maintain its current cash distributions through 2011, the year Inter Pipeline becomes fully taxable. In 2010, Inter Pipeline's capital spending will be lower as the Corridor expansion project transitions from the construction to commissioning phase. The total proposed growth capital budget for 2010 is $274 million, down from the $591 million spent in 2009. Projected 2010 sustaining capital expenditures are approximately $18 million.

The Corridor expansion project, after four years of steady progress, is expected to be completed in 2010. Approximately $210 million is expected to be incurred in 2010. Line fill, interest during construction and remaining tank costs account for the majority of these expenditures. Inter Pipeline bears no capital cost overrun exposure on these cost components as they will be added to the Corridor rate base at their actual cost. Upon completion of this $1.8 billion expansion, bitumen blend transport capacity on the Corridor system is expected to increase from 300,000 b/d to 465,000 b/d. This additional capacity will accommodate shipment of increased oil sands production from the Athabasca Oil Sands Project, a joint venture between Shell Canada Energy, Chevron Canada Limited and Marathon Oil Canada Corporation. Inter Pipeline will receive stable and predictable cash flows from this expanded pipeline system, utilizing the same cost-of-service contractual arrangements used on the original Corridor pipeline system. The expansion is expected to be in service late in 2010, with incremental revenue commencing no later than January 1, 2011.

In 2009, Inter Pipeline announced the signing of a 25-year agreement to transport diluent with Imperial Oil Resources Ventures Limited (or "Imperial" a jointly owned venture between Imperial Oil Limited and ExxonMobil Canada) for their Kearl oil sands mining project located northeast of Fort McMurray. 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 2010, approximately $28 million will be spent on the project. Diluent deliveries are expected to begin late in 2012, generating initial incremental 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. Consistent with a strategy of developing infrastructure assets through organic growth, Inter Pipeline will pursue further volume additions to utilize the remaining capacity on this system from either the Kearl project or other interested parties.

Also announced in 2009 was a major reconfiguration of Inter Pipeline's Bow River pipeline system. The Bow River segregation project enables shipment of a distinct segregated crude oil stream from the oil storage and marketing hub at Hardisty, Alberta to refining customers in Montana. The 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 with revenue commencing January 1, 2010 that is not subject to commodity price or volume risk. In December 2009, construction of the new pipeline and associated facilities was completed on schedule. The project is expected to enter into full service in the first quarter of 2010, generating an estimated $16.5 million in incremental EBITDA per year.

In the bulk liquid storage business, Inter Pipeline plans to spend approximately $12 million in 2010 on organic growth projects. This amount will be spent on various tank life extensions and tank conversions enabling the storage of new products under new contracts. Sustaining capital of $7 million in the bulk liquid storage business is planned for 2010 as part of the ongoing regular program of capital maintenance and to ensure that tankage facilities comply with new UK safety and environmental regulations.

Organic growth capital expenditures planned for Inter Pipeline's NGL extraction business segment will focus on addressing NGL stream quality issues. Inter Pipeline is developing plans, at the request of BP Canada pursuant to its contract with Inter Pipeline, to construct facilities at Cochrane to remove sulphur

compounds from propane-plus production. Over the next three years, an estimated $50 million of growth capital is planned to be spent on the project. Improving product quality is expected to ensure continuing access to premium-priced markets for propane-plus extracted at the Cochrane facility.

From a business environment perspective, Inter Pipeline continues to be in a strong position relative to uncertainty caused by the recent economic recession. A significant portion of cash flow is generated under long term contracts that are not commodity price or volume sensitive. For example, in the oil sands transportation business segment, contracts are generally cost-of-service in nature and have limited exposure to volume fluctuations and no direct exposure to commodity prices. Similarly, our bulk liquid storage and a majority of our conventional oil pipelines and NGL extraction business are fee-based in nature with no direct exposure to commodity prices. Cash flow underpinned by cost-of-service contracts is expected to become more predominant in future years due to the Corridor expansion project and other similarly contracted organic growth projects underway. With regard to market-based dynamics that could impact cash flows, certain oil blending activities on our conventional oil pipelines are exposed to commodity prices as well as propane-plus sales at the Cochrane NGL extraction facility have direct exposure to commodity prices through the propane-plus frac-spread.

In 2009, propane-plus frac-spreads climbed steadily through the year from $0.33 USD/USG in the fourth quarter of 2008 to $0.80 USD/USG in the same period in 2009. Due to the magnitude of the increase, frac-spreads contributed positively to financial results in 2009. Inter Pipeline's diversified revenue streams ensure that while beneficial commodity prices strongly help overall financial performance through high frac-spreads, the direct impact of weaker commodity prices is limited primarily to one revenue stream in the NGL extraction business segment. Indirectly, low commodity prices could over time, result in lower volumes moving through our fee-based businesses, primarily the conventional oil pipelines and bulk liquid storage business segments. Regardless of commodity price levels, we expect Inter Pipeline's business units to exhibit solid performance in 2010 due to the stable and predictable nature of commercial arrangements underpinning Inter Pipeline's energy infrastructure assets.

In 2007, the federal government's Tax Fairness Plan became law. As a result, publicly-traded flow-through entities such as income trusts and limited partnerships will be subject to taxation commencing January 1, 2011. There is currently much speculation in the investment community and media regarding potential changes to corporate structure and the sustainability of current cash distributions paid by such entities when they become taxable.

In order to evaluate the implications of the Tax Fairness Plan on Inter Pipeline, the governance committee and the remaining 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 review of these impacts by the governance committee and the other independent directors 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, in the fourth quarter of 2009, Inter Pipeline announced a 7.1% increase to its monthly distributions to $0.075 per unit. Strong fundamentals within each of Inter Pipeline's four business segments support the increase, as do expected cash flows from organic growth projects currently underway. Total EBITDA contributions from these projects are expected to be approximately $200 million per year once in service.

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's credit position is also very strong, anchored by a banking syndicate that is well diversified with 16 major lending institutions participating. Central to Inter Pipeline's credit capacity are two fully committed credit facilities that are used to operate and grow the business. With approximately $950 million in unutilized credit capacity and terms extending into 2012, these committed credit facilities provide Inter Pipeline with a solid financial base to support and grow the business.

Both Standard & Poor's (S&P) and DBRS Limited (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 Investor Services (Moody's) and S&P, respectively. In 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. Continued success advancing growth projects, recent infusions of equity capital and strong financial results supported these positive upgrades.

From a strategic perspective, Inter Pipeline plans to continue its strategy of developing long life infrastructure assets that generate sustainable and predictable cash flows. This strategy has created a stable platform that enabled Inter Pipeline to weather the current period of economic downturn and uncertainty, while continuing to generate attractive growth opportunities. Inter Pipeline may also opportunistically pursue acquisitions that fit well strategically, are accretive to cash flow and support Inter Pipeline's investment grade credit rating.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three months ended December 31			Years ended December 31		
Volumes (000s b/d)	2009	2008	*% change*	2009	2008	*% change*
Cold Lake (100% basis)	378.4	353.9	*6.9*	370.0	347.4	*6.5*
Corridor	216.5	209.6	*3.3*	212.6	207.6	*2.4*
	594.9	563.5	*5.6*	582.6	555.0	*5.0*
(millions)						
Revenue[1]	$ 34.1	$ 35.1	*(2.8)*	$ 130.6	$ 146.0	*(10.5)*
Operating expenses[1]	$ 12.7	$ 13.4	*(5.2)*	$ 47.9	$ 54.9	*(12.8)*
Funds from operations[1][2]	$ 19.4	$ 17.3	*12.1*	$ 73.9	$ 69.8	*5.9*
Capital expenditures[1]						
Growth[2]	$ 21.5	$ 81.1		$ 476.4	$ 550.4	
Sustaining[2]	0.2	-		0.8	0.4	
	$ 21.7	$ 81.1		$ 477.2	$ 550.8	

(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.

The oil sands transportation business segment is comprised of three pipeline systems that transport petroleum products and provide related blending and handling services in northern Alberta. The three pipeline systems include the Cold Lake and Corridor pipeline systems, and a new recently announced diluent pipeline system currently in the early stages of development.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in the Hardisty and Edmonton areas. Inter Pipeline owns an 85% interest in the Cold Lake pipeline system and operates the system pursuant to a long-term Transportation Services Agreement (Cold Lake TSA) with the Cold Lake founding

shippers. The shippers have committed to utilizing these pipelines over the term of the agreement. The Cold Lake TSA provides: (i) a defined capital fee tied to volume transported through the pipelines and facilities that comprise the Cold Lake pipeline system and (ii) for the recovery of substantially all operating costs. 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). Capital fees under this commitment are collected in excess of actual volumes shipped until certain ship-or-pay thresholds are achieved by each shipper. The terms of the Cold Lake TSA extend beyond 2011, however the founding shippers have the option to utilize alternative transportation sources (if certain minimum volume levels are maintained) subject to Cold Lake Pipeline Limited Partnership's (Cold Lake LP) right to match the alternative proposal. In addition to the Cold Lake TSA, there are additional agreements with the founding and third party shippers that result in additional returns on capital invested and recovery of associated operating costs.

The Corridor pipeline system is comprised of a bitumen blend and diluent pipeline system. It transports diluted bitumen from the Muskeg River mine near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta. Corridor is the sole transporter of diluted bitumen produced by the Athabasca Oil Sands Project. The Corridor pipeline system is operated pursuant to a long-term Firm Service Agreement (Corridor FSA). The Corridor FSA utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of debt financing costs, all operating costs, rate base depreciation and taxes in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's 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, upon which the annual return on equity is determined, and changes to the Corridor rate base. The initial term of the agreement is 25 years, extending through 2028 with options for further extensions. This system is currently being expanded and is expected to generate additional revenues under the existing Corridor FSA no later than January 1, 2011.

In May 2009, Inter Pipeline announced the signing of a long term agreement with Imperial to provide diluent transportation service to the Kearl oil sands mining and extraction project from a diluent receipt point in the Edmonton area. Under the terms of this agreement, diluent transportation will be provided on an existing 12-inch diameter pipeline that is currently in service on the Corridor pipeline system. This pipeline will be idled from service upon commencement of the Corridor expansion project. The new diluent pipeline system is expected to be ready for service late in 2012. Total costs to connect the existing pipeline to the Kearl oil sands development and diluent receipt points in the Edmonton area are currently estimated to be $135 million.

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

Volumes

Average volume transported on the Cold Lake pipeline system increased 24,500 b/d or 6.9% in the fourth quarter and 22,600 b/d or 6.5% overall in 2009. 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, Inter Pipeline expects to see incremental volume growth on the system as supported by the shippers' long term published forecasts.

Average volume transported on the Corridor pipeline system increased 6,900 b/d in the fourth quarter and 5,000 b/d overall in 2009. Inter Pipeline expects to see incremental volume growth on the expanded pipeline system when it commences operations.

Revenue

Oil sands transportation revenue was approximately $1.0 million lower in the fourth quarter and approximately $15.4 million lower overall in 2009. These decreases in revenue were primarily driven by lower debt financing cost recoveries in Corridor as a result of lower interest rates, in addition to lower operating cost recoveries.

Cold Lake revenue was approximately $0.9 million higher in the fourth quarter and $1.1 million annually in 2009 compared to the same periods in 2008. The growth in revenue was primarily attributable to increases in capital fee and other transportation revenue due to an increase in volumes shipped. Operating cost recovery revenue was lower in both periods primarily due to lower power costs.

Corridor's revenue was approximately $1.9 million lower in the fourth quarter and $16.5 million annually in 2009. Compared to the same periods in 2008, average short term interest rates declined more than 235 basis points in the quarter and approximately 265 basis points over the year which resulted in the majority of the decline in debt financing costs and related revenue recovery. In both the fourth quarter and year ended December 31, 2009, operating cost recoveries were lower due to a decline in power and other operating expenditures compared to 2008.

Operating Expenses

Operating costs have a limited impact on Inter Pipeline's cash flow as almost all expenditures are recovered from shippers on both Cold Lake and Corridor pipeline systems. Operating expenditures incurred by the oil sands transportation businesses declined $0.7 million in the fourth quarter of 2009 for a total of $7.0 million for the year largely driven by lower power costs.

Power costs of $16.5 million were approximately $7.8 million lower than in 2008, largely due to lower average Alberta power pool prices. The impact of lower prices was partially offset by increases in power consumption due to higher throughput volumes particularly on the Cold Lake pipeline system. In 2009, average published power prices decreased 46.8% from $89.95/MWh in 2008 to $47.81/MWh. The trend was similar in the fourth quarter, as average published power prices decreased from $95.16/MWh in 2008 to $46.27/MWh in 2009 contributing $1.6 million to the decrease in operating expenses.

Other operating expenditures in the oil sands transportation business increased approximately $0.9 million in both the fourth quarter and year ended December 31, 2009. In the fourth quarter, Cold Lake's operating expenses were approximately $0.9 million higher primarily due to an upgrade of monitoring equipment which was partially offset by lower spending on right-of-way projects in 2009. Annually, Cold Lake's operating expenses were approximately $0.6 million higher due to increases in property taxes and employee compensation, which were also partially offset by lower spending on right-of-way projects. Corridor's operating expenses in both periods were relatively consistent with expenditures in 2008.

Capital Expenditures

In 2009, approximately $461.3 million of growth capital was spent on the Corridor pipeline expansion project for a total of $1,593.8 million to date. The project is mechanically complete and all facilities have been dry commissioned. Corridor is now focusing on plans for the addition of line fill and wet commissioning in 2010.

Total cost for the expansion project is estimated to be $1.8 billion, which remains unchanged from its original forecast. 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 $98 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.

On the Cold Lake pipeline system, approximately $11.2 million was spent during 2009 on the quarter-point pump station expansion on the south leg of the Cold Lake pipeline system. The project 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. Modifications were also made to two existing pump stations. This project increased the capacity of the Cold Lake pipeline system from 460,000 b/d to approximately 560,000 b/d.

Preliminary engineering for a new diluent pipeline project began in 2009 and land acquired for a new initiating pump station, for a total spend of $2.4 million to date on the project. Commencing in late 2012, Inter Pipeline will provide diluent transportation services to the Kearl oil sands development utilizing a 12-

inch pipeline that will be idled once the Corridor expansion project is in service. 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 oil sands development and diluent receipt points in the Edmonton area are currently estimated to be $135 million.

NGL EXTRACTION BUSINESS SEGMENT

Three months ended December 31

	2009				2008			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	2,173	52.0	29.6	81.6	1,631	47.2	25.2	72.4
Empress V (100% basis)	786	15.8	9.1	24.9	915	9.6	10.4	20.0
Empress II	26	0.5	0.3	0.8	847	15.6	9.7	25.3
	2,985	68.3	39.0	107.3	3,393	72.4	45.3	117.7

Years ended December 31

	2009				2008			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,881	50.5	27.6	78.1	1,712	48.6	26.7	75.3
Empress V (100% basis)	466	9.4	5.5	14.9	893	12.3	10.4	22.7
Empress II	526	9.7	6.2	15.9	735	15.3	8.6	23.9
	2,873	69.6	39.3	108.9	3,340	76.2	45.7	121.9

	Three months ended December 31			Years ended December 31		
(millions)	2009	2008	*% change*	2009	2008	*% change*
Revenue[1]	$ 160.5	$ 149.8	*7.1*	$ 529.1	$ 794.3	*(33.4)*
Shrinkage gas[1]	$ 87.9	$ 98.3	*(10.6)*	$ 288.0	$ 498.2	*(42.2)*
Operating expenses[1]	$ 31.8	$ 38.3	*(17.0)*	$ 108.2	$ 162.0	*(33.2)*
Funds from operations[1] [2]	$ 40.8	$ 13.1	*211.5*	$ 133.1	$ 134.0	*(0.7)*
Capital expenditures[1]						
Growth[2]	$ 0.3	$ 6.5		$ 8.8	$ 13.6	
Sustaining[2]	2.4	0.2		5.1	1.4	
	$ 2.7	$ 6.7		$ 13.9	$ 15.0	

(1) Revenue, shrinkage gas, operating expenses, funds from operations and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

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

This business has three types of sales contracts with three primary counterparties: Dow Chemical, NOVA Chemicals and BP Canada. Contract types include cost-of-service, fee-based or commodity-based arrangements and have an overall average remaining term of approximately 9 years.

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

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

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

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

Volumes

Inter Pipeline's NGL extraction plants processed an average of 2,985 million cubic feet per day (mmcf/d) and 2,873 mmcf/d of natural gas during the three months and year ended December 31, 2009, respectively. This is approximately 408 mmcf/d and 467 mmcf/d lower than the quarter and annual comparative periods in 2008 respectively, due to lower volumes of eastbound natural gas exports being available for processing at the Empress facilities. Throughput volumes have returned to the Empress V facility since completion of an ethane recovery improvement project in June 2009. Although throughput volumes at Empress V were 129 mmcf/d lower in the fourth quarter of 2009 compared to 2008, ethane recovery rates were approximately 6,200 b/d higher as a result of the efficiency project. Commissioning and testing activities have not been fully completed due to lower than anticipated flows at the plant; however, indications are that incremental ethane production will meet design targets of 7,000 b/d. 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.

Volumes through the Cochrane facility increased 542 mmcf/d and 169 mmcf/d in the fourth quarter and year ended December 31, 2009 respectively, primarily due to higher US west-coast demand for natural gas.

Revenue

Revenue was approximately $265.2 million or 33.4% lower in 2009 primarily due to declines in natural gas, propane-plus and other commodity prices, partially offset by an increase in Cochrane's production volumes. Declines in commodity prices impacted revenue in two ways: (i) lower propane-plus prices lowered the revenue portion of the frac-spread margin and (ii) lower natural gas prices lowered "flow through" cost recoveries for shrinkage, fuel and power related to cost-of-service and fee-based contracts. Commodity prices for propane-plus and natural gas purchased for shrinkage were both comparatively lower in 2009 which resulted in both lower revenue and shrinkage costs, however, the resulting frac-spread margin realized was only $0.037 USD/USG or 5.4% lower than in 2008. Similarly, while revenue declined 33.4% from 2008 to 2009, funds from operations increased $7.1 million or 5.3% (excluding a one time charge of $8.0 million discussed in the **Operating Expenses** section below).

In the fourth quarter of 2009, revenue was approximately $10.7 million higher than in 2008 due to an increase in production at the Cochrane facility, an increase in ethane production at the Empress V facility and higher propane-plus prices. Higher revenue was partially offset by the impact of lower natural gas prices on shrinkage cost recoveries in the cost-of-service and fee-based arrangements.

Frac-spread

(actual dollars)	Three months ended December 31 2009		2008	
	USD/USG	*CDN/USG*	*USD/USG*	*CDN/USG*
Market frac-spread	$ 0.840	$ 0.887	$ 0.322	$ 0.386
Realized frac-spread	$ 0.799	$ 0.844	$ 0.334	$ 0.403

(actual dollars)	Years ended December 31 2009		2008	
	USD/USG	*CDN/USG*	*USD/USG*	*CDN/USG*
Market frac-spread	$ 0.608	$ 0.677	$ 0.810	$ 0.839
Realized frac-spread	$ 0.649	$ 0.729	$ 0.686	$ 0.714

(1) The differential between USD/USG and CDN/USG frac-spreads is due to fluctuations in exchange rates between US and Canadian dollars throughout 2009.

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. 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 increased steadily throughout 2009 from $0.33 USD/USG in the fourth quarter of 2008 to $0.80 USD/USG in the same period in 2009. The annual average realized frac-spread of $0.65 USD/USG is only down slightly from the $0.69 USD/USG realized in 2008. In the latter part of 2008, frac-spreads declined from near record highs to longer-term historical levels. Frac-spreads in both the three and twelve month periods ended December 31, 2009 were well above the 15-year simple average market frac-spread of $0.34 USD/USG.

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 $10.4 million in the fourth quarter and $210.2 million for the year as a result of a decline in AECO natural gas prices. The weighted average monthly AECO price[1] was $4.01 per gigajoule (GJ) in the fourth quarter of 2009, which was approximately 37.6% lower than the weighted average price[1] of $6.43/GJ in the same period in 2008. The weighted average monthly AECO price[1] for the year decreased 49.3% from $7.71/GJ in 2008 to $3.91/GJ in 2009.

Operating Expenses

Operating expenses were approximately $6.5 million lower in the fourth quarter and $53.8 million for the year when compared to the same periods in 2008. The decline in operating expense in both periods is primarily due to lower natural gas and power prices partially offset by a one time $8.0 million expenditure discussed below. Fuel and power costs decreased approximately $14.4 million in the fourth quarter and $57.8 million for the year as a result of declines in average Alberta power pool prices and AECO natural gas prices in 2009. Comparatively, operating expenses were approximately $4.0 million higher in 2008 due to major pressure vessel maintenance completed at the Empress II facility.

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

Over the past few years, an industry-wide issue involving increasing levels of sulphur within natural gas flowing through Alberta's large export pipelines has emerged. Consequently, this has created a general increase in the sulphur content in propane-plus produced by certain Alberta NGL extraction facilities. For Inter Pipeline, increased sulphur levels primarily impact propane-plus production at the Cochrane NGL extraction facility.

Inter Pipeline and BP, its propane-plus profit sharing partner at the Cochrane facility, have investigated methods to reduce the sulphur content in the propane-plus product stream to ensure continuing access to premium-priced propane-plus markets. During the fourth quarter of 2009, a one time $8.0 million expense was recorded representing Inter Pipeline's share of certain BP downstream costs pursuant to an obligation to maintain propane-plus product specifications until a long term solution is implemented. As a long-term solution, Inter Pipeline, with the commercial support of BP, intends to construct a $50 million desulphurization facility at the Cochrane facility which should be operational in 2012.

Capital Expenditures

In 2009, the majority of growth expenditures related to construction of an ethane recovery improvement project at Empress V that was completed and in service in June 2009. Sustaining capital of $5.1 million was spent at the Cochrane facility for the replacement of several components of processing equipment pursuant to regulatory requirements and preventative maintenance.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three months ended December 31			Years ended December 31		
Volumes (000s b/d)	2009	2008	*% change*	2009	2008	*% change*
Bow River	103.9	124.3	*(16.4)*	112.6	129.3	*(12.9)*
Central Alberta / Mid-Saskatchewan / Valley[1]	56.7	68.0	*(16.6)*	56.6	69.1	*(18.1)*
	160.6	192.3	*(16.5)*	169.2	198.4	*(14.7)*
(millions)						
Revenue	$ 34.3	$ 39.4	*(12.9)*	$ 148.9	$ 148.0	*0.6*
Operating expenses	$ 11.2	$ 12.8	*(12.5)*	$ 38.9	$ 42.4	*(8.3)*
Funds from operations[2]	$ 23.1	$ 26.3	*(12.2)*	$ 110.8	$ 106.5	*4.0*
Revenue per barrel[3]	$ 2.33	$ 2.23	*4.5*	$ 2.41	$ 2.04	*18.1*
Capital expenditures						
Growth[2]	$ 21.8	$ 1.4		$ 53.3	$ 2.9	
Sustaining[2]	1.4	1.7		5.2	5.4	
	$ 23.2	$ 3.1		$ 58.5	$ 8.3	

(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.

The conventional oil pipelines business includes the Bow River, Central Alberta and Mid-Saskatchewan pipeline systems located in Alberta and Saskatchewan. The Valley pipeline system formed part of the conventional oil pipelines business until its sale earlier in 2009. The majority of petroleum volumes transported on these conventional gathering systems are under short-term contracts with fixed tolling arrangements and no specific volume commitments. Inter Pipeline also has an agreement with Nexen Marketing which includes fees for crude oil storage and a profit sharing component on marketing services provided by Nexen utilizing Inter Pipeline's facilities. In July 2009, Inter Pipeline signed a new agreement with Nexen extending existing arrangements for an additional three years with improved terms.

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

Sale of Valley Pipeline System

Effective April 2009, Inter Pipeline sold the Valley pipeline system assets for consideration of $28.3 million. The 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 31,700 b/d lower in the fourth quarter and 29,200 b/d lower overall in 2009 compared to the same periods in 2008. Volumes declined approximately 20,400 b/d on the Bow River pipeline system in the fourth quarter and 16,700 b/d in the full year primarily due to reduced volumes transported south as a result of planned maintenance at a US refinery, and construction activities related to the Bow River segregation project. As discussed below, recent trends in heavy crude oil pricing relationships and natural production declines also impacted Bow River volumes.

Volumes on the Central Alberta pipeline were approximately 10,000 b/d lower in the fourth quarter and 10,700 b/d lower overall in 2009. This was primarily a result of various producers transferring crude oil volumes away from truck terminal facilities located on the Central Alberta pipeline to other facilities in order to capitalize on a narrowing of heavy crude oil pricing differentials. These unusual pricing conditions started late in 2008 impacting volumes on the Central Alberta system during 2009. Some of these volumes returned in the latter half of 2009, however overall volumes on Central Alberta are expected to remain at this lower level going into 2010. The remaining reduction in annual volumes was mostly due to the sale of the Valley pipeline system and natural production declines in areas serviced by these pipelines.

Revenue

Overall, conventional oil pipeline revenues were approximately $0.9 million higher than in 2008. Revenues were impacted by lower volumes, however were mostly offset by increases in mainline tolls, marketing revenue and other tariff related revenue. Mainline toll increases implemented effective January 1 and July 1, 2009 each averaged approximately 6%. Mainline toll increases averaging 6% were also implemented effective January 1, 2010.

Fourth quarter revenues were approximately $5.1 million or 12.9% lower primarily a result of lower volumes and lower marketing revenue. Revenue declined due to lower volumes, however were partially offset by mainline toll increases and other related revenue. Crude oil pricing trends in the latter half of 2009 also resulted in lower marketing revenue.

Operating Expenses

Operating expenses were approximately $3.5 million lower in 2009. Higher employee compensation costs were more than offset by lower expenditures on power, pipeline integrity inspection costs and remediation accruals when compared to 2008. Employee compensation costs were higher due to annual salary increases and revaluation of the deferred unit rights plan. 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.

In the fourth quarter of 2009, operating expenses were lower by approximately $1.6 million compared to the same period in 2008 primarily due to lower expenditures on tank maintenance, pipeline integrity and power.

Capital Expenditures

Growth capital expenditures in 2009 related to engineering and construction of the Bow River pipeline crude oil stream segregation project announced in April 2009. This project involved the construction of 128 kilometres of new pipeline and related facility modifications resulting in dedicated transmission services from Hardisty, Alberta to Milk River, Alberta. Project construction has been successfully completed and new facilities were operational as of January 2010.

Bulk Liquid Storage Business Segment

	Three months ended December 31			Years ended December 31		
	2009	2008	*% change*	2009	2008	*% change*
Utilization	96.0%	97.2%	*(1.2)*	96.4%	95.5%	*0.9*
(millions)						
Revenue	$ 28.2	$ 35.5	*(20.6)*	$ 116.0	$ 136.3	*(14.9)*
Operating expenses	$ 15.1	$ 19.5	*(22.6)*	$ 64.9	$ 80.4	*(19.3)*
Funds from operations[1]	$ 10.4	$ 11.3	*(8.0)*	$ 41.4	$ 41.6	*(0.5)*
Capital expenditures						
Growth[1]	$ 9.9	$ 12.0		$ 34.9	$ 34.8	
Sustaining[1]	3.4	3.3		6.9	6.2	
	$ 13.3	$ 15.3		$ 41.8	$ 41.0	

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

Inter Pipeline, through its wholly owned subsidiary Simon Storage Limited (Simon Storage), owns eight deep water bulk liquid storage terminals in the UK, Germany and Ireland with capacity of approximately 8.0 million barrels of storage. Business activities consist primarily of storage and handling services contracted through a combination of fixed storage rental fees and variable throughput fees. The business supports a wide range of activities, including refinery support, inland product distribution and raw material storage for regional manufacturing facilities and has a well diversified customer base, with key customers including ConocoPhillips, Greenergy, Mabanaft and BASF. Simon Storage also offers a range of ancillary services to its customers through its engineering, training and facilities management divisions. In November 2009, the ancillary bulk liquid trucking business was sold as part of a portfolio reshaping towards higher margin storage and handling.

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

Utilization

In spite of recent negative trends in the European economic environment, tank utilization declined only 1.2% in the fourth quarter of 2009 compared to 2008. Simon Storage's Seal Sands and German terminals' utilization declined slightly due to reduced demand from the chemical sector. Historically, demand for storage fluctuates due to market conditions within industry sectors and Simon Storage manages these fluctuations through customer and product diversification. Overall in 2009, utilization rates increased from 95.5% in 2008 to 96.4% in 2009 as demand for bulk liquid product storage in the other terminals continued to remain strong.

Revenue

Annual revenue in 2009 was approximately $20.3 million lower than in 2008. Foreign currency translation adjustments and revenue related to ancillary business activity declined $10.2 million and $11.0 million respectively (see related declines in operating expenses below). Average foreign currency exchange rates went from 1.96 UK pound sterling (GBP) to CDN in 2008 to 1.78 GBP to CDN in 2009. Storage and handling revenue increased approximately $0.9 million overall in 2009. Incremental income generated from new tankage constructed at the Immingham, UK terminal was partially offset by lower handling and other service fees as a result of lower throughput volumes when compared to 2008.

In the fourth quarter of 2009, revenue was approximately $7.3 million lower than in 2008. Foreign currency translation adjustments and revenue related to ancillary business activity declined approximately $2.8 million and $3.8 million, respectively. Storage and handling revenue was approximately $0.8 million lower in the quarter compared to 2008. Lower handling, heating and other service fees declined due to lower throughput volumes which were partially offset by a marginal increase in storage rental fees.

Operating Expenses

Operating expenses were also lower by approximately $4.4 million in the fourth quarter and $15.5 million for the year compared to the same periods in 2008. Foreign currency translation adjustments contributed $6.1 million (Q4 2009 - $1.6 million) and decreased activity in the ancillary businesses contributed $9.8 million (Q4 2009 - $3.4 million) to the reduction in operating expenses. In 2009, operating expenses in the storage and handling business were relatively consistent with the same period in 2008. In the fourth quarter, operating expenses were approximately $0.6 million lower than in 2009 primarily due to a tax levy reassessment recorded in 2008.

Capital Expenditures

Inter Pipeline spent approximately $7.7 million of the $34.9 million of growth capital expenditures on construction of eight new tanks adding 318,000 barrels of storage at its Immingham terminals in response to growing local demand for bulk liquid storage and handling facilities. In addition, approximately $6.6 million of growth capital was spent advancing the conversion of two tanks comprising 79,000 barrels of tankage, to support a new ten year contract with Total UK Limited to store molten sulphur at the Immingham terminal. Other growth capital projects include a number of tank replacement, tank life extension and tank modification projects at Immingham and other terminals.

In 2009, Inter Pipeline spent approximately $2.3 million for a total of approximately $3.9 million to date on compliance projects related to the UK regulatory authority's containment regulations introduced in February 2008.

OTHER EXPENSES

	Three months ended December 31		Years ended December 31	
(millions)	2009	2008	2009	2008
Depreciation and amortization	$ 28.7	$ 23.3	$ 102.2	$ 92.1
Loss (gain) on disposition of assets	0.1	(0.6)	(17.8)	0.9
Financing charges	8.5	13.7	36.9	60.2
General and administrative	10.9	7.9	41.4	35.2
Unrealized change in fair value of derivative financial instruments	24.7	(54.9)	65.2	(74.4)
Fees to General Partner	1.8	1.4	7.0	7.1
Income tax expense (recovery)	0.5	(16.0)	(15.9)	15.9

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. Amortization of intangible assets also includes a $5.9 million charge related to customer contracts that either expired or were terminated in the bulk liquid storage business.

Gain / Loss on Sale of Assets

Inter Pipeline recognized a net gain of $17.8 million on the sales of the Valley pipeline system, bulk liquid trucking operations and disposal of other non core assets.

Financing Charges

	Three months ended December 31		Years ended December 31	
(millions)	2009	2008	2009	2008
Interest on credit facilities	$ 5.0	$ 13.9	$ 23.3	$ 58.7
Interest on loan payable to General Partner	6.0	6.0	24.0	24.0
Interest on debentures	0.8	2.5	3.9	12.0
Total financing charges	11.8	22.4	51.2	94.7
Capitalized interest	(3.3)	(8.7)	(14.4)	(34.6)
Amortization of transaction costs on long-term debt	-		0.1	0.1
	$ 8.5	$ 13.7	$ 36.9	$ 60.2

Average short term interest rates were substantially lower in both three and twelve month periods in 2009 compared to 2008. The weighted average interest rate on Inter Pipeline's credit facilities declined approximately 260 basis points from 3.8% in 2008 to approximately 1.2% in 2009. Inter Pipeline's weighted average credit facility debt outstanding increased approximately $289.1 million to $1,770.3 million in 2009 compared to $1,481.2 million in the same period in 2008 due to additional financing of expenditures for the Corridor expansion project. A portion of interest expense attributable to the Corridor pipeline expansion has been capitalized along with other related capital expenditures.

In the fourth quarter of 2009, average short term interest rates also decreased substantially compared to 2008. The weighted average interest rate on Inter Pipeline's credit facilities declined approximately 240 basis points from 3.3% in the fourth quarter of 2008 to approximately 0.9% in 2009. Inter Pipeline's weighted average credit facility debt outstanding increased approximately $311.3 million to $1,950.9 million in the fourth quarter of 2009 compared to $1,639.6 million in the same period in 2008 also due to financing expenditures on the Corridor expansion project.

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 to the end of 2009 due to amendments made for the Corridor expansion. In 2010, this premium will no longer be applied and rates will return to fixed rates of 5.85% and 6.15% respectively on the $91.2 million and $288.6 million notes outstanding.

Debenture interest expense decreased approximately $1.7 million in the fourth quarter for a total decrease of $8.1 million for the year due to lower short term interest rates. While interest rates on these debentures are fixed, Inter Pipeline has interest rate swap agreements in place that exchange the fixed rates for 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

	Three months ended December 31		Years ended December 31	
(millions)	2009	2008	2009	2008
Canada	$ 8.4	$ 4.1	$ 32.7	$ 24.0
Europe	2.5	3.8	8.7	11.2
	$ 10.9	$ 7.9	$ 41.4	$ 35.2

In Canada, general and administrative expenses increased $4.3 million in the fourth quarter and $8.7 million in 2009 due to increases in employee compensation and other administrative costs. The increase in employee compensation primarily results from the revaluation of Inter Pipeline's long term deferred unit rights program.

In Europe, general and administrative expenses were down approximately $1.3 million in the fourth quarter for a total of $2.5 million in 2009 as a result of foreign currency translation adjustments and lower expenditures in 2009 when compared to 2008. Expenditures on professional fees were higher in 2008 as management assessed additional business opportunities.

Unrealized Change in Fair Value of Derivative Financial Instruments
Mark-to-market valuation of Inter Pipeline's commodity-based derivative financial instruments contributed to most of the unfavourable $24.7 million change in the fourth quarter and unfavourable $65.2 million change in 2009. Changes in NGL forward prices between December 2009 and 2008, combined with changes in volumes of NGLs under purchase and sale swap contracts during the period, resulted in an unfavourable $102.7 million change in the mark-to-market value of contracts recognized in 2009. The change in forward prices of natural gas hedges and foreign currency swaps between December 2009 and 2008 resulted in a favourable $39.2 million change in the mark-to-market value during the same period.

Similarly, changes in NGL forward prices between September and December 2009, combined with changes in volumes under purchase and sale swap contracts, resulted in a $32.7 million unfavourable change in the mark-to-market value of contracts. A favourable $7.9 million change in the mark-to-market value of natural gas hedges and foreign currency swaps in the fourth quarter of 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
In the fourth quarter of 2009, Inter Pipeline paid fees to the General Partner of $1.8 million (Q4 2008 - $1.4 million) for a total of $7.0 million (2008 - $7.1 million) in 2009. Management fees of $6.9 million were paid to the General Partner in 2009 which 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 year ended December 31, 2009 decreased $31.8 million from an income tax expense of $15.9 million in 2008 to a net recovery of $15.9 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

(millions, except per unit and % amounts)	2008 First Quarter	2008 Second Quarter	2008 Third Quarter	2008 Fourth Quarter	2009 First Quarter	2009 Second Quarter	2009 Third Quarter	2009 Fourth Quarter
Revenue								
Oil sands transportation	$ 37.3	$ 38.5	$ 35.2	$ 35.1	$ 33.6	$ 30.6	$ 32.2	$ 34.1
NGL extraction[1]	214.7	198.4	231.4	149.8	143.2	98.1	127.3	160.5
Conventional oil pipelines	33.9	35.4	39.3	39.4	38.7	39.8	36.1	34.3
Bulk liquid storage	32.1	33.8	34.9	35.5	30.1	28.8	28.9	28.2
	$ 318.0	$ 306.1	$ 340.8	$ 259.8	$ 245.6	$ 197.3	$ 224.5	$ 257.1
Funds from operations[2]								
Oil sands transportation	$ 18.5	$ 19.0	$ 15.1	$ 17.3	$ 18.0	$ 17.9	$ 18.6	$ 19.4
NGL extraction[1]	43.2	29.9	47.8	13.1	26.2	25.2	40.9	40.8
Conventional oil pipelines	24.4	25.6	30.1	26.3	28.5	31.8	27.3	23.1
Bulk liquid storage	9.3	10.1	10.9	11.3	10.5	9.9	10.6	10.4
Corporate costs	(19.6)	(17.7)	(18.2)	(15.9)	(17.1)	(16.3)	(16.1)	(15.5)
	$ 75.8	$ 66.9	$ 85.7	$ 52.1	$ 66.1	$ 68.5	$ 81.3	$ 78.2
Per unit[2]	$ 0.34	$ 0.30	$ 0.39	$ 0.23	$ 0.30	$ 0.30	$ 0.33	$ 0.31
Net income	$ 60.1	$ 10.3	$ 76.8	$ 102.5	$ 43.4	$ 39.3	$ 51.9	$ 23.1
Per unit – basic & diluted	$ 0.27	$ 0.05	$ 0.34	$ 0.46	$ 0.19	$ 0.18	$ 0.21	$ 0.08
Cash distributions[3]	$ 46.5	$ 46.6	$ 46.7	$ 46.8	$ 46.9	$ 48.6	$ 52.4	$ 54.5
Per unit[3]	$ 0.210	$ 0.210	$ 0.210	$ 0.210	$ 0.210	$ 0.210	$ 0.210	$ 0.215
Units outstanding (basic)								
Weighted average	221.2	221.8	222.3	222.8	223.4	227.0	248.7	252.8
End of period	221.6	222.1	222.5	223.1	223.7	246.5	250.8	254.6
Capital expenditures								
Growth[2]	$ 230.5	$ 118.7	$ 151.6	$ 101.0	$ 57.0	$ 46.0	$ 417.0	$ 53.5
Sustaining[2]	1.6	3.1	3.5	5.2	2.9	3.6	4.0	7.4
	$ 232.1	$ 121.8	$ 155.1	$ 106.2	$ 59.9	$ 49.6	$ 421.0	$ 60.9
Payout ratio before sustaining capital[2]	61.3%	69.7%	54.5%	89.7%	71.0%	71.0%	64.4%	69.6%
Payout ratio after sustaining capital[2]	62.6%	73.1%	56.9%	99.7%	74.3%	75.0%	67.7%	76.9%
Total debt[4]	$ 2,035.7	$ 2,146.3	$ 2,264.8	$ 2,349.2	$ 2,406.5	$ 2,246.0	$ 2,610.8	$ 2,619.7
Total partners' equity	$ 1,098.9	$ 1,064.9	$ 1,075.7	$ 1,130.2	$ 1,130.5	$ 1,315.5	$ 1,319.3	$ 1,320.1
Enterprise value[2]	$ 4,151.7	$ 4,374.2	$ 4,376.7	$ 3,921.8	$ 4,064.0	$ 4,392.9	$ 5,038.2	$ 5,372.4
Total recourse debt to capitalization[2]	41.8%	42.7%	42.6%	41.6%	42.2%	32.3%	35.2%	35.7%
Total debt to total capitalization[2]	64.9%	66.8%	67.8%	67.5%	68.0%	63.1%	66.4%	66.5%

(1) Significant changes in propane-plus commodity prices and foreign exchange rates resulted in lower revenue and funds from operations in the fourth quarter of 2008 through to the second quarter of 2009. 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) Cash distributions are calculated based on the number of units outstanding at each record date.
(4) Total debt includes long-term debt, short-term borrowings on demand loans before discounts and debt transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital and acquisition programs throughout market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital programs. Inter Pipeline generally relies on committed credit facilities and cash flow from operations to fund capital requirements. At December 31, 2009, Inter Pipeline had access to committed credit facilities totaling $2.9 billion, of which approximately $950 million remains unutilized. Inter Pipeline also had access to unutilized demand facilities of approximately $60 million.

Inter Pipeline also ensures a base of equity capital is available for some of its recently announced growth capital projects. In 2009, Inter Pipeline raised in excess of $292 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 $94.6 million of equity was issued through the new distribution reinvestment plan in the first eight months since implementation in May 2009. Inter Pipeline received proceeds of $28.3 million 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

(millions, except % amounts)		Recourse		Non-recourse		December 31 2009		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					$	123.6	$	-
Inter Pipeline syndicated facility						230.0		425.0
Loan payable to General Partner						379.8		379.8
Non-recourse								
Corridor syndicated facility						1,586.3		1,236.5
Corridor debentures						300.0		300.0
Demand loan facilities						-		7.9
Total debt[1][2]						2,619.7		2,349.2
Total partners' equity						1,320.1		1,130.2
Total capitalization[3]					$	3,939.8	$	3,479.4
Total debt to total capitalization[3]						66.5%		67.5%
Total recourse debt to capitalization[3]						35.7%		41.6%

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

(2) In 2009, total debt includes long-term debt of $2,610.9 million including discounts and debt transaction costs of $8.8 million.

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

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization and recourse debt to EBITDA. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensure compliance with all debt covenants. Financial covenants on Inter Pipeline's credit facilities are based on the amount of recourse debt outstanding. Management's objectives are to remain well below its maximum target ratio of 65% recourse debt to capitalization and maximum recourse debt to EBITDA rate of 4.25. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization ratio was a favourable 35.7% at December 31, 2009. Adjusting for the impact of non-recourse debt of $1,886.3 million, Inter Pipeline's consolidated debt to total capitalization ratio at December 31, 2009 was 66.5%.

At December 31, 2009, approximately $2,197.9 million or 83.9% of Inter Pipeline's total consolidated debt was exposed to variable interest rates, however the debt financing costs related to $2,009.9 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 $188.0 million or 7.2% of total outstanding debt. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2001, Inter Pipeline entered into two fixed interest rate swap agreements to manage a portion of its variable interest rate risk exposure. In 2007, Inter Pipeline acquired two variable interest rate swap agreements to manage fixed interest rate exposure on Corridor's 5 and 10 year debentures. The interest rate swap associated with Corridor's 5 year debentures was terminated when the underlying debenture matured on February 2,

2010. On the same day, Corridor issued $150.0 million of 4.897% fixed rate series C senior, unsecured debentures that mature February 3, 2020.

	December 31 2009			2008		
Maturity date	Fixed Rate Per Annum (excluding applicable margin)		Notional Balance *(millions)*	Fixed Rate Per Annum (excluding applicable margin)		Notional Balance *(millions)*
Corridor debentures						
- Fixed to floating rate swap						
Series 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%	$	27.0	6.300%	$	28.0
December 31, 2011	6.310%		15.0	6.310%		15.0
		$	42.0		$	43.0

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

Inter Pipeline has maintained its investment grade, long-term corporate credit rating of BBB with S&P since 2003. 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 included a 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 December 31, 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 in the section above.

(millions)	Total	Less than one year	1 to 5 years	After 5 years
Capital expenditure projects				
Oil sands transportation	$ 347.6	$ 243.0	$ 104.6	$ -
NGL extraction	52.0	14.0	38.0	-
Conventional oil pipelines	5.0	5.0	-	-
Bulk liquid storage	12.0	12.0	-	-
Growth capital[1]	416.6	274.0	142.6	-
Sustaining capital[1]	18.0	18.0	-	-
	434.6	292.0	142.6	-
Total debt[2]				
Corridor syndicated facility	1,709.9	123.6	1,586.3	-
Inter Pipeline syndicated facility	230.0	-	230.0	-
Loan to General Partner	379.8	-	379.8	-
Corridor debentures	300.0	150.0	-	150.0
	2,619.7	273.6	2,196.1	150.0
Other obligations				
Derivative financial instruments	21.1	16.8	4.3	-
Operating leases[3]	83.1	6.6	25.0	51.5
Purchase obligations[3]	22.6	4.2	10.7	7.7
Long term portion of incentive plan	5.1	-	5.1	-
Working capital deficit[1]	10.1	10.1	-	-
	$ 3,196.3	$ 603.3	$ 2,383.8	$ 209.2

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section of this MD&A.
(2) Outstanding Corridor letters of credit of approximately $0.3 million are not included in the total $2,619.7 million of debt outstanding in the table above.
(3) Operating lease maturities and purchase obligations are based on contract terms as presented at December 31, 2009.

Inter Pipeline plans to invest approximately $416.6 million in organic growth capital projects over the 2010 to 2012 period which includes the Corridor pipeline expansion project and recently announced $135 million oil sands diluent transportation project and $50 million desulphurization project at the Cochrane NGL facility. Details of these new capital programs are discussed in further detail in the **OUTLOOK** section. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's post Buncefield regulations. Potential solutions are being evaluated and the amount and timing of expenditures have not been determined. Funding of significant capital projects is managed as discussed in the capital structure section.

At December 31, 2009, Inter Pipeline's debt maturities ranged from February 2010 to February 2015. Corridor's series A debentures matured February 2, 2010 and Corridor's series B debentures will mature in February 2015. On February 2, 2010, Corridor issued $150.0 million of series C senior, unsecured debentures maturing February 3, 2020. Amounts drawn on tranches A and B of Corridor's syndicated facility will mature in 2012. Amounts drawn on tranches C and D of this facility will mature on the earliest of August 14, 2012 and the commencement or suspension true-up date of the Corridor expansion project. Inter Pipeline's loan payable to the General Partner and Inter Pipeline syndicated facility mature in periods between 2012 and 2014.

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 December 31, 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 up to 2038.

(iii) Working capital deficiencies arise primarily from timing of cash flows; additional capital or other expenditures outstanding in accounts payable at the end of a period. In 2009, the working capital deficiency declined from $74.3 million in 2008 to $10.1 million in 2009, primarily a result of lower working capital associated with capital projects in process at year end and the impact of higher NGL commodity prices and lower AECO natural gas and power prices.

(iv) Inter Pipeline has obligations of $14.7 million under its employee incentive plan, of which $9.6 million is included in the working capital deficit.

(v) Undiscounted asset retirement obligations of $55.2 million at December 31, 2009 represent an estimate of future obligations for the retirement of NGL extraction and bulk liquid storage assets. Similarly, long term environmental liabilities of $12.3 million represent an estimate of projects that Inter Pipeline is obligated to remediate in the future. Defined benefit pension obligations of $11.1 million represent the unfunded portion of the plans at December 31, 2009. 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

	Three months ended December 31		Years ended December 31	
(millions, except per unit and % amounts)	2009	2008	2009	2008
Cash provided by operating activities	$ 85.2	$ 66.3	$ 281.8	$ 321.1
Net change in non-cash working capital	(7.0)	(14.2)	12.4	(40.6)
Less sustaining capital expenditures[1]	(7.4)	(5.2)	(18.0)	(13.4)
Cash available for distribution[1]	70.8	46.9	276.2	267.1
Change in discretionary reserves	(16.3)	(0.1)	(73.8)	(80.5)
Cash distributions	$ 54.5	$ 46.8	$ 202.4	$ 186.6
Cash distributions per unit[2]	$ 0.215	$ 0.210	$ 0.845	$ 0.840
Payout ratio before sustaining capital[1]	69.6%	89.7%	68.8%	66.5%
Payout ratio after sustaining capital[1]	76.9%	99.7%	73.3%	69.9%
Capital expenditures				
Growth[1]	$ 53.5	$ 101.0	$ 573.4	$ 601.7
Sustaining[1]	7.4	5.2	18.0	13.4
	$ 60.9	$ 106.2	$ 591.4	$ 615.1

(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 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 $73.8 million in 2009 (Q4 2009 - $16.3 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 for further information regarding the sustainability of cash distributions.

	Three months ended December 31		Years ended December 31			
(millions)	2009	2008	2009	2008	2007	2006
Cash provided by operating activities	$ 85.2	$ 66.3	$ 281.8	$ 321.1	$ 234.1	$ 201.6
Cash distributions	(54.5)	(46.8)	(202.4)	(186.6)	(171.7)	(160.8)
Excess	$ 30.7	$ 19.5	$ 79.4	$ 134.5	$ 62.4	$ 40.8

	Three months ended December 31		Years ended December 31			
(millions)	2009	2008	2009	2008	2007	2006
Net income (loss)	$ 23.1	$ 102.5	$ 157.7	$ 249.7	$ (80.0)	$ 130.6
Cash distributions	(54.5)	(46.8)	(202.4)	(186.6)	(171.7)	(160.8)
Excess (shortfall)	$ (31.4)	$ 55.7	$ (44.7)	$ 63.1	$ (251.7)	$ (30.2)

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 December 31, 2009 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	254.3	0.3	254.6

Inter Pipeline has 31,500 units reserved for issuance upon the exercise of vested Unit Incentive Options as at December 31, 2009. At February 16, 2010 Inter Pipeline had 255.8 million Class A units and 0.3 million Class B units for a total of 256.1 million units outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

MARKET RISK MANAGEMENT

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

Inter Pipeline has the following types of derivative financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price hedges, heat rate 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 earnings[1]. 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 December 31, 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.

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at December 31, 2009 and February 16, 2010. The CDN/USG average prices would approximate the following USD/USG prices based on the average USD/CDN forward curve at December 31, 2009 and February 16, 2010, respectively.

	February 16, 2010			December 31, 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)
January to December 2010	45%	$ 0.72	$ 0.69	42%	$ 0.72	$ 0.68
January to December 2011	22%	$ 0.74	$ 0.71	11%	$ 0.70	$ 0.66

Based on propane-plus volume hedges outstanding at December 31, 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

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

and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates[1]	Change in net income based on 10% decrease in prices/rates[1]
NGL[2]	$ (9.3)	$ (13.9)	$ 13.9
AECO natural gas	(6.0)	4.9	(4.9)
Foreign exchange	(0.8)	(13.1)	13.1
Frac-spread risk management	$ (16.1)		

(1) Negative amounts represent a liability increase or asset decrease. Changes related to 2011 contracts are net of tax of 26.5%.
(2) Assumes that a commodity price change will impact all propane, normal butane, isobutane and pentanes-plus products linearly.

Power Price Risk Management
Inter Pipeline uses derivative financial instruments to manage power price risk in its NGL extraction and conventional oil pipelines business segments. In 2009, Inter Pipeline entered into financial heat rate swap and electricity price swap contracts to manage electricity price risk exposure in these businesses.

Based on heat rate swaps outstanding in the NGL extraction business at December 31, 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 $0.5 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 $0.5 million.

Based on electricity price swap agreements outstanding in the conventional oil pipelines business at December 31, 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 $0.2 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 December 31, 2009, a 1% change in interest rates at this date could affect interest expense on credit facilities and consequently pre-tax income by approximately $19.4 million for the year ended December 31, 2009, assuming all other variables remain constant. Of this amount, $17.1 million relates to the $2.1 billion Corridor credit facility and are also recoverable in pre-tax income through the terms of the Corridor FSA. A 1% change in interest rates at December 31, 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 $0.6 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 less actively traded. Forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. Fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument.

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

	Three months ended December 31		Years ended December 31	
(millions)	2009	2008	2009	2008
Realized gain (loss) on derivative financial instruments				
Revenues				
NGL swaps	$ 6.5	$ 5.2	$ 54.9	$ (23.4)
Foreign exchange swaps (frac-spread hedges)	(1.0)	(2.2)	(13.9)	1.6
	5.5	3.0	41.0	(21.8)
Shrinkage gas expense				
Natural gas swaps	(7.3)	(2.1)	(30.1)	0.3
Operating expenses				
Electricity price swaps	-	0.2	-	0.8
Heat rate swaps	0.4	1.0	1.7	1.1
	0.4	1.2	1.7	1.9
Financing charges				
Interest rate swaps	2.1	0.7	7.6	0.8
Total realized gain (loss) on derivative financial instruments	0.7	2.8	20.2	(18.8)
Unrealized gain (loss) on derivative financial instruments				
NGL swaps	(32.7)	82.4	(102.7)	119.6
Natural gas swaps	5.5	(4.6)	11.5	(9.6)
Foreign exchange swaps (frac-spread hedges)	2.4	(21.3)	27.7	(34.9)
Electricity price swaps	-	(0.1)	-	(0.5)
Heat rate swaps	(0.4)	0.5	(2.8)	2.8
Interest rate swaps	0.7	(1.9)	1.9	(2.7)
Transitional transfers[1]	(0.2)	(0.1)	(0.8)	(0.3)
Total unrealized (loss) gain on derivative financial instruments	(24.7)	54.9	(65.2)	74.4
Total (loss) gain on derivative financial instruments	**$ (24.0)**	**$ 57.7**	**$ (45.0)**	**$ 55.6**

(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 December 31, 2009, accounts receivable associated with these two business segments were $88.0 million or 72% 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, deposits and derivative financial instruments, Inter Pipeline believes the risks of non-performance of counterparties are minimal as cash, deposits and derivative financial instruments outstanding are predominantly held with major financial institutions or investment grade corporations.

In the current market environment, Inter Pipeline is actively monitoring the risk of non-performance of its customers and financial counterparties. At December 31, 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 month periods or years ended December 31, 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 no dividends in the fourth quarter of 2009 or 2008, however received a cumulative total of $0.8 million (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 December 31, 2009, interest payable to the General Partner on the loan was $4.3 million (December 31, 2008 - $4.3 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 December 31, 2009, there were amounts owed to the General Partner by Inter Pipeline of $0.5 million (December 31, 2008 – $0.5 million).

CONTROLS AND PROCEDURES

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

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

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

At December 31, 2009, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 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 also refer to note 1 *Summary of Significant Accounting Policies* of the December 31, 2009 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

FINANCIAL INSTRUMENTS

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risk relating to commodity prices, foreign exchange and interest rates. Inter Pipeline also reviews all significant

agreements acquired, substantially modified or entered into for embedded derivatives. All derivative financial instruments are classified as “held-for-trading” and measured at fair value. Estimates of the fair value of derivative contracts outstanding at the end of each financial reporting period are recognized on the consolidated balance sheet and any unrealized changes in these estimates are recognized in the consolidated statements of net income. These amounts are estimates of the fair value at a point in time and the final amount will be determined on the date or interim dates that the derivative contract is settled.

The fair values of derivative financial instruments are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding. The fair values are calculated using a discounted cash flow methodology with reference to actively quoted forward prices, internal valuation models and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. Forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. However, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and differences could be significant. A significant change in commodity prices, foreign exchange rates or interest rate assumptions underlying mark-to-market valuations of derivative financial instruments would change the fair value of derivative financial instruments reported in the consolidated balance sheet and unrealized change in fair value of derivative financial instruments in the consolidated statement of net income.

Financial assets “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest rate method of amortization.

Corridor utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are either payable to or recoverable from the shippers; therefore any unrealized portion has been recorded as receivable or payable. Inter Pipeline has chosen to designate the long-term receivable or payable as held-for-trading as it represents unrealized gains or losses on interest rate swaps that are also classified as held-for-trading.

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

INTANGIBLE ASSETS

Inter Pipeline’s intangible assets are amortized using an amortization method and term based on estimates of the useful lives of these assets. The carrying values of Inter Pipeline’s intangible assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. This review requires an estimate of future cash flows to be derived from the utilization of these assets based on assumptions about future events which may be subject to change depending on future economic or technical developments. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a charge against net income.

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

The NGL extraction business intangible asset represents the estimated value of customer contracts and a patented operational process as at July 28, 2004 when the NGL extraction business was acquired. Although the contracts expire over a period ranging from five years to 20 years as at the date of acquisition, this intangible asset is being amortized over the estimated 30 year useful life of the extraction facilities as management believes it is likely the contracts will be renewed into the future. The patent is being amortized on a straight-line basis over the 14 year life of the patent. Should the useful life of the extraction facilities change or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly.

The bulk liquid storage business intangible asset represents the estimated value of a customer contract, customer relationships and trade name as at October 4, 2005 when the bulk liquid storage business was first acquired. These intangible assets are being amortized over estimated useful lives ranging from three to 30 years. Although the customer storage contract is 20 years, the asset is being amortized over 30 years as management believes it is likely the contract will be renewed into the future. Should the useful life of the bulk liquid storage facilities change, the likelihood of the renewal of the customer contract or estimated life of the customer relationships or trade name change, the amortization of the remaining balance would change accordingly. In 2009, Inter Pipeline amortized the remaining carrying value of intangible assets related to customer contracts either terminated or expired in 2009. Intangible assets were reduced by approximately $5.9 million through a charge to depreciation.

Goodwill

Goodwill created upon the acquisition of Simon Storage, Tanklager-Gesellschaft mbH and Corridor represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write-down for impairment. If the carrying value of any of the reporting units exceeds its fair value, an impairment loss would be recognized to the extent that the carrying amount of the goodwill exceeds its fair value. Each fiscal year and as economic events dictate, management reviews the valuation of goodwill, taking into consideration any events or circumstances which might have impaired the value. Inter Pipeline assesses the fair value of the goodwill amount for impairment by discounting projected future cash flows generated by these assets at a weighted average cost of capital that reflects the relative risk of the asset. If it is determined that the fair value of the future cash flows is less than the carrying value of the assets at the time of assessment, an impairment amount would be determined by deducting the fair value of the cash flows from the carrying values and reducing the carrying value of goodwill. The fair value of the underlying assets and liabilities were assessed under the standard and it was determined that there was no impairment of goodwill in 2009. Projected future cash flows used in the goodwill assessment represented management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

Property, Plant And Equipment

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

The majority of the Cold Lake pipeline system and the NGL extraction business assets are being depreciated on a straight-line basis over the estimated 30 year service life of the assets. Although management believes the asset life could exceed 30 years as is typical with these types of assets, management considers 30 years to be a conservative time period.

The assets of the Corridor pipeline system are being depreciated on a straight-line basis over the estimated 40 year service life of the assets. All expenditures directly related to construction of the Corridor expansion project are being capitalized as a component of property, plant and equipment, including overhead costs, capitalized interest and amortization of debt transaction costs. Capitalization of interest,

financing costs and operating costs will cease when the expansion project is substantially complete and ready for its intended productive use.

Pipeline line fill and tank working inventory for the Cold Lake and Corridor pipeline systems represent petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with an appropriate volume of petroleum products to enable the commercial operation of the facilities and pipeline. These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system. Proceeds from the sale of Corridor's line fill will be used to fund the cost of any asset retirement obligation. To the extent the cost of asset retirement obligations exceed the value of the line fill, Corridor will be obligated to fund the excess. To the extent the value of the line fill exceeds the asset retirement obligation, the excess funds will be payable to the shippers.

The majority of the conventional oil pipeline assets are being calculated on a straight-line basis over an estimated 30 year service life of the assets, which represents the estimated remaining life of crude oil reserves expected to be gathered and shipped on these pipeline systems.

The majority of the bulk liquid storage business assets are being depreciated on a straight-line basis over the estimated service life of the assets, which ranges from 25 to 30 years. Although the asset life could exceed 30 years as is typical with these types of assets, management considers 30 years to be a conservative time period.

Asset Retirement Obligation

Asset retirement obligations are legal obligations associated with the retirement of tangible long-lived assets. Retirement of a long-lived asset may be by sale, abandonment, recycling or disposal in some manner other than a temporary removal from service.

An asset retirement obligation is recognized at fair value in the period incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to net income or until the obligation is settled. An amount equal to the estimated fair value of the asset retirement obligation is capitalized as a component of cost of the related long-lived asset and depreciated over the asset's estimated useful life. An asset retirement obligation is calculated based on an estimate of expenditures to be incurred to retire the asset at the end of its useful life. An inflation factor is utilized to project the cost of the asset retirement at the end of its useful life, which is then discounted back to its present value utilizing a credit-adjusted risk-free rate. A change in any of the underlying estimates for the retirement cost, inflation or discount factors would result in a change in the carrying values of the asset retirement obligation and related property, plant and equipment along with a residual charge to net income.

NGL extraction and bulk liquid storage business assets include three extraction plants and eight bulk liquid storage facilities, respectively. Inter Pipeline's asset retirement obligation related to the NGL extraction facilities and leased bulk liquid storage sites represents the net present value of the expected cost to be incurred upon termination of operations and closure of these facilities. Asset retirement obligations for the NGL extraction and bulk liquid storage business assets are being accreted over time at rates of 6.2% and 7.8% per annum, respectively, based on their respective estimated undiscounted future values of $34.2 million and $21.0 million.

Conventional oil pipelines and oil sands transportation business assets primarily consist of underground pipelines and above ground equipment and facilities. No significant amount has been recorded for asset retirement obligations relating to these assets as a reasonable estimate of fair value of the liability is not determinable due to the indeterminate timing and scope of the asset retirements. As timing and scope for retirement of these assets becomes determinable, the fair value of the liability and cost of retirement will be recorded at that time. Costs associated with future site restoration of the pipeline assets will be recorded as operating expense. Potential cost of future site restorations will be dependent upon several factors, including regulatory requirements at the time of abandonment, size and location of the pipeline.

Abandonment requirements can vary considerably, ranging from purging the contents of the pipeline to complete removal of the pipeline and reclamation of the right-of-way.

Environmental Liabilities
A number of projects have been identified that Inter Pipeline is obligated to remediate in future periods. Based on management's current knowledge of regulations, technology and current plans to remediate these sites, an estimated undiscounted liability of $12.3 million has been recognized at December 31, 2009. The actual cash outlay to complete these remediation projects could take place over a time period in excess of 20 years.

Obligations Relating To Employee Pension Plans
Inter Pipeline provides retirement benefits for its UK, Ireland and German employees under three separate defined benefit plans. These plans provide benefits based primarily on a combination of years of service and an estimate of final pensionable salary. Inter Pipeline's policy is to fund the amount of benefit as required by governing legislation. Independent actuaries perform the required calculations to determine pension expense in accordance with GAAP. Statistical and other factors are used to anticipate future events to calculate the related plan expense and liabilities. Actuarial assumptions used may differ from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may affect the net pension expense and liability recorded. The most recent actuarial valuations of the UK and Ireland plans were carried out in 2007. The 2007 valuations were updated in 2009 and an actuarial valuation of the German plan completed in 2009. The obligations were measured using a projected benefit method.

Unit Incentive Options
Under Inter Pipeline's unit incentive option plan, options to purchase Class A units may be granted to directors, officers, employees, and consultants of the General Partner. Options issued are accounted for in accordance with the fair value method of accounting for unit-based compensation. As such the fair value of each unit is determined as at the date of grant using a binomial pricing model and is then amortized as an expense over the vesting period.

Income Taxes
While Inter Pipeline will be subject to additional tax under new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of a future income tax liability. The amount and timing of reversals of temporary differences will also depend on Inter Pipeline's future operating results, acquisitions and dispositions of assets and liabilities and cash distribution policy. A significant change in any of the preceding assumptions could materially affect Inter Pipeline's estimate of the future tax liability. Inter Pipeline assesses these assumptions on a regular basis.

CHANGES IN ACCOUNTING POLICIES

Future

International Financial Reporting Standards (IFRS)
All Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting periods 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 that include management from finance, investor relations, tax, compliance and information technology, among others. Quarterly updates are provided to the audit committee.

Cross functional teams have been established to focus on assessing IFRS accounting policy options, generate appropriate recommendations and identify the related implications throughout the assessment process. The project plan has been designed with some flexibility to be able to adapt to standard changes

as new accounting developments are made by the Canadian Accounting Standards Board and International Accounting Standards Board (IASB) to ensure full compliance on adoption of IFRS.

The two key elements of the project plan are: financial statement compliance with IFRS and the related business impact. Financial statement compliance with IFRS consists of four phases as discussed in the table below. The related 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.

<table>
<tr><th>Financial Statement Compliance with IFRS</th><th>Milestones / Deadlines</th></tr>
<tr><td>Initial impact assessment phase
➢ Initial identification of the major differences between current Canadian GAAP and IFRS standards and assessment of the impact of these differences into high, medium and low categories in terms of the complexity of implementation and prospective timelines.</td><td>Completed</td></tr>
<tr><td>Research and planning phase
➢ Research specific differences between the standards, long-term and transitional options available and prospective changes to the IFRS standards prior to 2011. Identify potential implications on accounting policies and processes, business management, information systems, control environment and educational requirements. Develop a formal plan and timeline to meet project objectives.</td><td>Research primarily completed subject to monitoring updates as IFRS standards change</td></tr>
<tr><td>Solution development phase
➢ Quantify and evaluate transitional and long-term options available and select the most appropriate policies.</td><td rowspan="2">Financial statements to be compliant with IFRS by the commencement of planning for the 2011 fiscal year (expected by Q3 2010)</td></tr>
<tr><td>Implementation phase
➢ Integrate solutions into the underlying financial processes and systems.</td></tr>
</table>

The project is progressing according to plan. The initial impact assessment, research and planning phases are largely complete based on current IFRS standards. Many of the differences identified between IFRS and GAAP are not expected to have a material impact on Inter Pipeline's reported results and financial position; however Inter Pipeline has not yet determined the full accounting effects of adopting IFRS as some accounting policy alternatives and implementation decisions are still being evaluated.

A summary of IFRS standards expected to have an impact on Inter Pipeline's financial reporting are discussed in the following sections. This summary is not intended to be an exhaustive list of all actual or potential differences between IFRS and Canadian GAAP that will result from transition to IFRS. It should also be noted that the International Accounting Standards Board (IASB) have significant ongoing projects that could affect the ultimate differences between GAAP and IFRS and the impact on Inter Pipeline's consolidated financial statements on transition and in future. The project team will continue to monitor changes to existing IFRS standards through to the IFRS convergence date.

Exposure Draft - Joint Arrangements

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

Currently, Inter Pipeline uses the proportionate consolidation method to account for its 85% interest in the Cold Lake LP and 50% interest in the assets of the Empress V facility. Under proportionate consolidation, an entity recognizes a proportionate share of the results of operations, financial position and cash flows on

a line by line basis in the respective financial statements. Although consolidated net income and partners' equity would be the same under both accounting methods, reported assets, liabilities, operating results and cash flows reported under an equity method of accounting would be significantly different. The equity method of accounting requires all individual asset and liability line items, such as cash and cash equivalents, accounts receivable, property, plant and equipment, accounts payable and accrued liabilities to be netted as an "investment" in one line on the statement of financial position. Similarly, revenues and expenses would be combined in one line on the statement of net income. The statement of cash flows would reflect only cash distributions received and contributions made by Inter Pipeline rather than funds from operations. As a result, there would be a difference between consolidated cash provided by operating activities and funds from operations reported when there is a difference between Inter Pipeline's reported share of the net income and cash distributions received in a period.

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

Property, plant and equipment

IAS 16 – "*Property, plant and equipment"* contains the same basic principles of accounting as GAAP, however differences in application exist. For example, capitalization of directly attributable costs in accordance with IFRS may include additional costs or exclude certain costs previously recognized under GAAP, such as the mandatory capitalization of directly attributable borrowing costs as required by IAS 23 – "*Borrowing costs."* IFRS also provides specific guidance on capitalizing items such as spare parts, inspection costs and major overhauls. IAS 16 requires an entity to allocate items of property, plant and equipment into significant components and depreciate each component separately. This method of componentizing property, plant and equipment may result in an increase in the number of component parts recorded and change in the calculation of depreciation expense.

The major difference between IFRS and GAAP is an option under IAS 16 to choose either a cost or fair value model to value each class of property, plant and equipment. In addition, IFRS 1 – "*First time adoption of IFRS"* (IFRS 1) allows an entity to measure an item of property, plant and equipment at fair value on the IFRS transition date and use this value as deemed cost in future periods. Pursuant to current GAAP requirements, Inter Pipeline uses an historical cost model to value property, plant and equipment. Inter Pipeline intends to continue with a cost valuation model for its more significant assets on transition to IFRS as management considers cost to be a more consistent measure of value given the nature of its assets.

Provisions, Contingent Liabilities and Contingent Assets

IAS 37 – "*Provisions, contingent liabilities and contingent assets"* (IAS 37) requires a provision to be recognized when: (i) there is a present obligation (legal or constructive) as a result of a past transaction or event; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) a reliable estimate can be made of the obligation. Based on the guidance, IAS 37 is more specific in its requirement to record provisions including provisions for asset retirement and abandonment obligations. Inter Pipeline has not historically recorded an asset retirement obligation associated with its conventional oil pipelines and oil sands transportation business assets as the timing of settlement and magnitude of the future obligation is not determinable. The impact of IAS 37 on Inter Pipeline has not been fully determined at this time and is pending further review.

Asset Impairment

GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36 – *"Impairment of Assets"* uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cast flows). This may potentially result in more write downs where carrying values of assets were

previously supported under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. The extent of any write downs may be partially offset by the requirement under IAS 36 to reverse any previous impairment losses where circumstances have changed such that the impairments have been reduced. GAAP prohibits reversal of impairment losses.

Income Taxes

IAS 12 – "*Income Taxes*" (IAS 12) prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions should also be recorded in earnings. For transactions that are recognized outside of the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects should also be recognized outside of the statement of earnings.

The most significant impact of IAS 12 on Inter Pipeline will be derived from accounting policy decisions made under other IFRS standards. Therefore, the impact on Inter Pipeline of accounting for the tax consequences of transactions and other events under IFRS versus GAAP cannot be fully determined at this time and is pending further review.

Business Combinations

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

Consolidated Financial Statements

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

2009

Goodwill and Intangible Assets

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

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

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

Financial Instrument Disclosures

During 2009, CICA Handbook section 3862 "Financial Instruments — Disclosures" was amended to include enhanced disclosures about inputs to fair value measurement, including their classification within

a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are as follows:

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

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

RISK FACTORS

Any of the foregoing risks discussed in the following sections may require Inter Pipeline to invest additional capital or could have a material adverse effect on the future business, financial condition and/or results of operations of Inter Pipeline and its future ability to make cash distributions to unitholders.

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

Throughput Risks

Demand Risks

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

Supply Risks

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

The Cold Lake pipeline system and the Corridor pipeline system service the Cold Lake and Athabasca oil sands regions of Alberta, respectively. Both areas contain substantial oil sands deposits. Bitumen is produced in the Athabasca region using an open-pit mine operation. In addition, in-situ recovery

techniques such as cyclical steam stimulation or "CSS" and steam-assisted gravity drainage or "SAGD" are utilized in both the Cold Lake and Athabasca regions. These techniques require higher levels of capital investment and, as a result, bitumen production in these areas is more sensitive to lower producer netback prices than crude oil production in the conventional oil pipeline business segment. Producer net-back prices are affected by several factors including bitumen prices, natural gas and diluent costs and light crude oil to heavy crude oil price differentials. Natural gas is required to either heat water or generate steam in order to extract bitumen from the oil sands deposits. As well, the viscosity of bitumen requires diluent or a light crude oil product to be blended with the bitumen to allow it to be transported through the pipeline. High natural gas prices or a shortage of diluent supply may increase the overall costs of producing bitumen, which may reduce production and/or delay development of new production in the Cold Lake and Athabasca oil sands regions.

Competition and Contracts

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

The pipelines are subject to competition for volumes transported by trucking or by other pipelines near the areas serviced by the pipelines. Competing pipelines could be constructed in areas serviced by the pipelines. There can be no assurance that competition from trucking and/or other pipelines will not result in a reduction in throughput on the pipelines.

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers who have committed to utilizing the Cold Lake pipeline system and who pay for such usage over the term of the contract. The minimum annual toll revenues from the Cold Lake pipeline system are derived from the ship-or-pay provisions of the Cold Lake TSA, which arrangements continue until the end of 2011. Although volumes that are shipped by the Cold Lake Founders from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline, the Cold Lake Founders may utilize alternative transportation methods after 2011 (if certain minimum volume levels are maintained) subject to the Cold Lake LP's right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake Founders following the end of the ship-or-pay period will be sustained.

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

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

Operational Factors

The pipelines are connected to various third party mainline systems such as the Enbridge system, Express pipeline and the Trans Mountain pipeline, as well as refineries in the Edmonton area. Operational disruptions or apportionment on those third party systems or refineries may prevent the full utilization of the pipelines.

Rights-of-Way and Access

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

Multi-Jurisdictional Regulation

The pipelines are subject to intra-provincial and multi-jurisdictional regulation, including regulation by the Energy Resources Conservation Board in Alberta, and Energy and Resources in Saskatchewan. As a result, Inter Pipeline's operations may be affected by changes directed by such regulatory authorities.

The Bow River, Central Alberta, Cold Lake and Corridor pipeline systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the *Pipeline Act* (Alberta) and *Pipeline Regulation* (Alberta), and by the Energy Resources Conservation Board. The Mid-Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipelines Act* (Saskatchewan) and the *Pipelines Regulation* (Saskatchewan) and by Saskatchewan Energy and Resources. None of the pipelines are subject to regulation by the National Energy Board (NEB).

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

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

Risks Associated with the NGL Extraction Business

Natural Gas Availability and Composition

The volumes of natural gas processed by the NGL extraction business depend on the throughput of the Foothills and TransCanada Alberta systems from which the NGL extraction facilities source their natural gas supply. Without reserve additions or other new sources of gas supply, throughputs will decline over time as reserves are depleted in the areas these pipeline systems service. Natural gas producers in these service areas also may not be successful in exploring for and developing additional reserves or commodity prices may not remain at a level that encourages gas producers to explore for and develop additional reserves or to produce existing marginally economic reserves. In addition, the pipeline systems that service the NGL extraction business may also face competition from other existing or proposed natural gas transmission systems that are not, or will not be, connected to the NGL extraction facilities, resulting in natural gas being unavailable for processing. Also, to continue to have the right to reprocess natural gas for the purpose of NGL extraction from gas being transported on the natural gas transmission systems, Inter Pipeline will be required to continue to negotiate extraction agreements with the various natural gas

shippers and there is no assurance that Inter Pipeline will be able to renew contracts of the NGL extraction business to extract NGL on economic terms or at all.

The production of NGL from the NGL extraction facilities is largely dependent on the quantity and composition of the NGL within the natural gas streams that supply the NGL extraction business. The quantity and composition of NGL may vary over time. For instance, the production of coal bed methane, a dry gas source that contains virtually no recoverable NGL, is forecasted to increase above the current level. Increased volumes of lean gas on the Foothills and TransCanada Alberta systems will reduce the composition of NGL in the gas streams available for processing at the NGL extraction facilities. Also, marketable natural gas on the Foothills and TransCanada Alberta systems contains contaminants such as carbon dioxide and various sulphur compounds that are concentrated in the NGL products through the extraction process. Increased content of these contaminants in the natural gas supply may require incurring additional capital and operating costs at the NGL extraction facilities. Other factors, such as an increased level of NGL recovery conducted at field processing plants upstream of the NGL extraction facilities, increased intra-Alberta consumption of natural gas or processing completed at any new extraction plants constructed upstream of the NGL extraction facilities, or changes in the quantity and composition of the natural gas produced from the reservoirs that supply the NGL extraction facilities, could have a materially negative effect on NGL production from the NGL extraction business.

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

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

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

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

On April 23, 2009, AltaGas Income Trust (AltaGas) resubmitted its application concerning the Harmattan Co-stream Project on behalf of Taylor Processing Inc., a wholly owned subsidiary of AltaGas, to the Energy Resources Conservation Board. The Harmattan Co-stream Project consists of proposed modifications to the Harmattan facility and the proposed construction of a bypass pipeline around the Cochrane plant for the purpose of extracting NGL from up to 490 mmcf/d of natural gas on the Foothills and TransCanada Alberta systems directly upstream of the Cochrane plant. This would result in a subsequent reduction in volumes available for processing at the Cochrane plant. Should the AltaGas application be successful, the Harmattan facility would compete directly with the Cochrane plant for the right to reprocess gas volumes on the Foothills and TransCanada Alberta systems.

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

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

Reliance on Dow Chemical, NOVA Chemicals and BP Canada
Dow Chemical, NOVA Chemicals and BP Canada are the principal customers of the NGL extraction business and represent the vast majority of the revenue from the NGL extraction business. BP Canada also operates the Empress II plant and the Empress V plant. If, for any reason, these parties were unable to perform their obligations under the various agreements with Inter Pipeline, the financial results of the NGL extraction business or the operations of the Empress II plant and the Empress V plant could be negatively impacted.

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

TCPL has submitted a revised rate design for the Foothills and TransCanada Alberta systems to the NEB. Further revisions to the new proposed rate design and/or TCPL service offerings could result in additional costs to straddle plants. In addition, TCPL has experienced increased costs for service offerings, including tolling impacts, for the TransCanada Alberta system and TCPL mainline which could affect TCPL's competitiveness in relation to other pipelines capable of providing transportation service from the Western Canadian Sedimentary Basin. These factors could result in additional costs or reduced gas volumes available for reprocessing at Inter Pipeline's extraction facilities.

RISKS ASSOCIATED WITH THE BULK LIQUID STORAGE BUSINESS

Demand for Bulk Liquid Storage
Inter Pipeline's bulk liquid storage business is primarily involved in the storage and handling of liquids for regional petroleum refining and petrochemical businesses. The products stored and handled at these storage terminals are generally either feedstock for petrochemical plants and refineries or are products

produced from those facilities. As a result, a sustained slowdown in either the petroleum refining, biofuels or petrochemical sectors serviced by the bulk liquid storage business could adversely affect the bulk liquid storage business.

The Immingham storage terminals, Inter Pipeline's largest European terminals, are highly integrated with two local refineries, the ConocoPhillips Humber refinery and the Total Lindsey refinery. The closure of one or both refineries would significantly reduce revenue from the bulk liquid storage business.

Post Buncefield Regulation

Following the Buncefield oil terminal incident in December 2005, the UK's regulatory authorities have been in the process of formulating policies which require additional high integrity systems and controls on gasoline tanks and associated infrastructure. A report issued in December 2009 by the Process Safety Leadership Group details all of the required improvements and also contains a list of other hydrocarbon and petrochemical products that these improvements might apply to in future years. The report requires that sites have to conduct a gap analysis during the first half of 2010 and to have agreed on an improvement plan with the regulator by the end of September 2010.

The UK's regulatory authorities issued a Containment Policy on February 20, 2008 which will require substantially enhanced tank and bund facilities both for new build tankage and for existing facilities at the Simon Storage terminals in the UK. Phase one of the policy applies to storage of fuels and is being implemented. A second phase applies to other hazardous substances and may be implemented in 2010. Although the policy states a 10 to 20 year timescale for improvements to be effected, the regulatory authorities have since declared a desired timescale for retrospective improvements of between two and five years for sites categorized by the Regulator as higher risk. This includes the Seal Sands storage terminal. As a consequence, the requirement for sustaining capital expenditures is likely to increase in the foreseeable future, although the timing of such increases is presently uncertain. Potential solutions are being examined in order to mitigate the increase in sustaining capital expenditure costs and opportunities are being sought to recover costs via increased contract pricing.

Defined Benefit Pension Plan

A defined benefit pension plan exists for certain employees of the bulk liquid storage business. The plan holds interests in various securities and assets including equities, fixed income instruments and real estate. As a result of the recent economic climate, the liabilities of the plan exceed the plan's assets, and additional cash contributions may therefore be required by Inter Pipeline.

Competition

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

Land Lease Renewals

Several key storage terminals are located on lands leased from third parties that must be renewed from time to time. Failure to renew the leases on terms acceptable to Inter Pipeline could significantly reduce the operations of the bulk liquid storage business.

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

Federal Government Tax Fairness Plan

On October 31, 2006, the Government of Canada announced the “Tax Fairness Plan” which, upon implementation, would negatively impact most flow through entities in Canada, including Inter Pipeline. The related tax rules received royal assent and became law on June 22, 2007. The implementation of the “Tax Fairness Plan” will result in Inter Pipeline becoming taxable in 2011 at an effective income tax rate of 26.5% applied against taxable income, resulting in cash available for distribution being reduced by an amount approximating the new income tax payable. The impact on cash distributions will not be known

until the time the relationship between cash available for distribution and actual Distributable Cash paid is known. The Government of Canada has also proposed a limit on the growth of flow through entities tied to the market capitalization of such entities. The proposal provides that a flow through entity can only issue new equity in an amount equivalent to the market value of such entity's equity on October 31, 2006. Therefore, Inter Pipeline has $1,559 million of new equity available to grow its business in 2010. Inter Pipeline continues to assess alternatives in order to remain competitive in light of these proposed amendments to the tax legislation.

New Alberta Royalty Regime

On January 1, 2009, the Government of Alberta modified the manner in which royalties are charged on oil and gas producing properties in Alberta. In addition to this, and in response to the drop in oil prices experienced during the second half of 2008, the Government of Alberta announced on November 19, 2008, the introduction of a five year program of transitional royalty rates with the intent of promoting new drilling. The royalty regime does not directly impact Inter Pipeline as it has no producing properties. However, it may indirectly impact Inter Pipeline's results should the producers and shippers operating in areas serviced by Inter Pipeline decide to take actions, such as reduced capital programs or curtailment of volumes shipped, as a result of the revised royalty regime. This potential impact is tempered substantially by the cost-of-service contracts that are in place in Inter Pipeline's oil sands transportation business segment; however, Inter Pipeline cannot provide any assurance that the royalty regime will be modified in future or other transitional programs introduced. Subsequent to the implementation of the royalty regime, the Government of Alberta announced that they would conduct an Investment Competitiveness Study (Study). The Study, scheduled to be released in early 2010, is to include an assessment of the regulatory framework to identify potential impacts on investment competitiveness such as impacts on costs and resource recovery and to identify key enablers and barriers for future natural gas and conventional oil development in Alberta. The results of the Study could result in additional changes to the royalty regime or other programs or provincial regulations. Such changes may directly or indirectly impact Inter Pipeline in a materially different manner and/or in a manner that is more adverse to Inter Pipeline than the current royalty regime and regulatory framework.

Operational Factors

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

Insurance of Inter Pipeline's operations is susceptible to appetite for risk within the insurance market and either general market conditions or a poor claims record could result in significantly increased premiums or it becoming impossible to obtain cover for certain risks.

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

A significant operating cost for Inter Pipeline is electrical power. Deregulation of the Alberta electrical power market has contributed to increased volatility in electrical power prices. Factors such as a shortage

of electrical power supply or high natural gas prices could contribute to higher electrical power prices, which may result in higher operating costs for Inter Pipeline.

Regulatory Intervention and Changes in Legislation

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

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

Abandonment Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the abandonment of assets at the end of their economic lives and costs which may be substantial. Assets include pipelines (including, indirectly, its proportionate share of costs relating to the Cold Lake LP), assets in the bulk liquid storage business and NGL extraction facilities. Abandonment costs are a function of regulatory requirements at the time of abandonment, the characteristics (such as diameter, length and location) of the pipeline or the size and complexity of the extraction or storage facility.

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

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

The General Partner may, in the future, determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the pipelines, the NGL extraction facilities or the assets of the bulk liquid storage business, or the establishment of reserves for that purpose, would reduce Distributable Cash, and the timing of additions to, and distributions from, such reserves or trusts may result in the realization of taxable income by unitholders in a year prior to that in which funds resulting therefrom are distributed. See ***The Partnership Agreement – Cash Reserves*** in the 2009 **Annual Information Form.**

Environmental Costs and Liabilities

Inter Pipeline's operations are subject to the laws and regulations of the European Union, Germany, Ireland, the UK and Canada, Alberta and Saskatchewan relating to environmental protection and operational safety. Operation of certain of the pipelines, bulk liquid storage business assets and NGL extraction facilities has spanned several decades. While the remediation of releases or contamination during such period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and historical contamination may exist for which Inter Pipeline may be liable. Inter Pipeline has completed internal environmental reviews that have selectively attempted to identify locations of historical contamination and several locations have been remediated. As these reviews have not included all assets, all locations of historical contamination may not be identified. The remaining identified, but unremediated sites will be addressed in a prioritized manner, utilizing industry practices, with some locations being subject to multi-year restoration plans.

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

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

Greenhouse Gas Regulations

In 1994, the United Nations' Framework Convention on Climate Change came into force, which three years later led to the Kyoto Protocol. The Kyoto Protocol requires nations to reduce their emissions of carbon dioxide and other greenhouse gases (GHG). The Government of Canada, among other nations, ratified and signed the Kyoto Protocol. Despite this, the Government of Canada has indicated that the Kyoto Protocol targets are unachievable by Canada, but that the environmental impact of GHG emissions will nevertheless be regulated. The Copenhagen Summit on Climate Change (COP) in 2009 resulted in the Copenhagen Accord, which expresses the intention for global and national emissions to decline as soon as possible. Under the Copenhagen Accord, Canada has announced a commitment to reduce GHG emissions by 17% of the base year 2005 by 2020. The federal regulations required to achieve this commitment are not known at this time.

The Alberta government has introduced regulations to reduce GHG emissions intensity.[1] A provincial regulation entitled *Specified Gas Emitters* became effective as of July 2007. The federal government has not yet issued its related regulation. These two levels of government have indicated that they intend to harmonize their plans so that, when federal regulations are enforced, the Alberta regulations will either cede to or mirror the proposed federal regulations.

The Alberta government's *Specified Gas Emitters* regulation subjects large GHG emitters (meaning, facilities having direct emissions in excess of 100 kilotonnes per annum in 2003 or any subsequent year) to reduce GHG emissions intensity by 12% or to pay a penalty of $15 per tonne. The base period against which emissions reductions are measured is 2003 to 2005 pursuant to the Alberta regulation.

The federal program is currently under review and it is anticipated to be more stringent in both reduction levels and costs of compliance. In addition the federal government has announced that the Canadian GHG emission reduction regulations will attempt to harmonize with new requirements in the United States.

The Cochrane plant is the only asset of Inter Pipeline that is subject to provincial GHG regulations.

The proposed federal regulations also suggest that other air pollutant emissions will be regulated by the year 2015. At this time, sufficient detail necessary to evaluate Inter Pipeline's potential related compliance cost in this regard is unavailable.

The adoption of legislation or other regulatory initiatives designed to reduce GHG and air pollutants from oil and gas producers, refiners and petrochemical producers and electric generators in the geographic areas served by the pipelines, NGL extraction facilities and bulk liquid storage business could result in, among other things, increased operating and capital expenditures for those operators. This may make certain production of petroleum and gas by those producers uneconomic, resulting in reduced or delayed production, or reduced scope in planned new development or expansion projects. The operation of certain

[1] "Emissions intensity" measures the ratio of GHG emissions to production. Use of "intensity" in GHG regulations allows emitters whose throughput is growing to increase net emissions without penalty; and ensures that emitters with declining throughput must reduce emissions at rates that exceed the throughput decline rate.

refineries and petrochemical plants may also become uneconomic. In addition, the adoption of new regulations concerning climate change and the reduction of GHG emissions and other air pollutants or other related federal or provincial legislation, including the *Specified Gas Emitters* regulation, may also result in higher operating and capital costs for the pipelines and NGL extraction facilities.

Dependence on Key Personnel

The success of Inter Pipeline will be largely dependent on the skills and expertise of key personnel to manage Inter Pipeline's business. The continued success of Inter Pipeline will be dependent upon its ability to hire and retain such personnel. Inter Pipeline does not have any "key man" insurance, other than for two executive directors of the bulk liquid storage business resident in the UK.

International Operations

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

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions, including the acquisition of the Corridor pipeline system in 2007, and, as part of its business plan, anticipates making additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks, including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, increased credit risks through the assumption of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

Capital Maintenance Levels

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

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

Possible Downgrade of Investment Grade Credit Rating

Inter Pipeline’s long-term corporate credit rating is currently confirmed by S&P and DBRS to be investment grade BBB. Corridor’s series A and B debentures have been assigned an investment grade long term corporate credit rating of A (low), A3 and A- by DBRS, Moody’s and S&P, respectively. Should these ratings fall below investment grade then Inter Pipeline or Corridor may have to provide security, pay additional interest or pay in advance for goods and services.

Litigation

Inter Pipeline is not a party to any material litigation. However, there can be no assurance that, if any legitimate cause of action arose which was successfully prosecuted against Inter Pipeline that Inter Pipeline's operations or results of operations would not be adversely affected.

Risks Inherent in the Nature of the Inter Pipeline Partnership

Fluctuating Distributions; Cash Distributions Are Not Guaranteed

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

Nature of the Class A Units

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

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

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

Responsibility of the General Partner

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

Conflicts of Interest

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

affiliates to Inter Pipeline; and (vii) the decision to retain separate counsel, accountants or others to perform services for or on behalf of Inter Pipeline.

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

Inherent Tax Liability

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

Capital Resources

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

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

Leverage

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

Debt Restrictive Covenants

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

Issues of Additional Class A Units; Dilution

Inter Pipeline may issue additional Class A units in the future to finance certain of Inter Pipeline's capital expenditures, including acquisitions. The Partnership Agreement permits Inter Pipeline to issue an unlimited number of additional Class A units without the need for approval from Class A unitholders. The Class A unitholders, other than the General Partner and its affiliates, have no pre-emptive rights in connection with such additional issues. The General Partner has discretion in connection with the price

and the terms of issue of additional Class A units. Any issuance of Class A units may have a dilutive effect to existing unitholders.

Limited Voting Rights, Management and Control; Difficulty in Removing General Partner
Class A unitholders generally do not have voting rights in relation to matters involving Inter Pipeline or the General Partner, including with respect to the election of directors of the General Partner. The General Partner manages and controls the activities of Inter Pipeline. Class A unitholders have no right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General Partner may not be removed by the limited partners. Directors of the General Partner are elected by PAC, the sole shareholder of the General Partner, which is a corporation controlled by John F. Driscoll.

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

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

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, short-term borrowings and current portion of long-term debt.

		December 31
(millions)	2009	2008
Current assets		
Cash and cash equivalents	$ 18.2	$ 13.6
Accounts receivable	122.1	124.1
Prepaid expenses and other deposits	17.9	10.7
Current liabilities		
Cash distributions payable	(19.1)	(15.6)
Accounts payable and accrued liaiblites	(136.9)	(200.9)
Deferred revenue	(12.3)	(6.2)
Adjusted working capital deficiency	$ (10.1)	$ (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.

	Three months ended December 31		Years ended December 31	
(millions)	2009	2008	2009	2008
Net income	$ 23.1	$ 102.5	$ 157.7	$ 249.7
Depreciation and amortization	28.7	23.3	102.2	92.1
(Gain) loss on disposal of assets	0.1	(0.6)	(17.8)	0.9
Non-cash expenses	0.9	(1.9)	3.6	(0.9)
Unrealized change in fair value of derivative financial instruments	24.7	(54.9)	65.2	(74.4)
Future income tax expense	0.7	(16.3)	(16.7)	13.1
Funds from operations	78.2	52.1	294.2	280.5
Financing charges	8.5	13.7	36.9	60.2
Divestiture fee to General Partner	-	-	0.1	-
Current income tax expense	(0.1)	0.3	0.6	2.7
EBITDA	$ 86.6	$ 66.1	$ 331.8	$ 343.4

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

	December 31	
(millions, except per unit amounts)	2009	2008
Closing unit price	$ 10.81	$ 7.05
Total closing number of Class A and B units outstanding	254.6	223.1
Market capitalization	2,752.7	1,572.6
Total debt	2,619.7	2,349.2
Enterprise value	$ 5,372.4	$ 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 December 31			
	2009			2008
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 21.5	$ 0.2	$ 21.7	$ 81.1
NGL extraction	0.3	2.4	2.7	6.7
Conventional oil pipelines	21.8	1.4	23.2	3.1
Bulk liquid storage	9.9	3.4	13.3	15.3
	$ 53.5	$ 7.4	$ 60.9	$ 106.2

	Years ended December 31			
	2009			2008
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 476.4	$ 0.8	$ 477.2	$ 550.8
NGL extraction	8.8	5.1	13.9	15.0
Conventional oil pipelines	53.3	5.2	58.5	8.3
Bulk liquid storage	34.9	6.9	41.8	41.0
	$ 573.4	$ 18.0	$ 591.4	$ 615.1

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 short term borrowings and 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 18th day of February, 2010.

Management's Responsibility for Financial Reporting

The management of Pipeline Management Inc. (the "General Partner"), the General Partner of Inter Pipeline Fund ("Inter Pipeline"), is responsible for the presentation and preparation of the accompanying consolidated financial statements of Inter Pipeline.

The consolidated financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and, where necessary, include amounts based on the best estimates and judgments of the management of the General Partner.

The management of the General Partner recognizes the importance of Inter Pipeline maintaining the highest possible standards in the preparation and dissemination of statements presenting its financial condition. If alternative accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. In discharging its responsibilities for the integrity and reliability of the financial statements, management of the General Partner has developed and maintains a system of accounting and reporting supported by internal controls designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

In accordance with the Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit Inter Pipeline's financial statements and provide an independent audit opinion. To provide their opinion on the accompanying consolidated financial statements, Ernst & Young LLP review Inter Pipeline's system of internal controls and conduct their work to the extent they consider appropriate.

The Audit Committee, comprised entirely of independent directors, is appointed by the Board of Directors of the General Partner. The Audit Committee meets quarterly to review Inter Pipeline's interim consolidated financial statements and Management Discussion and Analysis and recommends their approval to the Board of Directors. As well, the Audit Committee meets annually to review Inter Pipeline's annual consolidated financial statements and Management Discussion and Analysis and recommends their approval to the Board of Directors. The Board of Directors of the General Partner approves Inter Pipeline's interim and annual consolidated financial statements and the accompanying Management Discussion and Analysis.

Pipeline Management Inc., as General Partner of Inter Pipeline Fund

David W. Fesyk
President and Chief Executive Officer

William A. van Yzerloo
Chief Financial Officer

February 18, 2010

AUDITOR'S REPORT

To the Partners of
Inter Pipeline Fund

We have audited the consolidated balance sheets of Inter Pipeline Fund (the "Partnership") as at December 31, 2009 and 2008 and the consolidated statements of partner's equity, accumulated other comprehensive loss, net income, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of management of Pipeline Management Inc. on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
February 16, 2010

Chartered Accountants

Inter Pipeline Fund

Consolidated Balance Sheets

(thousands of dollars)		As at December 31 2009		As at December 31 2008
ASSETS				
Current Assets				
Cash and cash equivalents (note 22)	$	18,208	$	13,566
Accounts receivable		122,122		124,131
Fair value of derivative financial instruments (note 20a)		3,738		82,940
Prepaid expenses and other deposits		17,927		10,728
Total Current Assets		161,995		231,365
Fair value of derivative financial instruments (note 20a)		9,239		39,160
Intangible assets (note 4)		319,603		341,687
Property, plant and equipment (note 5)		3,765,930		3,292,873
Goodwill (note 6)		215,947		220,582
Total Assets	$	4,472,714	$	4,125,667
LIABILITIES AND PARTNERS' EQUITY				
Current Liabilities				
Short-term borrowings (note 8)	$	-	$	7,896
Cash distributions payable (note 7)		19,098		15,614
Accounts payable and accrued liabilities (note 17)		136,909		200,904
Fair value of derivative financial instruments (note 20a)		16,655		38,818
Deferred revenue		12,351		6,219
Current portion of long-term debt (note 8)		123,600		-
Total Current Liabilities		308,613		269,451
Long-term debt (note 8)		2,487,315		2,329,799
Long-term payable		9,212		18,159
Fair value of derivative financial instruments (note 20a)		4,081		12,912
Asset retirement obligation (note 9)		5,036		6,336
Environmental liabilities (note 10)		12,299		12,721
Pension liabilities (note 11)		1,934		2,457
Long-term incentive plan (note 14)		5,127		1,353
Future income taxes (note 12)		318,996		342,320
Total Liabilities		3,152,613		2,995,508
Commitments (notes 13, 18 and 21)				
Partners' Equity				
Partners' equity (note 13)		1,373,951		1,161,547
Accumulated other comprehensive loss		(53,850)		(31,388)
Total Partners' Equity		1,320,101		1,130,159
Total Liabilities and Partners' Equity	$	4,472,714	$	4,125,667

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Pipeline Management Inc., as General Partner of the Partnership:

Director

Director

Inter Pipeline Fund

Consolidated Statements of Partners' Equity

(thousands of dollars)			Year Ended December 31 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	157,523	157	157,680	249,734
Cash distributions declared (note 7)	(202,197)	(202)	(202,399)	(186,570)
Issuance of Partnership units (note 13)				
Equity issuances, net of issue costs and future income taxes	165,719	165	165,884	(105)
Issued under Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan	88,117	88	88,205	13,916
Issued under Unit Incentive Option Plan	3,031	3	3,034	2,086
Unit incentive options	-	-	-	1
Balance, end of period	$ 1,372,579	$ 1,372	$ 1,373,951	$ 1,161,547

Consolidated Statements of Accumulated Other Comprehensive Loss

(thousands of dollars)	Year Ended December 31 2009	2008
Balance, beginning of period	$ (31,388)	$ (18,294)
Other comprehensive loss	(22,462)	(13,094)
Balance, end of period	$ (53,850)	$ (31,388)

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Capital Corporation.

Consolidated Statements of Net Income

(thousands of dollars)	Year Ended December 31 2009	2008
REVENUES		
Operating revenue	$ 924,550	$ 1,224,587
EXPENSES		
Shrinkage gas	287,957	498,170
Operating	259,818	339,660
Depreciation and amortization (note 15)	102,229	92,130
(Gain) loss on disposal of assets (note 5)	(17,837)	857
Financing charges (note 16)	36,931	60,219
General and administrative	41,437	35,165
Unrealized change in fair value of derivative financial instruments (note 20c)	65,230	(74,383)
Management fee to General Partner (note 17)	6,993	7,144
	782,758	958,962
INCOME BEFORE INCOME TAXES	141,792	265,625
(Recovery of) provision for income taxes (note 12)		
Current	791	2,801
Future	(16,679)	13,090
	(15,888)	15,891
NET INCOME	$ 157,680	$ 249,734
Net income per Partnership unit (note 13)		
Basic and diluted	$ 0.66	$ 1.12

Consolidated Statements of Comprehensive Income

(thousands of dollars)	Year Ended December 31 2009	2008
NET INCOME	$ 157,680	$ 249,734
OTHER COMPREHENSIVE LOSS		
Unrealized loss on translating financial statements of self-sustaining foreign operations	(23,270)	(13,442)
Transfer of losses on derivatives previously designated as cash flow hedges to net income (note 20c)	808	348
	(22,462)	(13,094)
COMPREHENSIVE INCOME	$ 135,218	$ 236,640

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Consolidated Statements of Cash Flows

(thousands of dollars)	Year Ended December 31 2009	2008
OPERATING ACTIVITIES		
Net income	$ 157,680	$ 249,734
Depreciation and amortization	102,229	92,130
(Gain) loss on disposal of assets	(17,837)	857
Amortization of transaction costs on long-term debt (note 16)	64	84
Unit incentive options	-	1
Non-cash operating and general and administrative expense	3,472	(1,042)
Unrealized change in fair value of derivative financial instruments	65,230	(74,383)
Future income tax (recovery) expense	(16,679)	13,090
Funds from operations	294,159	280,471
Net change in non-cash working capital (note 22)	(12,374)	40,671
Cash provided by operating activities	281,785	321,142
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	(589,904)	(620,591)
Proceeds on sale of assets (note 5)	31,251	118
Net change in non-cash investing working capital (note 22)	(45,481)	6,538
Cash used in investing activities	(604,134)	(613,935)
FINANCING ACTIVITIES		
Cash distributions declared	(202,399)	(186,570)
Increase in long-term debt and short-term borrowings	271,377	464,234
Issuance of Partnership units, net of issue costs	255,864	15,863
Net change in non-cash financing working capital (note 22)	3,484	132
Cash provided by financing activities	328,326	293,659
Effect of foreign currency translation on foreign currency denominated cash	(1,335)	(118)
Increase in cash and cash equivalents	4,642	748
Cash and cash equivalents, beginning of period	13,566	12,818
Cash and cash equivalents, end of period	$ 18,208	$ 13,566

See accompanying notes to the consolidated financial statements.

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

STRUCTURE OF THE PARTNERSHIP

Inter Pipeline Fund (Inter Pipeline) was formed as a limited partnership under the laws of Alberta pursuant to a Limited Partnership Agreement (LPA) dated October 9, 1997. Pursuant to the LPA, Pipeline Management Inc. (the General Partner) is required to maintain a minimum 0.1% interest in Inter Pipeline. Inter Pipeline is dependent on the General Partner for administration and management of all matters relating to the operation of Inter Pipeline. Inter Pipeline is comprised of four industry operating segments located in two geographic segments: oil sands transportation business, NGL extraction business, conventional oil pipelines business, and bulk liquid storage business, as discussed below in the segment reporting policy.

Under the LPA, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the LPA. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the LPA (LPA Distributable Cash) 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.

Inter Pipeline currently makes monthly cash distributions to holders of the Class A limited liability partnership units (Class A units) and Class B unlimited liability partnership units (Class B units) (collectively Partnership units) as discussed in note 7.

The General Partner holds a 0.1% partnership interest in Inter Pipeline represented by Class B units. Public investors hold the remaining 99.9% partnership interest as limited partners represented by Class A units. The General Partner's 0.1% partnership interest is controlled by Pipeline Assets Corp. (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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), have in management's opinion been properly prepared within reasonable limits of materiality and the framework of the significant accounting principles described below. Amounts are stated in Canadian dollars unless otherwise indicated.

The consolidated financial statements include the accounts of Inter Pipeline and its subsidiaries. Inter Pipeline's investment in the Cold Lake Pipeline Limited Partnership (Cold Lake L.P.) and its general partner, Cold Lake Pipeline Ltd., are accounted for using the proportionate consolidation method whereby Inter Pipeline's 85% proportionate share of assets, liabilities, revenues and expenses are included in the accounts, and are presented within the oil sands transportation segment (note 3). Inter Pipeline's 50% interest in the Empress V NGL extraction plant is proportionately consolidated within the NGL extraction business segment. Inter Pipeline's interests in all other subsidiaries are accounted for using the consolidation method.

a) Segment Reporting

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location, which is consistent with how the business is managed.

Industry Segments

The oil sands transportation business consists of two pipeline systems that transport petroleum products and provide related blending and handling services in northern Alberta and a new diluent system currently in the

early stages of development. The Cold Lake and Corridor pipeline systems operate under long-term contracts with a limited number of customers. The NGL extraction business consists of processing natural gas to extract natural gas liquids (NGLs) including ethane and a mixture of propane, butane and pentanes plus (collectively known as propane-plus). The conventional oil pipelines business primarily involves the transportation, storage and processing of hydrocarbons. The bulk liquid storage business activity comprises primarily storage and handling of bulk liquid products through the operation of eight deep water bulk liquid storage terminals located in the United Kingdom, Germany and Ireland; complementary services are provided through its engineering, training and facilities management divisions in the United Kingdom.

Geographic Segments

Inter Pipeline has two geographic segments, Canada and Europe. The bulk liquid storage business is located in the United Kingdom, Germany and Ireland, while all other operating segments are in Canada.

b) Revenue Recognition

Oil Sands Transportation Business

Capital fee revenue on the Cold Lake pipeline system is recognized based on volumes transported and services provided to each shipper with an adjustment, if necessary, to reflect each shipper's minimum "ship-or-pay" revenue commitment. In addition, an operating fee equivalent to substantially all of the Cold Lake L.P.'s operating costs is recovered from the shippers.

Revenue on the Corridor pipeline system is recognized as services are provided in accordance with terms prescribed by the Firm Service Agreement (FSA) with the shippers. Under the terms of the FSA, revenues are determined by an agreed upon annual revenue requirement formula which allows for the recovery of prescribed expenditures and costs associated with the operation of the Corridor pipeline system, as well as a rate of return on the Rate Base (as defined in the FSA) determined with reference to a spread over a long-term bond yield reported by the Bank of Canada.

NGL Extraction Business

Revenue is recognized when the earnings process is complete. This is as the service is provided or when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred, and pricing is either fixed or determinable.

Conventional Oil Pipelines Business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional oil pipeline gathering systems are recognized as the services are provided.

Bulk Liquid Storage Business

Revenues derived from the storage and handling of bulk liquid products and provision of complementary services are recognized as the services are provided.

Deferred Revenue

Deferred revenue represents cash received in excess of revenues recognized. Similarly, a portion of accounts receivable includes unbilled amounts where revenues recognized exceed the amounts billed to date.

c) Cash and cash equivalents

Cash and cash equivalents consist of bank accounts, overnight deposits and guaranteed investment certificates.

d) Long-term Receivable and Long-term Payable

Inter Pipeline (Corridor) Inc. (Corridor) utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are payable to, or recoverable from, the shippers,

respectively, therefore the long-term portion of the unrealized gain or loss has been recorded as a long-term liability or asset. The current portion is included in accounts receivable or accounts payable and accrued liabilities.

e) Intangible Assets

Transportation Services Agreement

The Cold Lake Transportation Services Agreement (TSA) is amortized on a straight-line basis over the estimated service life of 30 years of the Cold Lake L.P.'s pipeline facilities and equipment to which the TSA relates.

Customer Contracts, Relationships and Tradename

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method.

The bulk liquid storage business' intangible assets are primarily a customer contract for the storage and handling of bulk liquid products, customer relationships and tradename. The life of the contract is 20 years. These assets are being amortized over three to 30 years.

Patent

A patented operational process utilized in one of the extraction facilities is being amortized on a straight-line basis over 14 years from the acquisition of the NGL extraction business on July 28, 2004.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

f) Property, Plant and Equipment

Oil Sands Transportation Business

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which is 30 years for Cold Lake and 40 years for Corridor. The cost of pipelines and facilities includes all direct expenditures for system construction, expansion, and betterments and operating costs incurred prior to the in-service date. Corridor pipeline system costs include an allocation of overhead costs, capitalized interest, and amortization of transaction costs on debt. Capitalization of interest, financing costs and operating costs ceases when the property, plant and equipment is substantially complete and ready for its intended productive use.

Pipeline line fill and tank working inventory for the Cold Lake and Corridor pipeline systems represent petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with appropriate volume of petroleum products to enable commercial operation of the facilities and pipeline. The cost of line fill includes all direct expenditures for acquiring the petroleum based products. Cold Lake line fill is carried at cost. Corridor line fill is carried at cost less accumulated depreciation. Depreciation is calculated on the same basis as the related property, plant and equipment.

These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system. Proceeds from the sale of Corridor's line fill will be used to fund the cost of any asset retirement obligations. To the extent the asset retirement obligations exceed the value of the line fill, Inter Pipeline will be obligated to fund the excess. To the extent the value of the line fill exceeds the asset retirement obligation, the excess funds will be refunded to the shippers.

NGL Extraction Plants and Equipment

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

Conventional Oil Pipelines Business

Expenditures on conventional oil pipeline system expansions and betterments are capitalized. Maintenance and repair costs, as well as pipeline integrity verification and repair costs, are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 30 year service life of the assets, which is also connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

Storage Facilities and Equipment

The bulk liquid storage business' property, plant and equipment consists of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from 25 to 30 years.

g) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of the bulk liquid storage and Corridor reporting units. Goodwill is carried at initial cost less write down for impairment. If the carrying value of either the bulk liquid storage or the Corridor reporting units exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair value determined on a discounted cash flow basis. During each fiscal year and as economic events dictate, management conducts an impairment test, taking into consideration any events or circumstances which might have impaired the fair value.

h) Asset Retirement Obligations

Asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development and/or the normal operations of long-lived assets. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset, and depreciated over the asset's estimated useful life.

NGL Extraction Business and Bulk Liquid Storage Business

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction plants and eight bulk liquid storage facilities, respectively. Inter Pipeline's asset retirement obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the NGL extraction facilities and leased bulk liquid storage sites. The estimated costs for asset retirement obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the plant sites.

Conventional Oil Pipelines Business and Oil Sands Transportation Business
The property, plant and equipment of the conventional oil pipelines and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. No significant amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way.

i) Environmental Liabilities
Undiscounted liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Recoveries from third parties which are likely to be realized are separately recorded and are not offset against the related environmental liability.

j) Pension Liabilities
The cost of pension benefits earned by certain employees in the United Kingdom, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, final pensionable salary, terminations, and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

k) Long-Term Incentive Plan and Unit Incentive Options
Unit incentive plan expense for Inter Pipeline's Unit Incentive Option Plan (Option Plan) is calculated using the fair value method, whereby the value of each of the unit incentive options (options) is determined on the date of grant using a binomial option pricing model, and that value is amortized over the vesting period of the options as a charge to net income, with a corresponding increase recorded in partners' equity. The consideration paid to Inter Pipeline upon the exercise of options is recorded as an increase in partners' equity to reflect the units issued.

Under Inter Pipeline's long-term incentive plan (LTIP) awards are paid in cash, therefore a mark-to-market basis of accounting is used whereby changes in the liability are recorded in each period based on the number of awards outstanding and current market price of Inter Pipeline's units plus an amount equivalent to cash distributions declared to date. The expense is recognized over the vesting periods of the respective awards.

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

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

Future Income Taxes

Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of future changes in income tax rates will be recognized in net income in the period in which the change occurs.

m) Foreign Currency Translation

Inter Pipeline accounts for the consolidated operations of the bulk liquid storage business as self-sustaining operations. Therefore, the accounts are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to these self-sustaining operations are included as a component of other comprehensive income (OCI).

n) Measurement Uncertainty

The amounts recorded for fair value of derivative financial instruments, intangible assets, goodwill, property, plant and equipment, long-term payable, asset retirement obligations, environmental liabilities, pension liabilities, unit-based compensation, future income taxes and depreciation and amortization are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

o) Financial Instruments

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy in place that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (crude oil, natural gas, NGLs, and power) as well as changes within the financial market relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's policy prohibits the use of derivative financial instruments for speculative purposes.

Financial Instruments – Recognition and Measurement

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as "available-for-sale" that do not have a quoted market price in an active market are measured at cost.

Inter Pipeline has classified its financial instruments as follows. Cash and cash equivalents and certain components of prepaid expenses and other deposits are designated as "held-for-trading" and measured at carrying value, which approximates fair value due to the short-term nature of these instruments. The majority of accounts receivable are designated as "loans and receivables". Short-term borrowings, cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue, and long-term debt are designated as "other liabilities". Derivative financial instruments and the long-term payable are classified as "held-for-trading". Inter Pipeline has chosen to designate the long-term payable as "held-for-trading" as it represents unrealized gains or losses on interest rate swaps that are also classified as "held-for-trading" (note 1d).

Inter Pipeline has adopted a policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt.

Inter Pipeline reviews all significant agreements acquired, substantially modified, or entered into for embedded derivatives.

p) *Comprehensive Income and Partners' Equity*

Comprehensive income reported by Inter Pipeline consists of net income and OCI. OCI comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income, but excluded from net income. The cumulative changes in OCI are included in accumulated other comprehensive loss.

For Inter Pipeline, OCI is comprised of changes in the cumulative foreign currency translation balance and the transfer of unrealized losses on derivatives previously designated as cash flow hedges to net income.

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*

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.

c) *Financial Instruments - Disclosures*

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 also clarify and enhance liquidity risk disclosures for financial and derivative financial liabilities and strengthen the relationship between qualitative and quantitative disclosures about liquidity risk. Comparative information is not required in the first year of adoption. See note 20 and 21 for Inter Pipeline's required financial instrument disclosure.

d) Future Accounting Changes

International Financial Reporting Standards

All Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting periods for fiscal years beginning on or after January 1, 2011. Accordingly, the transition from GAAP to IFRS will be applicable to Inter Pipeline's reporting for the first quarter of 2011, for which the current and comparative 2010 information will be prepared under IFRS. Inter Pipeline expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, taxes, information systems and processes. Inter Pipeline is currently assessing the impact of the transition to IFRS in the above areas and has deployed additional trained resources and project management practices to ensure the timely conversion to IFRS.

Business Combinations

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

Consolidated Financial Statements

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

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

3. SEGMENT REPORTING

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

2009	Canada					Europe	
	Oil Sands Transportation	NGL Extraction	Conventional Oil Pipelines	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
Revenues	$ 130,594	$ 529,050	$ 148,882	$ -	$ 808,526	$ 116,024	$ 924,550
Expenses							
Shrinkage gas	-	287,957	-	-	287,957	-	287,957
Operating	47,912	108,152	38,865	-	194,929	64,889	259,818
Depreciation and amortization	37,923	25,127	17,331	-	80,381	21,848	102,229
Loss (gain) on disposal of assets	6	(14)	(20,905)	-	(20,913)	3,076	(17,837)
Financing charges	5,764	-	-	31,024	36,788	143	36,931
General and administrative	3,408	-	-	29,295	32,703	8,734	41,437
Unrealized change in fair value of derivative financial instruments	-	66,287	43	(1,100)	65,230	-	65,230
Management fee to General Partner	-	-	-	6,993	6,993	-	6,993
Total expenses	95,013	487,509	35,334	66,212	684,068	98,690	782,758
Income (loss) before income taxes	35,581	41,541	113,548	(66,212)	124,458	17,334	141,792
Provision for (recovery of) income taxes	3,369	-	-	(19,695)	(16,326)	438	(15,888)
Net income (loss)	$ 32,212	$ 41,541	$ 113,548	$ (46,517)	$ 140,784	$ 16,896	$ 157,680
Expenditures on property, plant and equipment	$ 477,240	$ 13,909	$ 58,459	$ -	$ 549,608	$ 41,810	$ 591,418
Total assets	$ 2,863,230	$ 710,692	$ 486,864	$ -	$ 4,060,786	$ 411,928	$ 4,472,714
Goodwill	$ 156,938	$ -	$ -	$ -	$ 156,938	$ 59,009	$ 215,947

Notes To Consolidated Financial Statements

December 31, 2009

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

2008							
	Canada					Europe	
	Oil Sands Transportation	NGL Extraction	Conventional Oil Pipelines	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
Revenues	$ 146,035	$ 794,289	$ 147,969	$ -	$ 1,088,293	$ 136,294	$ 1,224,587
Expenses							
Shrinkage gas	-	498,170	-	-	498,170	-	498,170
Operating	54,879	162,034	42,381	-	259,294	80,366	339,660
Depreciation and amortization	35,570	25,044	17,326	-	77,940	14,190	92,130
(Gain) loss on disposal of assets	-	(11)	(51)	-	(62)	919	857
Financing charges	18,008	-	-	42,430	60,438	(219)	60,219
General and administrative	3,364	-	-	20,654	24,018	11,147	35,165
Unrealized change in fair value of derivative financial instruments	-	(77,881)	(9)	3,507	(74,383)	-	(74,383)
Management fee to General Partner	-	-	-	7,144	7,144	-	7,144
Total expenses	111,821	607,356	59,647	73,735	852,559	106,403	958,962
Income (loss) before income taxes	34,214	186,933	88,322	(73,735)	235,734	29,891	265,625
Provision for income taxes	3,438	-	-	7,552	10,990	4,901	15,891
Net income (loss)	$ 30,776	$ 186,933	$ 88,322	$ (81,287)	$ 224,744	$ 24,990	$ 249,734
Expenditures on property, plant and equipment	$ 550,777	$ 14,931	$ 8,410	$ -	$ 574,118	$ 41,043	$ 615,161
Total assets	$ 2,434,737	$ 813,025	$ 453,133	$ -	$ 3,700,895	$ 424,772	$ 4,125,667
Goodwill	$ 156,938	$ -	$ -	$ -	$ 156,938	$ 63,644	$ 220,582

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

4. INTANGIBLE ASSETS

	Cost	Accumulated Depreciation & Amortization	2009 Net Book Value	2008 Net Book Value
Oil sands transportation business				
Transportation Services Agreement	$ 93,548	$ (22,570)	$ 70,978	$ 74,204
NGL extraction business				
Customer contracts	287,611	(51,935)	235,676	245,263
Patent	8,727	(3,376)	5,351	5,974
	296,338	(55,311)	241,027	251,237
Bulk liquid storage business				
Customer contracts and relationships	4,669	(818)	3,851	12,130
Tradename	4,365	(618)	3,747	4,116
	9,034	(1,436)	7,598	16,246
	$ 398,920	$ (79,317)	$ 319,603	$ 341,687

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation & Amortization	2009 Net Book Value	2008 Net Book Value
Oil sands transportation business				
Facilities and equipment	$ 1,052,336	$ (135,570)	$ 916,766	$ 895,192
Construction work in progress (a)	1,600,193	-	1,600,193	1,177,428
Pipeline line fill	74,033	(4,509)	69,524	71,299
	2,726,562	(140,079)	2,586,483	2,143,919
NGL extraction business				
Facilities and equipment	463,028	(76,628)	386,400	364,761
Construction work in progress	5,638	-	5,638	29,665
Spare parts	4,595	-	4,595	4,416
	473,261	(76,628)	396,633	398,842
Conventional oil pipelines business				
Facilities and equipment (b)	784,840	(379,992)	404,848	423,520
Construction work in progress	57,150	-	57,150	4,763
	841,990	(379,992)	461,998	428,283
Bulk liquid storage business				
Facilities and equipment (c)	343,451	(43,769)	299,682	308,769
Construction work in progress	21,134	-	21,134	13,060
	364,585	(43,769)	320,816	321,829
	$ 4,406,398	$ (640,468)	$ 3,765,930	$ 3,292,873

(a) Construction work in progress includes $14.4 million in interest capitalized during the year ended December 31, 2009 (2008 - $34.6 million)

(b) On April 7, 2009, Inter Pipeline completed the sale of the Valley pipeline system (Valley pipeline) for proceeds of $28.3 million, including closing adjustments of $0.3 million. The Valley pipeline was part of its conventional oil pipeline business. The Valley pipeline's carrying value as of the date of closing was $7.4 million. For the year ended December 31, 2009, gain (loss) on disposal of assets includes a $20.9 million gain on the sale of the Valley pipeline. Net income includes $0.2 million related to the Valley pipeline's operations (2008 - $1.2 million).

(c) In November 2009, Lewis Tankers Limited (Lewis), an ancillary bulk liquid trucking business in the bulk liquid storage business, was sold. The carrying value of Lewis on closing was $2.1 million. For the year ended December 31, 2009, gain (loss) on disposal of assets includes a $1.6 million loss on the sale of Lewis. Net income includes $0.3 million related to Lewis's operations (2008 – loss of $0.1 million).

6. GOODWILL

The changes in the carrying value of goodwill are as follows:

		2009		2008
Balance, beginning of year	$	220,582	$	222,796
Finalization of Corridor purchase price allocation		-		(463)
Foreign currency translation adjustments		(4,635)		(1,751)
Balance, end of year	$	215,947	$	220,582

7. 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 year ended December 31, 2009, Inter Pipeline declared cash distributions totaling $202.4 million (2008 - $186.6 million). Of this amount, $88.1 million represents distributions to unitholders who elected to participate in the Premium Distribution™ and Distribution Reinvestment Plans (2008 – $13.9 million) (note 13). As at December 31, 2009 distributions of $19.1 million were payable on 254.3 million outstanding Class A units and 0.3 million outstanding Class B units at $0.075 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). Of this amount, $13.3 million represents distributions payable to unitholders who elected to participate in the Premium Distribution™ and Distribution Reinvestment Plans (December 31, 2008 –$1.2 million).

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8. LONG-TERM DEBT AND SHORT-TERM BORROWINGS

	2009	2008
$2,142 million Unsecured Revolving Credit Facility (a)	$ 1,709,900	$ 1,236,500
$750 million Unsecured Revolving Credit Facility (b)	230,000	425,000
Loan Payable to General Partner (c)	379,800	379,800
Corridor Debentures (d)	300,000	300,000
Long-term debt (excluding transaction costs and discounts)	2,619,700	2,341,300
Less: Current portion of long-term debt (a)(iv)	123,600	-
	2,496,100	2,341,300
Transaction costs	(13,137)	(13,065)
Accumulated amortization of transaction costs	5,479	3,900
Discount, net of accumulated amortization	(1,127)	(2,336)
Long-term debt	2,487,315	2,329,799
Current portion of long-term debt (a)(iv)	123,600	-
Facility agreement (e)	-	7,896
Long-term debt and short-term borrowings	$ 2,610,915	$ 2,337,695

(a) On August 16, 2007, Corridor entered into an unsecured $2,142 million syndicated revolving credit facility and a $40 million demand operating facility. No amounts were outstanding on the demand facility at December 31, 2009 or 2008 with the exception of letters of credit valued at $0.3 million.

The credit facility is comprised of the following tranches:

i) $190 million non-recourse tranche expiring on August 14, 2012.
ii) $1,464 million non-recourse tranche expiring on August 14, 2012.
iii) $292 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012 and the Corridor first expansion commencement date or the suspension true-up date.
iv) $196 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012, the Corridor first expansion commencement date or the suspension true-up date.

The credit and operating facilities incur fees on amounts borrowed at floating rates based on bankers' acceptances plus 45 to 65 basis points. Unborrowed amounts are charged standby fees of 10 to 15 basis points. If Corridor's credit rating changes, the fees on floating rate amounts could increase by up to 55 basis points or reduce by up to 10 basis points, while fees on undrawn amounts could increase by up to 12 basis points and decrease by up to 2.5 basis points. The effective rate of interest incurred in 2009 was 0.98% (2008 – 3.63%).

(b) The $750 million Unsecured Revolving Credit Facility has a maturity date of September 29, 2012.

Fees on amounts borrowed at floating rates based on bankers' acceptances are 60 basis points, while fees on unborrowed amounts are 12.5 basis points. If Inter Pipeline's credit rating changes, fees on floating rate amounts could increase by up to 35 basis points or be reduced by up to 22.5 basis points, while fees on undrawn amounts could increase by up to 15 basis points and decrease by up to 2.5 basis points. The effective interest rate incurred in 2009 was 1.99% (2008 - 4.19%).

Effective May 1, 2006, Inter Pipeline established a $20 million demand facility with a Canadian chartered bank for cash management purposes. Effective February 13, 2009, fees on amounts borrowed under the 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 December 31, 2009 or 2008.

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

- $91.2 million due October 28, 2012, 5.85%; and
- $288.6 million due October 28, 2014, 6.15%.

On this date, 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.

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 5 basis points over the rates payable on the notes issued by the General Partner. There are no scheduled repayments of the principal amounts of the notes payable to the General Partner prior to maturity. A prepayment may be made at any time, in which case the General Partner would generally be required to pay a premium of 50 basis points over the implied yield to maturity and, if applicable, swap breakage costs of the counterparty.

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.

In 2007, due to amendments made for the Corridor expansion, interest costs increased by 25 basis points until the end of 2009.

(d) The $150 million 4.240% Series A Debentures due February 2, 2010 and $150 million 5.033% Series B Debentures due February 2, 2015 (Corridor Debentures) are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year. Corridor uses derivative instruments to exchange its fixed rate of interest to floating rates of interest (note 21). This results in average effective interest rates that are different from the stated interest rates. The effective interest rate on the Corridor Debentures for 2009 was 1.30% (December 31, 2008 - 4.00%).

The Corridor Debentures are redeemable in whole, or in part, at the option of Corridor at a price equal to the principal amount to be redeemed, plus accrued and unpaid interest including a premium above the implied yield to maturity.

Subsequent to December 31, 2009, on February 2, 2010, the $150 million 4.240% Series A Debentures matured. On February 2, 2010, Corridor issued $150 million of 4.897% Series C Debentures due February 3, 2020. Corridor Series C Debentures are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005 and a supplemental indenture dated February 2, 2010. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year.

(e) In July 2008, the bulk liquid storage business entered into an overdraft facility for £15 million. Amounts borrowed under this facility bore interest at the lender's prescribed lending rate, as adjusted from time to time. The effective rate of interest for 2009 was 1.67% (2008 - 3.23%). No fees were payable on undrawn amounts. In July 2009, the facility agreement was repaid and cancelled.

(f) At December 31, 2009 Cold Lake L.P. had issued letters of credit valued at $2.5 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 (note 22).

9. ASSET RETIREMENT OBLIGATIONS

The total undiscounted amount of estimated expenditures expected to be incurred on closure of active plants is $55.2 million, which was calculated using an inflation rate of 2.0% (NGL extraction business only) and an expected life of 40 years. A credit-adjusted risk-free rate of 6.2% was used to discount the estimated future cash flows for the retirement of the NGL extraction business assets, while a credit-adjusted risk-free rate of 7.8% was used to discount the estimated future cash flows for the retirement of the bulk liquid storage business assets. The majority of obligations are not expected to occur for many years and will be funded from Inter Pipeline's resources at that time.

The following table shows the movement in the long-term liability for asset retirement obligations:

	2009	2008
Balance, beginning of year	$ 6,336	$ 13,519
Revisions to estimated amount of liabilities	(1,552)	(6,854)
Obligations discharged with disposed properties	-	(1,040)
Accretion expense	325	790
Foreign currency adjustments	(73)	(79)
Balance, end of year	$ 5,036	$ 6,336

There were no long-term liabilities settled during the years ended December 31, 2009 and 2008.

At December 31, 2009, $0.4 million is included in accounts payable and accrued liabilities for the current portion of asset retirement obligations related to the retirement of property, plant and equipment in the conventional oil pipelines business (December 31, 2008 - $1.2 million). During the year ended December 31, 2009, $0.4 million was discharged with the sale of the Valley pipeline (note 5).

10. ENVIRONMENTAL LIABILITIES

	2009	2008
Balance, beginning of year	$ 12,721	$ 10,923
Revisions to estimated amount of liabilities and other	111	1,170
Foreign currency translation adjustments	(533)	628
Balance, end of year	$ 12,299	$ 12,721

11. PENSION LIABILITIES

Inter Pipeline acquired Simon Storage on October 4, 2005 and Simon Tanklager-Gesellschaft MBH on January 1, 2006. At the time of acquisitions, the fair values of the pension plan liabilities were recognized on Inter Pipeline's balance sheet and there were no unrecognized gains or losses.

United Kingdom

Inter Pipeline operates a defined benefit funded pension plan, the Simon Storage Pension Fund (Fund), providing benefits for its employees based primarily on years of service and final pensionable salary. The Fund is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Fund was carried out as at April 6, 2007. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the

obligation measured using the projected benefit method. At December 31, 2009, the expected remaining service life for the United Kingdom is 13 years.

Ireland

Inter Pipeline operates a defined benefit funded pension plan, the Irish Bulk Liquid Storage Limited Retirement and Death Benefits Scheme (Scheme) which provides benefits for its employees based on years of service and final pensionable salary. The Scheme is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Scheme was carried out as at September 1, 2007. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method. At December 31, 2009, the expected remaining service life for Ireland is 15 years.

Germany

The German benefit plans included in Inter Pipeline's financial reporting relate to defined benefit retirement pensions, long-service awards and partial early retirement arrangements. The German arrangements are unfunded and therefore have no assets. The most recent actuarial valuation of the long-term employee and post-retirement benefits under local tax and accounting rules was carried out as at December 31, 2009 by professionally qualified actuaries. The results of the valuation were adjusted for Inter Pipeline's financial reporting purposes, with the obligation measured using the projected benefit method. At December 31, 2009, the expected remaining service life for Germany is 12 years.

All plans will have valuations updated in 2010.

The actual distribution of the respective pension plan assets at market value as of December 31 is as follows. Assets are shown at mid market value:

Pension Plan Assets	United Kingdom		Ireland		Germany	
by Asset Category	2009	2008	2009	2008	2009	2008
Equity securities	51%	40%	-	-	-	-
Debt securities	39%	41%	-	-	-	-
Real estate	10%	13%	-	-	-	-
Cash	-	6%	-	-	-	-
Deferred annuity contract	-	-	100%	100%	-	-
Total	100%	100%	100%	100%	-	-

The following tables set forth the respective pension plans' funded status and amount included in the accrued liability on Inter Pipeline's balance sheets at December 31.

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

	2009				2008			
Change in Accrued Benefit Obligation	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Accrued benefit obligation, beginning of year	$ 56,476	$ 1,253	$ 1,787	$ 59,516	$ 66,861	$ 1,146	$ 1,480	$ 69,487
Current and past service cost	1,933	56	11	2,000	2,778	55	11	2,844
Employee contributions	801	7	-	808	871	6	-	877
Interest cost	3,552	65	67	3,684	3,874	73	66	4,013
Benefits paid	(2,336)	(27)	(203)	(2,566)	(1,536)	(197)	(73)	(1,806)
Actuarial loss (gain)	14,264	111	95	14,470	(10,809)	(53)	(2)	(10,864)
Curtailment gain	-	-	-	-	(190)	-	-	(190)
Foreign currency adjustments	(3,992)	(167)	(224)	(4,383)	(5,373)	223	305	(4,845)
Accrued benefit obligation, end of year	$ 70,698	$ 1,298	$ 1,533	$ 73,529	$ 56,476	$ 1,253	$ 1,787	$ 59,516

	2009				2008			
Change in Pension Plan Assets	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Fair value of pension plan assets, beginning of year	$ 55,607	$ 1,554	$ -	$ 57,161	$ 67,645	$ 1,313	$ -	$ 68,958
Actual return on pension plan assets	7,941	57	-	7,998	(8,978)	56	-	(8,922)
Employer contributions	2,361	102	203	2,666	2,894	108	73	3,075
Employee contributions	801	6	-	807	871	6	-	877
Benefits paid	(2,336)	(27)	(203)	(2,566)	(1,536)	(197)	(73)	(1,806)
Foreign currency adjustments	(3,475)	(202)	-	(3,677)	(5,289)	268	-	(5,021)
Fair value of pension plan assets, end of year	$ 60,899	$ 1,490	$ -	$ 62,389	$ 55,607	$ 1,554	$ -	$ 57,161

	2009				2008			
Reconciliation of Funded Status to Accrued Benefit Liability	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Funded status – (Deficit) excess at end of year	$ (9,799)	$ 192	$ (1,533)	$ (11,140)	$ (870)	$ 301	$ (1,787)	$ (2,356)
Unamortized past service cost	94	-	-	94	114	-	-	114
Unamortized net actuarial loss (gain)	9,931	(319)	(15)	9,597	449	(444)	(108)	(103)
Foreign currency adjustments	(499)	13	1	(485)	(49)	(51)	(12)	(112)
Accrued benefit liability	$ (273)	$ (114)	$ (1,547)	$ (1,934)	$ (356)	$ (194)	$ (1,907)	$ (2,457)

Unamortized net actuarial gains or losses are recognized, to the extent that they exceed 10% of the greater of the accrued benefit obligation and the fair value of pension plan assets, over the average remaining service period of active members.

For the year ended December 31, 2009, net income included $2.4 million in net pension expense (December 31, 2008 - $2.3 million).

12. INCOME TAXES

On March 4, 2009, the Government of Canada substantively enacted legislation that repealed the "provincial SIFT tax factor" and replaced it with the "provincial SIFT tax rate." The "provincial SIFT tax rate" is calculated based on the general provincial corporate income tax rate for each province in which Inter Pipeline has a permanent establishment. For Inter Pipeline, this legislation reduced the provincial income tax rate for noncorporate entities from 13.0% to approximately 10.0% effective January 1, 2011 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.

The components of income before income taxes are summarized below:

	2009	2008
Canada	$ 124,458	$ 235,734
Europe	17,334	29,891
	$ 141,792	$ 265,625

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before incomes taxes as shown in the following table:

	2009	2008
Income before income taxes per financial statements	$ 141,792	$ 265,625
Less: non taxable Canadian partnership income	(112,291)	(222,843)
Adjusted income before taxes	29,501	42,782
Tax rate	29.0%	29.5%
	8,555	12,621
Future income taxes on temporary differences related to non-taxable Canadian partnership income	4,913	6,287
Impact of changes in tax rates	(23,958)	-
Deductible intercompany interest expense	(3,850)	(4,068)
Difference in Canadian and foreign tax rates	(173)	(390)
Other	(1,375)	1,441
Tax (recovery) expense	$ (15,888)	$ 15,891

The provision for income taxes is summarized as follows:

	2009	2008
Current		
Canada	$ 152	$ 160
Europe	639	2,641
	791	2,801
Future		
Canada	(16,478)	10,830
Europe	(201)	2,260
	(16,679)	13,090
	$ (15,888)	$ 15,891

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the consolidated balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized. The amount of unrecognized losses related to Europe at December 31, 2009 is approximately $ 2.2 million (December 31, 2008 - $2.3 million). The amount of non-capital losses at December 31, 2009 is approximately $146.3 million (December 31, 2008 - $58.0 million). If not utilized, these non-capital losses expire in various amounts between 2025 and 2028.

The tax effects of deductible temporary differences that give rise to future tax amounts are as follows:

	2009	2008
Difference between book values and tax values of:		
Property, plant and equipment	$ 251,286	$ 236,638
Non-capital losses	(36,565)	(14,497)
Intangible assets	106,299	121,234
Working capital	2,213	3,342
Asset retirement obligations	(3,154)	(3,879)
Fair value of derivative financial instruments	(1,083)	(518)
	$ 318,996	$ 342,320

Current income taxes payable of $0.1 million (2008 - $0.8 million) are included in accounts payable.

13. 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, 2007	220,659,122	221,017	220,880,139
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	1,620,274	1,634	1,621,908
Issued under Unit Incentive Option Plan (note 14)	561,735	596	562,331
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)	10,007,113	10,027	10,017,140
Issued under Unit Incentive Option Plan	615,000	660	615,660
Balance as at December 31, 2009	**254,393,244**	**254,886**	**254,648,130**

(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. Similar to the previous plan, 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 weighted-average trading price of Inter Pipeline units. 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 December 31, 2009, Inter Pipeline was committed to issuing 1.3 million Class A units to unitholders who elected to participate under the Plan. These units were issued on January 15, 2010.

(b) On June 18, 2009, Inter Pipeline issued 20.9 million Class A units at $8.25 per Class A unit. 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.

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Calculation of Net Income per Partnership unit

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

	2009	2008
Net income attributable to unitholders – Basic and diluted	$ 157,680	$ 249,734
Weighted-average units outstanding – Basic	238,056,555	222,037,643
Effect of Premium Distribution™ and Distribution Reinvestment Plan	612,811	-
Effect of Unit Incentive Option Plan	131,140	251,237
Weighted-average units outstanding – Diluted	238,800,506	222,288,880
Net income per Partnership unit – Basic and diluted	$ 0.66	$ 1.12

14. LONG-TERM INCENTIVE PLAN AND UNIT INCENTIVE OPTIONS

In 2003, the Board of Directors of the General Partner established an Option Plan whereby 7.3 million Class A units have been reserved for issuance under the Option Plan. Options to purchase Class A units are granted to directors, officers, employees and consultants of the General Partner. The exercise price of the options is equal to the current market price at the date of grant, subject to an incentive reduction. The options have a five-year term with one-third of the options vesting immediately on the date of grant and one-third on each of the first and second anniversary dates thereafter.

The Option Plan provides for an incentive reduction in the exercise price of the options by the amount by which Inter Pipeline's total return per unit in each calendar year exceeds a prescribed threshold return for such calendar year. The threshold return is determined annually and is equal to 350 basis points over the 10-year Government of Canada bond rate multiplied by the closing price of the units on the Toronto Stock Exchange (TSX) at the beginning of the year. The total return is the sum of the difference between the closing price of the units on the TSX at the end of the year or on the date of exercise, and the exercise price on the grant date, plus the cumulative dollar amount of distributions per unit declared during the year.

Effective January 1, 2006, Inter Pipeline implemented an LTIP for its employees, officers, and directors of the General Partner. The LTIP is governed by a Deferred Unit Rights Plan (DURP) document that defines how awards made under the DURP will be determined and administered. A Deferred Unit Right (DUR), as granted under the DURP, is valued based on Inter Pipeline's unit price plus credit for cash distributions paid to unitholders during the period the DURs are held. Unless otherwise provided in an individual grant agreement, the DUR will vest one-third on each of the successive anniversary dates from the date of grant. Upon exercise of a DUR, the amount owing will be paid out in cash net of applicable withholding taxes. At December 31, 2009, the current portion of the liability included in accounts payable and accrued liabilities is $9.6 million, and the long-term portion is $5.1 million (December 31, 2008 - $8.7 million and $1.4 million respectively). At December 31, 2009, 759,637 DURs are exercisable.

The following table summarizes the status of Inter Pipeline's Option Plan and DURs as at December 31, 2009 and 2008 changes during the years there ended:

	Unit Options			DURs
	Number	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Balance outstanding, December 31, 2007	1,353,236	$ 8.23	$ 5.99	1,029,929
Granted	-	$ -	$ -	723,829
Exercised	(561,735)	$ 7.11	$ 3.78	(207,759)
Forfeited and cancelled	(43,001)	$ 9.51	$ 8.41	(63,394)
Balance outstanding, December 31, 2008	748,500	$ 9.00	$ 7.52	1,482,605
Granted	-	$ -	$ -	1,214,336
Exercised	(615,000)	$ 8.68	$ 2.83	(877,086)
Forfeited and cancelled	(102,000)	$ 10.45	$ 5.70	(67,111)
Balance outstanding, December 31, 2009	31,500	$ 10.48	$ 5.75	1,752,744

* 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 December 31, 2009.

For the year ended December 31, 2009, capital expenditures included $0.2 million, operating expenses included $4.5 million and general administrative expenses included $10.4 million related to DURs (2008 - nil, $1.3 million and $2.8 million, respectively).

The following table summarizes information about unit options outstanding at December 31, 2009:

	Options Outstanding and Exercisable		
Adjusted exercise price	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price*
$5.75	31,500	0.6 years	5.75

* The weighted-average exercise prices shown for options outstanding and exercisable at the end of the year are adjusted for the incentive reduction.

There have not been any unit option grants since 2005, and the remaining balance outstanding expires in July 2010. No expense was recorded in the year ended December 31, 2009 (2008 - nominal).

15. DEPRECIATION AND AMORTIZATION

	2009	2008
Depreciation of facilities and equipment	$ 80,065	$ 75,465
Depreciation of Corridor linefill	1,774	1,774
Amortization of intangible assets	14,148	14,101
Accretion of asset retirement obligation	325	790
Impairment of intangible assets	5,917	-
Total depreciation and amortization	$ 102,229	$ 92,130

During the year ended December 31, 2009, Inter Pipeline recorded an impairment of intangible assets of $5.9 million related to customer contracts either terminated or expired in the bulk liquid storage business segment. The remaining net book value of intangible assets associated with these specific contracts was written off during 2009.

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

16. FINANCING CHARGES

	2009	2008
Interest expense on credit facilities	$ 23,288	$ 58,699
Interest on Loan Payable to General Partner	24,034	24,034
Interest on Corridor Debentures	3,903	11,991
	51,225	94,724
Capitalized interest (note 5a)	(14,358)	(34,589)
Amortization of transaction costs on long-term debt	64	84
Total financing charges	$ 36,931	$ 60,219

During 2009, Inter Pipeline incurred $23.3 million of interest expense on credit facilities (2008 - $58.7 million), including $18.4 million in respect of interest costs on drawn amounts (2008 - $55.2 million), $2.4 million in cash settlements on interest rate swaps (2008 - $1.1 million), and $2.5 million in respect of fees on undrawn amounts (2008 - $2.4 million).

17. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the years ended December 31, 2009 and 2008.

In 2002, Inter Pipeline entered into a support agreement that enables Inter Pipeline to request PAC, the shareholder of the General Partner, and its affiliates to provide certain personnel and services to 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 were paid in 2009 and 2008 under the support agreement.

Amounts due from/to the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 8). At December 31, 2009, accounts payable includes $0.5 million owing to the General Partner by Inter Pipeline (December 31, 2008 - $0.5 million).

Management fees of $7.0 million, including disposition fees of $0.1 million, were earned by the General Partner in the year ended December 31, 2009 (2008 - $7.1 million and nil, respectively). No acquisition fees were earned by the General Partner in 2009 and 2008.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million (note 8). At December 31, 2009, accounts payable includes interest payable to the General Partner on the loan of $4.3 million (December 31, 2008 - $4.3 million). The General Partner has earned $0.2 million from Inter Pipeline in interest income during the year (2008 – $0.2 million) on a net basis, after paying interest expense to the ultimate note holders.

In 2009, certain of the officers and directors of the General Partner received a total of $0.8 million in dividends from PAC pursuant to their non-voting shares (2008 - $0.9 million).

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

18. COMMITMENTS

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

General Partner or the operator (if the operator was not Inter Pipeline) fails to pay or perform such obligations for any reason.

As a result of the sale of Lewis (note 5), Inter Pipeline provided third-party guarantees for minimum payments under commercial vehicle lease agreements that expire between July 2010 and December 2013. The guarantees may be exercised if the purchaser fails to fulfill its payment obligations. At December 31, 2009, the guaranteed lease obligations are approximately $1.4 million.

Inter Pipeline has committed to additional expenditures on property, plant and equipment and purchase obligations totaling approximately $434.6 million and $22.6 million, respectively, at December 31, 2009.

Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the United Kingdom's post Buncefield regulations. Potential solutions are being evaluated and the amount and timing of expenditures have not been determined.

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage, property and equipment to 2038. The future minimum annual lease payments for these lease commitments are:

2010	$	6,552
2011		6,351
2012		6,144
2013		6,210
2014		6,271
Thereafter		51,549
	$	83,077

19. CAPITAL DISCLOSURES

Financial objectives are aligned with Inter Pipeline's commercial strategies and its long-term outlook for the business. Inter Pipeline's capital management 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 manages the capital structure and makes adjustments based on changes in economic conditions and the risk characteristics of the underlying assets. In order 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 growth capital and acquisition programs throughout market and industry cycles. Inter Pipeline projects its funding requirements 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 finance capital requirements. At December 31, 2009, Inter Pipeline had access to committed credit facilities totaling $2,892.0 million, of which $952.1 million remains unutilized. Inter Pipeline also had access to unutilized demand facilities of $59.8 million.

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.

Capital under management includes long-term debt and short-term borrowings (excluding discounts and transaction costs) 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 ensuring compliance with all financial debt covenants.

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

	2009	2008
Long-term debt (excluding transaction costs and discounts, per note 8)		
Recourse debt	$ 733,400	$ 804,800
Non-recourse debt	1,886,300	1,536,500
	2,619,700	2,341,300
Short-term borrowings – non-recourse (note 8)	-	7,896
Partners' equity	1,320,101	1,130,159
Total capitalization	$ 3,939,801	$ 3,479,355
Capitalization (excluding non-recourse debt)	$ 2,053,501	$ 1,934,959
Recourse debt to capitalization	35.7%	41.6%

	2009	2008
Net income	$ 157,680	$ 249,734
Add:		
Depreciation and amortization	102,229	92,130
(Gain) loss on disposal of assets	(17,837)	857
Financing charges	36,931	60,219
Non-cash operating and general and administrative expense	3,472	(1,042)
Unrealized change in fair value of derivative financial instruments	65,230	(74,383)
(Recovery of) provision for income taxes	(15,888)	15,891
EBITDA*	$ 331,817	$ 343,406
Recourse debt to EBITDA*	2.2	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.

20. FINANCIAL INSTRUMENTS

Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at December 31, 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*	Carrying Value of Asset or Liability
Assets**						
Cash and cash equivalents	$ 18,208	$ -	$ -	$ 18,208	$ -	$ 18,208
Accounts receivable	-	110,213	-	110,213	11,909	122,122
Prepaid expenses and other deposits	9,095	-	-	9,095	8,832	17,927
Derivative financial instruments***	12,977	-	-	12,977	-	12,977
Liabilities						
Cash distributions payable	-	-	19,098	19,098	-	19,098
Accounts payable and accrued liabilities	2,991	-	120,525	123,516	13,393	136,909
Derivative financial instruments***	20,736	-	-	20,736	-	20,736
Deferred revenue	-	-	133	133	12,218	12,351
Long-term debt (note 8)****	-	-	2,619,700	2,619,700	-	2,619,700
Long-term payable	9,212	-	-	9,212	-	9,212

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

a) *Fair Value of Financial Instruments*

The fair value of long-term debt and derivative financial instruments are discussed in the following paragraphs. The long-term payable is carried at fair value and represents the unrealized change in fair value of 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 December 31, 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	$ 410,590
Corridor Debentures	$ 300,000	$ 311,602

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

The estimated fair value of the fixed rate debt has been determined based on available market information and appropriate valuation methods, including the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The actual amounts realized may differ from these estimates.

The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an

observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. These fair values are discounted using a risk free rate plus a credit premium that takes into account the credit quality of the instrument.

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

	2009	2008
Current asset	$ 3,738	$ 82,940
Long-term asset	9,239	39,160
Current liability	(16,655)	(38,818)
Long-term liability	(4,081)	(12,912)
	$ (7,759)	$ 70,370

Derivative financial instruments carried at fair value are as follows:

	2009	2008
Frac-spread risk management		
NGL swaps	$ (9,313)	$ 93,396
Natural gas swaps	(5,975)	(17,470)
Foreign exchange swaps	(854)	(28,533)
	(16,142)	47,393
Interest rate risk management		
Interest rate swaps	8,385	20,185
	8,385	20,185
Power price risk management		
Electricity price swaps	(43)	-
Heat rate swaps	41	2,792
	(2)	2,792
	$ (7,759)	$ 70,370

b) *Fair Value Hierarchy*

Financial instruments recorded at fair value in the consolidated balance sheets are categorized based on the fair value hierarchy of inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 inputs involve limited use of judgments as fair value inputs are based on unadjusted quoted prices in active markets for identical assets and liabilities. Inter Pipeline does not use level 1 inputs for any of its fair value measurements.

Level 2 inputs require slightly more judgment than level 1 but still involve observable or corroborated, either directly or indirectly, market factors. Inter Pipeline's level 2 inputs include quoted market prices for commodities, foreign exchange, interest rates and credit risk premiums. Financial instruments in this category include non-exchange traded derivatives such as over-the-counter physical forwards, interest rate swaps, and fixed rate debt. Inter Pipeline obtains information from sources including independent price publications, third-party pricing services, market exchanges and investment dealer quotes. Inter Pipeline uses level 2 inputs for all of its derivative financial instrument and fixed rate debt fair value measurements.

Level 3 inputs require the most significant judgments and consist primarily of unobservable or non-market based inputs. Level 3 inputs include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed

methodologies are used to determine fair value which primarily includes extrapolation of observable future prices to similar locations, similar instruments or later time periods. Level 3 inputs may include items based on pricing services or broker quotes, but the inputs into the prices are not observable and cannot be verified.

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:

	2009	2008
Revenues		
NGL swaps	$ 54,842	$ (23,421)
Foreign exchange swaps (frac-spread)	(13,897)	1,629
	40,945	(21,792)
Shrinkage gas expense		
Natural gas swaps	(30,071)	282
	(30,071)	282
Operating expenses		
Electricity price swaps	-	790
Heat rate swaps	1,658	1,120
	1,658	1,910
Financing charges		
Interest rate swaps	7,627	800
	7,627	800
Net realized gain (loss) on derivative financial instruments	$ 20,159	$ (18,800)

Realized gains (losses) represent actual settlements under derivative contracts during the period.

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

	2009	2008
Frac-spread risk management		
NGL swaps	$ (102,710)	$ 119,614
Natural gas swaps	11,495	(9,634)
Foreign exchange swaps	27,679	(34,891)
	(63,536)	75,089
Interest rate risk management		
Interest rate swaps	1,908	(2,699)
	1,908	(2,699)
Power price risk management		
Electricity price swaps	(43)	(451)
Heat rate swaps	(2,751)	2,792
	(2,794)	2,341
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	(808)	(348)
Unrealized change in fair value of derivative financial instruments	$ (65,230)	$ 74,383

The following table presents a reconciliation of the change in the fair market value of derivative financial instruments used for risk management activities during 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 *	(57,970)	(54,268)
Fair value of contracts realized during period *	(20,159)	(10,154)
Changes in values attributable to other comprehensive income	-	(808)
Fair value of derivative financial instruments, end of period	$ (7,759)	$ (65,230)

* Gains or losses arising on the Corridor interest rate swaps are recoverable from the shippers. Therefore, the changes in fair value have been recorded as an asset or liability and are excluded from the total unrealized loss shown here (note 1(d)).

Unrealized changes in fair value are attributable to market price and other market changes that impact contracts in place at the beginning of the year that settled during the period, new contracts entered into during the period and contracts outstanding at the end of the period.

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.

21. RISK MANAGEMENT

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

a) Market Risk

Market risk is the risk or uncertainty that the fair value of financial instruments, future cash flows and net earnings of Inter Pipeline will fluctuate due to movements in market rates. Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy in place that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (crude oil, natural gas, NGLs and power) as well as changes within financial markets relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's risk management policy prohibits the use of derivative financial instruments for speculative purposes.

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 earnings, with the exception of interest rate and frac-spread sensitivity analyses, which are presented net of tax. 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 and Frac-spread Risk Management) assume nil income tax impact. In the following sections, sensitivity analyses are presented based on derivative financial instruments and long-term debt outstanding at December 31, 2009. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

Frac-spread Risk Management

Inter Pipeline is exposed to frac-spread risk which is the relative price differential between the sale of NGL produced and the purchase of shrinkage gas used to replace the heat content removed during the extraction of the NGL from the natural gas stream. Derivative financial instruments are utilized to manage frac-spread risk. Inter Pipeline transacts with third party counterparties to sell a notional portion of its NGL products and purchase related notional quantities of natural gas at fixed prices. NGL price swap agreements are transacted in US currency therefore Inter Pipeline also enters into foreign exchange contracts to sell US dollars to convert notional US dollar amounts in the NGL swaps.

Contracts outstanding at December 31, 2009, represented approximately 42% of forecast volumes at the Cochrane extraction plant for the period January to December 2010 at average net prices of approximately $0.72 Cdn/US gallon and 11% of forecast volumes for the period January to December 2011 at average net prices of approximately $0.70 Cdn/US gallon. These average prices approximated $0.68 US/US gallon and $0.66 US/US gallon, respectively, based on the average US$/Cdn$ forward curve as at December 31, 2009.

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

	Fair Value of Derivative Financial Instruments	Change in Net Income Based on 10% Increase in Prices/Rates**	Change in Net Income Based on 10% Decrease in Prices/Rates**
NGL*	$ (9,313)	$ (13,922)	$ 13,922
AECO natural gas	(5,975)	4,906	(4,906)
Foreign exchange	(854)	(13,074)	13,074
Frac-spread risk management	$ (16,142)		

* Assumes that a commodity price change will impact all propane, normal butane, isobutane and pentanes plus products linearly.
** Negative amounts represent a liability increase or asset decrease. Changes related to 2011 contracts are net of tax of 26.5%.

Interest Rate Risk Management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of a change in market interest rates. 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.

In 2001, Inter Pipeline entered into a series of floating-to-fixed interest rate swap agreements maturing in December 2011 with a Canadian chartered bank to manage the interest rate risk exposure on its unsecured revolving credit facility. Fixed rates range from 6.30% to 6.31%. At December 31, 2009, the swap agreements have a total notional value of $42.0 million (2008 - $43.0 million). The notional principal balance of one of these swap agreements is reduced by $1.0 million per year for the term of the agreement.

In 2007, Inter Pipeline assumed fixed-to-floating interest rate swap agreements with a Canadian chartered bank to manage its interest rate cash flow exposure on the entire $300.0 million balance of its 5 and 10 year fixed rate Corridor debentures.

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of floating-to-fixed interest rate swap agreements. Since fixed rate long-term debt is carried at amortized cost rather than at fair value, the carrying value of this debt is not subject to interest rate risk. Since

the fair value gains and losses on the fixed-to-floating interest rate swap agreements are offset by the long-term receivable or long-term payable, there is no interest rate risk on these agreements.

Based on the variable rate debt obligations outstanding at December 31, 2009, a 1% change in interest rates at this date could affect interest expense on credit facilities and consequently pre-tax income by approximately $19.4 million, assuming all other variables remain constant. Of this amount, $17.1 million relate to the $2.1 billion Unsecured Revolving Credit Facility (note 8) and are recoverable through the terms of the Corridor FSA. A 1% change in interest rates at December 31, 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 $0.6 million, assuming all other variables remain constant.

Power Price Risk Management

Inter Pipeline uses derivative financial instruments to manage power price risk in its conventional oil pipelines and NGL extraction business segments. Inter Pipeline enters into financial heat rate swap contracts to manage electricity price risk exposure in the NGL extraction business. Contracts outstanding at December 31, 2009 were for a notional quantity of 12.0 MW of electric power per hour for the period January 1, 2010 to December 31, 2010 at a price equal to 8.75 GJs/MWh multiplied by the AECO monthly index price. Inter Pipeline also enters into financial power swap contracts to manage electricity price exposure in the conventional oil pipeline business. A contract outstanding at December 31, 2009 was for a notional quantity of 4.0 MW of electric power per hour for the period January 1, 2010 to December 31, 2010 at a price equal to $49.00/MWh. 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 $0.7 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 $0.5 million.

Foreign Exchange Risk Management

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage 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.

b) Credit Risk

Credit exposure on financial instruments arises from a counter-party's inability or unwillingness to fulfill its obligations to Inter Pipeline. Inter Pipeline's credit risk exposure relates primarily to customers (accounts receivable) and financial counterparties holding cash and derivative financial instruments. Inter Pipeline's exposure to credit risk arises from default of a customer or counterparty's obligations, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and monitoring procedures.

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

At December 31, 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. 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.

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

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.

At December 31, 2009, accounts receivable outstanding meeting the definition of past due and impaired are immaterial.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are investment grade corporations in the energy and chemical industry sectors. At December 31, 2009, accounts receivable associated with these two business segments were $88.0 million or 72% 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

Liquidity risk is the risk that suitable sources are not available to fund business operations, commercial strategies or meet financial obligations. The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at December 31, 2009 on an undiscounted basis:

	Total	Less Than One Year	1 to 5 Years	After 5 Years
Cash distributions payable	$ 19,098	$ 19,098	$ -	$ -
Accounts payable and accrued liabilities	123,516	123,516	-	-
Deferred revenue	133	133	-	-
Derivative financial instruments*	21,092	16,844	4,248	-
Long-term debt	2,619,700	273,600	2,196,100	150,000
Long-term payable*	9,977	-	9,762	215
	$ 2,793,516	$ 433,191	$ 2,210,110	$ 150,215

* 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 December 31, 2009, based upon contractual maturity dates. Fair values of the long-term payable and derivative financial instruments reported on the balance sheets are shown on a discounted basis.

Inter Pipeline projects its funding requirements to ensure appropriate sources of finances are available to meet future financial obligations. Financial liabilities may be funded through cash from operations or through other capital strategies as discussed in note 19 - Capital Disclosures. At December 31, 2009, Inter Pipeline had access to unutilized credit and demand facilities of approximately $1,011.9 million to fund a portion of the foreseeable obligations noted in the table above, with certain amounts of those unutilized facilities available to specific subsidiaries of Inter Pipeline which are included in these consolidated financial statements.

22. SUPPLEMENTAL CASH FLOW INFORMATION

Restricted Cash

At December 31, 2009, cash and cash equivalents includes a restricted cash balance of $2.5 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).

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

Changes in Non-Cash Working Capital

	2009	2008
Accounts receivable	$ 2,009	$ 32,659
Prepaid expense and other deposits	(7,199)	4,804
Cash distributions payable	3,484	132
Accounts payable and accrued liabilities	(59,233)	11,758
Deferred revenue	6,132	(2,962)
Impact of foreign exchange rate differences and other	436	950
Changes in non-cash working capital	$ (54,371)	$ 47,341
These changes relate to the following activities:		
Operating	$ (12,374)	$ 40,671
Investing	(45,481)	6,538
Financing	3,484	132
Changes in non-cash working capital	$ (54,371)	$ 47,341

Other Cash Flow Information

	2009	2008
Cash taxes paid	$ 1,475	$ 2,541
Cash interest paid	$ 53,144	$ 95,209

23. MAJOR CUSTOMERS

In 2009, Dow Chemical Canada and BP Canada, two of the principal customers of the NGL extraction business, accounted for 48% (2008 – Dow Chemical Canada and BP Canada accounted for 55%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

24. INTERESTS IN JOINT VENTURES

85% Interest in Cold Lake

Summarized information on the results of operations, financial position and cash flows relating to Inter Pipeline's 85% interest in Cold Lake L.P. and Cold Lake Pipeline Ltd. are:

	2009	2008
Revenues	$ 67,565	$ 66,474
Expenses	(44,199)	(45,159)
Provision for income taxes	(151)	(134)
Proportionate share of net income	$ 23,215	$ 21,181
Proportionate share of funds from operations	$ 43,091	$ 38,633
Cash provided by operating activities	$ 45,904	$ 38,861
Cash used in investing activities	(20,473)	(39,349)
Proportionate share of increase (decrease) in cash and cash equivalents	$ 25,431	$ (488)
Current assets	$ 33,147	$ 27,854
Long-term assets	458,168	464,914
Current liabilities	(3,394)	(2,880)
Proportionate share of net assets	$ 487,921	$ 489,888

Notes To Consolidated Financial Statements

December 31, 2009
(tabular amounts in thousands of dollars, except as otherwise indicated)

50% Interest in Empress V Extraction Plant

Summarized information on the results of operations, financial position and cash flows relating to Inter Pipeline's 50% interest in the Empress V extraction plant are:

	2009	2008
Revenues	$ 53,234	$ 126,540
Expenses	(53,720)	(122,907)
Proportionate share of net income	$ (486)	$ 3,633
Proportionate share of funds from operations	$ 3,327	$ 6,990
Cash provided by operating activities	$ 4,688	$ 5,915
Cash used in investing activities	(11,447)	(10,098)
Proportionate share of decrease in cash and cash equivalents	$ (6,759)	$ (4,183)
Current assets	$ 10,681	$ 14,981
Long-term assets	112,300	110,019
Current liabilities	(9,219)	(15,856)
Long-term liabilities	(409)	(408)
Proportionate share of net assets	$ 113,353	$ 108,736

25. COMPARATIVE FIGURES

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