



Management's Discussion and Analysis

For the three months ended March 31, 2015

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, 2015, 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 2015 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) funds from operations 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 various 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 expenditure 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 in all of Inter Pipeline's business units, including, but not limited to, Inter Pipeline's current expansion of the Cold Lake and Polaris pipeline systems 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 Inter Pipeline's business; 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 cannot be determined 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, 2015

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period ended March 31, 2015, as compared to the three month period ended March 31, 2014. The MD&A should be read in conjunction with the March 31, 2015 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, 2014, the MD&A and audited consolidated financial statements for the year ended December 31, 2014, the **Annual Information Form** dated February 19, 2015, and other information filed by Inter Pipeline at www.sedar.com.

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

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles (GAAP), as outlined in the Chartered Professional Accountant (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.

Table of Contents

FORWARD-LOOKING INFORMATION	2	OUTSTANDING SHARE DATA	26
FIRST QUARTER HIGHLIGHTS	4	RISK MANAGEMENT AND FINANCIAL INSTRUMENTS.....	26
SUBSEQUENT EVENT	4	TRANSACTIONS WITH RELATED PARTIES	28
PERFORMANCE OVERVIEW	5	CONTROLS AND PROCEDURES	29
OUTLOOK	6	CRITICAL ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION	29
RESULTS OF OPERATIONS	8	FUTURE ACCOUNTING PRONOUNCEMENTS	29
SUMMARY OF QUARTERLY RESULTS	19	RISK FACTORS.....	30
LIQUIDITY AND CAPITAL RESOURCES.....	20	NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES.....	30
DIVIDENDS TO SHAREHOLDERS	25	ADDITIONAL INFORMATION	33

FIRST QUARTER HIGHLIGHTS

- Generated record funds from operations* (FFO) of \$177 million, or \$0.53 per share, a 34 percent increase over the first quarter of 2014
- Declared record cash dividends of \$122 million or \$0.3675 per share
- Conservative quarterly payout ratio* of 73 percent
- Generated record net income of \$123 million, a gain of \$33 million over first quarter 2014
- Pipeline transportation volumes averaged a record 1,311,900 barrels per day (b/d), a 28 percent increase from the same period in 2014
- Completed construction and commissioned \$1.6 billion of new pipeline and facilities on Cold Lake and Polaris pipeline systems
- Initiated a 400,000 barrel crude oil storage expansion project at the Kerrobert Terminal on the Mid-Saskatchewan pipeline system
- Average utilization rate in the bulk liquid storage business improved to 90 percent from 78 percent a year ago, as contango pricing relationships returned to the petroleum markets
- Issued \$300 million of senior medium-term notes at an attractive interest rate of 3.173 percent

SUBSEQUENT EVENT

- Completed construction of a new diluent connection to Athabasca Oil Corporation's (AOC) Hangingstone project and placed into service April 1, 2015

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

PERFORMANCE OVERVIEW

	Three Months Ended March 31	
<i>(millions, except per share and % amounts)</i>	2015	2014
Revenues		
Oil sands transportation	\$ 177.4	\$ 105.1
Conventional oil pipelines	77.8	91.2
NGL extraction	102.5	168.4
Bulk liquid storage	48.1	46.0
	\$ 405.8	\$ 410.7
Funds from operations⁽¹⁾⁽²⁾		
Oil sands transportation ⁽²⁾	\$ 130.2	\$ 63.4
Conventional oil pipelines	46.8	46.0
NGL extraction	28.7	48.5
Bulk liquid storage	20.5	21.6
Corporate costs	(49.7)	(47.8)
	\$ 176.5	\$ 131.7
Per share ⁽¹⁾	\$ 0.53	\$ 0.43
Net income	\$ 122.8	\$ 89.6
Net income attributable to shareholders	\$ 113.7	\$ 86.1
Per share – basic	\$ 0.34	\$ 0.28
Per share – diluted	\$ 0.34	\$ 0.27
Dividends to shareholders	\$ 121.8	\$ 99.6
Per share ⁽³⁾	\$ 0.3675	\$ 0.3225
Shares outstanding (basic)		
Weighted average	331.5	309.0
End of period	334.2	320.3
Capital expenditures ⁽⁴⁾		
Growth ⁽¹⁾	\$ 132.3	\$ 544.7
Sustaining ⁽¹⁾	9.7	6.2
	\$ 142.0	\$ 550.9
Payout ratio ⁽¹⁾	73.3%	78.0%
	As at	As at
	March 31	December 31
<i>(millions, except % amounts)</i>	2015	2014
Total assets	\$ 8,733.8	\$ 8,647.2
Total debt ⁽⁵⁾	\$ 4,680.7	\$ 4,590.7
Total shareholders' equity	\$ 2,737.6	\$ 2,548.1
Enterprise value ⁽¹⁾	\$ 15,590.4	\$ 16,314.8
Total debt to total capitalization ⁽¹⁾	63.1%	64.3%
Total recourse debt to capitalization ⁽¹⁾	53.2%	54.2%

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

(2) Funds from operations⁽¹⁾ include non-controlling interest amounts of \$10.2 million for the three month period ended March 31, 2015 (\$4.0 million for the three month period ended March 31, 2014).

(3) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

(4) Amounts reported on a 100% basis that includes non-controlling interest.

(5) Total debt reported in the March 31, 2015 interim financial statements of \$4,660.4 million, includes long-term debt, short-term debt and commercial paper of \$4,680.7 million less discounts and debt transaction costs of \$20.3 million.

Three Months Ended March 31, 2015

Inter Pipeline generated record quarterly financial results in the first quarter of 2015, as FFO^{*} increased \$44.8 million or 34.0% from \$131.7 million in 2014 to \$176.5 million in 2015. The increase is primarily due to strong financial performance from the oil sands transportation business recording record quarterly FFO^{*} of \$130.2 million, an increase of \$66.8 million or 105.4% from the same period in 2014. This substantial increase is largely due to expanded transportation services on the Cold Lake and Polaris pipeline systems. Partially offsetting this increase was lower FFO^{*} from the NGL extraction business of \$19.8 million largely due to lower frac-spread pricing. Higher operating results from the conventional oil pipelines business of \$0.8 million was more than offset by lower financial results from the bulk liquid storage business of \$1.1 million and higher corporate costs of \$1.9 million.

Inter Pipeline's net income increased \$33.2 million in the first quarter of 2015 to \$122.8 million compared to \$89.6 million in 2014. This increase is primarily due to higher FFO^{*} discussed above, offset in part by an increase to depreciation and amortization expense, and deferred income tax.

Total first quarter dividends to shareholders increased \$22.2 million or 22.3% from \$99.6 million in 2014 to \$121.8 million in 2015, due to higher monthly dividend rates and a greater overall number of shares outstanding. In November 2014, Inter Pipeline announced a dividend rate increase of \$0.18 per common share on an annualized basis. The overall number of common shares outstanding increased primarily due to an equity offering in March 2014, conversion of the convertible shares in January 2015 and strong shareholder participation in Inter Pipeline's dividend reinvestment plan. Inter Pipeline's payout ratio^{*} for the three months ended March 31, 2015 was 73.3%.

Total consolidated debt increased \$90.0 million from \$4,590.7 million at December 31, 2014 to \$4,680.7 million at March 31, 2015, while \$136.5 million (Inter Pipeline's share) was incurred by Inter Pipeline on capital expenditures. Inter Pipeline's total recourse debt to capitalization^{*} ratio at March 31, 2015 was 53.2%. At March 31, 2015, Inter Pipeline's total debt to total capitalization ratio^{*} was 63.1%, which includes non-recourse debt of \$1,568.7 million held within Inter Pipeline's Corridor corporate entity.

OUTLOOK

Inter Pipeline owns and operates world scale energy infrastructure assets located in western Canada and Europe. Our long-term strategy is to acquire and develop high-quality assets that generate stable and predictable cash flow, while delivering strong returns to shareholders.

In 2015, Inter Pipeline will continue to advance a planned \$400 million capital expenditure program that is primarily focused on continued expansion of our oil sands transportation and conventional oil gathering businesses. These large scale developments, discussed below, are primarily underpinned by long-term contracts with credit-worthy counterparties that are expected to substantially increase FFO^{*} and support stable and growing returns to shareholders over the long-term. The construction projects are also adding substantial transportation capacity beyond current contractual requirements that are expected to competitively position Inter Pipeline to pursue future accretive growth opportunities in a capital-efficient manner.

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

The Cold Lake and Polaris pipeline systems are being expanded under a \$3.0 billion (Inter Pipeline's share) capital program that is anchored by 20-year cost-of-service agreements with the FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips. FCCL has a firm commitment for 850,000 b/d of capacity, including 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. In January 2015, Inter Pipeline successfully completed a major component of this capital program, when it placed the \$1.3 billion (Inter Pipeline's share) Cold Lake mainline expansion project into commercial service. In aggregate, approximately \$2.7 billion (Inter Pipeline's share) of capital has been invested to expand the Cold Lake and Polaris pipeline systems. Remaining phases of this expansion program relate to construction activities to connect FCCL's Narrows Lake oil sands project. In aggregate, the FCCL contracts are expected to generate up to \$330 million in long-term annual EBITDA* once fully in service.

Total diluent transportation capacity on the Polaris system has increased to approximately 820,000 b/d and Cold Lake system capacity has increased to approximately 1.2 million b/d. Ultimate throughput capacities of 1.3 million b/d and 1.9 million b/d on the Polaris and Cold Lake systems, respectively, can be achieved through the addition of pump stations and associated infrastructure. Despite the challenging commodity price environment, Inter Pipeline will continue to aggressively pursue opportunities to utilize available excess capacity.

On April 1, 2015, Inter Pipeline also completed construction and commissioning activities on a new 12-inch diameter, 4 kilometre (km) connection to AOC's oil sands project. This \$29 million project was completed on schedule and is expected to generate approximately \$5 million of annual EBITDA*, under a long-term cost-of-service agreement. AOC has committed to 4,500 b/d of diluent capacity on the Polaris pipeline system to support the first production phase of its Hangingstone project.

In the conventional oil pipelines segment continued strong horizontal drilling and multi-stage hydraulic fracturing completion activity, predominantly in the Viking Formation of Saskatchewan, have continued to increase throughput volumes on the Mid-Saskatchewan pipeline system. Inter Pipeline continues to advance a \$100 million expansion of the Mid-Saskatchewan pipeline system to accommodate anticipated volume growth. Total capacity is expected to increase by 95,000 b/d through the construction of 50 km of new mainline pipe segments, 40 km of new pipeline laterals and associated facilities. Various components of this expansion entered commercial service in the first quarter of 2015, with the final sections to be completed by mid-2015. Once fully in-service, the expansion will benefit producers in the Kindersley-Kerrobert areas of Saskatchewan and is anticipated to generate an additional \$25-\$30 million in annual EBITDA*.

As part of the ongoing development of its conventional pipeline transportation services and to better manage growing throughput volumes, Inter Pipeline is advancing a storage tank expansion at its Kerrobert Terminal on the Mid-Saskatchewan pipeline system. The expansion is expected to include three new tanks, totaling approximately 400,000 barrels of crude oil storage and is estimated to cost approximately \$65 million. The tanks will be used for both operational and merchant storage and are expected to be ready for service in the latter half of 2016.

Over the quarter, the European bulk liquid storage business operations experienced an increase in the demand for storage services. The recent commodity price environment has created contango pricing relationships in certain petroleum

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

product futures markets, which has positively impacted demand for storage services. Average utilization rates for this business segment improved to 90% during the quarter, up from 78% a year ago.

Inter Pipeline continues to maintain a strong balance sheet with significant liquidity available on our \$1.25 billion committed credit facility. In March, Inter Pipeline issued \$300 million of 10-year medium-term notes (MTN Series 7) in Canadian debt capital markets at an attractive rate of 3.173%. Net proceeds from the offering were used to repay bank indebtedness incurred through funding our capital expenditure program and for other general corporate purposes.

As a result of our strong financial capacity and the stable nature of our business, Inter Pipeline maintains investment grade credit ratings. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's).

Inter Pipeline's outlook remains positive. Our extensive energy infrastructure base is well positioned to compete for organic growth opportunities as they arise. With a strong balance sheet and proven project management and operational success, Inter Pipeline is well positioned to continue to generate long-term positive results for our shareholders.

RESULTS OF OPERATIONS

Oil Sands Transportation Business Segment

	Three Months Ended March 31		
<i>Volumes (000s b/d)</i>	2015	2014	% change
Cold Lake (100% basis)	583.5	473.7	23.2
Corridor	380.3	319.0	19.2
Polaris	133.9	32.2	315.8
	1,097.7	824.9	33.1
<i>(millions)</i>			
Revenue ⁽¹⁾	\$ 177.4	\$ 105.1	68.8
Operating expenses ⁽¹⁾	\$ 31.5	\$ 29.4	7.1
Funds from operations ⁽¹⁾⁽²⁾	\$ 130.2	\$ 63.4	105.4
Capital expenditures ⁽¹⁾			
Growth ⁽²⁾	\$ 81.1	\$ 536.8	
Sustaining ⁽²⁾	0.1	0.1	
	\$ 81.2	\$ 536.9	

(1) For the three month period ended March 31, 2015, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - \$12.5 million (\$6.4 million in 2014); operating expenses - \$2.1 million (\$2.4 million in 2014); FFO⁽²⁾ - \$10.2 million (\$4.0 million in 2014); and capital expenditures - \$5.5 million (\$25.9 million in 2014).

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

Volumes

In the first quarter, average volumes in the oil sands transportation business increased 272,800 b/d or 33.1% from 824,900 b/d in 2014 to 1,097,700 b/d in 2015.

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. Volumes on the Cold Lake pipeline system increased 109,800 b/d or 23.2% in the three months ended March 31, 2015, over the same period in 2014. This increase is largely due to incremental production from Canadian Natural Resources (CNR) Wolf Lake and Kirby South facilities, as well as FCCL's Foster Creek expansion which began shipments in September 2014. Volumes on the Cold Lake pipeline system typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes. Volume growth is anticipated over the long-term on the Cold Lake pipeline system, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluent and diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to and from the Scotford upgrader located northeast of Edmonton as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. On the Corridor pipeline system average volumes increased 61,300 b/d or 19.2% in the first quarter of 2015, compared to the same period in 2014. Increased volumes resulted from higher production levels from the Jackpine and Muskeg River mines. Volumes in 2014 were also unfavourably impacted by operational issues and maintenance activities at the Jackpine mine.

The Polaris pipeline system is comprised of a 12-inch diameter diluent pipeline that commenced commercial operations in August 2012 and a 30-inch diameter diluent pipeline that commenced commercial operations in July 2014. The Polaris pipeline system provides diluent transportation service from a diluent receipt point in the area north east of Edmonton to Imperial's Kearl, Husky's Sunrise, Suncor's oil sands, CNR's Kirby South and FCCL's Foster Creek and Christina Lake oil sands projects. In the first quarter of 2015, average volumes on the Polaris pipeline system increased 101,700 b/d or 315.8%, over the same period in 2014. The increase is largely due to diluent transportation services to FCCL's Foster Creek and Christina Lake facilities and CNR's Kirby South facility which began in the third quarter of 2014.

Revenue

Revenue from the oil sands transportation business increased \$72.3 million or 68.8% from \$105.1 million in the first quarter of 2014 to \$177.4 million in the first quarter of 2015.

Revenue from the Cold Lake pipeline system increased \$40.8 million to \$83.7 million in the first quarter of 2015, over the same period in 2014. The increase in revenue is primarily due to capital fee revenue from blend transportation service for FCCL, associated with the Cold Lake mainline expansion project, which entered into commercial service in January of 2015. Revenue also increased due to higher mainline volumes and revenue from the Canexus unit train loading connection which began in July 2014, partially offset by lower operating cost recoveries.

The Cold Lake pipeline system is operated pursuant to long-term contracts with the FCCL Partnership and the Cold Lake founders, who have committed to utilizing the Cold Lake pipeline system and to paying for such usage over the term of such contracts which extend indefinitely subject to certain provisions contained in the applicable contracts. These agreements provide 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. 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.

Corridor pipeline revenue in the first quarter of 2015 decreased \$2.2 million to \$41.0 million, compared to the same period in 2014. The decrease is primarily due to a lower return on equity resulting from a decrease in the long-term Government

of Canada (GOC) benchmark bond interest, lower return on debt due to decreased interest rates and the declining nature of Corridor's rate base.

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 debt financing costs, substantially all operating costs, rate base depreciation and taxes in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's 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 \$33.7 million to \$52.7 million in the first quarter of 2015, over the comparable period in 2014. The increase is largely due to capital fee revenue from diluent transportation service for FCCL, associated with the Polaris mainline expansion project, which entered commercial service in the third quarter of 2014. Revenue also increased due to capital fee revenue associated with Husky's Sunrise oil sands project, revenue from the Canexus unit train loading connection which began in July of 2014 and increased operating cost recoveries.

The Polaris pipeline system generates revenue under various long-term diluent transportation agreements utilizing a cost-of-service approach providing for a return on capital invested and recovery of substantially all operating costs. Throughput volumes below the ship-or-pay commitments or commodity price fluctuations will not impact Polaris' FFO^{*} over the life of the contracts 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 FFO^{*}. On the Cold Lake, Corridor and Polaris pipeline systems, substantially all operating expenditures are recovered from the shippers. In the first quarter of 2015, operating expenses in the oil sands transportation business increased \$2.1 million to \$31.5 million, compared to the same period in 2014.

Operating expenses on the Cold Lake pipeline system decreased \$1.3 million in the first quarter of 2015, compared to the same period in 2014. This decrease was largely due to lower fuel and power costs as a result of lower power pricing and transportation costs, offset in part by higher consumption due to increased volumes.

Operating expenses on the Corridor pipeline system in the first quarter of 2015 increased \$0.4 million due to the timing of certain integrity related costs, compared to the same period in 2014.

On the Polaris pipeline system operating costs increased \$3.0 million in the first quarter of 2015, compared to the same period in 2014. The increase was largely due to expanded pipeline operations resulting in higher property taxes, employee costs and general operating costs.

Capital Expenditures

The oil sands transportation business incurred total growth capital expenditures^{*} of \$81.1 million in the first quarter of 2015.

Total growth capital expenditures^{*} in the first quarter of 2015 on the Cold Lake pipeline system were \$36.8 million, of which approximately \$36 million relates to Cold Lake pipeline's estimated \$1.8 billion (\$1.5 billion - Inter Pipeline's share)

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

oil sands development program to provide transportation services to existing FCCL projects, for a total of approximately \$1.5 billion spent to date. In January 2015, the Cold Lake mainline expansion portion of the project was completed and placed into commercial service at a cost of approximately \$1.3 billion (Inter Pipeline's share). Remaining Cold Lake pipeline expansion expenditures are for the construction of a bitumen blend connection to FCCL's Narrows Lake oil sands project.

In the first quarter of 2015, the Polaris pipeline system incurred total growth capital expenditures* of \$44.3 million, of which approximately \$21 million relates to its \$1.5 billion expansion program, for a total of approximately \$1.4 billion spent to date. A portion of the Polaris pipeline system expansion was completed and placed into commercial service in the first quarter of 2015, representing approximately \$300 million of the Polaris pipeline system's \$1.5 billion estimated total expansion cost. Remaining Polaris pipeline expansion expenditures are for the construction of a diluent connection to FCCL's Narrows Lake oil sands project.

The Polaris pipeline system also incurred growth capital expenditures* of approximately \$14 million in the current quarter relating to the construction of a new delivery connection to AOC's Hangingstone project, for a total project spend to date of approximately \$25 million. The total estimated cost of this project is \$29 million. The AOC connection was placed into commercial service on April 1, 2015.

Growth capital expenditures* on the Polaris pipeline system also included approximately \$3 million relating to the construction of a new pipeline lateral and associated facilities connecting the Polaris pipeline system to the JACOS-Nexen Hangingstone project, for a total estimated cost of \$25 million.

The remaining growth capital expenditures* of approximately \$6 million on the Polaris pipeline system relate to various other development initiatives.

Conventional Oil Pipelines Business Segment

	Three Months Ended March 31		
<i>Volumes (000s b/d)</i>	2015	2014	% change
Bow River	103.3	99.5	3.8
Central Alberta	34.7	36.3	(4.4)
Mid-Saskatchewan	76.2	68.1	11.9
	214.2	203.9	5.1
<i>(millions, except per barrel amount)</i>			
Revenue	\$ 77.8	\$ 91.2	(14.7)
Midstream product purchases	\$ 14.9	\$ 30.9	(51.8)
Operating expenses	\$ 14.9	\$ 13.6	9.6
Funds from operations ⁽¹⁾	\$ 46.8	\$ 46.0	1.7
Revenue per barrel ⁽²⁾	\$ 2.96	\$ 2.91	1.7
Capital expenditures			
Growth ⁽¹⁾	\$ 47.4	\$ 5.3	
Sustaining ⁽¹⁾	1.0	1.3	
	\$ 48.4	\$ 6.6	

(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.

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

Volumes

In the first quarter of 2015, average volumes on the conventional oil pipelines increased 10,300 b/d or 5.1%, over the same period in 2014. Volumes on the Mid-Saskatchewan pipeline system increased 8,100 b/d or 11.9% in the current quarter, compared to the same period in 2014. The Mid-Saskatchewan light oil system continues to benefit from increases in regional production in the Viking light oil play as area producers continue to utilize horizontal drilling and multi-stage hydraulic fracturing completion technologies. In the first quarter of 2015, volumes on the Bow River pipeline system increased 3,800 b/d or 3.8%, over the same period in 2014, largely due to stronger truck terminal volume. On the Central Alberta pipeline system volumes decreased 1,600 b/d or 4.4% in the current quarter due to lower third party truck terminal volume, compared to the same period in 2014.

Revenue

Revenue from the conventional oil pipelines business decreased \$13.4 million to \$77.8 million in the three months ended March 31, 2015, compared to the same period in 2014. This decrease is due to lower revenue from Inter Pipeline's midstream marketing business, largely the result of narrowing pricing margins and operational issues. Partially offsetting this revenue decrease was higher tolling revenue due to incremental volumes transported on the conventional oil pipelines systems and higher average tolls.

Midstream Product Purchases

In the first quarter of 2015, midstream product purchases decreased \$16.0 million primarily due to lower product pricing, and decreased activity due to operational issues, over the same period in 2014.

Operating Expenses

Operating expenses in the conventional oil pipelines business increased \$1.3 million in the first quarter of 2015, compared to the same period in 2014. This increase is largely due to higher subsidence program costs, and increased variable operating and employee costs associated with the increase in volumes, which was offset in part by the timing of certain integrity related costs.

Capital Expenditures

The conventional oil pipelines business incurred growth capital expenditures* of \$47.4 million in the first quarter of 2015. Of these expenditures, approximately \$38 million relate to an announced \$100 million expansion of the Mid-Saskatchewan pipeline system, for a total of approximately \$68 million spent to date on the project. The expansion involves the construction of over 50 km of new mainline pipe, 40 km of new pipeline laterals and associated pumping and metering facilities. The remaining growth capital expenditures* relate to a number of third party connections, storage tanks and upgrades to certain shipping/receiving facilities.

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

NGL Extraction Business Segment

Facility	Three Months Ended March 31							
	2015				2014			
	<i>mmcf/d</i>	<i>(000s b/d)</i>		<i>mmcf/d</i>	<i>(000s b/d)</i>			
	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,840	46.0	29.3	75.3	1,791	47.0	25.0	72.0
Empress V (100% basis)	965	25.0	12.7	37.7	1,055	25.8	11.4	37.2
Empress II	-	-	-	-	-	-	-	-
	2,805	71.0	42.0	113.0	2,846	72.8	36.4	109.2

<i>(millions)</i>	Three Months Ended March 31		
	2015	2014	% change
Revenue ⁽¹⁾	\$ 102.5	\$ 168.4	(39.1)
Shrinkage gas ⁽¹⁾	\$ 51.2	\$ 90.5	(43.4)
Operating expenses ⁽¹⁾	\$ 22.3	\$ 29.3	(23.9)
Funds from operations ⁽¹⁾⁽²⁾	\$ 28.7	\$ 48.5	(40.8)
Capital expenditures ⁽¹⁾			
Growth ⁽²⁾	\$ 0.3	\$ 1.1	
Sustaining ⁽²⁾	\$ 3.9	\$ 0.7	
	\$ 4.2	\$ 1.8	

(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

In the first quarter, Inter Pipeline's NGL extraction facilities processed average natural gas throughput volumes of 2,805 million cubic feet per day (mmcf/d) in 2015, compared to 2,846 mmcf/d in 2014.

At the Cochrane facility average throughput volumes increased 49 mmcf/d to 1,840 mmcf/d in the first quarter of 2015, compared to the same period in 2014. Throughput volumes at the Cochrane facility are largely impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region.

In the first quarter of 2015, throughput volumes at the Empress V facility decreased 90 mmcf/d compared to the same period in 2014. At the Empress II facility there were no throughput volumes in the first quarter of 2015 or 2014. Throughput volumes at the Empress facilities are dependent on the level of natural gas exported from Alberta's eastern border and are reliant on successfully attracting border gas flows to the extraction facilities. Empress II throughput volumes 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 decreased \$65.9 million to \$102.5 million in the first quarter of 2015, compared to the same period in 2014. The decrease was largely due to lower ethane and propane-plus product pricing and lower ethane volumes from the Cochrane and Empress V facilities, which was partially offset by increased propane-plus volumes from the Cochrane facility.

Frac-spread

<i>(dollars)</i>	Three Months Ended March 31			
	2015		2014	
	<i>USD/USG</i> ⁽¹⁾	<i>CAD/USG</i> ⁽¹⁾	<i>USD/USG</i> ⁽¹⁾	<i>CAD/USG</i> ⁽¹⁾
Market frac-spread	\$ 0.368	\$ 0.457	\$ 1.013	\$ 1.116
Realized frac-spread	\$ 0.374	\$ 0.465	\$ 0.935	\$ 1.029

(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 any hedged production. Natural gas purchased for shrinkage is based on the actual combination of the monthly index and daily price of AECO paid. 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 in the first quarter decreased from \$0.94 USD/USG in 2014 to \$0.37 USD/USG in 2015. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2014, were \$0.97 USD/USG and \$0.59 USD/USG, respectively.

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 decreased \$39.3 million in the first quarter of 2015, compared to the same period in 2014. This decrease is largely due to lower AECO natural gas prices as the weighted average monthly AECO prices^{*} decreased from \$4.52 per gigajoule (GJ) in the first quarter of 2014 to \$2.80/GJ in the first quarter of 2015.

Operating Expenses

In the first quarter of 2015, operating expenses in the NGL extraction business decreased \$7.0 million, compared to the same period in 2014. The decrease is primarily due to lower fuel and power costs as a result of lower natural gas pricing

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

discussed above and lower power pricing as average Alberta power pool prices decreased in the first quarter from \$60.59/MWh in 2014 to \$29.02/MWh in 2015.

Capital Expenditures

In the first quarter of 2015, the NGL extraction business incurred growth capital expenditures* of \$0.3 million, and sustaining capital expenditures* of \$3.9 million largely relating to planned gas turbine maintenance and other equipment upgrades at the Cochrane facility.

Bulk Liquid Storage Business Segment

	Three Months Ended March 31		
<i>(millions)</i>	2015	2014	% change
Utilization	90%	78%	15.4
<i>(millions)</i>			
Revenue	\$ 48.1	\$ 46.0	4.6
Operating expenses	\$ 19.9	\$ 19.7	1.0
Funds from operations ⁽¹⁾	\$ 20.5	\$ 21.6	(5.1)
Capital expenditures			
Growth ⁽¹⁾	\$ 3.5	\$ 1.5	
Sustaining ⁽¹⁾	2.6	2.9	
	\$ 6.1	\$ 4.4	

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

Utilization

Inter Pipeline operates a bulk liquid storage business with operations in the United Kingdom (UK), Germany, Ireland and Denmark. Inter Terminals business represents one of the largest independent bulk liquid storage businesses in Europe, with a combined storage capacity of approximately 19 million barrels located across 12 terminals. These terminals are strategically located with five terminals at the coastal ports of Immingham, Teesside and Tyneside in the UK, one terminal on the Shannon estuary in Ireland, two terminals on the Rhine River at Mannheim, Germany and four deep draft coastal terminals in Denmark located on the Danish Straits.

Average utilization rates increased in the first quarter from 78% in 2014 to 90% in 2015. Utilization was favourably impacted, particularly at the Gulfhavn terminal in Denmark, by stronger contango pricing relationships in certain petroleum product futures markets. Utilization at Inter Terminals Denmark averaged almost 92% in the first quarter of 2015 compared to 69% in the same period of 2014.

Revenue

Revenue from the bulk liquid storage business increased \$2.1 million in the first quarter of 2015, over the same period in 2014. The increase in revenue was primarily driven by higher occupancy and activity levels at the Gulfhavn, Stigsnaes and Ensted terminals in Denmark. Partially offsetting these increases were higher revenues in the first quarter of 2014 for contract termination fees, and business interruption proceeds from flooding at the Immingham and Riverside terminals. Revenue was also unfavourably impacted by lower foreign currency translation adjustments of \$0.5 million in the first

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

quarter of 2015, compared to the same period in 2014. FFO* was also impacted by a contract termination in the current quarter which included the release of long-term deferred revenue decreasing FFO* by \$2.9 million.

See the **Foreign Exchange Rates** section below for further information on changes in rates.

Foreign Exchange Rates

	March 31		
<i>(dollars)</i>	2015	2014	<i>% change</i>
Euro/CAD	\$ 1.3967	\$ 1.5121	(7.6)
Pound Sterling/CAD	\$ 1.8792	\$ 1.8262	2.9

Operating Expenses

Operating expenses in the bulk liquid storage business increased \$0.2 million in the first quarter of 2015, compared to the same period in 2014. The increase is largely due to higher fuel and power, repair and employee costs, which were partially offset by lower flood related expenses from the Immingham and Riverside terminals. Foreign currency translation adjustments for the three months ended March 31, 2015, resulted in lower operating expenses of \$0.2 million compared to the same period in 2014.

Capital Expenditures

The bulk liquid storage business incurred \$3.5 million of growth capital expenditures* in the first quarter of 2015, largely relating to a number of tank life extensions and tank modification projects, in addition to the initial spend related to the \$9 million expansion of six stainless steel tanks at a German terminal to accommodate chemical customer storage demand.

The bulk liquid storage business also incurred \$2.6 million in sustaining capital expenditures* in the first quarter of 2015, primarily relating to flood related expenditures at the Riverside terminal, as well as environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects.

Other Expenses

	Three Months Ended	
<i>(millions)</i>	2015	2014
Depreciation and amortization	\$ 42.3	\$ 33.3
Financing charges	34.1	20.8
Provision for income taxes	34.3	30.3
General and administrative	18.6	25.4
Unrealized change in fair value of derivative financial instruments	0.1	(1.2)
Gain on disposal of assets	(1.2)	(0.9)

Depreciation and Amortization

In the three months ended March 31, 2015, depreciation and amortization of tangible and intangible assets increased \$9.0 million, compared to the same period in 2014. This increase is primarily due to depreciation of new assets now in service that were not in service or depreciated in the same period in 2014.

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

Financing Charges

<i>(millions)</i>	Three Months Ended	
	March 31	
	2015	2014
Interest on credit facilities	\$ 9.2	\$ 10.7
Interest on loan payable to private placement noteholders	-	4.4
Interest on Corridor Debentures	2.0	2.5
Interest on MTN Series 1 to 7	21.5	14.0
Total interest	32.7	31.6
Capitalized interest	(0.2)	(12.3)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.8	0.9
Accretion of provisions and pension plan funding charges	0.8	0.6
Total financing charges	\$ 34.1	\$ 20.8

Total financing charges increased \$13.3 million from \$20.8 million in the first quarter of 2014 to \$34.1 million in the first quarter of 2015.

In the three months ended March 31, 2015, capitalized interest decreased \$12.1 million compared to the same period in 2014, due to the completion of major components of the Polaris pipeline and Cold Lake pipeline system expansions in mid-2014 and the first quarter of 2015, respectively.

Interest on medium-term notes (MTN) increased \$7.5 million in the current quarter over the comparable period in 2014, due to the timing of issuance of MTN Series 5 and 6 on May 30, 2014 and MTN Series 7 on March 23, 2015.

Interest on the loan payable to private placement noteholders decreased \$4.4 million in the first quarter of 2015, compared to the same period in 2014, as the loan matured on October 28, 2014 and was repaid.

Interest on credit facilities decreased \$1.5 million in the current quarter compared to the same period in 2014. The decrease in interest expense was due to lower weighted average short-term interest rates and lower average debt levels.

In the first quarter of 2015, interest on Corridor debentures decreased \$0.5 million compared to the same period in 2014, as Corridor's \$150 million Series B debentures matured and were repaid on February 2, 2015.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper in the current quarter decreased \$0.1 million in 2015 over 2014, due to the timing of debt maturities offset in part by MTN issuances discussed above.

Accretion of provisions and pension plan funding charges increased \$0.2 million for the three months ended March 31, 2015, over the same period in 2014, largely due to changes in discount rates for environmental provisions.

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

Income Taxes

Consolidated income tax expense increased \$4.0 million to \$34.3 million in the three months ended March 31, 2015, over the same period in 2014. This increase is primarily due to higher consolidated income before taxes.

General and Administrative

	Three Months Ended	
	March 31	
<i>(millions)</i>	2015	2014
Canada	\$ 15.4	\$ 23.1
Europe	3.2	2.3
	\$ 18.6	\$ 25.4

Canadian general and administrative expenses decreased \$7.7 million in the first quarter of 2015 largely due to lower employee costs, compared to the same period in 2014. The decrease in employee costs primarily resulted from the inclusion of a one-time key management personnel contract renegotiation in the first quarter of 2014, as well as a decrease in long-term incentive plan expense primarily resulting from changes in Inter Pipeline's share price.

European general and administrative costs increased \$0.9 million in the three months ended March 31, 2015, over the comparable period in 2014. The increase is largely due to higher external service costs and a foreign currency loss realized in the first quarter of 2015.

Unrealized Change in Fair Value of Derivative Financial Instruments

The change in fair value of Inter Pipeline's derivative financial instruments reduced net income in the current quarter by \$0.1 million due to the change in fair value of electricity price swaps.

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

Gain on Disposal of Assets

In the first quarter of 2015, Inter Pipeline recorded a \$1.2 million gain on disposal of assets largely relating to proceeds received for asset damage due to flooding conditions that occurred at Inter Terminals Riverside terminal in late 2013.

SUMMARY OF QUARTERLY RESULTS

	2013				2014				2015
<i>(millions, except per share and % amounts)</i>	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	
Revenue									
Oil sands transportation	\$ 93.3	\$ 96.2	\$ 107.4	\$ 105.1	\$ 102.9	\$ 128.2	\$ 140.5	\$ 177.4	
Conventional oil pipelines	71.5	81.1	82.3	91.2	96.0	89.6	87.1	77.8	
NGL extraction	117.5	127.2	146.6	168.4	137.0	120.2	123.0	102.5	
Bulk liquid storage	38.0	36.0	37.9	46.0	40.0	41.6	39.5	48.1	
	\$ 320.3	\$ 340.5	\$ 374.2	\$ 410.7	\$ 375.9	\$ 379.6	\$ 390.1	\$ 405.8	
Funds from operations⁽¹⁾									
Oil sands transportation	\$ 49.0	\$ 55.7	\$ 64.2	\$ 63.4	\$ 63.0	\$ 82.5	\$ 97.2	\$ 130.2	
Conventional oil pipelines	43.5	47.0	44.0	46.0	49.6	48.7	46.8	46.8	
NGL extraction	31.1	43.2	53.4	48.5	34.7	34.4	24.7	28.7	
Bulk liquid storage	19.5	17.2	16.1	21.6	18.2	19.8	15.8	20.5	
Corporate costs	(37.7)	(39.8)	(43.2)	(47.8)	(33.9)	(44.4)	(24.8)	(49.7)	
	\$ 105.4	\$ 123.3	\$ 134.5	\$ 131.7	\$ 131.6	\$ 141.0	\$ 159.7	\$ 176.5	
Per share ⁽¹⁾	\$ 0.37	\$ 0.44	\$ 0.44	\$ 0.43	\$ 0.41	\$ 0.43	\$ 0.49	\$ 0.53	
Net income (loss) ⁽²⁾	\$ (281.6)	\$ 77.8	\$ 84.6	\$ 89.6	\$ 85.3	\$ 95.0	\$ 79.6	\$ 122.8	
Net income (loss) attributable to shareholders ⁽²⁾	\$ (283.9)	\$ 74.8	\$ 81.3	\$ 86.1	\$ 81.7	\$ 91.4	\$ 75.6	\$ 113.7	
Per share – basic	\$ (1.02)	\$ 0.27	\$ 0.27	\$ 0.28	\$ 0.25	\$ 0.28	\$ 0.24	\$ 0.34	
Per share – diluted	\$ (1.02)	\$ 0.26	\$ 0.26	\$ 0.27	\$ 0.25	\$ 0.28	\$ 0.23	\$ 0.34	
Dividends to shareholders ⁽³⁾	\$ 78.2	\$ 84.6	\$ 98.6	\$ 99.6	\$ 103.9	\$ 104.7	\$ 114.9	\$ 121.8	
Per share ⁽³⁾	\$ 0.2800	\$ 0.2975	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3525	\$ 0.3675	
Shares outstanding (basic)									
Weighted average	278.8	283.6	304.7	309.0	321.6	324.2	325.8	331.5	
End of period	280.0	289.8	306.8	320.3	323.0	325.4	326.2	334.2	
Capital expenditures ⁽⁴⁾									
Growth ⁽¹⁾	\$ 395.8	\$ 566.1	\$ 549.4	\$ 544.7	\$ 243.8	\$ 256.3	\$ 149.2	\$ 132.3	
Sustaining ⁽¹⁾	5.8	7.4	11.0	6.2	10.2	12.0	13.8	9.7	
	\$ 401.6	\$ 573.5	\$ 560.4	\$ 550.9	\$ 254.0	\$ 268.3	\$ 163.0	\$ 142.0	
Payout ratio ⁽¹⁾	76.1%	70.5%	75.5%	78.0%	81.5%	76.6%	74.0%	73.3%	
Total debt ⁽⁵⁾	\$ 3,578.0	\$ 3,964.5	\$ 3,960.8	\$ 4,155.8	\$ 4,283.8	\$ 4,396.3	\$ 4,590.7	\$ 4,680.7	
Total shareholders' equity	\$ 1,414.3	\$ 1,661.9	\$ 2,100.3	\$ 2,490.4	\$ 2,521.3	\$ 2,566.9	\$ 2,548.1	\$ 2,737.6	
Enterprise value ⁽¹⁾	\$ 9,646.1	\$ 11,252.0	\$ 11,885.4	\$ 13,504.4	\$ 14,981.6	\$ 16,223.6	\$ 16,314.8	\$ 15,590.4	
Total debt to total capitalization ⁽¹⁾	71.7%	70.5%	65.3%	62.5%	63.0%	63.1%	64.3%	63.1%	
Total recourse debt to capitalization ⁽¹⁾	57.8%	58.5%	52.8%	50.7%	51.7%	52.2%	54.2%	53.2%	

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

(2) In June 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, which was satisfied upon the conversion of the convertible shares in January 2015.

(3) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

(4) Amounts reported on a 100% basis that includes non-controlling interest.

(5) Total debt includes long-term debt, short-term debt and commercial paper before discounts and debt transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

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

- (i) stable 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 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 FFO^{*} in excess of dividends to fund capital requirements. At March 31, 2015, Inter Pipeline had access to committed credit facilities totaling \$2.8 billion, of which \$894.3 million remained unutilized, and demand facilities totaling \$102.6 million of which \$102.0 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three month period ended March 31, 2015, approximately \$31.6 million, of equity was issued through the dividend reinvestment plan.

On March 10, 2015, Inter Pipeline subsidiaries Inter Terminals Limited and Inter Terminals EOT ApS entered into a Pound Sterling 20 million demand facility for general corporate and working capital purposes.

On March 23, 2015, Inter Pipeline issued \$300 million of senior unsecured MTN Series 7 due March 24, 2025 in the Canadian public debt market. The MTN Series 7 bear interest at a fixed rate of 3.173% per annum, payable semi-annually. Net proceeds from the issuance were used to repay a portion of Inter Pipeline's bank indebtedness incurred through funding its capital expenditure program and for 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 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 2014 and debt offerings in May 2014 and March 2015, the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced to approximately \$1.5 billion.

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

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.

Capital Structure

			March 31	December 31
(millions, except % amounts)	Recourse	Non-recourse	2015	2014
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⁾⁽²⁾	77.6	25.0	102.6	65.0
	\$ 1,327.6	\$ 1,575.0	\$ 2,902.6	\$ 2,865.0
Total debt outstanding⁽²⁾				
Recourse				
Inter Pipeline syndicated facility			\$ 487.0	\$ 686.0
MTN Series 1 to 7 ⁽³⁾			2,625.0	2,325.0
Non-recourse				
Corridor syndicated facility			1,418.7	1,279.7
Corridor debentures ⁽⁵⁾			150.0	300.0
Total debt ⁽²⁾⁽⁴⁾			4,680.7	4,590.7
Total shareholders' equity			2,737.6	2,548.1
Total capitalization ⁽⁶⁾			\$ 7,418.3	\$ 7,138.8
Total debt to total capitalization ⁽⁶⁾			63.1%	64.3%
Total recourse debt to capitalization ⁽⁶⁾			53.2%	54.2%

(1) Demand facilities consist of: Inter Pipeline's \$40 million demand facility; Corridor's \$25 million demand facility; and Inter Terminals Limited and Inter Terminals EOT ApS Pound Sterling 20 million demand facility which was entered into on March 10, 2015 and converted at a Pound Sterling/CAD rate of 1.8792 at March 31, 2015.

(2) At March 31, 2015, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.4 million and \$0.2 million, respectively, were not included in total debt outstanding.

(3) Inter Pipeline issued \$325 million MTN Series 1 and \$200 million MTN Series 2 in 2011; \$400 million MTN Series 3 in 2012; \$500 million MTN Series 4 in 2013; \$500 million MTN Series 5 and \$400 million MTN Series 6 in 2014; \$300 million MTN Series 7 in 2015.

(4) Total debt reported in the March 31, 2015 interim financial statements of \$4,660.4 million, includes long-term debt, short-term debt and commercial paper outstanding of \$4,680.7 million less discounts and debt transaction costs of \$20.3 million.

(5) On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid.

(6) 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 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

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

maximum permitted ratio of 65% recourse debt to capitalization^{*}. At March 31, 2015, Inter Pipeline's total recourse debt to capitalization ratio^{*} was 53.2%. Inter Pipeline's total debt to total capitalization ratio^{*}, which includes non-recourse debt of \$1,568.7 million held within Inter Pipeline's Corridor corporate entity, was 63.1% at March 31, 2015.

At March 31, 2015, approximately \$2,305.7 million or 49.3% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount \$1,418.7 million or 61.5% 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 had an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures. On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid and the interest rate swap was terminated.

The following interest coverage^{*} ratio is calculated on a consolidated basis for the twelve month periods ended December 31, 2013 and 2014.

<i>(times)</i>	Twelve Months Ended	
	March 31	December 31
	2015	2014
Interest coverage ⁽¹⁾⁽²⁾	4.1	3.8

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

(2) Net income attributable to shareholders plus income taxes and borrowing costs, divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations.

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

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

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

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at March 31, 2015. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and FFO* in excess of dividends. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

<i>(millions)</i>	Total	Less than one year	One to five years	After five years
Capital expenditure projects ⁽¹⁾⁽²⁾				
Oil sands transportation ⁽²⁾	\$ 395.2	\$ 107.2	\$ 288.0	\$ -
Conventional oil pipelines	128.6	92.2	36.4	-
NGL extraction	5.5	5.5	-	-
Bulk liquid storage	23.2	23.2	-	-
Growth capital funded by Inter Pipeline ⁽²⁾⁽³⁾	552.5	228.1	324.4	-
Sustaining capital funded by Inter Pipeline ⁽²⁾⁽³⁾	53.4	53.4	-	-
	605.9	281.5	324.4	-
Total debt ⁽⁴⁾⁽⁵⁾				
Corridor syndicated facility ⁽⁶⁾	1,418.7	1,418.7	-	-
Inter Pipeline syndicated facility	487.0	-	487.0	-
Corridor debentures ⁽⁵⁾	150.0	-	150.0	-
MTN Series 1 to 7	2,625.0	-	600.0	2,025.0
	4,680.7	1,418.7	1,237.0	2,025.0
Other obligations				
Operating leases	301.1	11.9	82.5	206.7
Purchase obligations	227.3	61.7	49.7	115.9
Long-term portion of incentive plan	3.5	-	3.5	-
Working capital deficit ⁽³⁾	158.2	158.2	-	-
	\$ 5,976.7	\$ 1,932.0	\$ 1,697.1	\$ 2,347.6

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2015.

(2) Inter Pipeline's expected growth and sustaining capital⁽³⁾ spending profile including the 15% non-controlling interest in Cold Lake is \$648.8 million.

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

(4) At March 31, 2015, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.4 million and \$0.2 million, respectively, were not included in total debt outstanding. Total debt reported in the March 31, 2015 interim financial statements of \$4,660.4 million, includes long-term debt, short-term debt and commercial paper of \$4,680.7 million less discounts and debt transaction costs of \$20.3 million.

(5) On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid.

(6) 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 2018.

Inter Pipeline's bulk liquid storage business will incur additional sustaining capital expenditures* in the foreseeable future to comply with UK storage and containment regulations, as discussed in the risk factors section relating to Buncefield Regulation in Inter Pipeline's 2014 annual MD&A.

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

Inter Pipeline's debt outstanding at March 31, 2015, matures at various dates up to May 2044 as follows:

<i>(millions)</i>	Amount	Rate	Maturity date
Inter Pipeline Ltd.			
\$1.25 billion syndicated facility	\$ 487.0	Variable	December 5, 2019
MTN Series 1	325.0	4.967%	February 2, 2021
MTN Series 2	200.0	3.839%	July 30, 2018
MTN Series 3	400.0	3.776%	May 30, 2022
MTN Series 4	500.0	3.448%	July 20, 2020
MTN Series 5	500.0	4.637%	May 30, 2044
MTN Series 6	400.0	CDOR plus 49 bps	May 30, 2017
MTN Series 7	300.0	3.173%	March 24, 2025
Inter Pipeline (Corridor) Inc.⁽¹⁾			
\$1.55 billion syndicated facility	1,418.7	Variable	December 14, 2018
Series C debentures	150.0	4.897%	February 3, 2020

(1) On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid.

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, 2015, 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 2094.
- (iii) Working capital deficiencies* arise primarily from capital expenditures outstanding in accounts payable and accrued liabilities at the end of a period.
- (iv) Inter Pipeline has obligations of \$32.5 million under its employee long-term incentive plan, of which \$29.0 million is included in the working capital deficit*.
- (v) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is \$66.6 million at March 31, 2015. 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

<i>(millions, except per share and % amounts)</i>	Three Months Ended		Years Ended	
	March 31		December 31	
	2015	2014	2014	2013
Cash provided by operating activities	\$ 158.6	\$ 134.2	\$ 571.7	\$ 468.7
Net change in non-cash operating working capital	17.9	(2.5)	(7.6)	3.9
Less funds from operations ⁽¹⁾ attributable to non-controlling interest	(10.2)	(4.0)	(16.8)	(12.8)
Funds from operations ⁽¹⁾ attributable to shareholders	166.3	127.7	547.3	459.8
Dividends to shareholders	\$ 121.8	\$ 99.6	\$ 423.1	\$ 338.2
Dividends per share ⁽²⁾	\$ 0.3675	\$ 0.3225	\$ 1.3200	\$ 1.1775
Payout ratio ⁽¹⁾	73.3%	78.0%	77.3%	73.6%

(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 FFO^{*} 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.

<i>(millions)</i>	Three Months Ended		Years Ended	
	2015	March 31	2014	December 31
Cash provided by operating activities	\$ 158.6	\$ 134.2	\$ 571.7	\$ 468.7
Less cash provided by operating activities attributable to non-controlling interest	(2.2)	(12.4)	(25.8)	(7.8)
Dividends to shareholders	(121.8)	(99.6)	(423.1)	(338.2)
Excess	\$ 34.6	\$ 22.2	\$ 122.8	\$ 122.7

<i>(millions)</i>	Three Months Ended		Years Ended	
	2015	March 31	2014	December 31
Net income (loss) attributable to shareholders	\$ 113.7	\$ 86.1	\$ 334.8	\$ (58.1)
Dividends to shareholders	(121.8)	(99.6)	(423.1)	(338.2)
Shortfall	\$ (8.1)	\$ (13.5)	\$ (88.3)	\$ (396.3)

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 greater than net income attributable to shareholders in all periods, as 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.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at March 31, 2015 are as follows:

<i>(millions)</i>	Total
Common shares outstanding	334.2

At May 7, 2015, Inter Pipeline had 334.6 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

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

prohibits the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the Board of Directors through Inter Pipeline's risk management policy.

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

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt and commercial paper outstanding at March 31, 2015. 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, 2015, there are no frac-spread hedges 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, 2015, there are no heat rate price swap agreements outstanding.

Inter Pipeline has existing electricity price swap agreements in the conventional oil pipelines business. At March 31, 2015, 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. As at March 31, 2015, there are no foreign exchange hedges outstanding.

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. On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid and the fixed-to-floating interest rate swap was terminated.

Based on the variable rate obligations outstanding at March 31, 2015, a 1% change in interest rates at this date would have changed interest expense for the three month period ended March 31, 2015, by approximately \$5.7 million, assuming all other variables remain constant. Of these amounts, \$3.5 million for the three month period ended March 31, 2015, respectively, relate 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 three month period ended March 31, 2015 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, 2015, accounts receivable associated with these two business segments were \$111.7 million or 70.0% 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, 2015, 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, 2015 or 2014.

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 2015.

CRITICAL ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION

The preparation of Inter Pipeline's interim 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, 2014 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.

Inter Pipeline's interim financial statements for the three months ended March 31, 2015 have been presented in accordance with IAS 34 *Interim Financial Reporting* 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, 2014.

FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2015 or later periods with early adoption permitted. The standards impacted are as follows:

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and shall be applied to annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 establishes a control based revenue recognition model under which revenue is recognized when control of the underlying goods or services for the particular performance obligation is transferred to the customer. Inter Pipeline is currently assessing the impact of IFRS 15; however the extent of the impact has not yet been determined.

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and shall be applied to annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 establishes principles for the financial

reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Inter Pipeline is currently assessing the impact of IFRS 9; however the extent of the impact has not yet been determined.

RISK FACTORS

During the first quarter of 2015, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2014 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", "EBITDA", "adjusted EBITDA", "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 "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.

<i>(millions)</i>	March 31 2015	December 31 2014
Current assets		
Cash and cash equivalents	\$ 62.9	\$ 61.1
Accounts receivable	159.7	156.8
Prepaid expenses and other deposits	24.2	27.0
Current income taxes receivable	-	11.5
Current liabilities		
Dividends payable	(40.9)	(40.0)
Accounts payable, accrued liabilities and provisions	(344.9)	(390.2)
Current income taxes payable	(2.4)	-
Deferred revenue	(16.8)	(18.8)
Adjusted working capital deficiency	\$ (158.2)	\$ (192.6)

EBITDA, adjusted EBITDA are reconciled from the components of net income as noted below. 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 on disposal of assets, non-cash expense, non-cash financing charges 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 entity's operating cash flow based on data from its income statement.

<i>(millions)</i>	Three Months Ended	
	March 31	
	2015	2014
Net income	\$ 122.8	\$ 89.6
Financing charges	34.1	20.8
Current income tax expense	14.3	16.9
Deferred income tax expense	20.0	13.4
Depreciation and amortization	42.3	33.3
EBITDA	233.5	174.0
Gain on disposal of assets	(1.2)	(0.9)
Non-cash financing charges	(1.6)	(1.4)
Non-cash recovery	(7.5)	(2.5)
Unrealized change in fair value of derivative financial instruments	0.1	(1.2)
Adjusted EBITDA	\$ 223.3	\$ 168.0
Less adjusted EBITDA attributable to non-controlling interest	(10.2)	(4.0)
Adjusted EBITDA attributable to shareholders	\$ 213.1	\$ 164.0

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:

<i>(millions, except per share amounts)</i>	March 31	December 31
	2015	2014
Closing share price	\$ 32.64	\$ 35.94
Total closing number of common shares outstanding	334.2	326.2
	10,909.7	11,724.1
Total debt	4,680.7	4,590.7
Enterprise value	\$ 15,590.4	\$ 16,314.8

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

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

	Three Months Ended			
	March 31			
	2015			2014
<i>(millions)</i>	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 81.1	\$ 0.1	\$ 81.2	\$ 536.9
Conventional oil pipelines	47.4	1.0	48.4	6.6
NGL extraction	0.3	3.9	4.2	1.8
Bulk liquid storage	3.5	2.6	6.1	4.4
Corporate	-	2.1	2.1	1.2
Capital expenditures	\$ 132.3	\$ 9.7	\$ 142.0	\$ 550.9
Capital expenditures funded by Inter Pipeline ⁽¹⁾	\$ 126.8	\$ 9.7	\$ 136.5	\$ 525.0

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

Interest coverage is calculated as net income attributable to 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.

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. Funds from operations per share is 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.

<i>(millions)</i>	Three Months Ended	
	March 31	
	2015	2014
Net income	\$ 122.8	\$ 89.6
Depreciation and amortization	42.3	33.3
Gain on disposal of assets	(1.2)	(0.9)
Non-cash recovery	(7.5)	(2.5)
Unrealized change in fair value of derivative financial instruments	0.1	(1.2)
Deferred income tax expense	20.0	13.4
Funds from operations	176.5	131.7
Less funds from operations attributable to non-controlling interest	(10.2)	(4.0)
Funds from operations attributable to shareholders	\$ 166.3	\$ 127.7
Funds from operations	\$ 176.5	\$ 131.7
Total interest less capitalized interest	32.5	19.4
Current income tax expense	14.3	16.9
Adjusted EBITDA	223.3	168.0
Less adjusted EBITDA attributable to non-controlling interest	(10.2)	(4.0)
Adjusted EBITDA attributable to shareholders	\$ 213.1	\$ 164.0

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** 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 11th day of May, 2015