Management's Discussion and Analysis

For the three months ended March 31, 2013

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights Inter Pipeline Fund's (Inter Pipeline) significant business results and statistics for the three month period ended March 31, 2013, to provide Inter Pipeline's unitholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of distributions to its unitholders through 2013 and beyond; 2) the maintenance of Inter Pipeline's distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including the Polaris diluent pipeline project for the new pipeline connection to the Sunrise oil sands project (Sunrise project), the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to the Narrows Lake, Christina Lake and Foster Creek oil sands projects and Cochrane liquid sweetening project; 6) timing and cost schedules of Polaris and Cold Lake capital projects, and forward EBITDA estimates in respect of these projects; and, 7) capital forecasts.

Readers are cautioned not to place undue reliance on forward-looking statements, as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Pipeline Management Inc. (General Partner), the general partner of Inter Pipeline at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits, including the further development of its oil sands 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 affiliates; 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 and uncertainties associated with Inter Pipeline's ability to maintain its current level of cash distributions to its unitholders; 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 affiliates 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 of and costs of overruns on construction projects, including, but not limited to Inter Pipeline's current oil sands projects and future expansions of Inter Pipeline's oil sands pipeline systems; risks associated with the failure to finalize formal agreements with counterparties in circumstances where letters of intent or similar agreements have been executed and announced by Inter Pipeline; Inter Pipeline's ability to make capital investments and the amounts of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its affiliates; 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, 2013

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period ended March 31, 2013, as compared to the three month period ended March 31, 2012. The MD&A should be read in conjunction with the March 31, 2013 unaudited condensed interim consolidated financial statements (interim financial statements), the interim financial statements and MD&A for the quarterly period ended March 31, 2012, the MD&A and audited consolidated financial statements for the year ended December 31, 2012, 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.

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 and additional GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP and additional GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-GAAP and additional 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.

FIRST QUARTER HIGHLIGHTS

- Funds from operations* totaled $109 million, in line with first quarter 2012 levels
- Low quarterly payout ratio* of 72%
- Declared cash distributions of $77 million or $0.2775 per unit
- Net income for the quarter totaled $72 million
- Throughput volumes on oil sands and conventional oil pipeline systems averaged a quarterly record 1,075,300 barrels per day (b/d), 117,100 b/d higher than first quarter 2012
- Inter Pipeline's oil sands transportation segment achieved record throughputs of 890,000 b/d, an increase of 111,100 b/d compared to volumes shipped in the first quarter of 2012
- Throughput volumes averaged 185,300 b/d on Inter Pipeline's conventional oil pipeline systems, an increase of 6,000 b/d over first quarter 2012 levels
- Executed long-term, cost-of-service transportation agreements for a $2.6 billion integrated development program for the Cold Lake and Polaris pipeline systems
- Polaris pipeline system delivered initial diluent volumes to Imperial's Kearl production site

SUBSEQUENT EVENTS

- Entered into a new long-term ethane sales agreement with NOVA Chemicals
- Increased capacity on Inter Pipeline's revolving credit facility from $750 million to $1.25 billion

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

PERFORMANCE OVERVIEW

(millions, except per unit and % amounts)	Three Months Ended March 31 2013[1]	2012[1] (restated)
Revenues		
Oil sands transportation	$ 91.6	$ 75.1
NGL extraction	129.4	136.7
Conventional oil pipelines	67.3	51.2
Bulk liquid storage	39.4	38.7
	$ 327.7	$ 301.7
Funds from operations[2][3]		
Oil sands transportation[3]	$ 50.8	$ 44.1
NGL extraction	43.0	57.0
Conventional oil pipelines	40.4	40.5
Bulk liquid storage	20.4	19.3
Corporate costs	(45.2)	(50.1)
	$ 109.4	$ 110.8
Per unit[2]	$ 0.40	$ 0.42
Net income	$ 72.2	$ 82.1
Net income attributable to unitholders	$ 69.7	$ 79.6
Per unit – basic and diluted	$ 0.25	$ 0.30
Distributions to unitholders[4]	$ 76.8	$ 69.9
Per unit[4]	$ 0.2775	$ 0.2625
Units outstanding (basic)		
Weighted average	276.4	265.7
End of period	277.6	267.2
Capital expenditures		
Growth[2]	$ 407.6	$ 40.2
Sustaining[2]	5.9	6.4
	$ 413.5	$ 46.6
Payout ratio[2]	72.2%	64.7%

(millions, except % amounts)	As at March 31 2013[1]	As at December 31 2012[1] (restated)
Total assets	$ 6,006.0	$ 5,682.4
Total debt[5]	$ 3,246.6	$ 3,127.6
Total partners' equity	$ 1,686.9	$ 1,659.5
Enterprise value[2]	$ 9,862.2	$ 9,593.8
Total debt to total capitalization[2]	65.8%	65.3%
Total recourse debt to capitalization[2]	48.7%	47.0%

(1) IFRS 10 *Consolidated Financial Statements* adoption is effective as of January 1, 2013 and restated for 2012 as required for comparative purposes. Please refer to the **ACCOUNTING POLICIES ADOPTED IN 2013** section for further discussion.
(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(3) Funds from operations[2] at March 31, 2013, include $3.0 million (March 31, 2012 - $2.8 million) relating to non-controlling interest.
(4) Distributions to unitholders are calculated based on the number of units outstanding at each record date.
(5) Total debt reported in the March 31, 2013 interim financial statements of $3,231.6 million, includes long-term debt and commercial paper of $3,246.6 million less discounts and debt transaction costs of $15.0 million.

THREE MONTHS ENDED MARCH 31, 2013

Inter Pipeline generated strong financial results in the first quarter of 2013. FFO* totaled $109.4 million, comparable to the $110.8 million generated in the first quarter of 2012. In 2013, the impact of lower frac-spreads in the NGL extraction business were substantially offset by increased financial results from the oil sands transportation business and the bulk liquid storage business. The oil sands transportation business generated incremental FFO* of $6.7 million or 15.2% mainly due to the Polaris pipeline system entering commercial service in the third quarter of 2012. Financial results were also higher in the bulk liquid storage business with FFO* at $20.4 million compared to $19.3 million in the first quarter of 2012. This increase was primarily due to the inclusion of a full quarter of results from a Danish petroleum storage business that Inter Pipeline acquired in January 2012. FFO* from the conventional oil pipelines business in the first quarter of 2013 was $40.4 million and comparable to $40.5 million in 2012. Corporate costs in the first quarter of 2013 were lower than in 2012 as Inter Pipeline paid a one-time acquisition fee related to the Danish storage business. Inter Pipeline's strong financial results for the quarter are reflected by a low payout ratio* of 72.2%.

In the first three months of 2013, net income of $72.2 million was $9.9 million lower than $82.1 million reported in the comparable period in 2012. In addition to the lower operating results discussed above, net income was also impacted by an unfavourable mark-to-market adjustment of its derivative financial instruments, higher depreciation and amortization, as well as a loss on disposal of assets.

Total distributions to unitholders for the three months ended March 31, 2013, were $76.8 million, an increase of 9.9% over the same period in 2012. This $6.9 million increase was largely due to increased monthly distributions of $0.005 per unit in December 2012 and an increase in the overall number of units outstanding.

Inter Pipeline's total consolidated debt increased $119.0 million from $3,127.6 million at December 31, 2012 to $3,246.6 million at March 31, 2013. During this period Inter Pipeline expended $413.5 million on capital projects. Total recourse debt to capitalization* ratio increased to 48.7% at March 31, 2013 from 47.0% at December 31, 2012. Adjusting for the inclusion of non-recourse debt of $1,644.4 million held within Inter Pipeline's Corridor corporate entity, Inter Pipeline's total debt to total capitalization ratio* at March 31, 2013 was 65.8% compared to 65.3% at December 31, 2012.

OUTLOOK

Inter Pipeline's business strategy is to acquire and develop long-life, high-quality energy infrastructure assets that generate stable and predictable cash flow. Inter Pipeline presently owns and operates a large energy infrastructure base comprised of four well established business segments, which offer a broad range of organic growth opportunities. We are currently embarking on a multi-year development plan that is expected to significantly increase future cash flows and support stable and growing returns to unitholders.

A number of Canada's largest energy companies have recently signed firm commitments to transport bitumen blend and diluent on Inter Pipeline's oil sands pipeline systems. These commitments are material, and indicative that Alberta's oil sands deposits remain a key supply source to meet the world's energy needs. The new agreements support a multi-year organic development program in Inter Pipeline's oil sands transportation business segment that will significantly expand diluent and diluted bitumen transportation capabilities between major market hubs in Edmonton and Hardisty, Alberta, and the Cold Lake and Athabasca oil sands regions.

In the first quarter of 2013, Inter Pipeline signed long term agreements to transport petroleum products that will nearly double oil sands transportation throughput levels over the next three to four years. The FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips, signed long term agreements for committed capacity of 500,000 b/d of bitumen blend and 350,000 b/d of diluent. To accommodate these volumes, a $2.6 billion integrated oil sands development program is underway that will expand and integrate the Cold Lake and Polaris pipeline

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

systems, and connect both systems to production sites in the Cold Lake region. Inter Pipeline will provide transportation services to existing FCCL projects at Foster Creek and Christina Lake, as well as the Narrows Lake project which is under development. Once fully in service, the new pipeline infrastructure will generate long term annual EBITDA* of between $260 million and $290 million. The agreements are for an initial term of 20 years and can be extended for a further 30 years.

The Cold Lake pipeline system development consists of multiple new projects that will total approximately $1.4 billion (Inter Pipeline's 85% share). Approximately 400 kilometres (km) of new pipeline, ranging from 20 to 42 inches in diameter, and associated facilities will be constructed to: 1) twin the south leg of the existing Cold Lake mainline from La Corey to Hardisty, Alberta; 2) twin the existing pipeline from Foster Creek to La Corey; and, 3) extend the Cold Lake pipeline system north to Narrows Lake. When completed, the Cold Lake pipeline system's mainline throughput capacity will increase by 550,000 b/d to approximately 1.2 million b/d. The Cold Lake pipeline system's throughput capacity can be further increased to approximately 1.9 million b/d through the installation of additional pumping facilities and associated infrastructure.

The expansions to the Polaris pipeline system are expected to cost approximately $1.2 billion. A total of approximately 440 km of new pipeline will be constructed including 340 km of 24 and 30 inch diameter pipeline that will connect diluent receipt points in the Edmonton area to Inter Pipeline's Lamont pump station, and then extend north to the Christina Lake project. Approximately 100 km of new pipeline ranging from 12 to 16 inches in diameter will also be installed as part of the Narrows Lake and Foster Creek connections. Upon completion, the Polaris pipeline system will have approximately 820,000 b/d of diluent delivery capacity to the Athabasca and Cold Lake oil sands regions. The Polaris pipeline system can be further expanded to an ultimate capacity of 1.2 million b/d by installing additional pumping stations and related infrastructure.

The projects related to the Foster Creek and Christina Lake facilities for diluent and diluted bitumen transportation are expected to enter commercial service in phases commencing in mid 2014. Those related to the Narrows Lake project are anticipated to be operational in mid 2017.

The Imperial Kearl, Husky Sunrise, Suncor and FCCL projects combined will provide incremental long-term EBITDA* of approximately $330 million to $360 million per year once fully in service. For reference, Inter Pipeline's 2012 EBITDA* totaled $573 million.

When current expansions are complete, over 400,000 b/d of spare transportation capacity will be available on the Polaris and Cold Lake pipeline systems. Total capacity of the Polaris and Cold Lake pipeline systems can be cost-effectively increased by over one million b/d through the addition of pumping stations and associated infrastructure, as outlined above. Inter Pipeline intends to use this significant system capacity to aggressively pursue further diluent and bitumen blend transportation opportunities. Inter Pipeline currently has up to $250 million in additional backstopping agreements in place with respect to other oil sands related projects.

Subsequent to quarter end, Inter Pipeline announced that it had entered into a long-term ethane sales agreement with NOVA Chemicals. The agreement, which extends from 2015 through 2024, will see NOVA Chemicals purchase the majority of the ethane produced from Inter Pipeline's Cochrane extraction facility. The new agreement will add approximately $20 million per year in incremental EBITDA* once in effect in 2015. The agreement also provides provisions for the interim 2013 and 2014 period, during which EBITDA* will increase by approximately $10 million annually. Inter Pipeline is pleased to extend the relationship with one of Canada's leading petrochemical manufacturers.

Inter Pipeline continues to maintain a strong balance sheet and is well positioned to finance its future capital commitments. Majority of funding will be met through a combination of credit capacity available under its revolving credit facility, undistributed cash flow from operations, the issuance of new term debt and proceeds from existing distribution reinvestment programs. Inter Pipeline may supplement its capital requirements through the periodic issuance of comparatively small amounts of underwritten equity.

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

Inter Pipeline's investment grade credit ratings are key to strong market access and reflect confidence in Inter Pipeline's ability to execute its business strategy. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's).

Inter Pipeline is well positioned to maintain its long-term record of providing strong investment returns to investors. The growing stability of our cash flow streams, a healthy balance sheet and large organic growth program underway give us confidence that our business will continue to grow and be a rewarding investment for our unitholders.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2013	2012	*% change*
Cold Lake (100% basis)	533.2	486.4	*9.6*
Corridor	355.6	292.5	*21.6*
Polaris	1.2	-	*100.0*
	890.0	778.9	*14.3*

(millions)		*(restated)*	
Revenue[1]	$ 91.6	$ 75.1	*22.0*
Operating expenses[1]	$ 27.6	$ 19.6	*40.8*
Funds from operations[1][2]	$ 50.8	$ 44.1	*15.2*
Capital expenditures[1]			
Growth[2]	$ 381.6	$ 29.3	
Sustaining[2]	0.4	0.9	
	$ 382.0	$ 30.2	

(1) For the three months ended March 31, 2013, Cold Lake pipeline system's revenue, operating expenses, FFO[2] and capital expenditures include $4.9 million (2012 - $4.5 million), $1.9 million (2012 - $1.6 million), $3.0 million (2012 - $2.8 million) and $2.1 million (2012 - $0.7 million), respectively, relating to the non-controlling interest.

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

Volumes

Average volumes transported by the oil sands transportation business increased 14.3% to 890,000 b/d in the first quarter of 2013, an increase of 111,100 b/d over first quarter 2012 volumes.

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 increased 46,800 b/d on the Cold Lake pipeline system to 533,200 b/d during the first quarter of 2013, compared to the same period in 2012. Volumes on the Cold Lake pipeline system primarily fluctuate as a result of the timing of steam injection cycles associated with the production processes of certain shippers. Long-term volume growth is anticipated on the Cold Lake pipeline system, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta, as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. Average volumes increased 21.6% on the Corridor pipeline system or 63,100 b/d to 355,600 b/d in the first quarter of 2013, compared to the same period in 2012. Higher production from Athabasca Oil Sands Project's Jackpine mine was the primary driver for the increase in volumes.

The Polaris pipeline system currently provides diluent transportation services from the area northeast of Edmonton to the Kearl oil sands project and will begin diluent transportation service for the Sunrise oil sands project in the second half of 2013. In March 2013, the Polaris pipeline system began transporting diluent to the Kearl oil sands project with volumes averaging 1,200 b/d for the quarter.

Revenue

Revenue generated by the oil sands transportation business was $91.6 million in the three months ended March 31, 2013, $16.5 million higher than the same period in 2012.

For the first three months of 2013, Cold Lake pipeline system revenue was $2.5 million higher than the same period in 2012. Revenue increased as a result of higher operating cost recoveries and increased volumes transported on the Cold Lake pipeline system.

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.

Revenues from the Corridor pipeline system decreased $2.6 million during the three months ended March 31, 2013, compared to the same period in 2012. The decrease in revenue is primarily due to a reduction in the Corridor rate base resulting from the transfer of a surplus 12-inch diameter pipeline to the Polaris pipeline system in the third quarter of 2012.

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

Polaris pipeline system generated revenue of $16.6 million in the first quarter of 2013. This pipeline system began generating revenue in the third quarter of 2012, which consists of capital fee revenue, operating cost recoveries and the reimbursement of certain construction related expenditures.

On August 15, 2012, Corridor's 12-inch diameter pipeline was transferred to the Polaris pipeline system and removed from Corridor's rate base as it entered commercial service. The Polaris pipeline system currently generates revenue under a 25-year diluent transportation agreement with Imperial Oil utilizing a cost-of-service approach providing for a return on capital invested and recovery of all operating costs. Throughput volumes or commodity price fluctuations do not impact Polaris' FFO[*] as a result of the cost-of-service agreement.

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, while on the Corridor and Polaris pipeline systems there is full recovery of these costs. Operating expenses in the oil sands transportation business were $27.6 million for the first quarter of 2013, an increase of $8.0 million compared to the same period in 2012.

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

Operating expenses in the Cold Lake pipeline system increased $2.3 million in the first quarter of 2013, compared to the same period in 2012. The increase is primarily due to higher general operating and integrity costs, as well as higher power costs resulting from increased power prices and shipped volumes.

For the three months ended March 31, 2013, operating expenses in the Corridor pipeline system decreased $0.5 million, compared to the same period in 2012. The decrease in operating expenses is primarily due to the transfer of the 12-inch pipeline to the Polaris pipeline system as discussed above.

The Polaris pipeline system incurred operating costs of $6.2 million in the first quarter of 2013, primarily relating to property taxes, employee and routine operating costs as well as certain construction related expenditures.

Capital Expenditures

In the first quarter of 2013, the Cold Lake pipeline system incurred total growth capital expenditures* of $273.3 million, most of which related to Cold Lake pipeline's oil sands development program. These expenditures include initial engineering, design and procurement of long lead items.

Included in the $273.3 million is $13.0 million incurred on the Cold Lake west leg expansion project, for a total of $58.0 million spent to date on the project. Bitumen blend capacity on the mainline will be increased from approximately 535,000 b/d to 650,000 b/d by expanding existing pump stations and the addition of two new pump stations. The project is expected to cost $90.0 million (100%), with an in service date in the second half of 2013.

In the first quarter of 2013, total growth capital expenditures* on the Polaris pipeline system were $108.3 million, with $93.9 million incurred on its $1.2 billion development plan, for a total of $137.3 million spent to date. These expenditures relate to initial engineering, design and procurement of long lead items. Further description of the Cold Lake and Polaris development plans can be found in the **Outlook** section of this MD&A.

Growth capital expenditures* incurred on the Sunrise project in the first quarter were $3.7 million, relating to facility and pipeline construction activities. The Polaris pipeline system will be ready to provide diluent transportation service for the Sunrise oil sands project in the second half of 2013.

The remaining growth capital expenditures* of $10.7 million incurred during the quarter on the Polaris pipeline system were spent on various other development initiatives.

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

NGL EXTRACTION BUSINESS SEGMENT

	Three Months Ended March 31							
				2013				2012
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,850	53.7	25.5	79.2	1,879	56.3	25.5	81.8
Empress V (100% basis)	924	24.7	11.1	35.8	831	22.3	7.5	29.8
Empress II	-	-	-	-	-	-	-	-
	2,774	78.4	36.6	115.0	2,710	78.6	33.0	111.6

	Three Months Ended March 31		
(millions)	2013	2012	*% change*
Revenue[1]	$ 129.4	$ 136.7	*(5.3)*
Shrinkage gas[1]	$ 61.6	$ 56.0	*10.0*
Operating expenses[1]	$ 24.6	$ 23.5	*4.7*
Funds from operations[1][2]	$ 43.0	$ 57.0	*(24.6)*
Capital expenditures[1]			
Growth[2]	$ 12.3	$ 4.9	
Sustaining[2]	0.6	0.4	
	$ 12.9	$ 5.3	

(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 AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Volumes

Average natural gas throughput volumes processed by Inter Pipeline's NGL extraction facilities were 2,774 million cubic feet per day (mmcf/d) during the first quarter of 2013, an increase of 64 mmcf/d from the same period in 2012.

During the first quarter of 2013, average natural gas throughput volumes at the Cochrane facility of 1,850 mmcf/d were comparable to volumes in 2012. Cochrane volumes fluctuate primarily in accordance with demand for Canadian natural gas in the US west-coast region.

Average throughput volume increased 93 mmcf/d at the Empress V facility during the first quarter of 2013, compared to the same period in 2012. Throughput volume at the Empress facilities fluctuate in accordance with natural gas exports from Alberta's eastern border and are also largely dependent on successfully attracting border gas flows to the extraction facilities.

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 for the first quarter of 2013 was $129.4 million, which is $7.3 million lower than the comparable period in 2012. The decrease in revenue was mainly driven by lower propane-plus pricing, which was partially offset by higher ethane pricing, while volumes were fairly consistent.

Frac-spread

	Three Months Ended March 31			
(dollars)	2013		2012	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Market frac-spread	$ 0.834	$ 0.841	$ 1.259	$ 1.260
Realized frac-spread	$ 0.877	$ 0.885	$ 1.148	$ 1.149

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

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

Realized frac-spreads decreased from $1.15 USD/USG in the first quarter of 2012 to $0.88 USD/USG for the same period in 2013. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2012, were $0.91 USD/USG and $0.50 USD/USG, respectively.

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. During the first three months of 2013, shrinkage gas expense increased $5.6 million over the comparable period in 2012, primarily due to higher AECO natural gas prices. Weighted average monthly AECO prices* increased 22.2% from $2.39 per gigajoule (GJ) in the first quarter of 2012 to $2.92/GJ in the first quarter of 2013.

Operating Expenses

For the first quarter of 2013, operating expenses increased $1.1 million compared to the same period in 2012 as fuel and power costs were $1.7 million higher, but were partially offset by lower general operating and maintenance costs. Average Alberta power pool prices increased from $60.12/MWh to $65.30/MWh in the first quarter of 2012 to the first quarter of 2013, respectively.

Capital Expenditures

The NGL extraction business incurred $12.3 million in growth capital expenditures† during the first three months of 2013, of which $12.0 million was spent at the Cochrane facility on a liquid sweetening project. Sustaining capital expenditures† incurred during the first quarter of 2013 were $0.6 million, primarily relating to the upgrade of various processing equipment at the Cochrane facility.

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

† Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2013	2012	*% change*
Bow River	103.8	112.2	*(7.5)*
Central Alberta	32.3	25.7	*25.7*
Mid-Saskatchewan	49.2	41.4	*18.8*
	185.3	179.3	*3.3*

(millions)			
Revenue	$ 67.3	$ 51.2	*31.4*
Midstream product purchases	$ 14.0	$ -	*100.0*
Operating expenses	$ 12.5	$ 10.2	*22.5*
Funds from operations(1)	$ 40.4	$ 40.5	*(0.2)*
Revenue per barrel(2)	$ 2.96	$ 2.86	*3.5*
Capital expenditures			
Growth(1)	$ 2.1	$ 2.9	
Sustaining(1)	0.9	0.8	
	$ 3.0	$ 3.7	

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

Volumes

Average volumes transported by the conventional oil pipelines business were 185,300 b/d in the first quarter of 2013, an increase of 6,000 b/d, or 3.3% compared to the same period in 2012. In the first quarter of 2013, average volumes on the Mid-Saskatchewan pipeline increased 7,800 b/d or 18.8% over the comparable period in 2012, due to continued growth in horizontal drilling activity in the Viking light oil play. On the Central Alberta pipeline system average volumes increased 6,600 b/d or 25.7% for the first quarter of 2013, compared to the same period in 2012. Higher volumes resulted from increased drilling activity and stronger truck terminal throughput. Bow River pipeline volumes declined 7.5% or 8,400 b/d for the first quarter of 2013, compared to the same period in 2012, as a result of lower trucked volumes and natural production declines.

Revenue

Revenues in the conventional oil pipelines business increased $16.1 million for the three months ended March 31, 2013, compared to the same period in 2012. The increase is primarily due to higher revenue from midstream marketing activities, which were previously recorded net of product purchases and trucking costs. Revenue was also higher in the first quarter of 2013 due to increased tariffs and higher transportation volumes as discussed above.

Midstream Product Purchases

For the three months ended March 31, 2013, product purchases for midstream marketing activities were $14.0 million. As mentioned above these costs were previously recorded against revenue.

Operating Expenses

Operating expenses for the first quarter of 2013 increased $2.3 million, compared to the same period in 2012. The increase is due to the following: trucking costs for Inter Pipeline’s midstream marketing activities, higher integrity and employee costs, and an increase in long-term environmental liabilities.

Capital Expenditures

The conventional oil pipelines business spent $2.1 million in growth capital expenditures* during the first three months of 2013, primarily relating to facility upgrades and third party connections on the Mid-Saskatchewan pipeline system.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended March 31		
	2013	2012	*% change*
Utilization	87.4%	88.9%	*(1.7)*
(millions)			
Revenue	$ 39.4	$ 38.7	*1.8*
Operating expenses	$ 16.3	$ 16.1	*1.2*
Funds from operations(1)	$ 20.4	$ 19.3	*5.7*
Capital expenditures			
Growth(1)	$ 11.6	$ 3.1	
Sustaining(1)	2.3	3.8	
	$ 13.9	$ 6.9	

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

Utilization

Inter Pipeline operates a bulk liquid storage business through two wholly owned subsidiaries, Simon Storage Limited (Simon Storage) and Inter Terminals Denmark A/S (Inter Terminals). Simon Storage owns and operates six bulk liquid storage terminals located in the United Kingdom (UK) and Ireland, and two inland terminals located on the Rhine River in Germany, with a combined liquid storage capacity of approximately 8.1 million barrels. Inter Terminals owns and operates four coastal bulk liquid storage terminals located in Denmark, with a combined storage capacity of approximately 11.2 million barrels.

Demand for bulk liquid storage in the first quarter of 2013 has remained relatively strong despite the uncertain European economic environment, with tank utilization averaging 87.4%. Utilization levels averaged 90.1% at Simon Storage and 85.4% at Inter Terminals during the first quarter of 2013. The absence of strong contango in certain petroleum product futures markets has negatively impacted storage utilization levels. Demand for storage has fluctuated historically as a result of market conditions within industry sectors, and is typically mitigated through product and customer 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.

In the first quarter of 2013, revenue in the bulk liquid storage business increased $0.7 million to $39.4 million, compared to the same period in 2012. Inter Terminals revenue increased $0.7 million during the first quarter of 2013, compared to the same period in 2012. The increase is primarily due to revenue being included for the full quarter in 2013 versus from the date of acquisition in the first quarter of 2012. Simon Storage's revenue remained consistent quarter over quarter.

Foreign currency translation adjustments increased revenue by $0.1 million in the first quarter of 2013, compared to the same period in 2012. The average Euro/CAD exchange rate increased from

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

1.31 in the first quarter of 2012 to 1.33 in the first quarter of 2013. The average Pound Sterling/CAD exchange rate decreased from 1.57 in the first quarter of 2012 to 1.56 in the first quarter of 2013.

Operating Expenses

For the three months ended March 31, 2013, operating expenses increased $0.2 million primarily due to higher fuel and power costs in the Simon Storage business, compared to the same period in 2012. Inter Terminals operating expenses in the first quarter of 2013 were consistent with the same period in 2012.

Capital Expenditures

Growth capital expenditures* in the bulk liquid storage business were $11.6 million in the first quarter of 2013, including $9.5 million for the acquisition of 400,000 barrels of tank capacity at the Ensted terminal in Denmark. The remaining growth capital expenditures* of $2.1 million relate to a number of tank life extensions and tank modification projects. Sustaining capital expenditures* in the first quarter of 2013 were $2.3 million, primarily relating to improvement projects on terminal infrastructure and safety.

OTHER EXPENSES

	Three Months Ended March 31	
(millions)	2013	2012 *(restated)*
Depreciation and amortization	$ 30.9	$ 28.0
Financing charges	23.9	23.3
Provision for income taxes	21.2	22.5
General and administrative	16.2	15.1
Acquisition fee to General Partner	-	4.6
Management and incentive fees to General Partner	4.2	3.7
Unrealized change in fair value of derivative financial instruments	0.7	(3.1)
Loss on disposal of assets	1.7	-

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased $2.9 million in the first quarter of 2013 compared to the same period in 2012. The increase is due to depreciation on assets now in service that were not in service or depreciated in 2012, as well as higher amortization expense at Inter Terminals.

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

Financing Charges

(millions)	Three Months Ended March 31 2013	2012 (restated)
Interest on credit facilities	$ 8.2	$ 9.6
Interest on loan payable to General Partner	4.4	5.8
Interest on Corridor Debentures	2.5	2.5
Interest on MTN Series 1, 2 and 3	9.8	5.9
Total interest	24.9	23.8
Capitalized interest	(2.6)	(1.8)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.8	0.8
Accretion of provisions and pension plan financing charges	0.8	0.5
Total financing charges	$ 23.9	$ 23.3

Total financing charges for the first quarter of 2013 are comparable to the same period in 2012, increasing by $0.6 million.

Interest on medium-term notes (MTN) increased $3.9 million for the three months ended March 31, 2013, due to the timing of issuance of the MTN Series 3 on May 28, 2012.

Interest on credit facilities decreased $1.4 million in the first quarter of 2013, compared to the same period in 2012. The decrease is primarily due to lower debt levels and interest rates. Weighted average short-term interest rates were 9 basis points lower in the first quarter of 2013, compared to the same period in 2012. The weighted average credit facility debt outstanding decreased by $240.1 million from $1,955.9 million in the first quarter of 2012 to $1,715.8 million in the first quarter of 2013.

Interest on the loan payable to the General Partner for the three months ended March 31, 2013, decreased $1.4 million due to repayment of the $91.2 million tranche of the loan on October 29, 2012.

For the three months ended March 31, 2013, capitalized interest increased by $0.8 million from the comparable period in 2012. This increase is largely due to capitalized interest attributed to Polaris and Cold Lake pipeline system expansions and a liquid sweetening project at the Cochrane NGL extraction facility.

Accretion of provisions and pension plan financing charges increased $0.3 million for the three months ended March 31, 2013, compared to same period in 2012. The increase is due to a pension plan adjustment at Simon Storage.

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 was $21.2 million for the three months ended March 31, 2013, or $1.3 million lower than the comparable period in 2012. The decrease is due to lower consolidated income before taxes, as well as a reduction in income tax rates in the UK from 2012.

General and Administrative

(millions)	Three Months Ended March 31 2013	2012
Canada	$ 13.9	$ 12.4
Europe	2.3	2.7
	$ 16.2	$ 15.1

Canadian general and administrative expenses increased $1.5 million for the three months ended March 31, 2013, compared to the same period in 2012. The increase is largely due to foreign exchange losses and higher professional fees.

For the three months ended March 31, 2013, European general and administrative costs were $0.4 million lower than the comparable period in 2012, primarily due to acquisition related costs for Inter Terminals incurred in the first quarter of 2012.

Fees to General Partner

The General Partner earned management fees from Inter Pipeline of $3.1 million in the first quarter of 2013 (first quarter 2012 - $3.3 million). This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (LPA). In the first quarter of 2013, an incentive fee to the General Partner of $1.1 million was also accrued, as annualized Distributable Cash for 2013 is in excess of $1.01 per unit annually (three months ended March 31, 2012 - $0.4 million). No acquisition fees were earned during the first quarter of 2013 (first quarter of 2012 - $4.6 million).

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

Unrealized Change in Fair Value of Derivative Financial Instruments

Inter Pipeline's mark-to-market valuation of derivative financial instruments resulted in a decrease to net income of $0.7 million for the three months ended March 31, 2013.

Net income was unfavourably impacted by the mark-to-market adjustment on NGL swaps for price and volume changes between January and March by $3.0 million and on foreign currency swaps by $1.2 million. The mark-to-market adjustments for natural gas and electricity price swaps favourably impacted net income by $3.4 million and $0.1 million, respectively, for price and volume changes between January and March 2013.

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

Loss on Disposal of Assets

In the three month period ended March 31, 2013, Inter Pipeline incurred a loss on disposal of assets of $1.7 million, largely relating to a turbine exchange in the NGL extraction business.

SUMMARY OF QUARTERLY RESULTS

	2011[1]			2012[1]				2013
(millions, except per unit and % amounts)	Second Quarter	Third Quarter	Fourth Quarter	First Quarter *(restated)*	Second Quarter *(restated)*	Third Quarter *(restated)*	Fourth Quarter *(restated)*	First Quarter
Revenue								
Oil sands transportation	$ 67.7	$ 73.0	$ 71.3	$ 75.1	$ 72.4	$ 82.4	$ 89.4	$ 91.6
NGL extraction	137.4	158.2	129.1	136.7	106.3	123.4	133.5	129.4
Conventional oil pipelines	42.1	45.7	46.3	51.2	58.8	59.2	62.0	67.3
Bulk liquid storage	26.1	25.2	26.5	38.7	42.4	35.7	38.8	39.4
	$ 273.3	$ 302.1	$ 273.2	$ 301.7	$ 279.9	$ 300.7	$ 323.7	$ 327.7
Funds from operations[2]								
Oil sands transportation	$ 41.3	$ 41.8	$ 39.5	$ 44.1	$ 44.0	$ 47.0	$ 49.0	$ 50.8
NGL extraction[3]	42.8	62.6	44.1	57.0	48.5	50.4	38.7	43.0
Conventional oil pipelines	31.5	35.6	33.5	40.5	35.3	38.9	38.7	40.4
Bulk liquid storage	8.3	9.0	9.4	19.3	23.3	17.6	20.0	20.4
Corporate costs	(32.0)	(37.1)	(36.4)	(50.1)	(41.0)	(44.6)	(42.7)	(45.2)
	$ 91.9	$ 111.9	$ 90.1	$ 110.8	$ 110.1	$ 109.3	$ 103.7	$ 109.4
Per unit[2]	$ 0.35	$ 0.43	$ 0.35	$ 0.42	$ 0.41	$ 0.40	$ 0.38	$ 0.40
Net income	$ 61.0	$ 76.6	$ 45.8	$ 82.1	$ 106.8	$ 68.4	$ 59.7	$ 72.2
Net income attributable to unitholders	$ 61.0	$ 76.6	$ 45.8	$ 79.6	$ 104.4	$ 65.9	$ 57.3	$ 69.7
Per unit – basic & diluted	$ 0.24	$ 0.29	$ 0.17	$ 0.30	$ 0.39	$ 0.24	$ 0.21	$ 0.25
Distributions to unitholders[4]	$ 62.1	$ 62.5	$ 65.1	$ 69.9	$ 70.6	$ 71.3	$ 73.4	$ 76.8
Per unit[4]	$ 0.2400	$ 0.2400	$ 0.2475	$ 0.2625	$ 0.2625	$ 0.2625	$ 0.2675	$ 0.2775
Units outstanding (basic)								
Weighted average	258.8	259.9	262.7	265.7	268.6	271.3	273.9	276.4
End of period	259.1	261.2	264.2	267.2	270.0	272.7	275.2	277.6
Capital expenditures								
Growth[2]	$ 27.8	$ 29.8	$ 34.2	$ 40.2	$ 68.6	$ 108.6	$ 128.3	$ 407.6
Sustaining[2]	4.4	5.0	7.2	6.4	7.0	11.4	15.6	5.9
	$ 32.2	$ 34.8	$ 41.4	$ 46.6	$ 75.6	$ 120.0	$ 143.9	$ 413.5
Payout ratio[2]	67.6%	55.8%	72.3%	64.7%	65.8%	67.0%	72.8%	72.2%
Total debt[5]	$ 2,738.2	$ 2,719.1	$ 2,672.1	$ 3,145.8	$ 3,082.7	$ 3,113.6	$ 3,127.6	$ 3,246.6
Total partners' equity	$ 1,346.7	$ 1,404.4	$ 1,419.8	$ 1,493.7	$ 1,559.4	$ 1,594.8	$ 1,659.5	$ 1,686.9
Enterprise value[2]	$ 6,847.2	$ 6,901.1	$ 7,593.3	$ 8,374.5	$ 8,268.8	$ 8,973.1	$ 9,593.8	$ 9,862.2
Total debt to total capitalization[2]	67.0%	65.9%	65.3%	67.8%	66.4%	66.1%	65.3%	65.8%
Total recourse debt to capitalization[2]	41.5%	40.1%	38.9%	48.2%	46.1%	47.6%	47.0%	48.7%

(1) IFRS 10 adoption is effective as of January 1, 2013 and restated for 2012 as required for comparative purposes, therefore the 2011 quarterly information is still presented in accordance with International Accounting Standards (IAS) 31. Accordingly, the 2011 quarterly information may not be comparable to that for 2012 and 2013. Please refer to the **ACCOUNTING POLICIES ADOPTED IN 2013** section for further discussion.
(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(3) In the third quarter of 2011, FFO[2] 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.
(4) Distributions to unitholders are calculated based on the number of units outstanding at each record date.
(5) Total debt includes long-term debt, short-term debt and commercial paper before discounts and debt transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Management may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the capital structure, Inter Pipeline may adjust the level of distributions to unitholders, issue new Class A 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, 2013, Inter Pipeline had access to committed credit facilities totaling $2.3 billion, of which $567.1 million remains unutilized, and demand facilities totaling $45 million of which $44.8 million remains unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

On April 19, 2013, Inter Pipeline increased the size of its senior unsecured revolving credit facility from $750 million to $1.25 billion. The term of the credit facility remains unchanged with a maturity date of December 5, 2017.

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 $54.4 million of equity was issued through the distribution reinvestment plan during the three months ended March 31, 2013.

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 may utilize 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 2012, 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) Class A units; (ii) debt securities and (iii) subscription receipts (collectively, the "Securities") of up to $3.0 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. This short form base shelf prospectus replaces the previous one filed on November 30, 2010. Inter Pipeline issued $325 million MTN Series 1 and $200 million MTN Series 2 in 2011 and issued $400 million MTN Series 3 in 2012.

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

CAPITAL STRUCTURE

(millions, except % amounts)		Recourse		Non-recourse		March 31 2013		December 31 2012
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					$	388.6	$	260.0
Loan payable to General Partner						288.6		288.6
MTN Series 1, 2 and 3						925.0		925.0
Non-recourse								
Corridor syndicated facility						1,344.4		1,354.0
Corridor debentures						300.0		300.0
Total debt(1)(2)						3,246.6		3,127.6
Total partners' equity						1,686.9		1,659.5
Total capitalization(3)					$	4,933.5	$	4,787.1
Total debt to total capitalization(3)						65.8%		65.3%
Total recourse debt to capitalization(3)						48.7%		47.0%

(1) At March 31, 2013, outstanding Corridor letters of credit of approximately $0.2 million were not included in total debt outstanding.
(2) Total debt reported in the March 31, 2013 consolidated financial statements of $3,231.6 million, includes long-term debt and commercial paper outstanding of $3,246.6 million less discounts and debt transaction costs of $15.0 million.
(3) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Management's long-term objectives are to remain well below its maximum permitted ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to EBITDA* ratio of 4.25 times. In March 2013, terms under an amended note purchase agreement became effective, which enabled the permitted recourse debt to EBITDA* ratio to increase from 4.25 to 5.5 times. The higher ratio provides Inter Pipeline with greater financial flexibility to fund the oil sands transportation expansion projects previously discussed. Once the debt issued under the note purchase agreement matures in October 2014, the recourse debt to EBITDA* covenant will no longer exist. Inter Pipeline's recourse debt to capitalization* ratio was 48.7% at March 31, 2013. Adjusting for the impact of non-recourse debt of $1,644.4 million, Inter Pipeline's consolidated debt to total capitalization* ratio at March 31, 2013 was 65.8%.

At March 31, 2013, approximately $1,883.0 million or 58.0% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount $1,494.4 million or 46.0% relates to Corridor debt outstanding and is directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2007, Inter Pipeline acquired an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

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

	March 31		December 31	
	2013		2012	
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, 2013 and December 31, 2012.

	Twelve Months Ended	
	March 31	December 31
(times)	2013	2012
Interest coverage[(1)(2)]	4.7	4.8

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Net income attributable to unitholders plus income taxes and borrowing costs, divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations.

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 expected capital spending profile and future contractual obligations at March 31, 2013. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects(1)(2)				
Oil sands transportation(2)	$ 2,277.0	$ 1,112.1	$ 1,164.9	$ -
NGL extraction	21.4	21.4	-	-
Conventional oil pipelines	8.3	8.3	-	-
Bulk liquid storage	8.7	8.7	-	-
Growth capital funded by Inter Pipeline(2)(3)	2,315.4	1,150.5	1,164.9	-
Sustaining capital funded by Inter Pipeline(2)(3)	35.1	35.1	-	-
	2,350.5	1,185.6	1,164.9	-
Total debt(4)				
Corridor syndicated facility(5)	1,344.4	1,344.4	-	-
Inter Pipeline syndicated facility	388.6	-	388.6	-
Loan to General Partner	288.6	-	288.6	-
Corridor debentures	300.0	-	150.0	150.0
MTN Series 1, 2, 3	925.0	-	-	925.0
	3,246.6	1,344.4	827.2	1,075.0
Other obligations				
Derivative financial instruments	6.1	6.1	-	-
Operating leases	227.1	8.8	45.0	173.3
Purchase obligations	187.8	49.6	42.0	96.2
Long-term portion of incentive plan	3.0	-	3.0	-
Working capital deficit(3)	299.7	299.7	-	-
	$ 6,320.8	$ 2,894.2	$ 2,082.1	$ 1,344.5

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months of 2013.
(2) Inter Pipeline's expected growth and sustaining capital spending profile including the 15% non-controlling interest in Cold Lake is $2,621.7 million.
(3) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(4) At March 31, 2013, outstanding Corridor letters of credit of approximately $0.2 million were not included in total debt outstanding. Total debt reported in the March 31, 2013 interim financial statements of $3,231.6 million, includes long-term debt and commercial paper of $3,246.6 million less discounts and debt transaction costs of $15.0 million
(5) 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 2016.

Inter Pipeline plans to fund approximately $2.3 billion in organic growth capital* projects over the next five years.

Inter Pipeline's bulk liquid storage business will incur additional sustaining capital expenditures* in the foreseeable future to comply with UK's storage and containment regulations, as discussed in the risk factors relating to Post Buncefield Regulation in Inter Pipeline's 2012 annual MD&A.

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

Inter Pipeline's debt outstanding at March 31, 2013, matures at various dates up to May 2022:

- 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 with an initial maturity date of December 15, 2015. On December 15, 2012, the initial maturity date was extended to December 15, 2016.
- On December 5, 2011, Inter Pipeline entered into a $750 million senior unsecured syndicated revolving credit facility with an initial maturity date of December 5, 2016. On December 5, 2012, the initial maturity date was extended to December 5, 2017 and Inter Pipeline entered into a new $20 million demand operating facility replacing the previous one entered into on December 5, 2011. Inter Pipeline's $750 million senior unsecured syndicated revolving credit facility was increased to $1.25 billion on April 19, 2013, with the maturity date unchanged at December 5, 2017.
- Inter Pipeline's and Corridor's credit facilities can be extended beyond their initial maturity date under certain circumstances.
- Inter Pipeline's loan payable to the General Partner of $288.6 million matures on October 28, 2014.
- Inter Pipeline's MTN Series 1, 2 and 3 mature on February 2, 2021, July 30, 2018 and May 30, 2022, respectively.

The following future obligations resulting from the 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, 2013, based upon the various contractual maturity dates.

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

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

(iv) Inter Pipeline has obligations of $26.4 million under its employee long-term incentive plan, of which $23.4 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 $59.9 million at March 31, 2013. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

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

DISTRIBUTIONS TO UNITHOLDERS

(millions, except per unit and % amounts)	Three Months Ended March 31 2013	2012 (restated)
Cash provided by operating activities	$ 120.1	$ 62.9
Net change in non-cash operating working capital	(10.7)	47.9
Less funds from operations[(1)] attributable to non-controlling interest	(3.0)	(2.8)
Cash available for distribution to unitholders[(1)]	106.4	108.0
Change in discretionary reserves[(1)]	(29.6)	(38.1)
Distributions to unitholders	$ 76.8	$ 69.9
Distributions per unit[(2)]	$ 0.2775	$ 0.2625
Payout ratio[(1)]	72.2%	64.7%

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

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

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

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

The discretionary reserve* increased approximately $29.6 million in the first quarter of 2013 due primarily to the strong operating results of Inter Pipeline's business segments. Inter Pipeline will continue to manage the discretionary reserve* and future distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

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

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

	Three Months Ended March 31		Years Ended December 31		
(millions)	2013	2012 *(restated)*	2012 *(restated)*	2011(1)	2010(1)
Cash provided by operating activities	$ 120.1	$ 62.9	$ 385.5	$ 460.5	$ 349.6
Less cash provided by operating activities attributable to non-controlling interest	(1.4)	(1.8)	(10.2)	-	-
Distributions to unitholders	(76.8)	(69.9)	(285.2)	(251.7)	(232.6)
Excess (shortfall)	$ 41.9	$ (8.8)	$ 90.1	$ 208.8	$ 117.0

	Three Months Ended March 31		Years Ended December 31		
(millions)	2013	2012	2012	2011(1)	2010(1)
Net income attributable to unitholders	$ 69.7	$ 79.6	$ 307.2	$ 247.9	$ 236.0
Distributions to unitholders	(76.8)	(69.9)	(285.2)	(251.7)	(232.6)
(Shortfall) excess	$ (7.1)	$ 9.7	$ 22.0	$ (3.8)	$ 3.4

(1) IFRS 10 adoption is effective as of January 1, 2013 and restated for 2012 as required for comparative purposes. The 2011, 2010 and 2009 information is still presented in accordance with IAS 31 and accordingly may not be comparable to that for 2012 and 2013. Please refer to the **ACCOUNTING POLICIES ADOPTED IN 2013** section for further discussion.

Distributions in all periods are less than cash provided by operating activities, except for the three months ended March 31, 2012 due to a payment of Canadian income taxes related to the 2011 taxation year of $48.7 million. Distributions were also less than net income attributable to unitholders, except for the three months ended March 31, 2013 and for the year ended December 31, 2011. Net income includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore distributions may exceed net income attributable to unitholders.

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

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at March 31, 2013 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	277.3	0.3	277.6

At May 7, 2013, Inter Pipeline had 278.1 million Class A units and 0.3 million Class B units for a total of 278.4 million units outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

MARKET RISK MANAGEMENT

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

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

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt, short-term debt and commercial paper outstanding at March 31, 2013. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

NGL Extraction Business

Frac-spread Risk Management

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

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at March 31, 2013. The CAD/USG average price would approximate the following USD/USG price based on the average USD/CAD forward curve at March 31, 2013.

	March 31, 2013		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
April to December 2013	42%	$ 0.95	$ 0.97

Based on propane-plus volume hedges outstanding at March 31, 2013, 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

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

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)	$	13.2	$	(4.1)	$	4.1
AECO natural gas		(3.4)		1.1		(1.1)
Foreign exchange		(2.7)		(5.1)		5.1
Frac-spread risk management	$	7.1				

(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, 2013, there are no heat rate price swap agreements outstanding.

During the three months ended March 31, 2013, Inter Pipeline entered into an electricity price swap agreement in the conventional oil pipelines business in addition to the existing electricity price swap entered into in 2012. At March 31, 2013, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant could potentially change the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately $0.2 million.

Bulk Liquid Storage Business

Foreign Exchange Risk Management

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

Corporate

Interest Rate Risk Management

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of its floating-to-fixed interest rate swap agreements. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure.

Based on the variable rate obligations outstanding at March 31, 2013, a 1% change in interest rates at this date could affect interest expense on credit facilities by approximately $4.3 million, assuming all other variables remain constant. Of this amount, $3.3 million relates to the $1.55 billion unsecured revolving credit facility and is recoverable through the terms of the Corridor FSA, therefore the after-tax income impact would be $0.7 million.

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

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

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

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

	Three Months Ended March 31	
(millions)	2013	2012
Realized gain (loss) on derivative financial instruments		
Revenues		
NGL swaps	$ 5.2	$ (2.1)
Foreign exchange swaps (frac-spread hedges)	(0.7)	-
	4.5	(2.1)
Shrinkage gas expense		
Natural gas swaps	(1.9)	(3.5)
	(1.9)	(3.5)
Financing charges		
Interest rate swaps	1.2	1.2
	1.2	1.2
Net realized gain (loss) on derivative financial instruments	3.8	(4.4)
Unrealized change in fair value of derivative financial instruments		
NGL swaps	(3.0)	4.2
Natural gas swaps	3.4	(4.9)
Foreign exchange swaps (frac-spread hedges)	(1.2)	4.4
Electricity price swaps	0.1	-
Foreign exchange swaps (other)	-	(0.6)
Unrealized change in fair value of derivative financial instruments	(0.7)	3.1
Total gain (loss) on derivative financial instruments	$ 3.1	$ (1.3)

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, business performance, 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, 2013, accounts receivable associated with these two business segments were

$85.1 million or 61.9% 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, 2013, 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 period ended March 31, 2013 or 2012.

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

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. Officers and directors of the General Partner received a cumulative total of $0.3 million in dividends in the first quarter of 2013 (first quarter of 2012 - $0.9 million), from PAC pursuant to their ownership of non-voting shares.

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

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a private placement note issuance and immediately loaned the funds to Inter Pipeline. At March 31, 2013, interest payable to the General Partner on the loan was $7.6 million (December 31, 2012 - $3.2 million). This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of a default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs. On October 29, 2012, Inter Pipeline repaid the first tranche of the loan from the General Partner which amounted to $91.2 million.

Amounts due to or 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, 2013, there were amounts owed to the General Partner by Inter Pipeline of $2.2 million (December 31, 2012 – $2.7 million).

CONTROLS AND PROCEDURES

Management has made no material changes to the disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) in Inter Pipeline's existing business segments during the first quarter of the 2013 fiscal year, with the exception of the DC&P and ICFR related to Inter Terminals.

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 has now completed the design of DC&P and ICFR, the results of which are consolidated in Inter Pipeline's interim financial statements at March 31, 2013.

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, 2012 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

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

ACCOUNTING POLICIES ADOPTED IN 2013

Inter Pipeline has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10 Consolidated Financial Statements *(IFRS 10)*

Inter Pipeline has an indirect 85% interest in the Cold Lake Pipeline Limited Partnership (Cold Lake LP) and an 85% interest in its general partner Cold Lake Pipeline Ltd. (collectively Cold Lake). Non-controlling interest represents a 15% ownership interest in Cold Lake attributable to a third party. The portion of equity in entities not owned by Inter Pipeline is reflected as non-controlling interest within total equity on the consolidated balance sheet.

IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* (IAS 27) and Standing Interpretations Committee (SIC) 12 *Consolidation-Special Purpose Entities*. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. Management has evaluated Inter Pipeline's investment in Cold Lake and determined that Inter Pipeline controls the relevant activities of this investment in accordance with IFRS 10. As a result, Inter Pipeline consolidates 100% of Cold Lake under IFRS 10, compared to proportionate consolidation of 85% of Cold Lake under IAS 31 *Interests in Joint Ventures* (IAS 31). A non-controlling interest is recorded to represent the 15% equity investment in Cold Lake that is not attributable to Inter Pipeline.

IFRS 10 revises the definition of control from IAS 27 and establishes a single control model that focuses on an investor's power to direct the activities of an investee that most significantly affect the investee's returns (relevant activities), exposure to variable returns and the ability to use power to affect the amount of an investor's returns. Compared with the requirements of IAS 27, IFRS 10 requires management to exercise significant judgment in its assessment of control including but not limited to; the determination of the investee's relevant activities, the investor's ability to direct those relevant activities, the investor's exposure to returns of the investee, as well as rights of other parties. IFRS 10 also requires management to continuously assess control over an investee.

On January 2, 2003 Inter Pipeline acquired an additional 70% interest in Cold Lake which, combined with its initial 15% investment acquired on October 5, 2000, resulted in Inter Pipeline owning an 85% interest in Cold Lake. Inter Pipeline determined that it had control over Cold Lake since the acquisition of the additional 70% interest by considering factors such as its majority voting rights over Cold Lake's relevant activities. The relevant activities of include identification of expansion and other transportation service opportunities, performance of due diligence and economic feasibility studies and managing decisions to undergo capital projects. Management believes that Inter Pipeline has the current ability to direct these relevant activities and, as such, has control over Cold Lake.

IFRS 11 Joint Arrangements *(IFRS 11)*

IFRS 11 supersedes IAS 31 and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions to Venturers* and is applied to interests in joint arrangements where there is joint control. IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. For joint operations, an entity recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28 *Investments in Associates and Joint Ventures (amended in 2011)*. The adoption of IFRS 11 did not result in any changes to the accounting for Inter Pipeline's only jointly controlled operation, its 50% investment in the Empress V NGL Extraction facility, which is accounted for as a joint operation.

IFRS 12 Disclosure of Interests in Other Entities *(IFRS 12)*

IFRS 12 provides disclosure requirements for a reporting entity's interests held in other entities including: subsidiaries, joint arrangements, associates, or unconsolidated structured entities. Inter Pipeline has adopted IFRS 12 in its financial statement disclosure effective January 1, 2013, and for the comparative periods.

IFRS 13 Fair Value Measurement *(IFRS 13)*

IFRS 13 defines fair value and provides, in a single IFRS, a framework for measuring fair value when it is required or permitted within IFRS standards. The standard also provides consistent disclosure requirements about fair value measurements. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by Inter Pipeline to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 19 Employee Benefits (Revised) *(IAS 19)*

IAS 19 amends certain accounting requirements for defined benefit pension plans. The amendments included fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets. Effective January 1, 2013, the expected return on

Inter Pipeline's pension plan assets is calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The impact of the amended standard on Inter Pipeline's results was insignificant to prior periods and resulted in increased financing charges of approximately $0.3 million for the three months ended March 31, 2013.

IAS 1 Presentation of Financial Statements, Amendment *(IAS 1)*

Inter Pipeline has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required Inter Pipeline to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These presentation changes did not result in any adjustments to other comprehensive income or comprehensive income.

RISK FACTORS

During the first quarter of 2013, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2012 annual MD&A.

NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "cash available for distribution to unitholders", "discretionary reserve", "enterprise value", "interest coverage", "payout ratio", "growth capital expenditures", "sustaining capital expenditures" and "total debt to total capitalization" are not measures recognized by GAAP. Certain additional GAAP financial measures presented in the consolidated financial statements and referred to in this MD&A, namely "EBITDA", "funds from operations", "funds from operations per unit", and "total recourse debt to capitalization" are not measures recognized by GAAP. These non-GAAP and additional 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 non-GAAP and additional GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

Non-GAAP Financial Measures

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 2013	December 31 2012 *(restated)*
Current assets		
Cash and cash equivalents	$ 41.4	$ 65.0
Accounts receivable	137.5	146.7
Prepaid expenses and other deposits	32.2	31.3
Current liabilities		
Distributions payable to unitholders	(25.7)	(25.5)
Accounts payable and accrued liabilities	(456.1)	(293.0)
Current income taxes payable	(14.7)	(8.7)
Deferred revenue	(14.3)	(6.1)
Adjusted working capital deficiency	$ (299.7)	$ (90.3)

Cash available for distribution to unitholders includes cash provided by operating activities less net changes in non-cash working capital and funds from operations attributable to non-controlling interest. 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 to unitholders less actual distributions declared. This measure is used by the investment community to determine the amount of cash reserved and reinvested in the business.

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 2013	December 31 2012
Closing unit price	$ 23.83	$ 23.50
Total closing number of Class A and B units	277.6	275.2
	6,615.6	6,466.2
Total debt	3,246.6	3,127.6
Enterprise value	$ 9,862.2	$ 9,593.8

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

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

			Three Months Ended March 31	
			2013[1]	2012
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 381.6	$ 0.4	$ 382.0	$ 30.2
NGL extraction	12.3	0.6	12.9	5.3
Conventional oil pipelines	2.1	0.9	3.0	3.7
Bulk liquid storage	11.6	2.3	13.9	6.9
Corporate	-	1.7	1.7	0.5
Capital expenditures	$ 407.6	$ 5.9	$ 413.5	$ 46.6
Capital expenditures funded by Inter Pipeline[1]	$ 405.5	$ 5.9	$ 411.4	$ 45.9

(1) Capital expenditures funded by Inter Pipeline exclude the 15% non-controlling interest in Cold Lake.

Interest coverage is calculated as net income attributable to unitholders plus income taxes and borrowing costs divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations. This measure is used by the investment community to determine the ease with which borrowing costs are satisfied.

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

Total debt to total capitalization is calculated by dividing the sum of total debt including demand facilities and excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of total debt (as above) and partners' equity. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

Additional GAAP Financial Measures

The following additional 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 additional GAAP financial measures to be important indicators in assessing its performance.

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

	Three Months Ended March 31	
(millions)	2013	2012 *(restated)*
Net income	$ 72.2	$ 82.1
Depreciation and amortization	30.9	28.0
Loss on disposal of assets	1.7	-
Non-cash recovery	(2.8)	(3.1)
Unrealized change in fair value of derivative financial instruments	0.7	(3.1)
Deferred income tax expense	6.7	6.9
Funds from operations	109.4	110.8
Less funds from operations attributable to non-controlling interest	(3.0)	(2.8)
Funds from operations attributable to unitholders	$ 106.4	$ 108.0
Funds from operations	$ 109.4	$ 110.8
Total interest less capitalized interest	22.3	21.9
Current income tax expense	14.5	15.7
EBITDA	146.2	148.4
Less EBITDA attributable to non-controlling interest	(3.0)	(2.8)
EBITDA attributable to unitholders	$ 143.2	$ 145.6

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. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

ELIGIBLE INVESTORS

Pursuant to Inter Pipeline's LPA dated October 9, 1997, as amended, all unitholders are required to be residents of Canada. A copy of the limited partnership agreement can be found at www.interpipelinefund.com. If a unitholder is a non-resident of Canada (Non-Eligible unitholder), he will not be considered to be a member of the partnership effective the date the Class A units were acquired. Inter Pipeline requires all Non-Eligible unitholders to dispose of their Class A units in accordance with the limited partnership agreement.

In most cases, a unitholder with an address outside of Canada will be a Non-Eligible unitholder.

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 9th day of May, 2013.