Inter Pipeline Ltd.

Interim Consolidated Balance Sheets

(unaudited) (thousands of Canadian dollars)		**As at March 31 2014**		As at December 31 2013
ASSETS				
Current Assets				
Cash and cash equivalents (note 18)	**$**	**226,089**	$	47,236
Accounts receivable		**179,198**		246,310
Derivative financial instruments (note 15)		**4,102**		5,051
Prepaid expenses and other deposits		**27,519**		41,302
Total Current Assets		**436,908**		339,899
Non-Current Assets				
Derivative financial instruments (note 15)		**-**		395
Property, plant and equipment (note 5)		**7,249,776**		6,699,702
Goodwill and intangible assets		**620,973**		617,704
Total Assets	**$**	**8,307,657**	$	7,657,700
LIABILITIES AND EQUITY				
Current Liabilities				
Dividends payable (note 6)	**$**	**33,310**	$	32,980
Accounts payable and accrued liabilities (notes 8 and 9)		**630,801**		578,748
Current income taxes payable		**-**		31,232
Derivative financial instruments (note 15)		**-**		1,394
Deferred revenue		**30,057**		6,763
Convertible shares (note 10)		**170,000**		-
Current portion of long-term debt (note 7)		**438,080**		287,983
Commercial paper (note 7)		**1,295,459**		1,309,452
Total Current Liabilities		**2,597,707**		2,248,552
Non-Current Liabilities				
Long-term debt (note 7)		**2,405,254**		2,345,591
Convertible shares (note 10)		**-**		170,000
Long-term payable		**-**		395
Provisions (note 8)		**64,247**		65,102
Employee benefits (note 9)		**9,123**		11,886
Long-term deferred revenue and other liabilities		**16,260**		16,461
Deferred income taxes		**428,305**		415,446
Total Liabilities		**5,520,896**		5,273,433
Commitments (notes 5 and 13)				
Shareholders' Equity				
Shareholders' equity (note 10)		**2,403,597**		2,045,954
Total reserves (note 10)		**86,848**		54,296
Total Shareholders' Equity		**2,490,445**		2,100,250
Non-Controlling Interest (note 11)		**296,316**		284,017
Total Equity		**2,786,761**		2,384,267
Total Liabilities and Equity	**$**	**8,307,657**	$	7,657,700

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Changes in Equity

(unaudited) (thousands of Canadian dollars)

	Attributable to Shareholders of Inter Pipeline Ltd.								
	Class A Limited Liability Partnership Units *(note 10)*	Class B Unlimited Liability Partnership Units *(note 10)*	Share Capital *(note 10)*	Earnings / (Deficit)	Contributed Surplus	Reserves *(note 10)*	Total Shareholders' Equity	Non-Controlling Interest *(note 11)*	Total Equity
Balance, January 1, 2014	$ -	$ -	$ 3,096,752	$ (1,053,255)	$ 2,457	$ 54,296	$ 2,100,250	$ 284,017	**$ 2,384,267**
Net income for the period	-	-	-	86,124	-	-	86,124	3,498	**89,622**
Other comprehensive income	-	-	-	-	-	32,552	32,552	-	**32,552**
Dividends declared (note 6)	-	-	-	(99,617)	-	-	(99,617)	-	**(99,617)**
Issuance of common shares (note 10)									
Issued under Premium Dividend™ and Dividend Reinvestment Plan	-	-	80,093	-	-	-	80,093	-	**80,093**
Issued for cash (net of issue costs)	-	-	291,043	-	-	-	291,043	-	**291,043**
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	-	-	(4,091)	**(4,091)**
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	-	-	12,892	**12,892**
Balance, March 31, 2014	$ -	$ -	$ 3,467,888	$ (1,066,748)	$ 2,457	$ 86,848	$ 2,490,445	$ 296,316	**$ 2,786,761**
Balance, January 1, 2013	$ 1,681,274	$ 1,681	$ -	$ -	$ -	$ (23,504)	$ 1,659,451	$ 93,357	$ 1,752,808
Net income for the period	69,582	69	-	-	-	-	69,651	2,581	72,232
Other comprehensive loss	-	-	-	-	-	(19,833)	(19,833)	-	(19,833)
Dividends declared (note 6)	(76,737)	(77)	-	-	-	-	(76,814)	-	(76,814)
Issuance of common shares (note 10)									
Issued under Premium Dividend™ and Dividend Reinvestment Plan	54,354	55	-	-	-	-	54,409	-	54,409
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	-	-	(2,896)	(2,896)
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	-	-	3,528	3,528
Balance, March 31, 2013	$ 1,728,473	$ 1,728	$ -	$ -	$ -	$ (43,337)	$ 1,686,864	$ 96,570	$ 1,783,434

See accompanying condensed notes to the interim consolidated financial statements.

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Inter Pipeline Ltd.

Interim Consolidated Statements of Net Income

(unaudited) (thousands of Canadian dollars)		Three Months Ended March 31 **2014**		2013
REVENUES				
Operating revenues	**$**	**410,738**	$	327,679
EXPENSES				
Shrinkage gas		**90,455**		61,594
Midstream product purchases		**28,828**		13,955
Operating		**94,061**		81,045
Depreciation and amortization		**33,266**		30,926
Financing charges (note 17)		**20,833**		23,878
General and administrative		**25,421**		16,248
Unrealized change in fair value of derivative financial instruments		**(1,214)**		716
Management and incentive fees to general partner (note 12)		**-**		4,182
(Gain) loss on disposal of assets		**(860)**		1,733
		290,790		234,277
INCOME BEFORE INCOME TAXES		**119,948**		93,402
Provision for income taxes				
Current		**16,963**		14,519
Deferred		**13,363**		6,651
		30,326		21,170
NET INCOME	**$**	**89,622**	$	72,232
Net income attributable to				
Shareholders of Inter Pipeline Ltd.	**$**	**86,124**	$	69,651
Non-controlling interest (note 11)		**3,498**		2,581
	$	**89,622**	$	72,232
Net income per share attributable to shareholders of Inter Pipeline Ltd. (note 10)				
Basic	**$**	**0.28**	$	0.25
Diluted	**$**	**0.27**	$	0.25

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Comprehensive Income

(unaudited) (thousands of Canadian dollars)	Three Months Ended March 31 **2014**	2013
NET INCOME	**$ 89,622**	$ 72,232
OTHER COMPREHENSIVE INCOME (note 10)		
Item that may be reclassified subsequently to net income		
Unrealized gain (loss) on translating financial statements of foreign operations	**32,552**	(20,076)
Items that will not be reclassified to net income		
Actuarial gain on defined benefit pension plan	**-**	322
Income tax relating to defined benefit pension reserve	**-**	(79)
	32,552	(19,833)
COMPREHENSIVE INCOME	**$ 122,174**	$ 52,399
Comprehensive income attributable to		
Shareholders of Inter Pipeline Ltd.	**$ 118,676**	$ 49,818
Non-controlling interest (note 11)	**3,498**	2,581
	$ 122,174	$ 52,399

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Cash Flows

(unaudited) (thousands of Canadian dollars)	Three Months Ended March 31 **2014**	2013
OPERATING ACTIVITIES		
Net income	**$ 89,622**	$ 72,232
Items not involving cash:		
Depreciation and amortization	**33,266**	30,926
(Gain) loss on disposal of assets	**(860)**	1,733
Non-cash recovery	**(2,447)**	(2,902)
Unrealized change in fair value of derivative financial instruments	**(1,214)**	716
Deferred income tax expense	**13,363**	6,651
Funds from operations	**131,730**	109,356
Net change in non-cash operating working capital (note 18)	**2,482**	10,746
Cash provided by operating activities	**134,212**	120,102
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(553,550)**	(415,194)
Proceeds on sale of assets	**1,386**	8
Capital contributions received from Cold Lake non-controlling interest	**12,892**	3,528
Net change in non-cash investing working capital (note 18)	**123,219**	174,715
Cash used in investing activities	**(416,053)**	(236,943)
FINANCING ACTIVITIES		
Cash dividends paid to shareholders of Inter Pipeline Ltd. (note 6)	**(19,524)**	(22,405)
Cash distributions paid by Cold Lake to non-controlling interest	**(4,091)**	(2,896)
Increase in debt	**194,827**	118,877
Transaction costs on debt	**10**	(152)
Issuance of common shares	**300,560**	-
Share issue costs	**(12,519)**	-
Net change in non-cash financing working capital (note 18)	**330**	228
Cash provided by financing activities	**459,593**	93,652
Effect of foreign currency translation on foreign currency denominated cash	**1,101**	(437)
Increase (decrease) in cash and cash equivalents	**178,853**	(23,626)
Cash and cash equivalents, beginning of period	**47,236**	64,979
Cash and cash equivalents, end of period	**$ 226,089**	$ 41,353

Cash taxes paid	**$ 48,292**	$ 8,514
Cash interest paid	**$ 36,818**	$ 25,538

See accompanying condensed notes to the interim consolidated financial statements.

1. STRUCTURE OF THE CORPORATION

Inter Pipeline Ltd. (Inter Pipeline or the Corporation) was incorporated under the provisions of the *Business Corporations Act* (Alberta) on January 29, 2013. On May 31, 2013, the Corporation changed its name to Inter Pipeline Ltd. from 1726761 Alberta Ltd. On September 1, 2013, the Corporation carried on the business of Inter Pipeline Fund (the Fund) following the conversion from a limited partnership to a dividend paying corporation (Corporate Conversion) pursuant to a plan of arrangement under the *Business Corporations* Act (Alberta) (the Arrangement). The Fund was dissolved and, as a result, comparative figures in these and future financial statements reflect the history of the Fund, as previously reported, to the date of Corporate Conversion. In these unaudited condensed interim consolidated financial statements (interim financial statements), Inter Pipeline will refer to common shares, shareholders, restricted share units and dividends, which were formerly referred to as partnership units, unitholders, deferred unit rights and distributions under the partnership structure.

Inter Pipeline is comprised of four industry operating segments located in two geographic segments: oil sands transportation business, conventional oil pipelines business and natural gas liquids (NGL) extraction business, all operating in Canada, and the bulk liquid storage business, which operates in Europe. The head office, principal address and records office of Inter Pipeline are located at 2600, 237 – 4th Avenue SW, Calgary, Alberta, Canada.

These interim financial statements include the accounts of Inter Pipeline, its subsidiary companies, partnerships and any joint arrangements as at and for the three months ended March 31, 2014.

These interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors of Inter Pipeline on May 12, 2014.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 – *Interim Financial Reporting*. These interim financial statements do not contain all disclosures required by International Financial Reporting Standards (IFRS) for annual financial statements and accordingly, should be read in conjunction with Inter Pipeline's audited consolidated financial statements and notes thereto for the year ended December 31, 2013.

Inter Pipeline has consistently applied the same accounting policies for all periods presented in these interim financial statements as those used in Inter Pipeline's audited consolidated financial statements for the year ended December 31, 2013, except as described in note 3 below. The accounting policy in note 3 has been applied consistently in preparing the interim financial statements for the three months ended March 31, 2014 and March 31, 2013, and the consolidated balance sheets as at March 31, 2014 and December 31, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policy Adopted in 2014

IFRS Interpretations Committee Interpretation 21 *Levies (IFRIC 21)*

Inter Pipeline has adopted IFRIC 21, which is effective for annual periods beginning on or after January 1, 2014. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The adoption of IFRIC 21 did not result in any changes to the accounting for levies by Inter Pipeline.

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

4. SEGMENT REPORTING

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

Three Months Ended March 31, 2014

	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 105,172	$ 91,185	$ 168,385	$ -	$ 364,742	$ 45,996	$ 410,738
EXPENSES							
Shrinkage gas	-	-	90,455	-	90,455	-	90,455
Midstream product purchases	-	28,828	-	-	28,828	-	28,828
Operating	29,416	15,630	29,300	-	74,346	19,715	94,061
Depreciation and amortization	12,352	2,613	7,640	773	23,378	9,888	33,266
Financing charges	8,464	170	75	11,834	20,543	290	20,833
General and administrative	2,497	-	-	20,598	23,095	2,326	25,421
Unrealized change in fair value of derivative financial instruments	-	33	(1,247)	-	(1,214)	-	(1,214)
Gain on disposal of assets	-	(7)	-	-	(7)	(853)	(860)
	52,729	47,267	126,223	33,205	259,424	31,366	290,790
INCOME (LOSS) BEFORE INCOME TAXES	52,443	43,918	42,162	(33,205)	105,318	14,630	119,948
Provision for income taxes	9,139	-	-	20,141	29,280	1,046	30,326
NET INCOME (LOSS)	$ 43,304	$ 43,918	$ 42,162	$ (53,346)	$ 76,038	$ 13,584	$ 89,622
Items not involving cash:							
Depreciation and amortization*	12,352	2,606	7,640	773	23,371	9,035	32,406
Non-cash recovery	(232)	(556)	(74)	(1,283)	(2,145)	(302)	(2,447)
Unrealized change in fair value of derivative financial instruments	-	33	(1,247)	-	(1,214)	-	(1,214)
Deferred income tax expense (recovery)	7,966	-	-	6,087	14,053	(690)	13,363
FUNDS FROM (USED IN) OPERATIONS	$ 63,390	$ 46,001	$ 48,481	$ (47,769)	$ 110,103	$ 21,627	$ 131,730
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 536,857	$ 6,700	$ 1,763	$ 1,176	$ 546,496	$ 4,416	$ 550,912
							As at March 31, 2014
Property, plant and equipment - net book value	$ 5,564,342	$ 484,129	$ 419,566	$ 14,668	$ 6,482,705	$ 767,071	$ 7,249,776
Goodwill and intangible assets - net book value	$ 224,693	$ -	$ 197,633	$ -	$ 422,326	$ 198,647	$ 620,973
Other assets	$ 84,191	$ 233,521	$ 61,945	$ 504	$ 380,161	$ 56,747	$ 436,908
TOTAL ASSETS	$ 5,873,226	$ 717,650	$ 679,144	$ 15,172	$ 7,285,192	$ 1,022,465	$ 8,307,657

* Includes gain on disposal of assets

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

Three Months Ended March 31, 2013

	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 91,583	$ 67,336	$ 129,398	$ -	$ 288,317	$ 39,362	$ 327,679
EXPENSES							
Shrinkage gas	-	-	61,594	-	61,594	-	61,594
Midstream product purchases	-	13,955	-	-	13,955	-	13,955
Operating	27,585	12,571	24,616	-	64,772	16,273	81,045
Depreciation and amortization	11,187	2,435	6,722	584	20,928	9,998	30,926
Financing charges	8,747	157	67	14,340	23,311	567	23,878
General and administrative	2,478	-	-	11,431	13,909	2,339	16,248
Unrealized change in fair value of derivative financial instruments	-	(92)	808	-	716	-	716
Management and incentive fees to general partner	-	-	-	4,182	4,182	-	4,182
(Gain) loss on disposal of assets	-	(8)	1,741	-	1,733	-	1,733
	49,997	29,018	95,548	30,537	205,100	29,177	234,277
INCOME (LOSS) BEFORE INCOME TAXES	41,586	38,318	33,850	(30,537)	83,217	10,185	93,402
Provision for (recovery of) income taxes	6,615	-	-	14,951	21,566	(396)	21,170
NET INCOME (LOSS)	$ 34,971	$ 38,318	$ 33,850	$ (45,488)	$ 61,651	$ 10,581	$ 72,232
Items not involving cash:							
Depreciation and amortization*	11,187	2,427	8,463	584	22,661	9,998	32,659
Non-cash (recovery) expense	(325)	(246)	(111)	(2,701)	(3,383)	481	(2,902)
Unrealized change in fair value of derivative financial instruments	-	(92)	808	-	716	-	716
Deferred income tax expense (recovery)	4,929	-	-	2,442	7,371	(720)	6,651
FUNDS FROM (USED IN) OPERATIONS	$ 50,762	$ 40,407	$ 43,010	$ (45,163)	$ 89,016	$ 20,340	$ 109,356
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 381,989	$ 3,007	$ 12,950	$ 1,677	$ 399,623	$ 13,830	$ 413,453
							As at December 31, 2013
Property, plant and equipment - net book value	$ 5,039,268	$ 479,761	$ 422,890	$ 14,546	$ 5,956,465	$ 743,237	$ 6,699,702
Goodwill and intangible assets - net book value	$ 225,262	$ -	$ 200,186	$ -	$ 425,448	$ 192,256	$ 617,704
Other assets	$ 153,737	$ 65,048	$ 73,014	$ 405	$ 292,204	$ 48,090	$ 340,294
TOTAL ASSETS	$ 5,418,267	$ 544,809	$ 696,090	$ 14,951	$ 6,674,117	$ 983,583	$ 7,657,700

* Includes (gain) loss on disposal of assets

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

5. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities and Equipment	Pipeline Line fill	Construction Work in Progress	Total
Cost				
Balance, January 1, 2013	$ 5,092,910	$ 273,829	$ 343,398	$ 5,710,137
Additions/transfers from construction*	635,497	-	1,946,788	2,582,285
Disposals/completed construction*	(7,914)	-	(633,328)	(641,242)
Foreign currency translation adjustment	82,445	-	(68)	82,377
Balance, December 31, 2013	5,802,938	273,829	1,656,790	7,733,557
Additions/transfers from construction*	45,273	-	549,944	595,217
Disposals/completed construction*	(1,214)	-	(44,305)	(45,519)
Foreign currency translation adjustment	35,137	-	312	35,449
Balance, March 31, 2014	**$ 5,882,134**	**$ 273,829**	**$ 2,162,741**	**$ 8,318,704**
Accumulated Depreciation				
Balance, January 1, 2013	$ 904,631	$ 11,998	$ -	$ 916,629
Depreciation	102,770	2,905	-	105,675
Disposals	(1,500)	-	-	(1,500)
Foreign currency translation adjustment	13,051	-	-	13,051
Balance, December 31, 2013	1,018,952	14,903	-	1,033,855
Depreciation	28,522	726	-	29,248
Disposals	(688)	-	-	(688)
Foreign currency translation adjustment	6,513	-	-	6,513
Balance, March 31, 2014	**$ 1,053,299**	**$ 15,629**	**$ -**	**$ 1,068,928**
Net Book Value				
At December 31, 2013	$ 4,783,986	$ 258,926	$ 1,656,790	$ 6,699,702
At March 31, 2014	**$ 4,828,835**	**$ 258,200**	**$ 2,162,741**	**$ 7,249,776**

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

At March 31, 2014, Inter Pipeline expects to spend approximately $1,017.3 million on property, plant and equipment, of which $743.2 million is due within one year and $274.1 million is due in one to five years. These amounts do not include capital expenditures related to the 15% non-controlling interest in Cold Lake.

6. DIVIDENDS TO SHAREHOLDERS

	Three months ended March 31 **2014**	2013
Dividends declared to shareholders of Inter Pipeline Ltd.	**$ 99,617**	$ 76,814
Dividends settled with the issuance of shares under the Premium Dividend™ and Dividend Reinvestment Plan	**(80,093)**	(54,409)
Cash dividends paid to shareholders of Inter Pipeline Ltd.	**$ 19,524**	$ 22,405
Declared amount ($ per share)	**$ 0.3225**	$ 0.2775

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

As at March 31, 2014, dividends of $33.3 million were payable on 309.9 million outstanding common shares at $0.1075 per share (December 31, 2013 - $33.0 million payable on 306.8 million outstanding common shares at $0.1075 per share).

On April 8, 2014, Inter Pipeline declared dividends of $0.1075 per share. The dividends will be paid on or about May 15, 2014, to all shareholders of record on April 23, 2014. The total estimated declared dividends are approximately $34.5 million. On May 6, 2014, Inter Pipeline declared dividends of $0.1075 per share. The dividends will be paid on or about June 16, 2014, to all shareholders of record on May 23, 2014. The total estimated declared dividends are approximately $34.6 million.

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

	March 31 2014	December 31 2013
$1,550 million Unsecured Revolving Credit Facility (a)	**$ 1,298,200**	$ 1,312,200
$1,250 million Unsecured Revolving Credit Facility (b)	**844,000**	635,000
Loan payable to Private Placement noteholders (c)	**288,648**	288,648
Corridor Debentures (d)	**300,000**	300,000
Senior Unsecured Medium-Term Notes (e)	**1,425,000**	1,425,000
Long-term debt, short term debt and commercial paper (excluding transaction costs and discounts)	**4,155,848**	3,960,848
Less: current portion of long-term debt and commercial paper*	**(1,736,848)**	(1,600,848)
Long-term debt (excluding transaction costs and discounts)	**2,419,000**	2,360,000
Transaction costs, net of accumulated amortization	**(14,648)**	(15,588)
Discount, net of accumulated amortization	**(2,407)**	(2,234)
Add: Current portion of transaction costs and discounts	**3,309**	3,413
Long-term debt	**2,405,254**	2,345,591
Current portion of long-term debt including transaction costs and discounts (c)(d)	**438,080**	287,983
Commercial paper including transaction costs and discounts* (a)	**1,295,459**	1,309,452
	$ 4,138,793	$ 3,943,026

* Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2017.

(a) At March 31, 2014, letters of credit of $0.2 million were issued by Corridor.

(b) At March 31, 2014, letters of credit of $0.5 million were issued by Inter Pipeline.

(c) The loan payable to Private Placement noteholders of $288.6 million is due to be repaid October 28, 2014.

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

(e) Senior Unsecured Medium-Term Notes are defined as the $325 million 4.967% Series 1 notes due February 2, 2021, the $200 million 3.839% Series 2 notes due July 30, 2018, the $400 million 3.776% Series 3 notes due May 30, 2022, and the $500 million 3.448% series 4 notes due July 20, 2020.

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

8. PROVISIONS

		March 31 2014		December 31 2013
Decommissioning obligations	**$**	**45,474**	$	46,473
Environmental liabilities		**18,773**		18,629
Provisions	**$**	**64,247**	$	65,102

In addition to the above provisions, $60.9 million is included in accounts payable, accrued liabilities and provisions related to construction reclamation work at March 31, 2014 (December 31, 2013 - $41.2 million).

9. EMPLOYEE BENEFITS

		March 31 2014		December 31 2013
Pension liability	**$**	**6,309**	$	6,254
Long-term incentive plan liability		**2,814**		5,632
Employee benefits	**$**	**9,123**	$	11,886

For the three months ended March 31, 2014, employee benefits expense recognized in net income was $30.2 million (three months ended March 31, 2013 - $19.8 million).

a) Long-Term Incentive Plan

The following table summarizes the status of Inter Pipeline's Restricted Share Units (RSUs) as at March 31, 2014, and December 31, 2013:

	Number of RSUs
Balance, January 1, 2013	1,294,485
Granted	663,635
Exercised	(794,226)
Forfeitures	(31,651)
Balance, December 31, 2013	1,132,243
Granted	601,792
Exercised	(54,677)
Forfeitures	(7,991)
Balance, March 31, 2014	**1,671,367**

At March 31, 2014, the current portion of the liability included in accounts payable, accrued liabilities and provisions was $26.8 million (December 31, 2013 - $18.5 million). At March 31, 2014, 597,041 RSUs are exercisable. Inter Pipeline's closing share price at March 31, 2014, was $29.19.

The total intrinsic value of RSUs vested and not exercised as at March 31, 2014, was $18.5 million (December 31, 2013 - $17.6 million).

The weighted average remaining contractual life of the outstanding RSUs as at March 31, 2014 was 1.8 years (December 31, 2013 - 1.5 years).

For the three months ended March 31, 2014, operating expenses included $1.8 million and general and administrative expenses included $5.5 million related to RSUs (three months ended March 31, 2013 - $0.8 million and $3.4 million, respectively).

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

10. SHAREHOLDERS' EQUITY

Common Shares Issued, Fully Paid and Outstanding

Authorized

Unlimited number of common shares, with voting rights and no par value.

Issued, Fully Paid and Outstanding

	Number of Class A Units	Number of Class B Units	Number of Common Shares	Total Number	Share Capital
Balance, January 1, 2013	274,880,318	275,422	-	275,155,740	$ 2,339,745
Issued under Premium Dividend™ and Dividend Reinvestment Plan	6,639,917	6,657	4,143,952	10,790,526	246,691
Exchanged on Corporate Conversion	(281,520,235)	-	281,520,235	-	-
Cancellation of Class B Units	-	(282,079)	-	(282,079)	(2,489)
Common shares issued on Corporate Conversion	-	-	7,411,683	7,411,683	178,584
Common shares issued, net of issue costs	-	-	13,719,500	13,719,500	334,221
Balance, December 31, 2013	-	-	306,795,370	306,795,370	$ 3,096,752
Issued under Premium Dividend™ and Dividend Reinvestment Plan	-	-	3,068,944	3,068,944	$ 80,093
Common shares issued, net of issue costs *	-	-	10,400,000	10,400,000	291,043
Balance, March 31, 2014	**-**	**-**	**320,264,314**	**320,264,314**	**$ 3,467,888**

* On March 26, 2014, Inter Pipeline closed an equity offering to sell 10,400,000 common shares at $28.90 per share for gross proceeds of $300.6 million. Share issue costs of $12.5 million were incurred and a decrease in the deferred tax liability of $2.9 million was recognized, resulting in net proceeds of $291.0 million.

Calculation of Net Income per Common Share

Basic net income per common share attributable to shareholders is calculated by dividing the net income for the period attributable to common shareholders of Inter Pipeline by the weighted average number of common shares outstanding during the period. The number of diluted shares outstanding is calculated using the Treasury Stock method based on the weighted average number of shares outstanding for the period as follows:

	Three Months Ended March 31	
	2014	2013
Net income attributable to shareholders – basic and diluted	**$ 86,124**	$ 69,651
Weighted average shares outstanding – basic	**308,977,186**	276,395,638
Effect of Premium Dividend™ and Dividend Reinvestment Plan	**737,257**	598,954
Effect of convertible shares	**7,055,406**	-
Weighted average shares outstanding – diluted	**316,769,849**	276,994,592
Net income per common share attributable to shareholders –		
basic	**$ 0.28**	$ 0.25
diluted	**$ 0.27**	$ 0.25

Convertible Shares

The 7,055,406 convertible shares were issued on September 1, 2013 following Corporate Conversion and are partially contingent on the outcome of certain organic growth projects in the Foster Creek and Christina Lake areas currently under development. These convertible shares will be converted to common shares of Inter Pipeline on a one for one basis when the Foster Creek and Christina Lake

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

projects are both generating revenue. If this does not occur prior to January 1, 2017, the convertible shares will be exchanged on a 70/170th basis and their value will be reduced to $70 million. Inter Pipeline has classified these convertible shares as a current liability as the new diluent delivery services to the Foster Creek and Christina Lake projects are expected to be operational mid 2014 and new bitumen blend facilities in support of the Foster Creek project are expected to be in service and generating revenue in early 2015.

Reserves

Reserves are summarized as follows:

		Foreign Currency Translation Reserve		Defined Benefit Pension Reserve		Total Reserves
Balance, January 1, 2013	$	(13,437)	$	(10,067)	$	(23,504)
Other comprehensive (loss) income		(20,076)		243		(19,833)
Balance, March 31, 2013	$	(33,513)	$	(9,824)	$	(43,337)
Balance, January 1, 2014	$	67,541	$	(13,245)	$	54,296
Other comprehensive income		32,552		-		32,552
Balance, March 31, 2014	**$**	**100,093**	**$**	**(13,245)**	**$**	**86,848**

11. NON-CONTROLLING INTEREST

Summarized information on the balance sheets and results of operations relating to the 15% non-controlling interest in Cold Lake, which has its principal place of business in Calgary, Alberta, are:

		March 31 2014		December 31 2013
Current assets	**$**	**7,039**	$	21,703
Non-current assets		**303,834**		273,229
Current liabilities		**(14,539)**		(10,884)
Non-current liabilities		**(18)**		(31)
Proportionate share of net assets	**$**	**296,316**	$	284,017

	Three Months Ended March 31			
		2014		2013
Revenues	**$**	**6,405**	$	4,848
Expenses		**2,896**		2,256
Current income tax		**11**		11
Proportionate share of net income and comprehensive income	**$**	**3,498**	$	2,581

12. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the three months ended March 31, 2014 and 2013.

Following Corporate Conversion on September 1, 2013, Inter Pipeline is no longer required to pay management, acquisition, divestiture and incentive fees to a general partner, which were previously required under the Fund's Limited Partnership Agreement (LPA). In the three months ended March 31, 2013, the Fund's general partner earned $3.1 million in management fees and $1.1 million of incentive fees were accrued. As the annual distributable cash threshold of the LPA was not met prior to Corporate Conversion, the incentive fee was reversed when the LPA was terminated on September 1, 2013.

Certain key management personnel contracts were renegotiated, resulting in recognition of an additional employee benefits expense of $5.0 million for the three months ended March 31, 2014 (three months ended March 31, 2013 – $nil).

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

13. COMMITMENTS AND CONTINGENCIES

Inter Pipeline has committed to purchase obligations totaling approximately $242.3 million at March 31, 2014. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the United Kingdom's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $5.0 million to $7.0 million over the next seven years. Refer to note 5 for expected property, plant and equipment expenditures.

Inter Pipeline has lease agreements for office space, storage, property, plant and equipment and land for periods ranging from 2014 to 2090. At March 31, 2014, the future lease obligations are approximately $242.0 million.

14. CAPITAL DISCLOSURES

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

At March 31, 2014, Inter Pipeline had access to committed credit facilities totaling $2,800.0 million, of which $657.8 million remained unutilized. Inter Pipeline also had access to demand facilities of $65.0 million, of which $64.3 million remained unutilized. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

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 adjusted EBITDA** ratio of 5.5 times. Once the debt issued under the amended note purchase agreement matures in October 2014, the recourse debt to adjusted EBITDA** covenant will no longer exist.

The recourse debt to capitalization* and senior recourse debt to adjusted EBITDA** measures below are similar to the coverage ratio terms contained in Inter Pipeline's credit agreements. Adjusted EBITDA** calculated below includes the 15% non-controlling interest in Cold Lake and all net income associated with non-recourse subsidiaries, while the credit agreements only include distributed earnings attributable to shareholders of Inter Pipeline.

	March 31 2014	December 31 2013
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts, per note 7)		
Recourse debt	**$ 2,557,648**	$ 2,348,648
Non-recourse debt	**1,598,200**	1,612,200
	4,155,848	3,960,848
Total shareholders' equity	**2,490,445**	2,100,250
Total capitalization	**$ 6,646,293**	$ 6,061,098
Capitalization (excluding non-recourse debt)	**$ 5,048,093**	$ 4,448,898
Recourse debt to capitalization*	**50.7%**	52.8%

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

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

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

	Twelve Months Ended March 31 2014	December 31 2013
Net loss	**$ (29,605)**	$ (46,995)
Financing charges	**88,837**	91,882
Provision for income taxes	**95,753**	86,597
Depreciation and amortization	**129,026**	126,686
EBITDA*	**284,011**	258,170
Loss on disposal of assets	**1,136**	3,729
Non-cash recovery	**(3,158)**	(3,760)
Unrealized change in fair value of derivative financial instruments	**7,135**	9,065
General partner internalization	**348,584**	348,584
Adjusted EBITDA*	**$ 637,708**	$ 615,788
Recourse debt to adjusted EBITDA*	**4.0**	3.8

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

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

15. FINANCIAL INSTRUMENTS

a) Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at March 31, 2014, are classified as follows:

	Fair Value Through Profit or Loss	Cash, Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non-Financial Asset or Liability*	Carrying Value of Asset or Liability
Assets**						
Cash and cash equivalents	$ -	$ 226,089	$ -	$ 226,089	$ -	$ 226,089
Accounts receivable	-	150,947	-	150,947	28,251	179,198
Prepaid expenses and other deposits	-	15,062	-	15,062	12,457	27,519
Derivative financial instruments***	4,102	-	-	4,102	-	4,102
Liabilities						
Dividends payable	$ -	$ -	$ 33,310	$ 33,310	$ -	$ 33,310
Accounts payable, accrued liabilities and provisions	4,043	-	524,725	528,768	102,033	630,801
Deferred revenue and other liabilities	-	-	22,963	22,963	23,354	46,317
Long-term debt, short-term debt and commercial paper (note 7)****	-	-	4,155,848	4,155,848	-	4,155,848
Convertible shares (note 10)	-	-	170,000	170,000	-	170,000

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

b) Fair Value of Financial Instruments

The fair value of long-term debt, convertible shares and derivative financial instruments are included in the following tables.

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

At March 31, 2014, the carrying values of fixed rate debt and convertible shares compared to fair values are as follows:

	Carrying Value*	Fair Value
Loan payable to Private Placement noteholders	$ 288,648	$ 295,798
Corridor Debentures	$ 300,000	$ 319,550
Senior Unsecured Medium-Term Notes	$ 1,425,000	$ 1,494,014
Convertible shares	$ 170,000	$ 205,383

* Carrying value excludes transaction costs, discount and accumulated amortization.

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

	March 31 2014	December 31 2013
Current asset	**$ 4,102**	$ 5,051
Non-current asset	**-**	395
Current liability	**-**	(1,394)
	$ 4,102	$ 4,052

Derivative financial instruments carried at fair value are as follows:

	March 31 2014	December 31 2013
Frac-spread risk management		
NGL swaps	**$ -**	$ (1,287)
Natural gas swaps	**-**	147
Foreign exchange swaps	**-**	(107)
	-	(1,247)
Interest rate risk management		
Interest rate swaps	**4,043**	5,206
	4,043	5,206
Power price risk management		
Electricity price swap	**59**	93
	59	93
	$ 4,102	$ 4,052

16. RISK MANAGEMENT

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

a) Market Risk

Frac-spread Risk Management

Inter Pipeline may enter into NGL, AECO natural gas, and foreign exchange swap contracts to manage frac-spread risk exposure in the NGL extraction business. As at March 31, 2014, there are no frac-spread positions outstanding, however, Inter Pipeline may decide to hedge this risk in the future.

Interest Rate Risk Management

Based on the variable rate debt obligations outstanding at March 31, 2014, a 1% change in interest rates at this date would have changed interest expense on credit facilities for the three months ended March 31, 2014, by approximately $5.3 million, assuming all other variables remain constant. Of this amount, $3.2 million for the period ended March 31, 2014, relates to the $1,550 million Unsecured Revolving Credit Facility (note 7) and is recoverable through the terms of Corridor's Firm Service Agreement, therefore the after-tax income impact for the three months ended March 31, 2014 would be $1.6 million.

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

Power Price Risk Management

Inter Pipeline may enter into electricity price swap contracts to manage power price risk exposure in the conventional oil pipelines business. Inter Pipeline has an existing electricity price swap agreement outstanding in the conventional oil pipelines business at March 31, 2014. Inter Pipeline may also enter into financial heat rate swap contracts to manage power price risk exposure in the NGL extraction business. As at March 31, 2014, there are no heat rate price swap agreements outstanding.

At March 31, 2014, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant would have changed the mark-to-market valuation of Inter Pipeline's derivative financial instrument used to manage power price risk, and consequently after-tax income, by approximately $0.1 million.

Foreign Exchange Risk Management

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

b) Credit Risk

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

At March 31, 2014, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval, ongoing monitoring procedures and historical experience.

At March 31, 2014, accounts receivable outstanding meeting the definition of past due and impaired are insignificant.

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, 2014, accounts receivable associated with these two business segments were $108.9 million or 60.8% 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 segments and customers.

Liquidity Risk

The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at March 31, 2014, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Dividends payable	$ 33,310	$ 33,310	$ -	$ -
Accounts payable, accrued liabilities and provisions	630,801	630,801	-	-
Deferred revenue and other liabilities	46,317	30,057	10,007	6,253
Long-term debt, short term debt and commercial paper*	4,155,848	1,736,848	1,044,000	1,375,000
Convertible shares**	170,000	170,000	-	-
	$ 5,036,276	$ 2,601,016	$ 1,054,007	$ 1,381,253

* Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2017.

** Convertible shares are expected to be converted to equity and will not be settled in cash (note 10).

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

17. FINANCING CHARGES

	Three Months Ended March 31	
	2014	2013
Interest expense on credit facilities	**$ 10,705**	$ 8,200
Interest on loan payable to Private Placement noteholders	**4,414**	4,438
Interest on Corridor Debentures	**2,493**	2,514
Interest on Senior Unsecured Medium-Term Notes	**14,041**	9,731
Total interest	**31,653**	24,883
Capitalized interest	**(12,305)**	(2,637)
Amortization of transaction costs on long-term debt, short term debt and commercial paper	**929**	817
Accretion of provisions and pension plan funding charges	**556**	815
Financing charges	**$ 20,833**	$ 23,878

18. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	Three Months Ended March 31	
	2014	2013
Accounts receivable	**$ 67,112**	$ 9,246
Prepaid expense and other deposits	**13,783**	(897)
Dividends payable	**330**	228
Accounts payable, accrued liabilities and provisions	**52,821**	162,910
Deferred revenue	**23,294**	8,189
Current income taxes payable	**(31,232)**	5,989
Impact of foreign exchange rate differences and other	**(77)**	24
Changes in non-cash working capital	**$ 126,031**	$ 185,689
These changes relate to the following activities:		
Operating	**$ 2,482**	$ 10,746
Investing	**123,219**	174,715
Financing	**330**	228
Changes in non-cash working capital	**$ 126,031**	$ 185,689

Cash and Cash Equivalents

	March 31 2014	December 31 2013
Cash on hand and at banks	**$ 66,578**	$ 36,984
Short-term deposits	**159,511**	10,252
	$ 226,089	$ 47,236