Management's Discussion and Analysis

For the three months ended March 31, 2014

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights Inter Pipeline Ltd.'s (Inter Pipeline) significant business results and statistics for the three month period ended March 31, 2014, to provide Inter Pipeline's shareholders 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. Effective September 1, 2013, Inter Pipeline completed an arrangement pursuant to which, among other things, the outstanding Class A units of Inter Pipeline Fund were converted into common shares of Inter Pipeline Ltd. This resulted in the conversion to a dividend paying corporation, Inter Pipeline Ltd., which continues as a successor issuer to Inter Pipeline Fund (Corporate Conversion). In this MD&A, any references to Inter Pipeline prior to September 1, 2013 refer to Inter Pipeline Fund and its consolidated subsidiaries, and any references to Inter Pipeline subsequent to September 1, 2013 refer to Inter Pipeline Ltd. and its consolidated subsidiaries. Similarly, any references to common shares, shareholders or dividends used prior to September 1, 2013, refer to Class A units, unitholders and distributions of Inter Pipeline Fund, and any references to common shares, shareholders or dividends used subsequent to September 1, 2013 refer to common shares, shareholders and dividends of Inter Pipeline Ltd. 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 dividends to its shareholders through 2014 and beyond; 2) the maintenance of Inter Pipeline's dividend level combined with the tax treatment of dividends to its shareholders; 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 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; 6) timing and cost schedules of Polaris and Cold Lake capital projects, and forward EBITDA (as defined herein) 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 Inter Pipeline 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 dividends to its shareholders; 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, 2014

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period ended March 31, 2014, as compared to the three month period ended March 31, 2013. The MD&A should be read in conjunction with the March 31, 2014 unaudited condensed interim consolidated financial statements (interim financial statements), the unaudited condensed interim consolidated financial statements and MD&A for the quarterly period ended March 31, 2013, the MD&A and audited consolidated financial statements for the year ended December 31, 2013, the Annual Information Form dated February 20, 2014, 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 CPA Handbook Part I, 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.

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FIRST QUARTER HIGHLIGHTS

- Generated funds from operations* (FFO) of $132 million, a 20 percent increase over first quarter 2013
- Declared cash dividends of $100 million or $0.3225 per share
- Attractive quarterly payout ratio* of 78 percent
- Generated net income of $90 million, a gain of $17 million over first quarter 2013 results
- Incurred growth capital expenditures* of $519 million, primarily related to Inter Pipeline's $2.9 billion expansion program on the Cold Lake and Polaris systems
- Total pipeline throughput volumes averaged 1,028,800 barrels per day (b/d)
- Volumes transported on Inter Pipeline's conventional oil gathering pipelines reached the highest quarterly average in the past six years
- Issued $301 million of new capital in a highly successful public equity offering
- Implemented several changes to the composition of Inter Pipeline's board of directors and senior management team, consistent with previously announced intentions and internal succession plans

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

PERFORMANCE OVERVIEW

	Three Months Ended March 31	
(millions, except per share and % amounts)	2014	2013
Revenues		
Oil sands transportation	$ 105.1	$ 91.6
Conventional oil pipelines	91.2	67.3
NGL extraction	168.4	129.4
Bulk liquid storage	46.0	39.4
	$ 410.7	$ 327.7
Funds from operations[1][2]		
Oil sands transportation[2]	$ 63.4	$ 50.8
Conventional oil pipelines	46.0	40.4
NGL extraction	48.5	43.0
Bulk liquid storage	21.6	20.4
Corporate costs	(47.8)	(45.2)
	$ 131.7	$ 109.4
Per share[1]	$ 0.43	$ 0.40
Net income	$ 89.6	$ 72.2
Net income attributable to shareholders	$ 86.1	$ 69.7
Per share – basic	$ 0.28	$ 0.25
Per share – diluted	$ 0.27	$ 0.25
Dividends to shareholders	$ 99.6	$ 76.8
Per share[3]	$ 0.3225	$ 0.2775
Shares outstanding (basic)		
Weighted average	309.0	276.4
End of period	320.3	277.6
Capital expenditures[5]		
Growth[1]	$ 544.7	$ 407.6
Sustaining[1]	6.2	5.9
	$ 550.9	$ 413.5
Payout ratio[1]	78.0%	72.2%

	As at March 31	As at December 31
(millions, except % amounts)	2014	2013
Total assets	$ 8,307.7	$ 7,657.7
Total debt[4]	$ 4,155.8	$ 3,960.8
Total shareholders' equity	$ 2,490.4	$ 2,100.3
Enterprise value[1]	$ 13,504.4	$ 11,885.4
Total debt to total capitalization[1]	62.5%	65.3%
Total recourse debt to capitalization[1]	50.7%	52.8%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Funds from operations[1] include non-controlling interest amounts of $4.0 million for the three month period ended March 31, 2014 ($3.0 million for the three month period ended March 31, 2013).
(3) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.
(4) Total debt reported in the March 31, 2014 consolidated financial statements of $4,138.8 million, includes long-term debt, short-term debt and commercial paper of $4,155.8 million less discounts and debt transaction costs of $17.0 million.
(5) Amounts reported on a 100% basis that includes non-controlling interest.

THREE MONTHS ENDED MARCH 31, 2014

Inter Pipeline generated strong financial results for the three months ended March 31, 2014, as all operating business units experienced increases in operating results over the comparable period in 2013. Inter Pipeline's FFO* increased 20.4% or $22.3 million from $109.4 million in the first quarter of 2013 to $131.7 million in the first quarter of 2014. Operating results from the oil sands transportation business segment led the way with an increase of $12.6 million or 24.8% to $63.4 million, largely due to incremental contributions from both Cold Lake and Polaris pipeline systems. FFO* from the conventional oil pipelines business increased $5.6 million or 13.9% to $46.0 million, due to higher volumes on the Mid-Saskatchewan and Central Alberta pipeline systems, as well as increased revenue from Inter Pipeline's midstream marketing activities. Higher frac-spread in the NGL extraction business was the primary driver for its increase in FFO* of $5.5 million or 12.8% to $48.5 million in 2014. The bulk liquid storage business benefitted from favourable foreign exchange rates which more than offset lower utilization and storage rates resulting in an increase to FFO* of $1.2 million or 5.9% to $21.6 million in 2014. Corporate costs of $47.8 million were $2.6 million or 5.8% higher than the first quarter of 2013, primarily due to higher employee costs, which was offset in part by the elimination of management and incentive fees due to Inter Pipeline's successful conversion from a limited partnership to a corporation in 2013.

Inter Pipeline's net income in the three months ended March 31, 2014, increased $17.4 million to $89.6 million, compared to $72.2 million in the first quarter of 2013. The increase is primarily due to the higher operating results discussed above, partially offset by increases in deferred income taxes, and depreciation and amortization expense.

In the first quarter, total dividends to shareholders increased 29.7% or $22.8 million from $76.8 million in 2013 to $99.6 million in the first quarter of 2014. This increase is largely attributable to two monthly dividend increases announced in June and September 2013 totaling $0.18 per common share on an annualized basis. In addition, Inter Pipeline's overall number of common shares outstanding increased primarily due to an equity offering in October 2013 and strong shareholder participation in Inter Pipeline's dividend reinvestment plan. The payout ratio* for the first three months of 2014 was 78.0%.

Inter Pipeline's consolidated debt was $4,155.8 million at March 31, 2014, an increase of $195.0 million from $3,960.8 million at December 31, 2013. During this period, Inter Pipeline funded capital expenditures* of $525.0 million. At March 31, 2014, Inter Pipeline's total recourse debt to capitalization* ratio was 50.7%. At March 31, 2014, Inter Pipeline's total debt to total capitalization ratio* was 62.5%, which includes non-recourse debt of $1,598.2 million held within Inter Pipeline's Corridor corporate entity, compared to 65.3% at December 31, 2013.

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

OUTLOOK

Inter Pipeline's long-term strategy is to acquire and develop high-quality energy infrastructure assets that generate stable and predictable cash flow. In 2014, the focus remains on the continued execution of a multi-billion dollar pipeline expansion program that is secured by long-term contracts with credit-worthy counterparties. Inter Pipeline's current portfolio of large organic growth projects will substantially increase cash flows and should support stable and growing returns to shareholders over the long-term.

Growth plans are centered on Inter Pipeline's oil sands and conventional oil transportation systems in direct response to producer demand. In Alberta's oil sands, new projects are actively being developed, and in the conventional oil pipelines segment the use of new technologies to rejuvenate older conventional oil fields is generating significant volume growth. Total growth capital expenditures on pipeline systems in 2014 are expected be over $1 billion.

Development of Inter Pipeline's oil sands transportation systems will account for the majority of planned capital investment in 2014. A series of large oil sands related transportation contracts have been signed over the past 18 months, necessitating the expansion of the Cold Lake and Polaris pipeline systems as producers require additional bitumen blend and diluent transportation services between the Cold Lake and Athabasca oil sands producing regions and market hubs in Edmonton and Hardisty, Alberta.

Inter Pipeline's oil sands transportation system expansion program is anchored by long-term cost-of-service agreements with large and stable producers. The FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips, has committed for 500,000 b/d of bitumen blend and 350,000 b/d of diluent transportation capacity for its Foster Creek, Christina Lake and Narrows Lake oil sands projects. A number of other contracts signed in the past year have, in aggregate, added 245,000 b/d of bitumen blend and diluent transportation service, which together with FCCL volumes total almost 1.1 million b/d of new committed capacity. To transport these additional volumes, Inter Pipeline is currently investing over $3 billion (Inter Pipeline's share) to expand and integrate its Cold Lake and Polaris pipeline systems. Once this expansion program is complete, long term annual EBITDA[*] is expected to increase by up to $400 million. The cost-of-service agreements that will generate this cash flow generally have terms in excess of 20 years and have no exposure to volume or commodity price fluctuation.

The expansion program includes construction of approximately 400 km of new pipeline on the Cold Lake system and roughly 440 km of new pipeline and associated facilities on the Polaris pipeline system. This additional infrastructure will expand bitumen blend transportation capacity and connect diluent receipt points in the Edmonton area to the Foster Creek, Christina Lake and Narrows Lake projects. The expansion programs relating to Foster Creek and Christina Lake are expected to enter commercial service in phases commencing in mid-2014, while those relating to Narrows Lake are anticipated to be operational in mid-2017. As of March 31, all of the incremental Cold Lake pipeline segments have been installed, and close to 400 km of the new Polaris pipeline is now in the ground, with the remainder to be installed over the summer. Construction of associated facilities continues on schedule.

When completed, capacity on the Cold Lake system will increase by 550,000 b/d to approximately 1.2 million b/d while Polaris system capacity will increase by 700,000 b/d to approximately 820,000 b/d. The Cold Lake and Polaris systems can be further expanded to ultimate throughput capacities of 1.9 million b/d and 1.2 million b/d, respectively, through the addition of pump stations and associated infrastructure. In addition to the approximately 1.1 million b/d of firm capacity contracts negotiated over the past 18 months, Inter Pipeline believes that substantial opportunities remain to utilize additional pipeline capacity on accretive terms.

Capital spending in Inter Pipeline's conventional oil pipelines segment is expected to increase to approximately $70 million in 2014 as a result of increased demand for transportation services as new technology drives increased recoveries from established oil fields. Drilling activity in areas serviced by

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

Inter Pipeline's three conventional oil transportation systems remains strong, creating demand for new connections and other infrastructure upgrades.

Financing of Inter Pipeline's large capital investment program requires prudent management of the balance sheet. In the first quarter of 2014, Inter Pipeline accessed public equity markets and issued $301 million of common shares. Net proceeds from the equity issue were used to pay down a portion of the balance drawn on Inter Pipeline's $1.25 billion syndicated credit facility. Inter Pipeline also continues to raise over $25 million per month in equity capital through its dividend reinvestment plan.

Inter Pipeline maintains investment grade credit ratings from major rating institutions. 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).

Effective January 1, 2014, there were several changes to the composition of Inter Pipeline's board of directors and senior management team. Richard Shaw, an independent director, was appointed Chairman of the Board, while the previous Chairman, John Driscoll, retired. David Fesyk, the previous President and Chief Executive Officer, was appointed Executive Vice Chairman, and Christian Bayle, the previous Chief Operating Officer, was appointed President and Chief Executive Officer. Alison Taylor Love also joined the Board and is the new Chair of Inter Pipeline's Governance Committee. In addition, on March 1, 2014, Brent Heagy replaced Bill van Yzerloo, retired, as Chief Financial Officer. These changes were made to enhance Inter Pipeline's corporate governance structure and are consistent with its internal succession plans.

Inter Pipeline's outlook is very positive as we continue to develop our long-life, high-quality energy infrastructure asset base. We remain well positioned to continue generating strong returns to shareholders.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2014	2013	*% change*
Cold Lake (100% basis)	473.7	533.2	*(11.2)*
Corridor	319.0	355.6	*(10.3)*
Polaris	32.2	1.2	*2,583.3*
	824.9	890.0	*(7.3)*
(millions)			
Revenue(1)	$ 105.1	$ 91.6	*14.7*
Operating expenses(1)	$ 29.4	$ 27.6	*6.5*
Funds from operations(1)(2)	$ 63.4	$ 50.8	*24.8*
Capital expenditures(1)			
Growth(2)	$ 536.8	$ 381.6	
Sustaining(2)	0.1	0.4	
	$ 536.9	$ 382.0	

(1) For the three month period ended March 31, 2014, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - $6.4 million ($4.9 million in 2013); operating expenses - $2.4 million ($1.9 million in 2013); FFO(2) - $4.0 million ($3.0 million in 2013); and capital expenditures – $25.9 million ($2.1 million in 2013).
(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Volumes

The oil sands transportation business transported average volumes of 824,900 b/d in the first quarter of 2014 or 65,100 b/d less than the same period in 2013.

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. During the first quarter of 2014, average volumes transported on the Cold Lake pipeline system decreased 59,500 b/d or 11.2%, compared to the same period in 2013. Volumes in the current quarter were impacted by operational and weather related issues experienced by certain producers. Cold Lake pipeline volumes also fluctuate with the timing of steam injection cycles associated with various shippers' production processes. Volume growth is anticipated over the long-term on the Cold Lake pipeline system, 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 as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. Corridor pipeline system volumes decreased 36,600 b/d or 10.3% in the first quarter, compared to the same period in 2013, due to operational issues and maintenance activities at the Jackpine mine.

In June 2013, the Polaris pipeline system began providing diluent transportation services from the Lamont area northeast of Edmonton to Imperial's Kearl oil sands project and to Suncor's oil sands facilities, both located northeast of Fort McMurray. During the current quarter, average volumes transported on the Polaris pipeline system increased 31,000 b/d over the same period in 2013, due to the timing of diluent transportation service commencing in 2013.

Revenue

Revenue from the oil sands transportation business increased $13.5 million to $105.1 million for the three months ended March 31, 2014, over the comparative period in 2013.

In the first quarter of 2014, Cold Lake pipeline system revenue increased $10.4 million to $42.9 million, compared to the same period in 2013. The increase in revenue was largely due to the additional capital fee revenue associated with transportation services beginning in August of 2013 for Canadian Natural Resources (CNR) Kirby South oil sands project. In addition, there was an increase in power and operating cost recoveries, which was offset in part by lower mainline volumes.

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

Revenue from the Corridor pipeline system increased $0.7 million to $43.2 million in the first quarter of 2014, over the same period in 2013. The increase is primarily due to higher operating cost recoveries and an increased return on equity due to a higher benchmark long-term Government of Canada (GOC) bond rate which was 42 basis points higher compared to the first quarter of 2013. These increases were offset in part by the declining nature of Corridor's rate base, compared to the same period in 2013.

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 GOC bond rate upon which the annual return on equity is determined, and changes to Corridor's rate base.

Revenue from the Polaris pipeline system increased $2.4 million to $19.0 million for the three months ended March 31, 2014, over the comparable period in 2013. Revenue in the first quarter of 2014 includes diluent transportation service for Suncor and capital fee revenue relating to Husky's Sunrise oil sands project, which began in the second quarter and the fourth quarter of 2013, respectively. These revenue increases were partially offset in the current quarter by lower operating cost recoveries, as discussed below in the operating expense section.

The Polaris pipeline system currently generates revenue under long term diluent transportation agreements with Imperial Oil, Suncor, CNR, and Husky, utilizing a cost-of-service contracting framework, which provides 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 approach.

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 increased $1.8 million to $29.4 million in the first quarter of 2014, compared to the same period in 2013.

In the three months ended March 31, 2014, Cold Lake pipeline system operating expenses increased $3.2 million to $16.9 million, compared to the same period in 2013. Operating expenses increased primarily due to higher power costs resulting from increased power pricing and transmission costs, as well as higher property taxes due to the expansion of the pipeline system.

Operating expenses, in the first quarter of 2014, on Corridor pipeline system increased $0.8 million to $8.5 million, over the comparable period in 2013. The increase is largely due to higher property taxes and general operating costs.

Operating expenses on the Polaris pipeline system decreased $2.2 million in the three months ended March 31, 2014 to $4.0 million, compared to the same period in 2013. Operating expenses in the first quarter of 2013 were higher due to the inclusion of certain recoverable construction related expenditures, relating to a project which was completed in late 2013.

Capital Expenditures

The Cold Lake pipeline system incurred total growth capital expenditures* of $181.2 million in the first quarter of 2014, primarily related to Cold Lake pipeline's $1.5 billion (Inter Pipeline's share) oil sands development program to provide transportation services to existing FCCL projects. These expenditures include engineering, design, procurement and construction activities.

Cold Lake and Polaris growth capital expenditures* also included $18.8 million and $6.6 million in the current quarter of 2014, for a total project spend of $33.4 million and $10.6 million, respectively, related to engineering, design and construction for bitumen blend transportation services to Canexus Corporation's unit train rail loading facility near Bruderheim, Alberta. Inter Pipeline will construct a 13 km, 24-inch diameter pipeline lateral and associated metering facility to transport bitumen blend from Inter Pipeline's Cold Lake system to a Canexus owned pipeline via the Polaris pumping station near Lamont, Alberta, for a total cost of approximately $60 million (Inter Pipeline's share). The cost estimate for this project has been increased from the previous period to reflect elevated labour expenses, project scope changes and the refinement of cost estimates.

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

The Polaris pipeline system incurred growth capital expenditures* of $355.6 million in the first quarter of 2014, of which $347.7 million relates to its $1.4 billion development plan, for a total of $1,009.6 million spent to date. These expenditures relate to engineering, design, procurement and construction activities.

Polaris growth capital expenditures* also included $0.8 million for preliminary engineering and design in 2014 related to Athabasca Oil Corporation's Hangingstone project. Inter Pipeline will construct a new 10 km pipeline lateral and associated facilities which will connect the Polaris system to the Hangingstone project, for a total cost of approximately $25 million.

Further description of the Cold Lake and Polaris development plans can be found in the **Outlook** section of this MD&A.

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended March 31		
Volumes (000s b/d)	2014	2013	*% change*
Bow River	99.5	103.8	*(4.1)*
Central Alberta	36.3	32.3	*12.4*
Mid-Saskatchewan	68.1	49.2	*38.4*
	203.9	185.3	*10.0*
(millions, except per barrel amount)			
Revenue	$ 91.2	$ 67.3	*35.5*
Midstream product purchases	$ 28.8	$ 14.0	*105.7*
Operating expenses	$ 15.7	$ 12.5	*25.6*
Funds from operations[(1)]	$ 46.0	$ 40.4	*13.9*
Revenue per barrel[(2)]	$ 2.91	$ 2.92	*(0.3)*
Capital expenditures			
Growth[(1)]	$ 5.3	$ 2.1	
Sustaining[(1)]	1.3	0.9	
	$ 6.6	$ 3.0	

(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, revenue from take-or-pay contracts for volume shortfalls and revenue/expense from over/short volumes divided by actual volumes.

Volumes

Average volumes transported on the conventional oil pipelines system increased 18,600 b/d or 10.0% in the first quarter of 2014, compared to the same period in 2013. During this period, volumes on the Mid-Saskatchewan pipeline increased 18,900 b/d or 38.4% compared to the same period in 2013. This was largely due to the significant increases in regional production, driven by the continued successful utilization of horizontal drilling and completion technology in the Viking light oil play. Central Alberta pipeline volumes also increased 4,000 b/d or 12.4% in the first quarter of 2014, over the comparable period in 2013, due to stronger truck terminal volume and increased drilling activity. Bow River pipeline volumes decreased 4,300 b/d or 4.1% during the quarter as a result of natural production declines, compared to the same period in 2013.

Revenue

In the first quarter of 2014, revenue from the conventional oil pipelines business increased $23.9 million to $91.2 million, compared to the same period in 2013. Volume growth on the Mid-Saskatchewan and Central Alberta pipelines provided additional tolling revenue, which also led to increased revenue from Inter Pipeline's midstream marketing business.

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

Midstream Product Purchases

Product purchases in the midstream marketing business were $28.8 million in the first quarter of 2014, an increase of $14.8 million compared to the first quarter of 2013, resulting from increased business activity.

Operating Expenses

Operating expenses increased $3.2 million to $15.7 million in the first quarter of 2014, over the same period in 2013. Higher operating expenses resulted from an increase in trucking costs from the midstream marketing business, as well as higher pipeline integrity and employee costs.

Capital Expenditures

Conventional oil pipelines growth capital expenditures* were $5.3 million during the first quarter of 2014, which primarily relate to various pipeline connections and measurement system upgrades on the Mid-Saskatchewan pipeline system.

NGL EXTRACTION BUSINESS SEGMENT

Three Months Ended March 31

	2014				2013			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,791	47.0	25.0	72.0	1,850	53.7	25.5	79.2
Empress V (100% basis)	1,055	25.8	11.4	37.2	924	24.7	11.1	35.8
Empress II	-	-	-	-	-	-	-	-
	2,846	72.8	36.4	109.2	2,774	78.4	36.6	115.0

Three Months Ended March 31

(millions)	2014	2013	*% change*
Revenue[1]	$ 168.4	$ 129.4	*30.1*
Shrinkage gas[1]	$ 90.5	$ 61.6	*46.9*
Operating expenses[1]	$ 29.3	$ 24.6	*19.1*
Funds from operations[1][2]	$ 48.5	$ 43.0	*12.8*
Capital expenditures[1]			
Growth[2]	$ 1.1	$ 12.3	
Sustaining[2]	0.7	0.6	
	$ 1.8	$ 12.9	

(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

Inter Pipeline's NGL extraction facilities processed average natural gas throughput volumes of 2,846 million cubic feet per day (mmcf/d) during the first quarter of 2014, an increase of 72 mmcf/d over the comparable period in 2013.

At the Cochrane facility average throughput volumes decreased 59 mmcf/d to 1,791 mmcf/d in the first quarter of 2014, compared to the same period in 2013. Throughput volumes at the Cochrane

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

facility are impacted by and fluctuate with demand for Canadian natural gas in the US west-coast region.

During the first quarter of 2014, average throughput volumes at the Empress V facility were 1,055 mmcf/d, an increase of 131 mmcf/d over the same period in 2013. Throughput volumes at the Empress facilities fluctuate with the level of natural gas exported from Alberta's eastern border and are largely dependent on successfully attracting border gas flows to the extraction facilities. Throughput volumes at the Empress II facility do not impact operating results due to the cost-of-service commercial arrangements at this facility.

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 from the NGL extraction business increased $39.0 million to $168.4 million during the first three months in 2014, compared to the same period in 2013. The increase in revenue is primarily due to higher propane-plus and ethane pricing, as well as increased ethane volumes at the Empress V facility, offset in part by lower ethane and propane-plus volumes from the Cochrane facility. Ethane and propane-plus volumes at Empress II and propane-plus volumes at Empress V do not impact revenue or FFO* due to cost-of-service contracts in place for these products at these facilities.

Frac-spread

	Three Months Ended March 31			
(dollars)	2014		2013	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Market frac-spread	$ 1.013	$ 1.116	$ 0.834	$ 0.841
Realized frac-spread	$ 0.935	$ 1.029	$ 0.877	$ 0.885

(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 increased from $0.88 USD/USG in the first quarter of 2013 to $0.94 USD/USG in the first quarter of 2014. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2013, were $0.93 USD/USG and $0.55 USD/USG, respectively.

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

Shrinkage Gas

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. Shrinkage gas expense increased $28.9 million to $90.5 million in the first quarter of 2014, compared to the same period in 2013. The increase in shrinkage gas expense is primarily due to higher AECO natural gas prices, as well as higher ethane volumes at Empress V, which was partially offset by lower ethane and propane-plus volumes at Cochrane. The weighted average monthly AECO prices* increased from $2.92 per gigajoule (GJ) in the first quarter of 2013 to $4.52/GJ in the first quarter of 2014.

Operating Expenses

In the first quarter of 2014, operating expenses increased $4.7 million to $29.3 million, compared to the same period in 2013. This was largely due to an increase in fuel and power costs as a result of higher AECO natural gas pricing, partially offset by lower power pricing. Please refer to the shrinkage gas discussion above for the increase in AECO prices. Average Alberta power pool prices decreased from $65.30/MWh in the first quarter of 2013 to $60.59/MWh in the first quarter of 2014. Operating expenses were also higher due to increased employee and general operating costs.

Capital Expenditures

The NGL extraction business incurred $1.1 million in growth capital expenditures† in the first quarter of 2014, relating to various upgrades at the Cochrane and Empress facilities.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended March 31		
	2014	2013	*% change*
Utilization	78%	87%	*(10.3)*
(millions)			
Revenue	$ 46.0	$ 39.4	*16.8*
Operating expenses	$ 19.7	$ 16.3	*20.9*
Funds from operations[(1)]	$ 21.6	$ 20.4	*5.9*
Capital expenditures			
Growth[(1)]	$ 1.5	$ 11.6	
Sustaining[(1)]	2.9	2.3	
	$ 4.4	$ 13.9	

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

Utilization

Inter Pipeline operates a bulk liquid storage business segment 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.

Tank utilization averaged 78% in the first quarter of 2014, as demand for bulk liquid storage at the Gulfhavn terminal in Denmark was adversely impacted by the absence of strong contango in certain petroleum product futures markets. Utilization rates at Simon Storage and Inter Terminals were 91%

* 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

and 69% in the first quarter of 2014, compared to 90% and 85% in the first quarter of 2013, respectively.

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.

Revenue in the bulk liquid storage business increased $6.6 million to $46.0 million in the three months ended March 31, 2014, compared to the same period in 2013. Revenue from Simon Storage increased $6.7 million in the current quarter, due to a contract termination fee at the Immingham terminal, and business interruption proceeds from flood damage that occurred at the Immingham and Riverside terminals in December 2013, which was partially offset by lower heating and storage fee revenue. Revenue was also favourably impacted by foreign currency translation adjustments of $5.9 million for the three months ended March 31, 2014, compared to the same period in 2013. In the first quarter, the average Euro/CAD exchange rate increased from 1.33 in 2013 to 1.51 in 2014, while the average Pound Sterling/CAD exchange rate increased from 1.56 in 2013 to 1.83 in 2014. Revenue from Inter Terminals decreased $6.0 million in the first quarter of 2014, as a result of lower occupancy levels and a reduction in rates, compared to the same period in 2013.

Operating Expenses

Operating expenses for the three months ended March 31, 2014 in the bulk liquid storage business increased $3.4 million to $19.7 million, over the comparable period in 2013. Foreign currency translation adjustments, in the first quarter of 2014, resulted in an increase to operating expenses of $2.6 million, compared to the same period in 2013. Higher operating expenses at Simon Storage in the current quarter of $0.9 million were due to flood related costs at the Immingham and Riverside terminals, which were offset in part by lower fuel and power costs, compared to the same period in 2013. Inter Terminals operating expenses in the current quarter of 2014 were consistent with that in the first quarter of 2013.

Capital Expenditures

In the first quarter of 2014, the bulk liquid storage business incurred growth capital expenditures* of $1.5 million, largely relating to a number of tank life extension and tank modification projects at the UK and German terminals. Sustaining capital expenditures* of $2.9 million in the first quarter of 2014 primarily relate to environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects, as well as flood related expenditures at the Immingham and Riverside terminals.

OTHER EXPENSES

	Three Months Ended March 31	
(millions)	2014	2013
Depreciation and amortization	$ 33.3	$ 30.9
Financing charges	20.8	23.9
Provision for income taxes	30.3	21.2
General and administrative	25.4	16.2
Management and incentive fees to general partner	-	4.2
Unrealized change in fair value of derivative financial instruments	(1.2)	0.7
(Gain) loss on disposal of assets	(0.9)	1.7

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

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased $2.4 million in the first quarter of 2014, compared to the same period in 2013. The increase is primarily due to depreciation of assets now in service, that were not in service or depreciated in the same period in 2013, partially offset by lower amortization as certain intangible assets are now fully amortized.

Financing Charges

	Three Months Ended March 31	
(millions)	2014	2013
Interest on credit facilities	$ 10.7	$ 8.2
Interest on loan payable to private placement noteholders	4.4	4.4
Interest on Corridor Debentures	2.5	2.5
Interest on MTN Series 1, 2, 3 and 4	14.0	9.8
Total interest	31.6	24.9
Capitalized interest	(12.3)	(2.6)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.9	0.8
Accretion of provisions and pension plan funding charges	0.6	0.8
Total financing charges	$ 20.8	$ 23.9

Total financing charges in the first quarter of 2014 decreased $3.1 million, compared to the same period in 2013.

Capitalized interest increased $9.7 million during the first quarter of 2014, largely due to higher capitalized interest on the Polaris and Cold Lake pipeline system expansions, compared to the same period in 2013.

Interest on MTN's increased $4.2 million in the first quarter of 2014, over the same period in 2013, due to the timing of issuance of the MTN Series 4 on July 19, 2013.

Interest on credit facilities increased $2.5 million in the first quarter of 2014, over the comparable period in 2013. The increase in interest expense is due to increased average debt levels and higher weighted average short-term interest rates. The weighted average credit facility debt outstanding increased from $1,700.8 million in the first quarter of 2013 to $2,141.0 million in the first quarter of 2014.

Interest on the loan payable to private placement noteholders and interest on Corridor debentures for the three months ended March 31, 2014, are consistent with the same period in 2013.

Accretion of provisions and pension plan funding charges decreased $0.2 million in the first quarter of 2014, compared to the same period in 2013. The first quarter of 2013 was higher due to a pension plan adjustment at Simon Storage in that period.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper increased $0.1 million in the first quarter ended March 31, 2014, over the same period in 2013, due to timing of debt issuances.

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

Income Taxes

For the three months ended March 31, 2014, consolidated income tax expense increased $9.1 million to $30.3 million, compared to the same period in 2013. The increase in consolidated income tax expense in the first quarter is primarily due to higher consolidated income before taxes.

General and Administrative

	Three Months Ended March 31	
(millions)	2014	2013
Canada	$ 23.1	$ 13.9
Europe	2.3	2.3
	$ 25.4	$ 16.2

Canadian general and administrative expenses increased $9.2 million to $23.1 million in the first quarter of 2014, compared to the same period in 2013. The increase is primarily due to higher employee costs, external services and office rent. The increase in employee costs is largely due to a one-time key management personnel contract renegotiation, as well as the addition of new employees required to manage Inter Pipeline's business growth. Long-term incentive plan costs also rose due to an increase in Inter Pipeline's share price.

European general and administrative costs for the three months ended March 31, 2014 were consistent at $2.3 million, with the same period in 2013.

Fees to General Partner

In connection with the Corporate Conversion, effective on September 1, 2013, and as a result of the dissolution and termination of Inter Pipeline Fund, Inter Pipeline is no longer obligated to pay management, incentive, acquisition or disposition fees. During the quarter ended March 31, 2013, the general partner earned management fees from Inter Pipeline of $3.1 million and accrued incentive fees of $1.1 million, however, no acquisition or disposition fees were earned.

Unrealized Change in Fair Value of Derivative Financial Instruments

In the first quarter of 2014, the change in fair value of Inter Pipeline's derivative financial instruments increased net income by $1.2 million.

Net income was favourably impacted by the change in fair value of NGL and foreign exchange swaps of $1.2 million and $0.1 million, respectively, while the change in fair value on natural gas swaps unfavourably impacted net income by $0.1 million. At March 31, 2014, there were no NGL, natural gas or foreign exchange swaps outstanding.

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

Gain on Disposal of Assets

Inter Pipeline recorded a gain on disposal of assets of $0.9 million in the three months ended March 31, 2014, related to proceeds received for asset damage at Simon Storage's Immingham and Riverside terminals due to flooding conditions that occurred in December 2013.

SUMMARY OF QUARTERLY RESULTS

	2012			2013				2014
(millions, except per share and % amounts)	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Revenue								
Oil sands transportation	$ 72.4	$ 82.4	$ 89.4	$ 91.6	$ 93.3	$ 96.2	$ 107.4	$ 105.1
Conventional oil pipelines	58.8	59.2	62.0	67.3	71.5	81.1	82.3	91.2
NGL extraction	106.3	123.4	133.5	129.4	117.5	127.2	146.6	168.4
Bulk liquid storage	42.4	35.7	38.8	39.4	38.0	36.0	37.9	46.0
	$ 279.9	$ 300.7	$ 323.7	$ 327.7	$ 320.3	$ 340.5	$ 374.2	$ 410.7
Funds from operations[1]								
Oil sands transportation	$ 44.0	$ 47.0	$ 49.0	$ 50.8	$ 49.0	$ 55.7	$ 64.2	$ 63.4
Conventional oil pipelines	35.3	38.9	38.7	40.4	43.5	47.0	44.0	46.0
NGL extraction	48.5	50.4	38.7	43.0	31.1	43.2	53.4	48.5
Bulk liquid storage	23.3	17.6	20.0	20.4	19.5	17.2	16.1	21.6
Corporate costs	(41.0)	(44.6)	(42.7)	(45.2)	(37.7)	(39.8)	(43.2)	(47.8)
	$ 110.1	$ 109.3	$ 103.7	$ 109.4	$ 105.4	$ 123.3	$ 134.5	$ 131.7
Per share[1]	$ 0.41	$ 0.40	$ 0.38	$ 0.40	$ 0.37	$ 0.44	$ 0.44	$ 0.43
Net income (loss)[2]	$ 106.8	$ 68.4	$ 59.7	$ 72.2	$ (281.6)	$ 77.8	$ 84.6	$ 89.6
Net income (loss) attributable to shareholders[2]	$ 104.4	$ 65.9	$ 57.3	$ 69.7	$ (283.9)	$ 74.8	$ 81.3	$ 86.1
Per share – basic	$ 0.39	$ 0.24	$ 0.21	$ 0.25	$ (1.02)	$ 0.27	$ 0.27	$ 0.28
Per share – diluted	$ 0.39	$ 0.24	$ 0.21	$ 0.25	$ (1.02)	$ 0.26	$ 0.26	$ 0.27
Dividends to shareholders[3]	$ 70.6	$ 71.3	$ 73.4	$ 76.8	$ 78.2	$ 84.6	$ 98.6	$ 99.6
Per share[3]	$ 0.2625	$ 0.2625	$ 0.2675	$ 0.2775	$ 0.2800	$ 0.2975	$ 0.3225	$ 0.3225
Shares outstanding (basic)								
Weighted average	268.6	271.3	273.9	276.4	278.8	283.6	304.7	309.0
End of period	270.0	272.7	275.2	277.6	280.0	289.8	306.8	320.3
Capital expenditures[5]								
Growth[1]	$ 68.6	$ 108.6	$ 128.3	$ 407.6	$ 395.8	$ 566.1	$ 549.4	$ 544.7
Sustaining[1]	7.0	11.4	15.6	5.9	5.8	7.4	11.0	6.2
	$ 75.6	$ 120.0	$ 143.9	$ 413.5	$ 401.6	$ 573.5	$ 560.4	$ 550.9
Payout ratio[1]	65.8%	67.0%	72.8%	72.2%	76.1%	70.5%	75.5%	78.0%
Total debt[4]	$ 3,082.7	$ 3,113.6	$ 3,127.6	$ 3,246.6	$ 3,578.0	$ 3,964.5	$ 3,960.8	$ 4,155.8
Total shareholders' equity	$ 1,559.4	$ 1,594.8	$ 1,659.5	$ 1,686.9	$ 1,414.3	$ 1,661.9	$ 2,100.3	$ 2,490.4
Enterprise value[1]	$ 8,268.8	$ 8,973.1	$ 9,593.8	$ 9,862.2	$ 9,646.1	$ 11,252.0	$ 11,885.4	$ 13,504.4
Total debt to total capitalization[1]	66.4%	66.1%	65.3%	65.8%	71.7%	70.5%	65.3%	62.5%
Total recourse debt to capitalization[1]	46.1%	47.6%	47.0%	48.7%	57.8%	58.5%	52.8%	50.7%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion by indirectly purchasing its general partner, for initial consideration of $170 million, plus closing adjustments of $8.6 million, and a future second instalment of $170 million.
(3) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.
(4) Total debt includes long-term debt, short-term debt and commercial paper before discounts and debt transaction costs.
(5) Amounts reported on a 100% basis that includes non-controlling interest.

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 dividends to shareholders 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 dividends to shareholders, issue new common shares 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, 2014, Inter Pipeline had access to committed credit facilities totaling $2.8 billion, of which $657.8 million remained unutilized, and demand facilities totaling $65 million of which $64.3 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

Inter Pipeline may also issue equity capital from time to time to ensure its balance sheet remains well prepared for expected growth. During the quarter ended March 31, 2014, approximately $80.1 million of equity was issued through the dividend reinvestment plan. In addition, on March 26, 2014, Inter Pipeline completed an equity offering to sell 10,400,000 common shares at $28.90 per share for gross proceeds of $300.6 million. Subsequent to quarter end, net proceeds from the offering were used to pay down a portion of bank indebtedness that was incurred to fund Inter Pipeline's capital expenditure program and other general corporate purposes.

Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2013. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) 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. As a result of the equity offering in March of 2014 the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced to approximately $2.7 billion.

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 dividends to shareholders.

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.

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

CAPITAL STRUCTURE

(millions, except % amounts)	Recourse	Non-recourse	March 31 2014	December 31 2013
Credit facilities available				
Corridor syndicated facility	$ -	$ 1,550.0	$ 1,550.0	$ 1,550.0
Inter Pipeline syndicated facility	1,250.0	-	1,250.0	1,250.0
	1,250.0	1,550.0	2,800.0	2,800.0
Demand facilities[1]	40.0	25.0	65.0	65.0
	$ 1,290.0	$ 1,575.0	$ 2,865.0	$ 2,865.0
Total debt outstanding				
Recourse				
Inter Pipeline syndicated facility			$ 844.0	$ 635.0
Loan payable to private placement noteholders			288.6	288.6
MTN Series 1, 2, 3, 4[2]			1,425.0	1,425.0
Non-recourse				
Corridor syndicated facility			1,298.2	1,312.2
Corridor debentures			300.0	300.0
Total debt[1][3]			4,155.8	3,960.8
Total shareholders' equity			2,490.4	2,100.3
Total capitalization[4]			$ 6,646.2	$ 6,061.1
Total debt to total capitalization[4]			62.5%	65.3%
Total recourse debt to capitalization[4]			50.7%	52.8%

(1) At March 31, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately $0.5 million and $0.2 million, respectively, were not included in total debt outstanding.
(2) Inter Pipeline issued $325 million MTN Series 1 and $200 million MTN Series 2 in 2011, $400 million MTN Series 3 in 2012, and $500 million MTN Series 4 in 2013.
(3) Total debt reported in the March 31, 2014 consolidated financial statements of $4,138.8 million, includes long-term debt, short-term debt and commercial paper outstanding of $4,155.8 million less discounts and debt transaction costs of $17.0 million.
(4) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Inter Pipeline's capital under management includes financial debt and shareholders' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to adjusted 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 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 note purchase agreement matures in October 2014, the recourse debt to adjusted EBITDA* covenant will no longer exist.

At March 31, 2014, Inter Pipeline's total recourse debt to capitalization ratio* was 50.7%. This ratio is higher than normal as a result of charging the one-time, non-cash internalization cost of $348.6 million to earnings in the second quarter of 2013. This non-cash expense concurrently decreased shareholders' equity which reduced Inter Pipeline's capitalization by $348.6 million. On September 3, 2013, Inter Pipeline announced its successful Corporate Conversion, resulting in the general partner internalization liability of $178.6 million being converted to common shares of Inter Pipeline. The remaining general partner internalization liability of $170 million was settled with convertible shares which will be converted to common shares upon successful completion and revenue commencement of certain organic growth projects currently under development prior to 2017, and as a result Inter Pipeline's shareholders equity will correspondingly increase. Management anticipates this will occur

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

in early 2015. At this time, the remaining impact to equity of charging the internalization value to earnings will be reversed, and the related negative impact on Inter Pipeline's total recourse debt to capitalization* level will be eliminated. A description of the terms of the convertible shares are contained in Inter Pipeline's Annual Information Form dated February 20, 2014, under the heading "Description of Capital Structure – Description of Convertible Shares". Inter Pipeline's total debt to total capitalization ratio*, which includes non-recourse debt of $1,598.2 million held within Inter Pipeline's Corridor corporate entity, was 62.5% at March 31, 2014. The table below shows the impact the convertible shares would have on Inter Pipeline's total debt to total capitalization* and total recourse debt to capitalization* ratios at March 31, 2014.

		March 31, 2014
	Ratio	After convertible shares impact[2]
Total debt to total capitalization[1]	62.5%	61.0%
Total recourse debt to capitalization[1]	50.7%	49.0%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Includes the impact of Inter Pipeline's convertible shares as if they were converted to common shares of Inter Pipeline at March 31, 2014.

At March 31, 2014, approximately $2,292.2 million or 55.2% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount $1,448.2 million or 63.2% relates to Corridor debt outstanding and its financing costs are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline may enter into interest rate swap agreements to manage its interest rate risk exposure. Inter Pipeline has an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

		March 31 2014		December 31 2013
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, 2014 and December 31, 2013.

	Twelve Months Ended	
	March 31	December 31
(times)	2014	2013
Interest coverage[1][2]	1.1	1.0

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

Inter Pipeline's interest coverage ratio for the twelve month periods ended March 31, 2014 and December 31, 2013 would have been 4.0 times in both periods, had it not been impacted by the one-time non-cash general partner internalization expense of $348.6 million to earnings in the second quarter of 2013. As a result of charging the internalization cost to earnings the interest coverage ratio decreased to 1.1 and 1.0 times for the twelve month periods ended March 31, 2014 and December 31, 2013, respectively.

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

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 Ltd.		
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, 2014. 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)	$ 886.5	$ 622.0	$ 264.5	$ -
Conventional oil pipelines	72.9	63.3	9.6	-
NGL extraction	12.3	12.3	-	-
Bulk liquid storage	8.6	8.6	-	-
Growth capital funded by Inter Pipeline(2)(3)	980.3	706.2	274.1	-
Sustaining capital funded by Inter Pipeline(2)(3)	37.0	37.0	-	-
	1,017.3	743.2	274.1	-
Total debt(4)				
Corridor syndicated facility(5)	1,298.2	1,298.2	-	-
Inter Pipeline syndicated facility	844.0	-	844.0	-
Loan to private placement noteholders	288.6	288.6	-	-
Corridor debentures	300.0	150.0	-	150.0
MTN Series 1, 2, 3, 4	1,425.0	-	200.0	1,225.0
	4,155.8	1,736.8	1,044.0	1,375.0
Other obligations				
Operating leases	242.0	9.6	55.0	177.4
Purchase obligations	242.3	97.0	34.1	111.2
Long-term portion of incentive plan	2.8	-	2.8	-
Working capital deficit(3)	261.4	261.4	-	-
	$ 5,921.6	$ 2,848.0	$ 1,410.0	$ 1,663.6

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2014.
(2) Inter Pipeline's expected growth and sustaining capital spending profile including the 15% non-controlling interest in Cold Lake is $1,108.3 million.
(3) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(4) At March 31, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately $0.5 million and $0.2 million, respectively, were not included in total debt outstanding. Total debt reported in the March 31, 2014 consolidated financial statements of $4,138.8 million, includes long-term debt, short-term debt and commercial paper of $4,155.8 million less discounts and debt transaction costs of $17.0 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 revolving credit facility that has no repayment requirements until December 2017.
(6) Convertible shares recorded as a liability of $170 million are not expected to be settled in cash and therefore not included in the table above.

Inter Pipeline plans to fund approximately $1 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 2013 annual MD&A.

Inter Pipeline's debt outstanding at March 31, 2014, matures at various dates up to May 2022:

- Inter Pipeline's loan payable to private placement noteholders of $288.6 million matures on October 28, 2014.
- Corridor's Series B debentures mature on February 2, 2015, and Corridor's Series C debentures mature on February 3, 2020.
- Corridor's $1.55 billion senior unsecured syndicated revolving credit facility matures on December 15, 2017.
- Inter Pipeline's $1.25 billion syndicated credit facility matures on December 5, 2018.
- Inter Pipeline's and Corridor's credit facilities can be extended beyond their initial maturity date under certain circumstances.
- Inter Pipeline's MTN Series 1, 2, 3 and 4 mature on February 2, 2021, July 30, 2018, May 30, 2022 and July 20, 2020, 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, 2014, 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 $29.6 million under its employee long-term incentive plan, of which $26.8 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 $64.2 million at March 31, 2014. 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

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended March 31	
(millions, except per share and % amounts)	2014	2013
Cash provided by operating activities	$ 134.2	$ 120.1
Net change in non-cash operating working capital	(2.5)	(10.7)
Less funds from operations[1] attributable to non-controlling interest	(4.0)	(3.0)
Funds from operations[1] attributable to shareholders	127.7	106.4
Dividends to shareholders	$ 99.6	$ 76.8
Dividends per share[2]	$ 0.3225	$ 0.2775
Payout ratio[1]	78.0%	72.2%

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

Inter Pipeline's goal is to provide shareholders with stable dividends over time. As a result, not all FFO* attributable to shareholders are distributed to shareholders. A portion is withheld and reinvested in the business to effectively manage its capital structure, and in particular, debt levels. Inter Pipeline sets dividend levels based on the underlying assumptions in each year's annual operating and capital budget and long-term forecast, consistent with its goal to provide shareholders with stable dividends. Dividends are determined at the discretion of Inter Pipeline's Board of Directors, subject to certain legal requirements, and are payable when declared.

FFO* is an additional GAAP financial measure that Inter Pipeline uses in managing its business and in assessing future cash requirements that impact the determination of future dividends to shareholders. Inter Pipeline expresses FFO* attributable to shareholders 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 FFO* 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 FFO* to mitigate its quarterly impact. 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.

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

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

	Three Months Ended March 31		Years Ended December 31			
(millions)	2014	2013	2013	2012	2011[(1)]	2010[(1)]
Cash provided by operating activities	$ 134.2	$ 120.1	$ 468.7	$ 385.5	$ 460.5	$ 349.6
Less cash provided by operating activities attributable to non-controlling interest	(12.4)	(1.8)	(7.8)	(10.2)	-	-
Dividends to shareholders	(99.6)	(76.8)	(338.2)	(285.2)	(251.7)	(232.6)
Excess	$ 22.2	$ 41.5	$ 122.7	$ 90.1	$ 208.8	$ 117.0

(1) IFRS 10 *Consolidated Financial Statements* adoption was effective as of January 1, 2013 and restated for 2012 as required for comparative purposes. The 2010 and 2011 information is still presented in accordance with IAS 31 *Interests in Joint Ventures* and accordingly may not be comparable to that for 2012, 2013 and 2014.

	Three Months Ended March 31		Years Ended December 31			
(millions)	2014	2013	2013	2012	2011	2010
Net income (loss) attributable to shareholders	$ 86.1	$ 69.7	$ (58.1)	$ 307.2	$ 247.9	$ 236.0
Dividends to shareholders	(99.6)	(76.8)	(338.2)	(285.2)	(251.7)	(232.6)
(Shortfall) excess	$ (13.5)	$ (7.1)	$ (396.3)	$ 22.0	$ (3.8)	$ 3.4

Cash provided by operating activities in all periods was greater than dividends to shareholders plus cash provided by operating activities attributable to non-controlling interest. Dividends were also less than net income attributable to shareholders, except for the first quarters of 2013 and 2014, as well as year ended December 31, 2011 and added to the shortfall for the year ended December 31, 2013 which was in a net loss position largely due to a one-time non-cash general partner internalization expense of $348.6 million. Net income (loss) also 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 dividends may exceed net income attributable to shareholders.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at March 31, 2014 are as follows:

(millions)	Total
Common shares outstanding	320.3

At May 8, 2014, Inter Pipeline had 321.2 million common shares 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.

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

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 and commercial paper outstanding at March 31, 2014. 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 may be utilized to manage frac-spread risk. As at March 31, 2014, there are no frac-spread positions outstanding.

Power Price Risk Management

Inter Pipeline may use 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, 2014, there are no heat rate swap agreements outstanding.

Inter Pipeline has an existing electricity price swap agreement in the conventional oil pipelines business. 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 instruments used to manage power price risk and consequently after-tax income by approximately $0.1 million.

Bulk Liquid Storage Business

Foreign Exchange Risk Management

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

Corporate

Interest Rate Risk Management

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

Based on the variable rate 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 quarter ended March 31, 2014, by approximately $5.3 million, assuming all other variables remain constant. Of this amount, $3.2 million relates to the $1.55 billion unsecured revolving credit facility and are recoverable through

the terms of the Corridor FSA, therefore the after-tax income impact for the quarter ended March 31, 2014 would be $1.6 million.

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 form of 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, 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.

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, 2014, accounts receivable outstanding meeting the definition of past due and impaired is insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three month periods ended March 31, 2014 or 2013.

CONTROLS AND PROCEDURES

Management has made no material changes to the disclosure controls and procedures and internal controls over financial reporting during the first quarter of 2014.

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 3 *Summary of Significant Accounting Policies* of the December 31, 2013 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

The amounts recorded for derivative financial instruments, business combinations, consolidation of non-controlling interest, non-financial asset impairment, property, plant and equipment, provisions, deferred income taxes and depreciation and amortization are based on estimates. By their nature,

these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

ACCOUNTING POLICY ADOPTED IN 2014

Inter Pipeline's interim financial statements for the three months ended March 31, 2014 have been presented in accordance with IAS 34 and have been prepared by management following the same accounting policies and methods of computation as disclosed in the audited consolidated financial statements for the year ended December 31, 2013.

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.

RISK FACTORS

During the first quarter of 2014, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2013 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", "enterprise value", "growth capital expenditures", "sustaining capital expenditures", "interest coverage", "payout ratio" 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", "adjusted EBITDA", "funds from operations", "funds from operations per share", 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 dividends. 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, convertible shares, commercial paper and current portion of long-term debt.

(millions)		March 31 2014		December 31 2013
Current assets				
Cash and cash equivalents	$	226.1	$	47.2
Accounts receivable		179.2		246.3
Prepaid expenses and other deposits		27.5		41.3
Current liabilities				
Dividends payable		(33.3)		(33.0)
Accounts payable, accrued liabilities and provisions		(630.8)		(578.7)
Current income taxes payable		-		(31.2)
Deferred revenue		(30.1)		(6.8)
Adjusted working capital deficiency	$	(261.4)	$	(314.9)

Enterprise value is calculated by multiplying the period-end closing common share price by the total number of common shares 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 share amounts)		March 31 2014		December 31 2013
Closing share price	$	29.19	$	25.83
Total closing number of common shares		320.3		306.8
		9,349.6		7,924.6
Total debt		4,155.8		3,960.8
Enterprise value	$	13,504.4	$	11,885.4

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		
						2014		2013
(millions)		Growth		Sustaining		Total		Total
Oil sands transportation	$	536.8	$	0.1	$	536.9	$	382.0
Conventional oil pipelines		5.3		1.3		6.6		3.0
NGL extraction		1.1		0.7		1.8		12.9
Bulk liquid storage		1.5		2.9		4.4		13.9
Corporate		-		1.2		1.2		1.7
	$	544.7	$	6.2	$	550.9	$	413.5
Capital expenditures funded by Inter Pipeline[1]	$	518.8	$	6.2	$	525.0	$	411.4

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

Interest coverage is calculated as net income (loss) attributable to shareholders 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 dividends declared to shareholders for the period as a percentage of funds from operations attributable to shareholders. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current dividends.

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 shareholders' 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 dividends. Management considers these additional GAAP financial measures to be important indicators in assessing its performance.

EBITDA, adjusted EBITDA and funds from operations are reconciled from the components of net income as noted below. Funds from operations is expressed before changes in non-cash working capital, see the **DIVIDENDS TO SHAREHOLDERS** section of this report for further discussion. EBITDA is expressed as net income before total interest less capitalized interest, income taxes, depreciation and amortization; adjusted EBITDA also includes additional adjustments for (gain) loss on disposal of assets, non-cash expense and unrealized change in fair value of derivative financial instruments. These additional adjustments are made to exclude various non-cash items, or items of an unusual nature that are not reflective of ongoing operations. These adjustments are also made to better reflect the historical measurement of EBITDA used in the investment community as an approximate measure of an entities operating cash flow based on data from its income statement.

Funds from operations per share are calculated on a weighted average basis using basic common shares outstanding during the period. These measures, together with other measures, are used by the investment community to assess the source, sustainability and cash available for dividends.

	Three Months Ended March 31	
(millions)	2014	2013
Net income	$ 89.6	$ 72.2
Financing charges	20.8	23.9
Current income tax expense	16.9	14.5
Deferred income tax expense	13.4	6.7
Depreciation and amortization	33.3	30.9
EBITDA	174.0	148.2
(Gain) loss on disposal of assets	(0.9)	1.7
Non-cash financing charges	(1.4)	(1.6)
Non-cash recovery	(2.5)	(2.8)
Unrealized change in fair value of derivative financial instruments	(1.2)	0.7
Adjusted EBITDA	$ 168.0	$ 146.2
Less adjusted EBITDA attributable to non-controlling interest	(4.0)	(3.0)
Adjusted EBITDA attributable to shareholders	$ 164.0	$ 143.2

(millions)	Three Months Ended March 31 2014	2013
Net income	$ 89.6	$ 72.2
Depreciation and amortization	33.3	30.9
(Gain) loss on disposal of assets	(0.9)	1.7
Non-cash recovery	(2.5)	(2.8)
Unrealized change in fair value of derivative financial instruments	(1.2)	0.7
Deferred income tax expense	13.4	6.7
Funds from operations	131.7	109.4
Less funds from operations attributable to non-controlling interest	(4.0)	(3.0)
Funds from operations attributable to shareholders	$ 127.7	$ 106.4
Funds from operations	$ 131.7	$ 109.4
Total interest less capitalized interest	19.4	22.3
Current income tax expense	16.9	14.5
Adjusted EBITDA	168.0	146.2
Less adjusted EBITDA attributable to non-controlling interest	(4.0)	(3.0)
Adjusted EBITDA attributable to shareholders	$ 164.0	$ 143.2

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.

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's Annual Information Form dated February 20, 2014 is available on SEDAR at www.sedar.com.

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

Dated at Calgary, Alberta this 12th day of May, 2014.