Management's Discussion and Analysis

For the three months ended March 31, 2012

Forward-Looking Information

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

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

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

Management's Discussion and Analysis

For the three month period ended March 31, 2012

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

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

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

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

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FIRST QUARTER HIGHLIGHTS

- Funds from operations* (FFO) increased to $108 million, up $8 million or 8% over first quarter 2011 levels
- Low quarterly payout ratio before sustaining capital* of 64.7%
- Cash distributions to unitholders totaled $70 million or $0.2625 per unit
- Net income increased to $80 million, up $15 million or 23% over first quarter 2011 results
- Quarterly throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems averaged 958,200 barrels per day (b/d)
- Volumes averaged 179,300 b/d on Inter Pipeline's Bow River, Central Alberta and Mid Saskatchewan conventional oil pipeline systems, representing an increase of 8,500 b/d or 5% over first quarter 2011 levels
- Completed $459 million acquisition of four petroleum storage terminals in Denmark, more than doubling European storage capacity to approximately 19 million barrels
- Standard & Poor's increased Inter Pipeline (Corridor) Inc.'s long-term corporate credit rating from A- to A

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

PERFORMANCE OVERVIEW

(millions, except per unit and % amounts)	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Revenues		
Oil sands transportation	$ 70.6	$ 72.8
NGL extraction	136.7	159.9
Conventional oil pipelines	51.2	43.7
Bulk liquid storage	38.7	26.6
	$ 297.2	$ 303.0
Funds from operations[1]		
Oil sands transportation	$ 41.3	$ 43.1
NGL extraction	57.0	53.0
Conventional oil pipelines	40.5	32.6
Bulk liquid storage	19.3	10.5
Corporate costs	(50.1)	(38.9)
	$ 108.0	$ 100.3
Per unit[1]	$ 0.41	$ 0.39
Net income	$ 79.6	$ 64.5
Per unit – basic and diluted	$ 0.30	$ 0.25
Cash distributions[2]	$ 69.9	$ 62.0
Per unit[2]	$ 0.2625	$ 0.2400
Units outstanding (basic)		
Weighted average	265.7	258.3
End of period	267.2	258.5
Capital expenditures		
Growth[1]	$ 39.6	$ 40.8
Sustaining[1]	6.3	2.8
	$ 45.9	$ 43.6
Payout ratio before sustaining capital[1]	64.7%	61.8%
Payout ratio after sustaining capital[1]	68.7%	63.6%

(millions, except per unit and % amounts)	As at March 31 2012	As at December 31 2011
Total assets	$ 5,310.3	$ 4,768.1
Total debt[3]	$ 3,145.8	$ 2,672.1
Total partners' equity	$ 1,493.7	$ 1,419.8
Enterprise value[1]	$ 8,374.5	$ 7,593.3
Total debt to total capitalization[1]	67.8%	65.3%
Total recourse debt to capitalization[1]	48.2%	38.9%

(1) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.
(2) Cash distributions are calculated based on the number of units outstanding at each record date.
(3) Total debt reported in the March 31, 2012 consolidated financial statements include long-term debt, short-term debt and commercial paper of $3,130.9 million inclusive of discounts and debt transaction costs of $14.9 million.

THREE MONTHS ENDED MARCH 31, 2012

Inter Pipeline generated strong financial results for the three months ended March 31, 2012. FFO* increased 7.7% or $7.7 million from $100.3 million in the first quarter of 2011 to $108.0 million in the first quarter of 2012. Inter Pipeline's payout ratio before sustaining capital for the first quarter of 2012 was very strong at 64.7%. These positive financial results were primarily driven by: 1) the acquisition of Inter Terminals in Denmark; 2) increased throughput volumes in the conventional oil pipelines business; and 3) higher realized frac-spreads in the NGL extraction business. The increased operating results from these businesses were partially offset by slightly lower FFO* from the oil sands transportation business and increased corporate costs.

In the first quarter of 2012, net income increased $15.1 million or 23.4% to $79.6 million from $64.5 million in the first quarter of 2011. This increase in net income is due to the positive operating results discussed above and a favourable mark-to-market of derivative financial instruments which resulted in an unrealized gain for the first three months of 2012. These increases were partially offset by higher income taxes, and higher depreciation and amortization.

Total cash distributed to unitholders in the first three months of 2012 amounted to $69.9 million, an increase of 12.7% or $7.9 million from the $62.0 million distributed in the same period in 2011. The increase in cash distributions is primarily due to an increase in monthly cash distributions of $0.0075 per unit effective December 2011. In addition, there were a higher overall number of units outstanding due to strong unitholder participation under Inter Pipeline's distribution reinvestment plan.

Inter Pipeline's total debt at March 31, 2012 was $3,145.8 million, an increase of $473.7 million or 17.7% from $2,672.1 million at December 31, 2011. The increase in debt was primarily due to the acquisition of Inter Terminals in January 2012, which was funded through Inter Pipeline's existing revolving credit facility. As a result, at March 31, 2012 Inter Pipeline's recourse debt to capitalization* ratio increased to 48.2% from 38.9% at December 31, 2011. After adjusting to include non-recourse debt of $1,755.0 million held within the Corridor corporate entity, Inter Pipeline's total debt to total capitalization* ratio was 67.8% at March 31, 2012, up from 65.3% at December 31, 2011.

OUTLOOK

In 2012, Inter Pipeline will continue executing its long-term business strategy that has produced strong results for more than a decade. Inter Pipeline acquires and develops long-life, energy infrastructure assets that generate sustainable and predictable cash flow. Our portfolio of high quality assets has numerous large-scale growth opportunities that are expected to support stable and increasing returns to unitholders into the future.

For the next few years, Inter Pipeline's capital development plans will focus on the oil sands transportation business segment where significant development potential exists. Alberta's oil sands continue to draw large investments from major global energy companies, resulting in a significant demand for energy infrastructure. Inter Pipeline has identified up to $3 billion in potential new organic investment opportunities that will leverage off our existing oil sands pipeline systems.

In 2012, Inter Pipeline expects to spend approximately $320 million in growth capital, primarily on oil sands infrastructure. Our strategically located oil sands pipeline systems are well positioned to provide product transportation alternatives for a number of large-scale oil sands projects currently under development. Inter Pipeline anticipates expanding both the Polaris and Cold Lake pipeline systems significantly over the next several years to meet forecast transportation requirements for both diluent and diluted bitumen. In support of these expansions, initial engineering, design and early construction work in excess of $120 million has been backstopped by producers.

As a stand-alone diluent transportation system, the Polaris pipeline system is well positioned to provide diluent transportation service to key areas of the oil sands region. Initial development of the Polaris system is supported by diluent transportation agreements for the first phase of the Imperial Kearl oil sands project and the Husky Sunrise project. The estimated cost to connect the Polaris pipeline to these two projects and diluent receipt points in the Edmonton area is approximately $115

million. Polaris is expected to be in service for the Kearl project in the second half of 2012 and the Sunrise project in the second half of 2013. With combined initial firm volume commitments of 90,000 b/d, these contracts are expected to generate approximately $63 million in incremental long-term annual EBITDA* when fully in service. Inter Pipeline anticipates additional expansion of the Polaris system over the next few years to meet forecast diluent demand growth.

In the Cold Lake area, forecast volume growth is expected to exceed current pipeline capacity over the next few years. In response to this expected growth, Inter Pipeline has undertaken steps to expand the capacity of the system, including the addition of two blend pump stations along the west leg of the Cold Lake system. The $90 million project will boost transportation capacity of the Cold Lake system from 535,000 b/d to about 650,000 b/d. Further system expansions are likely over the next few years, including possible phased construction of new pipeline loops, laterals, pump stations and associated facilities.

Outside of the oil sands business, a primary objective for 2012 is to integrate the recently acquired Danish petroleum storage terminals. In January 2012, Inter Pipeline completed the $459 million acquisition. The four terminals acquired increase Inter Pipeline's total bulk liquid storage capacity in Western Europe by approximately 11 million barrels, bringing total European storage capacity to nearly 19 million barrels.

In 2010, approval was granted by the Energy Resources Conservation Board for Taylor Processing Inc. to construct the Harmattan co-streaming project upstream of Inter Pipeline's NGL extraction facility at Cochrane, Alberta. Inter Pipeline requested leave to appeal the decision, and in October 2011 the appeal request was granted. In April 2012, the appeal was presented in the Alberta Court of Appeal. A decision is expected in the second quarter of 2012. Inter Pipeline believes that the Harmattan co-streaming facility represents construction of redundant facilities as existing capacity is available to process the natural gas stream on the west leg of the TransCanada system.

Inter Pipeline's conventional oil business is expected to continue the positive growth trend of the past few quarters. A historical natural decline rate of 4-6% in conventional oil reservoirs has been reversed in certain production areas through the use of new drilling and completion technologies. Current high levels of well licensing and drilling activity, driven by strong crude oil prices, indicate that new production volumes should continue to at least offset natural declines over the medium term and potentially grow transportation volumes in this business segment.

Inter Pipeline expects to further enhance the stability of its cash flow stream over the coming years. Cash flow from planned capital projects will increase the proportion of cash flow that is generated under stable, long-term cost-of-service or fee-based contracts. These types of agreements are not subject to commodity price fluctuations, and add predictability to the revenue stream. The proportion of Inter Pipeline's cash flow that is subject to commodity price fluctuations, the majority of which is from the sale of propane-plus from the Cochrane extraction facility, is expected to fall as new oil sands related projects come on stream.

Inter Pipeline continues to maintain a solid financial position with a strong balance sheet and sufficient level of liquidity. Late in 2011, Inter Pipeline successfully refinanced $2.3 billion in credit facilities on attractive terms. Inter Pipeline's strong balance sheet and low business risk profile continue to support investment grade credit ratings. Standard & Poor's (S&P) has assigned a rating of BBB+ with a stable outlook to Inter Pipeline, and DBRS has assigned a BBB (high) rating with a stable trend. Inter Pipeline (Corridor) Inc. has been assigned investment grade credit ratings of A2 (stable outlook) and A (stable outlook) from Moody's Investor Services (Moody's) and DBRS. In the first quarter, S&P increased Inter Pipeline (Corridor) Inc.'s rating from A- to A based on successful performance of the Corridor expansion. Inter Pipeline's senior unsecured medium-term notes issued in 2011 were granted investment grade credit ratings of BBB+ and BBB (high) by S&P and DBRS, respectively.

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

Inter Pipeline is well positioned to continue delivering stable and growing returns to our unitholders. With a strong balance sheet, a wealth of organic development opportunities, and exceptional project management skills and operational expertise, Inter Pipeline expects the next number of years to be a period of exciting growth and returns for our unitholders.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2012	2011	*% change*
Cold Lake (100% basis)	486.4	508.2	*(4.3)*
Corridor	292.5	269.4	*8.6*
	778.9	777.6	*0.2*
(millions)			
Revenue[1]	$ 70.6	$ 72.8	*(3.0)*
Operating expenses[1]	$ 18.0	$ 19.8	*(9.1)*
Funds from operations[1][2]	$ 41.3	$ 43.1	*(4.2)*
Capital expenditures[1]			
Growth[2]	$ 28.7	$ 36.0	
Sustaining[2]	0.8	0.1	
	$ 29.5	$ 36.1	

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

Volumes

Average volumes in the oil sands transportation business increased by 1,300 b/d in the first three months of 2012 compared to the same period in 2011.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta. Average volumes on the Cold Lake pipeline system decreased 4.3% to 486,400 b/d during the first quarter of 2012, compared to the same period in 2011. Volumes on this system fluctuate mainly due to the timing of steam injection cycles associated with certain shipper production processes. Inter Pipeline anticipates volume growth on the Cold Lake pipeline system over the course of 2012, which is consistent with shippers' published long term forecasts.

The Corridor pipeline system transports diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta, as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. On the Corridor pipeline system, average volumes increased 23,100 b/d or 8.6% to 292,500 b/d in the first quarter of 2012, compared to the same period in 2011. Volume increases are primarily attributable to increased production levels from Athabasca Oil Sands Project's Jackpine mine.

Revenue

Revenue in the oil sands transportation business decreased $2.2 million to $70.6 million in the first quarter of 2012, compared to the same period in 2011.

Revenue from the Cold Lake pipeline system decreased $2.0 million in the first quarter of 2012, compared to the same period in 2011. The decrease is primarily due to lower power cost recoveries as a result of lower power pricing and consumption, as well as the lower volumes transported on the Cold Lake pipeline system in the first quarter of 2012, compared to the first quarter of 2011.

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

Revenue from the Corridor pipeline system decreased $0.2 million in the first quarter of 2012, compared to the same period in 2011. Revenue decreased due to a lower return on equity as the long-term Government of Canada (GOC) benchmark bond interest rate declined approximately 110 basis points, which was largely offset by an increase in rate base debt financing costs and related revenue. Average blended short-term and long-term interest rates used to finance the Corridor rate base increased approximately 29 basis points.

The Corridor Firm Service Agreement (Corridor FSA) utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of all debt financing costs, operating costs, rate base depreciation and taxes, in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's 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 the long-term GOC bond rate upon which the annual return on equity is determined, and changes to Corridor's rate base.

Operating Expenses

In the oil sands transportation business segment, operating expenses typically have a limited impact on Inter Pipeline's cash flow. On the Cold Lake pipeline system substantially all operating expenditures are recovered from the shippers and on the Corridor pipeline system there is full recovery of the expenditures. Similar to Corridor, there will be a full recovery of the expenditures on the Polaris pipeline system once it begins operation in late 2012. In the first quarter of 2012, operating expenses in the oil sands transportation business decreased $1.8 million, compared to the same period in 2011.

On the Cold Lake pipeline system, operating expenses decreased $1.8 million in the first quarter of 2012, compared to the same period in 2011. The decrease is largely due to lower power costs as a result of decreased power pricing and consumption, as well as delayed spending associated with non-routine maintenance in the first quarter of 2012. Average Alberta power pool prices decreased 26.7% from $82.04/MWh in the first quarter of 2011 to $60.12/MWh in the first quarter of 2012.

Operating expenses on the Corridor pipeline system were consistent in both the first quarter of 2012 and 2011.

Capital Expenditures

On the Corridor pipeline system, growth capital expenditures* of $3.8 million were incurred in the first quarter of 2012 primarily relating to the purchase of critical replacement equipment to be used in the event of an emergency repair.

Facility and pipeline construction activity for Inter Pipeline's Polaris diluent pipeline system continues, with approximately $8.6 million of growth capital* spent in the first quarter of 2012 for a total of $83.6 million spent to date. Beginning in the second half of 2012 and 2013, the Polaris pipeline system will provide diluent transportation services for the Kearl and Sunrise oil sands projects, respectively. The Polaris system utilizes an existing 12-inch diameter pipeline that has been idled as a result of the recently completed Corridor expansion project. The rate base net book value of the 12-inch diameter pipeline will be deducted from Corridor's rate base prior to beginning diluent service for the Kearl project. The estimated total capital expenditures to connect the Polaris pipeline to the Kearl and Sunrise projects, and diluent receipt points in the Edmonton area is approximately $115 million.

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

Growth capital expenditures* of $0.9 million were also spent on the Polaris pipeline system relating to other growth initiatives.

Growth capital expenditures* incurred on the Cold Lake pipeline system were $15.4 million in the first quarter of 2012. Of this amount $3.3 million relates to the west leg expansion project, for a total of $7.5 million ($8.8 million – 100%) spent on the project to date. This project will expand capacity on the west mainline leg of the Cold Lake system. Bitumen blend capacity will be increased from approximately 535,000 b/d to roughly 650,000 b/d by expanding existing pump stations and the addition of two new pump stations. The west leg capacity project is expected to cost $90.0 million, with an in service date of mid 2013. The remaining expenditures relate to other growth initiatives, most of which are backstopped by future potential shippers.

NGL Extraction Business Segment

								Three Months Ended March 31
				2012				2011
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,879	56.3	25.5	81.8	1,885	54.5	25.9	80.4
Empress V (100% basis)	831	22.3	7.5	29.8	1,051	24.6	11.4	36.0
Empress II	-	-	-	-	283	5.1	2.8	7.9
	2,710	78.6	33.0	111.6	3,219	84.2	40.1	124.3

		Three Months Ended March 31	
(millions)	2012	2011	*% change*
Revenue[1]	$ 136.7	$ 159.9	*(14.5)*
Shrinkage gas[1]	$ 56.0	$ 78.0	*(28.2)*
Operating expenses[1]	$ 23.5	$ 28.7	*(18.1)*
Funds from operations[1][2]	$ 57.0	$ 53.0	*7.5*
Capital expenditures[1]			
Growth[2]	$ 4.9	$ 1.2	
Sustaining[2]	0.4	1.0	
	$ 5.3	$ 2.2	

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

Volumes

In the first three months of 2012, Inter Pipeline's three NGL extraction plants processed average natural gas throughput volumes of 2,710 million cubic feet per day (mmcf/d) a decrease of 509 mmcf/d compared to the same period in 2011.

Average throughput volumes were 503 mmcf/d lower at the Empress V and II facilities which were negatively impacted by fluctuations in natural gas exports from Alberta's eastern border. Facility throughputs are also dependent on successfully attracting border gas flows to the extraction plants. Lower throughput volumes at Empress II do not impact its operating results due to the cost-of-service commercial arrangements at this facility.

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

Throughput volumes in the first quarter of 2011 and 2012, at the Cochrane facility were consistent as demand for Canadian natural gas in the US west-coast region remained strong.

Revenue

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

Revenue decreased $23.2 million in the first quarter of 2012, compared to the same period in 2011. The decrease is largely due to lower ethane and propane-plus pricing, as well as lower ethane volumes at Empress V and slightly lower propane-plus volumes at the Cochrane facility.

Frac-spread

	Three Months Ended March 31			
(dollars)	2012		2011	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Market frac-spread	$ 1.259	$ 1.260	$ 1.178	$ 1.162
Realized frac-spread	$ 1.148	$ 1.149	$ 0.991	$ 0.977

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

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

Realized frac-spread in the first quarter of 2012 of $1.15 USD/USG was $0.16 USD/USG higher than the same period in 2011. Market frac-spreads for the three months ended March 31, 2012 were above the 5-year and 15-year simple average market frac-spread of $0.86 USD/USG and $0.45 USD/USG, respectively, calculated at December 31, 2011.

Shrinkage

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. In the first quarter of 2012, shrinkage gas decreased $22.0 million as a result of lower AECO natural gas prices, compared to the same period in 2011. For the first three months of 2012, the weighted average monthly AECO price* was $2.39 per gigajoule (GJ) or approximately 33.1% lower than the first quarter 2011 of $3.57/GJ.

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

Operating Expenses

Operating expenses for the three months ended March 31, 2012, decreased $5.2 million compared to the same period in 2011. The decrease is due to lower power costs, which were partially offset by higher general operating and maintenance and employee costs. In the first quarter of 2012, average Alberta power pool prices were $60.12/MWh a decrease of 26.7% from $82.04/MWh in the first quarter of 2011.

Capital Expenditures

In the first three months of 2012, the NGL extraction business incurred growth capital expenditures* of $4.9 million, of which $4.5 million relates to a liquid sweetening project at the Cochrane facility. The remaining growth capital expenditures† relate to various other projects at the Cochrane and Empress facilities.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2012	2011	*% change*
Bow River	112.2	109.5	*2.5*
Central Alberta	25.7	26.8	*(4.1)*
Mid-Saskatchewan	41.4	34.5	*20.0*
	179.3	170.8	*5.0*

(millions)	2012	2011	*% change*
Revenue	$ 51.2	$ 43.7	*17.2*
Operating expenses	$ 10.2	$ 10.2	-
Funds from operations[1]	$ 40.5	$ 32.6	*24.2*
Revenue per barrel[2]	$ 3.14	$ 2.85	*10.2*
Capital expenditures			
Growth[1]	$ 2.9	$ 0.1	
Sustaining[1]	0.8	0.3	
	$ 3.7	$ 0.4	

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

Volumes

In the first three months of 2012, volumes transported on the conventional oil pipelines were 179,300 b/d, an increase of approximately 8,500 b/d over the first quarter of 2011. Mid-Saskatchewan pipeline volumes increased approximately 6,900 b/d, or 20.0% in the first quarter of 2012, due to increased production from new horizontal well drilling in the Viking light oil play, compared to the same period in 2011. In the first quarter of 2012, volumes on the Bow River pipeline system increased approximately 2,700 b/d, compared to the same period in 2011, primarily due to increased drilling activity in the Pekisko tight oil play. Volumes on the Central Alberta pipeline system, decreased approximately 1,100 b/d in the first quarter of 2012 primarily due to natural production declines, compared to the same period in 2011.

Revenue

Revenue in the conventional oil pipelines business increased $7.5 million in the first quarter of 2012, compared to the same period in 2011. The increase in revenue is primarily due to increased mainline tolls (average increase of 6% in both July of 2011 and January of 2012), as well as increased volumes as discussed above.

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

Operating Expenses

Operating expenses were $10.2 million in both the first quarter of 2012 and 2011. Fuel and power costs incurred in the first quarter of 2012 were slightly higher than the same period in 2011, however this increase was largely offset by lower employee costs in the same period.

Capital Expenditures

In the first three months of 2012, growth capital expenditures* of $2.9 million were incurred in the conventional oil pipelines business, primarily related to third party connections on the Mid-Saskatchewan and Bow River pipeline systems.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended March 31		
	2012	2011	*% change*
Utilization	88.9%	98.7%	*(9.9)*
(millions)			
Revenue	$ 38.7	$ 26.6	*45.5*
Operating expenses	$ 16.1	$ 13.3	*21.1*
Funds from operations(1)	$ 19.3	$ 10.5	*83.8*
Capital expenditures			
Growth(1)	$ 3.1	$ 3.5	
Sustaining(1)	3.8	0.7	
	$ 6.9	$ 4.2	

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

Utilization

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

In the first quarter of 2012, utilization rates remained relatively strong with tank utilization averaging 88.9%, despite the current uncertain European economic environment. Utilization rates were lower in the first quarter of 2012, compared to the same period in 2011, primarily due to the acquisition of Inter Terminals where average utilization rates in the first quarter dropped to 86.2%. The current lack of strong contango in certain petroleum product markets may temporarily put downward pressure on utilization rates, particularly at Inter Terminals. Simon storage utilization rates in the first quarter of 2012 remained high at 92.5%. Demand for storage fluctuates historically due to market conditions within industry sectors, which Simon Storage and Inter Terminals manage through customer and product diversification.

Revenue

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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Revenue from the bulk liquid storage business increased $12.1 million in the first quarter of 2012, compared to the same period in 2011. The increase is due to the acquisition of Inter Terminals which increased revenue by $13.6 million in the first quarter of 2012. This increase was partially offset by lower storage and handling revenue from Simon Storage due to decreased utilization rates and lower ancillary business revenue resulting from decreased activity levels. Foreign currency translation adjustments reduced revenues by $0.2 million as the average Pound Sterling/CAD exchange rate decreased from 1.58 in the first quarter of 2011 to 1.57 in the first quarter of 2012.

Operating Expenses

Operating expenses increased $2.8 million in the first quarter of 2012, compared to the same period in 2011. The increase is due to the acquisition of Inter Terminals which increased operating expenses by $3.3 million. This increase was partially offset by lower fuel and power costs and reduced ancillary business costs in Simon Storage as a result of decreased activity.

Capital Expenditures

Growth capital expenditures* in the bulk liquid storage business were $3.1 million in the first quarter of 2012, which primarily relate to a number of tank replacements (for the storage of gas condensate and heavy fuel oils), tank life extensions and tank modification projects at Immingham pursuant to long-term storage agreements. Sustaining capital expenditures* were $3.8 million in the first quarter of 2012, which primarily relate to Inter Terminals costs associated with initiatives to enhance environmental performance and various other projects related to improvements in terminal infrastructure and safety.

Acquisition of Inter Terminals

On January 11, 2012, Inter Pipeline completed the acquisition, and thereby obtained control, of four petroleum storage terminals in Denmark, referred to collectively as Inter Terminals, from a subsidiary of DONG Energy A/S. The acquisition was valued at $459.1 million plus closing adjustments and the assumption of surplus cash, for a total cash consideration of $509.9 million, and was funded from Inter Pipeline's existing credit facility. The acquisition has more than doubled Inter Pipeline's total bulk liquid storage capacity in Western Europe, adding scale and diversification to European storage operations.

Operating results for Inter Terminals have been included in the consolidated financial statements since January 11, 2012. Inter Terminals contributed $13.6 million and $5.5 million to revenue and net income, respectively from the date of acquisition to March 31, 2012.

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

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

Cash	$ 48.3
Non-cash working Capital	14.9
Property, plant and equipment	342.7
Goodwill	114.4
Intangible assets	20.7
Decommissioning obligation	(18.4)
Deferred income tax liability	(12.7)
	$ 509.9

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

OTHER EXPENSES

(millions)	Three Months Ended March 31 2012	2011
Depreciation and amortization	$ 27.7	$ 24.4
Financing charges	23.3	18.9
Provision for income taxes	22.5	19.5
General and administrative	15.1	12.6
Acquisition fee to General Partner	4.6	-
Management and incentive fees to General Partner	3.7	2.8
Unrealized change in fair value of derivative financial instruments	(3.1)	10.3
Gain on disposal of assets	-	(0.1)

Depreciation and Amortization

In the first quarter of 2012, depreciation and amortization of tangible and intangible assets increased primarily due to the acquisition of Inter Terminals.

Financing Charges

(millions)	Three Months Ended March 31 2012	2011
Interest on credit facilities	$ 9.6	$ 7.7
Interest on loan payable to General Partner	5.8	5.8
Interest on Corridor Debentures	2.5	2.5
Interest on MTN Series 1 and Series 2 notes	5.9	2.6
Total interest	23.8	18.6
Capitalized interest	(1.8)	(0.3)
Amortization of transaction costs on long-term and short-term debt and commercial paper	0.8	0.2
Accretion of provisions	0.5	0.4
Total financing charges	$ 23.3	$ 18.9

For the three month period ended March 31, 2012, total financing charges increased $4.4 million, compared to the same period in 2011. The increase in financing charges is primarily due to the acquisition of Inter Terminals in January 2012, which was funded through Inter Pipeline's existing credit facility.

On February 2 and July 29, 2011, Inter Pipeline issued $325 million of MTN Series 1 notes at a rate of 4.967% per annum due February 2, 2021 and $200 million of MTN Series 2 notes at a rate of 3.839% per annum due July 30, 2018, respectively, in the Canadian public debt market. Due to the timing of issuance of the MTN Series 1 and 2 notes, term debt interest expense was $3.3 million higher in the first quarter of 2012, compared to the same period in 2011.

Capitalized interest in the first quarter of 2012 increased by $1.5 million, compared to the same period in 2011. This increase primarily relates to capitalized interest attributed to the construction of the Polaris pipeline system.

Interest on credit facilities increased $1.9 million in the first quarter of 2012, compared to the same period in 2011. This increase is due to higher average short-term interest rates and increased debt levels. The weighted average interest rate on Inter Pipeline's credit facilities increased approximately 7 basis points from 1.58% in the first quarter of 2011 to 1.65% in first quarter of 2012. The weighted average credit facility debt outstanding increased $18.6 million to $1,955.9 million in the first quarter of 2012 compared to $1,937.3 million in the first quarter of 2011.

Interest expense on Corridor debentures is consistent in the first quarter of 2011 and 2012. Interest rates on the Series B and C debentures are fixed; however, Corridor has a swap agreement in place on the $150 million Series B debentures that exchanged the fixed rates for variable rates.

Interest expense on the loans 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. Fixed interest rates on each of the $91.2 million and $288.6 million loans outstanding are 5.85% and 6.15%, respectively.

Amortization of transaction costs on long-term and short-term debt and commercial paper increased $0.6 million, while the accretion of provisions is $0.1 million higher in the first quarter of 2012, compared to the first quarter of 2011.

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

Income Taxes

Consolidated income tax expense of $22.5 million for the three months ended March 31, 2012, increased $3.0 million from an income tax expense of $19.5 million in the same period of 2011. The increase in income tax expense is primarily due to higher consolidated income before taxes.

General and Administrative

	Three Months Ended March 31	
(millions)	2012	2011
Canada	$ 12.4	$ 10.9
Europe	2.7	1.7
	$ 15.1	$ 12.6

In the first quarter of 2012, Canadian general and administrative expenses increased $1.5 million, compared to the same period in 2011. The increase is primarily due to higher legal fees, employee costs and long-term incentive plan costs.

Inter Pipeline's European general and administrative costs increased $1.0 million in the first quarter due to the acquisition of Inter Terminals, compared to the same period in 2011.

Fees to General Partner

The General Partner earned management fees from Inter Pipeline of $3.3 million in the first quarter of 2012 (first quarter 2011 - $2.8 million). This fee is equivalent to 2% of "Operating Cash," as defined in the LPA. In the first quarter of 2012, an incentive fee of $0.4 million was also accrued to the General Partner as annualized Distributable Cash for 2012 is expected to be in excess of $1.01 per unit annually (first quarter 2011 - $nil). Acquisition fees of $4.6 million related to the acquisition of Inter Terminals were also earned by the General Partner in the first quarter of 2012.

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

Unrealized Change in Fair Value of Derivative Financial Instruments

The mark-to-market valuation of Inter Pipeline's derivative financial instruments resulted in an increase to net income of $3.1 million in the first quarter of 2012.

Net income was favourably impacted in the first quarter of 2012, by mark-to-market adjustments on NGL swaps of $4.2 million for price and volume changes between January and March of 2012 and net foreign currency swaps of $3.8 million which reflected the change in forward prices between January and March of 2012. These adjustments were partially offset by an unfavourable mark-to-market adjustment on natural gas hedges of $4.9 million for price and volume changes between January and March of 2012.

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

SUMMARY OF QUARTERLY RESULTS

	2010			2011				2012
(millions, except per unit and % amounts)	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Revenue								
Oil sands transportation	$ 36.4	$ 36.4	$ 36.8	$ 72.8	$ 67.7	$ 73.0	$ 71.3	$ 70.6
NGL extraction	143.4	128.8	149.1	159.9	137.4	158.2	129.1	136.7
Conventional oil pipelines	37.7	41.4	40.7	43.7	42.1	45.7	46.3	51.2
Bulk liquid storage	23.9	25.1	25.9	26.6	26.1	25.2	26.5	38.7
	$ 241.4	$ 231.7	$ 252.5	$ 303.0	$ 273.3	$ 302.1	$ 273.2	$ 297.2
Funds from operations[1]								
Oil sands transportation	$ 18.9	$ 18.4	$ 17.9	$ 43.1	$ 41.3	$ 41.8	$ 39.5	$ 41.3
NGL extraction[2]	42.3	40.2	46.8	53.0	42.8	62.6	44.1	57.0
Conventional oil pipelines	27.7	30.2	26.8	32.6	31.5	35.6	33.5	40.5
Bulk liquid storage[3][4]	15.3	5.9	8.4	10.5	8.3	9.0	9.4	19.3
Corporate costs	(15.6)	(17.3)	(19.1)	(38.9)	(32.0)	(37.1)	(36.4)	(50.1)
	$ 88.6	$ 77.4	$ 80.8	$ 100.3	$ 91.9	$ 111.9	$ 90.1	$ 108.0
Per unit[1]	$ 0.35	$ 0.30	$ 0.31	$ 0.39	$ 0.35	$ 0.43	$ 0.35	$ 0.41
Net income	$ 68.1	$ 46.5	$ 60.1	$ 64.5	$ 61.0	$ 76.6	$ 45.8	$ 79.6
Per unit – basic & diluted	$ 0.26	$ 0.19	$ 0.23	$ 0.25	$ 0.24	$ 0.29	$ 0.17	$ 0.30
Cash distributions[5]	$ 57.8	$ 57.9	$ 59.3	$ 62.0	$ 62.1	$ 62.5	$ 65.1	$ 69.9
Per unit[5]	$ 0.2250	$ 0.2250	$ 0.2300	$ 0.2400	$ 0.2400	$ 0.2400	$ 0.2475	$ 0.2625
Units outstanding (basic)								
Weighted average	256.6	257.2	257.8	258.3	258.8	259.9	262.7	265.7
End of period	256.9	257.5	258.0	258.5	259.1	261.2	264.2	267.2
Capital expenditures								
Growth[1]	$ 34.2	$ 36.5	$ 221.0	$ 40.8	$ 27.8	$ 29.8	$ 34.2	$ 39.6
Sustaining[1]	5.6	2.9	5.7	2.8	4.4	5.0	7.2	6.3
	$ 39.8	$ 39.4	$ 226.7	$ 43.6	$ 32.2	$ 34.8	$ 41.4	$ 45.9
Payout ratio before sustaining capital[1]	65.2%	74.8%	73.5%	61.8%	67.6%	55.8%	72.3%	64.7%
Payout ratio after sustaining capital[1]	69.6%	77.6%	79.1%	63.6%	71.0%	58.5%	78.5%	68.7%
Total debt[6]	$ 2,585.4	$ 2,603.1	$ 2,801.2	$ 2,762.4	$ 2,738.2	$ 2,719.1	$ 2,672.1	$ 3,145.8
Total partners' equity	$ 1,324.5	$ 1,329.7	$ 1,328.0	$ 1,339.8	$ 1,346.7	$ 1,404.4	$ 1,419.8	$ 1,493.7
Enterprise value[1]	$ 5,655.7	$ 6,134.0	$ 6,651.2	$ 7,178.1	$ 6,847.2	$ 6,901.1	$ 7,593.3	$ 8,374.5
Total recourse debt to capitalization[1]	34.5%	35.0%	41.0%	42.0%	41.5%	40.1%	38.9%	48.2%
Total debt to total capitalization[1]	66.1%	66.2%	67.8%	67.3%	67.0%	65.9%	65.3%	67.8%

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

LIQUIDITY AND CAPITAL RESOURCES

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

(i) stable 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 acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At March 31, 2012, Inter Pipeline had access to committed credit facilities totaling $2.3 billion, of which approximately $359.0 million remains unutilized, and demand facilities totaling $45 million of which $38.3 million remains unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

In addition to committed credit facilities, Inter Pipeline issues equity capital from time to time to ensure its balance sheet remains well prepared for expected growth. Approximately $53.6 million of equity was issued through the distribution reinvestment plan during the first three months of 2012.

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

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

In November 2010, Inter Pipeline filed a short form base shelf prospectus with Canadian regulatory authorities. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) Limited Partnership units; (ii) debt securities and (iii) subscription receipts (collectively, the "Securities") of up to $1.5 billion aggregate initial offering price of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. On January 19, 2011, Inter Pipeline filed a related prospectus supplement for the issuance of up to $1.5 billion of senior unsecured medium-term notes (MTN). The prospectus supplement establishes Inter Pipeline with a MTN program that allows it to issue MTNs in the Canadian market. Inter Pipeline subsequently issued $325 million MTN Series 1 notes and $200 million MTN Series 2 notes, reducing the amount that can be issued under the shelf prospectus and related prospectus supplements from $1.5 billion to $975 million.

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

CAPITAL STRUCTURE

(millions, except % amounts)	Recourse	Non-recourse	March 31 2012	December 31 2011
Credit facilities available				
Corridor syndicated facility	$ -	$ 1,550.0	$ 1,550.0	$ 1,550.0
Inter Pipeline syndicated facility	750.0	-	750.0	750.0
	750.0	1,550.0	2,300.0	2,300.0
Demand facilities(1)	20.0	25.0	45.0	45.0
	$ 770.0	$ 1,575.0	$ 2,345.0	$ 2,345.0
Total debt outstanding				
Recourse				
Inter Pipeline syndicated facility			$ 486.0	$ -
Loan payable to General Partner			379.8	379.8
Senior Unsecured Medium-Term Notes			525.0	525.0
Non-recourse				
Corridor syndicated facility			1,455.0	1,467.3
Corridor debentures			300.0	300.0
Total debt(1)(2)			3,145.8	2,672.1
Total partners' equity			1,493.7	1,419.8
Total capitalization(3)			$ 4,639.5	$ 4,091.9
Total debt to total capitalization(3)			67.8%	65.3%
Total recourse debt to capitalization(3)			48.2%	38.9%

(1) At March 31, 2012, outstanding Corridor letters of credit were approximately $0.2 million and demand facility borrowings of $6.5 million, were not included in the total debt outstanding in the table above.
(2) At March 31, 2012, total debt includes long-term debt, short-term debt and commercial paper outstanding of $3,130.9 million inclusive of discounts and debt transaction costs of $14.9 million.
(3) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Financial covenants within Inter Pipeline's credit agreements 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 senior recourse debt to EBITDA* ratio of 4.25. Recourse debt is attributed directly to Inter Pipeline and used in the calculation of its financial covenants. Inter Pipeline's recourse debt to capitalization* ratio was 48.2% at March 31, 2012. Adjusting for the impact of non-recourse debt of $1,755.0 million, Inter Pipeline's consolidated debt to total capitalization* ratio at March 31, 2012 was 67.8%.

At March 31, 2012, approximately $2,091.0 million or 66.5% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount $1,605 million or 76.8% relate to Corridor debt outstanding and are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2007, Inter Pipeline acquired an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

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

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

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

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

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

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

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

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

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

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects[1]				
Oil sands transportation	$ 258.3	$ 204.3	$ 54.0	$ -
NGL extraction	48.8	33.1	15.7	-
Conventional oil pipelines	31.1	31.1	-	-
Bulk liquid storage	12.9	12.9	-	-
Growth capital[2]	351.1	281.4	69.7	-
Sustaining capital[2]	39.7	39.7	-	-
	390.8	321.1	69.7	-
Total debt[3]				
Corridor syndicated facility[4]	1,455.0	1,455.0	-	-
Inter Pipeline syndicated facility	486.0	-	486.0	-
Loan to General Partner	379.8	91.2	288.6	-
Corridor debentures	300.0	-	150.0	150.0
4.967% Unsecured Medium-Term Notes, Series 1	325.0	-	-	325.0
3.839% Unsecured Medium-Term Notes, Series 2	200.0	-	-	200.0
	3,145.8	1,546.2	924.6	675.0
Other obligations				
Derivative financial instruments	34.6	24.3	10.3	-
Operating leases	88.0	7.1	27.3	53.6
Purchase obligations	176.3	38.6	36.5	101.2
Long-term portion of incentive plan	2.5	-	2.5	-
	$ 3,838.0	$ 1,937.3	$ 1,070.9	$ 829.8

(1) Capital expenditure commitments in "less than one year" represent expected expenditures for the remaining months of 2012.
(2) Please refer to the **NON-GAAP FINANCIAL MEASURES** section.
(3) At March 31, 2012, outstanding Corridor letters of credit of approximately $0.2 million and demand facility borrowings of $6.5 million were not included in the total $3,145.8 million of debt outstanding in the table above.
(4) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated credit facility that has no repayment requirements until December 2015.

Inter Pipeline plans to invest approximately $351 million in organic growth capital projects over the 2012 to 2013 period which includes capital costs for the $115 million Polaris oil sands diluent transportation project, the $90 million Cold Lake west leg capacity project and the $53 million liquid sweetening project at the Cochrane NGL extraction facility. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with UK's storage and containment regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $4.8 million to $9.6 million over the next eight years.

Inter Pipeline's debt outstanding at March 31, 2012, matures at various dates up to February 2021. Corridor's Series B debentures mature on February 2, 2015, and Corridor's Series C debentures mature on February 3, 2020. On December 15, 2011, Corridor entered into a $1.55 billion senior unsecured syndicated revolving credit facility that has an initial maturity date of December 15, 2015. On December 5, 2011, Inter Pipeline entered into a $750 million senior unsecured syndicated revolving credit facility with a maturity date of December 5, 2016. Inter Pipeline's and Corridor's credit facilities can be extended beyond their initial maturity date under certain circumstances. Inter Pipeline's loans payable to the General Partner of $91.2 million and $288.6 million mature on October

28, 2012 and October 28, 2014, respectively. Inter Pipeline's $325 million MTN Series 1 notes mature on February 2, 2021, while MTN Series 2 notes mature on July 30, 2018.

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

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

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

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

(iv) Inter Pipeline has obligations of $22.9 million under its employee long-term incentive plan, of which $20.4 million is included in the working capital deficit*.

(v) Present value of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $56.3 million at March 31, 2012. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

CASH DISTRIBUTIONS TO UNITHOLDERS

	Three Months Ended March 31	
(millions)	2012	2011
Cash provided by operating activities	$ 61.1	$ 136.8
Net change in non-cash operating working capital	46.9	(36.5)
Less sustaining capital expenditures[1]	(6.3)	(2.8)
Cash available for distribution[1]	101.7	97.5
Change in discretionary reserves[1]	(31.8)	(35.5)
Cash distributions	$ 69.9	$ 62.0
Cash distributions per unit[2]	$ 0.2625	$ 0.2400
Payout ratio before sustaining capital[1]	64.7%	61.8%
Payout ratio after sustaining capital[1]	68.7%	63.6%
Growth capital expenditures[1]	$ 39.6	$ 40.8
Sustaining capital expenditures[1]	6.3	2.8
	$ 45.9	$ 43.6

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

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

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

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

The discretionary reserve* increased approximately $31.8 million in the first quarter of 2012 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 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 March 31				Years Ended December 31	
(millions)	2012	2011	2011	2010	2009[(1)]	2008[(1)]
Cash provided by operating activities	$ 61.1	$ 136.8	$ 460.5	$ 349.6	$ 281.8	$ 321.1
Cash distributions	(69.9)	(62.0)	(251.7)	(232.6)	(202.4)	(186.6)
(Shortfall) excess	$ (8.8)	$ 74.8	$ 208.8	$ 117.0	$ 79.4	$ 134.5

	Three Months Ended March 31				Years Ended December 31	
(millions)	2012	2011	2011	2010	2009[(1)]	2008[(1)]
Net income	$ 79.6	$ 64.5	$ 247.9	$ 236.0	$ 157.7	$ 249.7
Cash distributions	(69.9)	(62.0)	(251.7)	(232.6)	(202.4)	(186.6)
Excess (shortfall)	$ 9.7	$ 2.5	$ (3.8)	$ 3.4	$ (44.7)	$ 63.1

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

Cash distributions in all periods, except the first quarter of 2012, are less than cash provided by operating activities. Cash distributions were in excess of cash provided by operating activities, in the first quarter of 2012, primarily due to the first quarter 2012 payment of Canadian income taxes related to the 2011 taxation year of $48.7 million. Cash distributions were also less than net income for the three months ended March 31, 2011 and 2012 and the years ended December 31, 2010 and 2008.

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

Net income includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore cash distributions may exceed net income.

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

OUTSTANDING UNIT DATA

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

(millions)	Class A	Class B	Total
Units outstanding	266.9	0.3	267.2

At May 1, 2012, Inter Pipeline had 267.8 million Class A units and 0.3 million Class B units for a total of 268.1 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 FFO*. 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 enters into the following types of derivative financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price hedges and heat rate and interest rate swap agreements. The mark-to-market or fair value of these financial instruments is recorded as an asset or liability and any change in the fair value recognized as an unrealized change in fair value of these derivative financial instruments in the calculation of net income. When the financial instrument matures, any realized gain or loss is recorded in net income.

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

NGL Extraction Business

Frac-spread Risk Management

Inter Pipeline is exposed to frac-spread risk which is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Derivative financial instruments are utilized to manage frac-spread risk. Inter Pipeline transacts with third party counterparties to sell a notional

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

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.

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 March 31, 2012. The CAD/USG average prices would approximate the following USD/USG prices based on the average USD/CAD forward curve at March 31, 2012.

	March 31, 2012		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
April to December 2012	59%	$ 0.95	$ 0.95
January to December 2013	48%	$ 0.96	$ 0.97

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

(millions)	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates[1]	Change in net income based on 10% decrease in prices/rates[1]
NGL[2]	$ (9.5)	$ (13.7)	$ 13.7
AECO natural gas	(20.5)	2.1	(2.1)
Foreign exchange	(2.8)	(13.1)	13.1
Frac-spread risk management	$ (32.8)		

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

Power Price Risk Management

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

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.

In association with the acquisition of Inter Terminals, Inter Pipeline entered into a forward foreign exchange agreement on February 1, 2012, to sell EUR 36.4 million at a rate of 1.3165 CAD per EUR, with a settlement date up to April 30, 2012. On March 20, 2012, Inter Pipeline cancelled the existing agreement and entered into another forward exchange agreement to sell EUR 36.4 million at a rate of

1.3170 CAD per EUR with a settlement date up to June 29, 2012. A 10% change in the Euro exchange rate would have no after-tax impact on net income.

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 March 31, 2012, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $4.8 million for the three months ended March 31, 2012, assuming all other variables remain constant. Of this amount $3.6 million relates to the $1,550 million unsecured revolving credit facility and is recoverable through the terms of the Corridor FSA, therefore the after-tax income impact on Inter Pipeline would be $0.9 million.

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

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

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

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

(millions)	Three Months Ended March 31 2012	2011
Realized (loss) gain on derivative financial instruments		
Revenues		
NGL swaps	$ (2.1)	$ (7.0)
Foreign exchange swaps (frac-spread hedges)	-	1.5
	(2.1)	(5.5)
Shrinkage gas expense		
Natural gas swaps	(3.5)	(3.1)
Operating expenses		
Electricity price swaps	-	0.3
Heat rate swaps	-	1.4
	-	1.7
Financing charges		
Interest rate swaps	1.2	0.7
Total realized loss on derivative financial instruments	(4.4)	(6.2)
Unrealized gain (loss) on derivative financial instruments		
NGL swaps	4.2	(18.5)
Natural gas swaps	(4.9)	2.7
Foreign exchange swaps (frac-spread hedges)	4.4	3.9
Electricity price swaps	-	0.4
Heat rate swaps	-	0.9
Interest rate swaps	-	0.5
Foreign exchange swaps (other)	(0.6)	-
Transitional transfers (1)	-	(0.2)
Total unrealized gain (loss) on derivative financial instruments	3.1	(10.3)
Total loss on derivative financial instruments	$ (1.3)	$ (16.5)

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

Credit Risk

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the

majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At March 31, 2012, accounts receivable associated with these two business segments were $66.5 million or 61% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business units and customers.

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

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

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three month periods ended March 31, 2012 or 2011.

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

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. Officers and directors of the General Partner received a cumulative total of $0.9 million in dividends in the first quarter of 2012 (first quarter of 2011 - $0.3 million) from PAC pursuant to their ownership of non-voting shares.

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

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a Private Placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. At March 31, 2012, interest payable to the General Partner on the loan

was $9.9 million (December 31, 2011 - $4.1 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of a default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

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 March 31, 2012, there were amounts owed to the General Partner by Inter Pipeline of $1.1 million (December 31, 2011 – $0.9 million).

CONTROLS AND PROCEDURES

There have been no significant changes in Inter Pipeline's internal control over financial reporting (ICFR) during the period January 1, 2012 to March 31, 2012 that have materially affected, or are reasonably likely to materially affect, Inter Pipeline's ICFR.

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

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's consolidated financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 2 *Summary of Significant Accounting Policies* of the December 31, 2011 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

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

RISK FACTORS

During the first quarter of 2012, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2011 annual MD&A.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "cash available for distribution", "discretionary reserve", "EBITDA", "funds from operations", "funds from operations per unit", "enterprise value", "interest coverage on long-term debt", "payout ratio after sustaining capital", "payout ratio before sustaining capital", "growth capital expenditures", "sustaining capital expenditures", "total debt to total capitalization" and "total recourse debt to capitalization" are

not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

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

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

(millions)	March 31 2012	December 31 2011
Current assets		
Cash and cash equivalents	$ 73.9	$ 50.0
Accounts receivable	109.5	109.1
Prepaid expenses and other deposits	24.5	10.9
Current liabilities		
Cash distributions payable	(23.4)	(23.1)
Accounts payable and accrued liabilities	(148.9)	(162.5)
Current income taxes payable	(16.1)	(49.8)
Deferred revenue	(16.4)	(4.6)
Adjusted working capital (deficiency)	$ 3.1	$ (70.0)

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

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

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

	Three Months Ended March 31	
(millions)	2012	2011
Net income	$ 79.6	$ 64.5
Depreciation and amortization	27.7	24.4
Gain on disposal of assets	-	(0.1)
Non-cash recovery	(3.1)	(4.5)
Unrealized change in fair value of derivative financial instruments	(3.1)	10.3
Deferred income tax expense	6.9	4.2
Proceeds from long-term leasehold inducements	-	1.5
Funds from operations	108.0	100.3
Total interest less capitalized interest	21.9	18.3
Current income tax expense	15.7	15.4
EBITDA	$ 145.6	$ 134.0

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

(millions, except per unit amounts)	March 31 2012	December 31 2011
Closing unit price	$ 19.57	$ 18.63
Total closing number of Class A and B units	267.2	264.2
	5,228.7	4,921.2
Total debt	3,145.8	2,672.1
Enterprise value	$ 8,374.5	$ 7,593.3

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

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

			Three Months Ended March 31	
			2012	2011
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 28.7	$ 0.8	$ 29.5	$ 36.1
NGL extraction	4.9	0.4	5.3	2.2
Conventional oil pipelines	2.9	0.8	3.7	0.4
Bulk liquid storage	3.1	3.8	6.9	4.2
Corporate	-	0.5	0.5	0.7
	$ 39.6	$ 6.3	$ 45.9	$ 43.6

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

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

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

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

ELIGIBLE INVESTORS

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

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 3rd day of May, 2012.