inter pipeline

Management's Discussion and Analysis

For the three months ended March 31, 2016

FORWARD-LOOKING INFORMATION

The following **Management's Discussion and Analysis (MD&A)** highlights Inter Pipeline Ltd. and its subsidiaries (together, Inter Pipeline) significant business results and statistics for the three month period ended March 31, 2016, to provide Inter Pipeline's shareholders and potential investors with information about Inter Pipeline, including management's assessment of its future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A may 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 2016 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; 6) timing and cost schedules of capital 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 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 expansion of its 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, 2016

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period ended March 31, 2016, as compared to the three month period ended March 31, 2015. The MD&A should be read in conjunction with the March 31, 2016 unaudited condensed interim consolidated financial statements (interim financial statements), the interim financial statements and MD&A for the quarterly period ended March 31, 2015, the MD&A and audited consolidated financial statements for the year ended December 31, 2015, the **Annual Information Form**, and other information filed by Inter Pipeline at www.sedar.com.

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

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

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

Table of Contents

FIRST QUARTER HIGHLIGHTS

- Generated funds from operations* (FFO) of $186 million, a five percent increase over first quarter 2015
- FFO* for the bulk liquid storage business segment set a new record of $31 million, an increase of 53 percent compared to the first quarter 2015
- Net income for the quarter was $105 million, or $0.31 per share
- Declared cash dividends of $131 million, or $0.39 per share
- Attractive quarterly payout ratio* of 75 percent
- Total pipeline throughput volumes remained strong, averaging 1,312,700 barrels per day (b/d)
- Completed construction of a $25 million diluent connection to the JACOS-Nexen Hangingstone project
- Secured a long-term diluent supply connection agreement with Pembina Pipeline on the Polaris pipeline system
- Entered into a long-term agreement to provide bitumen blend transportation service to the North West Redwater Sturgeon Refinery
- Bulk liquid storage capacity utilization averaged 98 percent for the quarter, up from 90 percent in the first quarter of 2015

* Please refer to the NON-GAAP FINANCIAL MEASURES section

PERFORMANCE OVERVIEW

	Three Months Ended March 31	
(millions, except volumes, per share and % amounts)	**2016**	2015
Pipeline volumes *(000s b/d)* [(1)]		
Oil sands transportation	**1,104.2**	1,097.7
Conventional oil pipelines	**208.5**	214.2
Total pipeline volumes	**1,312.7**	1,311.9
NGL extraction volumes *(000s b/d)* [(1)]		
Ethane	**60.9**	71.0
Propane-plus	**44.9**	42.0
Total NGL extraction volumes	**105.8**	113.0
Utilization		
Bulk liquid storage	**98%**	90%
Revenue		
Oil sands transportation	**$ 191.6**	$ 177.4
Conventional oil pipelines	**81.5**	77.8
Bulk liquid storage	**65.8**	48.1
NGL extraction	**77.5**	102.5
	$ 416.4	$ 405.8
Funds from operations[(2)(3)]		
Oil sands transportation[(3)]	**$ 139.4**	$ 130.2
Conventional oil pipelines	**50.0**	46.8
Bulk liquid storage	**31.3**	20.5
NGL extraction	**23.6**	28.7
Corporate costs	**(58.3)**	(49.7)
	$ 186.0	$ 176.5
Per share[(2)]	**$ 0.55**	$ 0.53
Net income	**$ 104.6**	$ 122.8
Net income attributable to shareholders	**$ 95.8**	$ 113.7
Per share – basic	**$ 0.28**	$ 0.34
Per share – diluted	**$ 0.28**	$ 0.34
Dividends to shareholders	**$ 131.3**	$ 121.8
Per share[(4)]	**$ 0.3900**	$ 0.3675
Shares outstanding (basic)		
Weighted average	**336.6**	331.5
End of period	**336.7**	334.2
Capital expenditures[(5)]		
Growth[(2)]	**$ 32.2**	$ 132.5
Sustaining[(2)]	**18.0**	9.5
	$ 50.2	$ 142.0
Payout ratio[(2)]	**74.6%**	73.3%

	As at March 31	As at December 31
(millions, except % amounts)	**2016**	2015
Total assets	**$ 8,921.9**	$ 9,029.4
Total debt[(6)]	**$ 4,850.2**	$ 4,851.7
Total shareholders' equity	**$ 2,752.9**	$ 2,821.1
Enterprise value[(2)]	**$ 13,857.0**	$ 12,323.7
Consolidated Net Debt to Total Capitalization[(2)]	**53.8%**	52.8%

(1) Cold Lake volumes and Empress V NGL production reported on a 100% basis.

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

(3) Funds from operations[(2)] include non-controlling interest amounts of $10.1 million for the three month period ended March 31, 2016 ($10.2 million for the three month period ended March 31, 2015).

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

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

(6) Financial debt reported in the March 31, 2016 consolidated financial statements of $4,832.1 million, includes long-term debt, short-term debt and commercial paper of $4,850.2 million less discounts and debt transaction costs of $18.1 million.

Three Months Ended March 31, 2016

Inter Pipeline generated strong financial results in the first quarter as FFO* increased $9.5 million or 5.4%, from $176.5 million in 2015 to $186.0 million in 2016. The bulk liquid storage business achieved record financial results in the current quarter due to the acquisition of Inter Terminals Sweden in June 2015, increased utilization rates and favourable foreign currency translation adjustments, as FFO* increased $10.8 million or 52.7% from $20.5 million in 2015 to $31.3 million in 2016. The oil sands transportation business also recorded strong first quarter financial results. FFO* increased $9.2 million or 7.1%, from $130.2 million in 2015 to $139.4 million in 2016, largely due to expanded transportation service on the Polaris pipeline system. FFO* from the conventional oil pipelines business increased to $50.0 million in the current quarter or $3.2 million over the same period in 2015, due to an incremental contribution from midstream marketing activities. Results from the NGL extraction business decreased $5.1 million in the current quarter which were impacted by lower commodity pricing and a reduction of ethane volumes from the Cochrane and Empress V straddle plants. Corporate costs increased $8.6 million in the first quarter of 2016 to $58.3 million. This increase is largely due to a one-time onerous contract adjustment of $14.9 million relating to non-cancellable office leases which was offset in part by the non-cash long-term portion of $12.0 million for a net impact to FFO* of $2.9 million. Financing charges, employee costs and current income taxes were also higher during the quarter.

Inter Pipeline's net income decreased $18.2 million from $122.8 million in the first quarter of 2015 to $104.6 million in the first quarter of 2016. The decrease is largely due to higher depreciation and amortization, the $14.9 million one-time onerous contract adjustment, partially offset by higher FFO* as discussed above.

In the first quarter, total dividends to shareholders increased $9.5 million or 7.8% from $121.8 million in 2015 to $131.3 million in 2016, primarily due to higher monthly dividend rates. In November 2015, Inter Pipeline announced a dividend rate increase of $0.09 per common share on an annualized basis. Inter Pipeline's first quarter payout ratio* was 74.6% in 2016, up from 73.3% for 2015.

Inter Pipeline's total debt outstanding, which includes $1,525.0 million of non-recourse debt held at Inter Pipeline (Corridor) Inc., decreased $1.5 million from $4,851.7 million at December 31, 2015 to $4,850.2 million at March 31, 2016. During this period Inter Pipeline invested $50.0 million (Inter Pipeline's share) on capital projects.

OUTLOOK

Inter Pipeline owns and operates world scale energy infrastructure assets 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 2016, Inter Pipeline will remain focused on leveraging value from our strategically located and diversified asset base, controlling costs and capturing additional growth opportunities within our four business segments.

Inter Pipeline continues to advance a $260 million capital program which is primarily directed to our conventional oil gathering and oil sands transportation businesses. Organic growth projects account for approximately $200 million, of

* Please refer to the NON-GAAP FINANCIAL MEASURES section

which $32 million was spent in the first quarter of 2016. An additional $60 million is being invested in sustaining capital* projects across Inter Pipeline's four business segments and to support corporate requirements.

Our oil sands transportation pipeline systems are anchored by long-term commercial arrangements with creditworthy counterparties. Bitumen blend and diluent volumes transported continue to remain strong averaging over 1,100,000 b/d in the first quarter of 2016.

Inter Pipeline has over 2.5 million b/d of installed pipeline capacity on its three major oil sands pipeline systems. This includes approximately 1.2 million b/d of bitumen blend capacity on the Cold Lake pipeline system, 865,000 b/d of diluent capacity on the Polaris pipeline system and 465,000 b/d of bitumen blend capacity on the Corridor pipeline system. Ultimate throughput capacities of 1.9 million b/d, 1.3 million b/d and 1.4 million b/d on the Cold Lake, Polaris and Corridor pipeline systems, respectively, can be achieved through the addition of pump stations and associated infrastructure. A total of approximately $55 million is being invested in this business segment in 2016 with a focus primarily on the construction of new diluent receipt and bitumen blend delivery connections. Despite the challenging commodity price environment, Inter Pipeline also continues to pursue opportunities to utilize available excess capacity.

During the first quarter of 2016, Inter Pipeline completed two new long-term connection agreements to further enhance the delivery and receipt options on its oil sands pipeline systems. The first is a receipt connection agreement with Pembina Pipeline's Canadian Diluent Hub which will provide shippers on the Polaris pipeline system with an additional large-scale diluent supply option. The second agreement facilitates a bitumen blend delivery connection from the Cold Lake pipeline system to North West Redwater Partnerships' Sturgeon Refinery. Inter Pipeline will invest approximately $23 million to complete these capital efficient and accretive projects, with incremental revenue expected to start in mid-2017.

In the conventional oil pipelines segment, the outlook remains positive, despite a lower crude oil price environment. Inter Pipeline is investing approximately $100 million in growth capital* in this business segment in 2016. Demand for transportation services in low cost basins continues to attract new pipeline connection and storage opportunities. To further capture additional volumes, Inter Pipeline is nearing completion of a 400,000 barrel crude oil storage expansion project at the Kerrobert Terminal. This $65 million project will be ready for service in the latter half of 2016 and will support both operational and merchant storage opportunities on the Mid-Saskatchewan pipeline system. Additional growth capital* in 2016 is being spent on the construction of new oil battery connections and expanded storage capacity for our Bow River, Central Alberta and Mid-Saskatchewan pipeline systems.

Inter Pipeline's European bulk liquid storage business diversifies our asset base by both geography and market. There continues to be increased demand for strategic chemical and commodity based storage services in Europe and average utilization rates for this business segment improved to 98% during the quarter, up from 90% a year ago. In order to accommodate part of this demand, Inter Pipeline is investing approximately $40 million of growth capital* in 2016 constructing new tanks and associated facilities which includes the recent completion of six stainless steel storage tanks in Germany with total capacity of 57,000 barrels.

Inter Pipeline's NGL extraction business is comprised of three straddle plants that are among the largest in North America. The Cochrane and Empress plants are strategically located on Alberta's major natural gas export pipeline systems and

* Please refer to the NON-GAAP FINANCIAL MEASURES section

processed approximately 3 billion cubic feet per day of natural gas in the first quarter of 2016. This year Inter Pipeline is investing approximately $5 million to improve efficiency and reliability at our straddle plants.

Inter Pipeline continues to maintain a strong balance sheet with significant liquidity available on our $1.25 billion committed credit facility. Maintaining financial flexibility is extremely important, especially in turbulent economic conditions, in order to facilitate the funding of our growth capital expenditures* and other future initiatives. As at March 31, 2016, Inter Pipeline had $558 million of available capacity on its revolving credit facility. Inter Pipeline also ended the quarter with a consolidated net debt to total capitalization ratio* of 53.8%, which is within management's targeted level of 50% to 55%.

As a result of our strong financial position and the stable nature of our business, Inter Pipeline remains committed to maintaining our 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. has 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, even in a lower commodity price environment. The FFO* that underpins our monthly dividend is stable, diversified and largely supported by investment grade counterparties. Our extensive energy infrastructure base is well positioned to compete for future, accretive growth opportunities both locally and internationally. With a strong balance sheet and proven operational capabilities, 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		
Volumes (000s b/d)	**2016**	2015	*% change*
Cold Lake (100% basis)	**564.0**	583.5	*(3.3)*
Corridor	**369.5**	380.3	*(2.8)*
Polaris	**170.7**	133.9	*27.5*
	1,104.2	1,097.7	*0.6*
(millions)			
Revenue(1)	**$ 191.6**	$ 177.4	*8.0*
Operating expenses(1)	**$ 33.1**	$ 31.5	*5.1*
Funds from operations(1)(2)	**$ 139.4**	$ 130.2	*7.1*
Capital expenditures(1)			
Growth(2)	**$ 5.0**	$ 81.2	
Sustaining(2)	**0.1**	-	
	$ 5.1	$ 81.2	

(1) For the three month period ended March 31, 2016, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - $12.5 million ($12.5 million in 2015); operating expenses - $2.2 million ($2.1 million in 2015); FFO(2) - $10.1 million ($10.2 million in 2015); and capital expenditures - $0.2 million ($5.5 million in 2015).

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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Volumes

In the current quarter, oil sands transportation volumes averaged 1,104,200 b/d, an increase of 6,500 b/d, over the comparable period 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 decreased 19,500 b/d in the first quarter, compared to the same period in 2015. This decrease is largely due to lower volumes from Canadian Natural Resources' (CNR) Wolf Lake facility, which was offset in part by incremental volumes from Imperial's Cold Lake oil sands development and CNR's Kirby South facility. Volumes on the Cold Lake pipeline system typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes; however volume growth is anticipated over the long-term, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluent from the Scotford upgrader located northeast of Edmonton, Alberta to the Muskeg River and Jackpine mines near Fort McMurray, Alberta and diluted bitumen produced from the mines back to the Scotford upgrader. In addition, feedstock and upgraded products are shipped between the Scotford upgrader and certain pipeline terminals in Edmonton. Volumes on the Corridor pipeline system decreased 10,800 b/d in the three months ended March 31, 2016, compared to the same period in 2015, largely due to a turnaround at the Scotford upgrader in March 2016.

The Polaris pipeline system provides diluent transportation service from the Edmonton area to the Athabasca and Cold Lake areas of Alberta. Polaris pipeline system volumes increased 36,800 b/d in the first quarter of 2016, compared to the same period in 2015. The increase is largely due to incremental diluent deliveries for Imperial's Kearl expansion which began in the third quarter of 2015, as well as additional deliveries to Suncor's oil sands facilities, Husky's Sunrise and CNR's Kirby South oil sands projects.

Revenue

The oil sands transportation business earns revenue for the transportation of petroleum products which are underpinned by a range of long-term cost-of-service contracts as defined in the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section.

Revenue in the first quarter of 2016 from the oil sands transportation business increased $14.2 million or 8.0% to $191.6 million, over the same period in 2015.

Cold Lake pipeline system revenue decreased $0.2 million in the first quarter of 2016, compared to the same period in 2015. The decrease is due to reduced capital fee revenue from lower volumes transported on the Cold Lake pipeline system.

Revenue from the Corridor pipeline system decreased $1.4 million in the three months ended March 31, 2016, from the same period in 2015. Revenue decreased due to a lower return on debt from a reduction in interest rates, the declining nature of Corridor's rate base and lower operating cost recoveries.

Revenue from the Polaris pipeline system increased $15.8 million in the current quarter, compared to the same period in 2015. The increase is largely due to higher capital fee revenue from expanded diluent transportation service in 2015 to

FCCL's Foster Creek, Imperial's Kearl and Athabasca Oil Corporation's Hangingstone, and incremental fees from Husky's Sunrise and Suncor's oil sands project, in addition to slightly higher operating cost recoveries.

Operating Expenses

Operating expenses in the oil sands transportation business segment typically have a limited impact on Inter Pipeline's FFO*, as substantially all operating expenditures are recovered from the shippers on the Cold Lake, Corridor and Polaris pipeline systems. In the three months ended March 31, 2016, operating expenses from the oil sands transportation business increased $1.6 million, over the comparable period in 2015.

In the first quarter of 2016, operating expenses from the Cold Lake pipeline system increased $1.0 million, over the same period in 2015. This increase is largely due to higher property tax and employee costs associated with Cold Lake's mainline expansion, offset in part by lower fuel and power costs primarily due to a decrease in power pricing and consumption.

Operating costs in the first quarter of 2016 decreased $0.8 million on the Corridor pipeline system largely due to the timing of certain integrity related costs and various cost optimization initiatives, compared to the same period in 2015.

Operating costs on the Polaris pipeline system increased $1.4 million in the current quarter, over the same period in 2015, largely due to higher general operating costs associated with the increase in volumes from the pipeline system expansion.

Capital Expenditures

The oil sands transportation business incurred total growth capital expenditures* of $5.0 million for the three months ended March 31, 2016.

Total growth capital expenditures* on the Cold Lake pipeline system were $1.4 million in the first quarter of 2016, largely relating to various system upgrades and system enhancements.

The Polaris pipeline system incurred total growth capital expenditures* of $3.5 million in the current quarter, of which approximately $3 million relates to the recently completed construction of a new pipeline lateral and associated facilities connecting the Polaris pipeline system to the JACOS-Nexen Hangingstone project. The total estimated cost of this project is $25 million.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Conventional Oil Pipelines Business Segment

	Three Months Ended March 31		
Volumes (000s b/d)	**2016**	2015	*% change*
Bow River	**91.4**	103.3	*(11.5)*
Central Alberta	**29.5**	34.7	*(15.0)*
Mid-Saskatchewan	**87.6**	76.2	*15.0*
	208.5	214.2	*(2.7)*

(millions, except per barrel amount)			
Revenue	**$ 81.5**	$ 77.8	*4.8*
Midstream product purchases	**$ 17.2**	$ 14.9	*15.4*
Operating expenses	**$ 14.2**	$ 14.9	*(4.7)*
Funds from operations[1]	**$ 50.0**	$ 46.8	*6.8*
Revenue per barrel[2]	**$ 2.92**	$ 2.96	*(1.4)*
Capital expenditures			
Growth[1]	**$ 16.7**	$ 47.4	
Sustaining[1]	**0.6**	1.0	
	$ 17.3	$ 48.4	

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

(2) Revenue per barrel represents total revenue of the conventional oil pipelines business segment less midstream marketing revenue, revenue from take-or-pay contracts for volume shortfalls and revenue/expense from over/short volumes, divided by actual volumes.

Volumes

Volumes on Inter Pipeline's conventional oil pipeline systems averaged 208,500 b/d in the current quarter, a decrease of 5,700 b/d from the same period in 2015. Bow River pipeline system volumes decreased 11,900 b/d in the first quarter of 2016, due to third party refinery issues impacting south bound volumes, as well as natural production declines and a reduction in producer activity levels as a result of lower commodity prices, compared to the same period in 2015. On the Central Alberta pipeline system, average volumes decreased 5,200 b/d in the current quarter as a result of lower volumes at third party truck terminals and reduced producer activity, compared to the same period in 2015. First quarter volumes on the Mid-Saskatchewan pipeline system increased 11,400 b/d over the same period in 2015 due to increases in regional production from the Viking light oil play and the completion of several expansion projects in mid-2015.

Revenue

The conventional oil pipelines business earns revenue for the transportation of petroleum products in accordance with a number of long-term and short-term fee-based contracts, while its midstream marketing activities generate revenue under a number of short-term commodity-based contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

In the first quarter of 2016, conventional oil pipelines revenue increased $3.7 million, over the same period in 2015. Revenue from midstream marketing increased in the current quarter by $5.5 million as a result of increased blending activity, offset in part by lower West Texas Intermediate (WTI) oil prices, compared to the same period in 2015. Transportation revenue decreased $1.8 million largely due to lower overall pipeline system volumes.

Midstream Product Purchases

Midstream product purchases increased $2.3 million in the first quarter of 2016 from the same period in 2015, due to greater product purchase volumes and incremental trucking costs, offset in part by lower product pricing.

Operating Expenses

Conventional oil pipelines operating expenses decreased $0.7 million in the first quarter of 2016 largely due to lower watercourse crossing repair costs and various cost optimization initiatives, offset in part by higher costs related to expansions completed in mid-2015, non-routine maintenance and long-term remediation costs, over the same period in 2015.

Capital Expenditures

In the first quarter of 2016, the conventional oil pipelines business incurred total growth capital expenditures* of $16.7 million. Growth capital expenditures* of $13.6 million relate to the 400,000 barrel crude oil storage expansion project at the Kerrobert Terminal on the Mid-Saskatchewan pipeline system, for a total project spend to date of approximately $33 million and a total estimated cost of the project of $65 million. Remaining growth capital expenditures* of approximately $3 million relate to other third party connections and system enhancements.

Bulk Liquid Storage Business Segment

	Three Months Ended March 31		
	2016	2015	*% change*
Utilization	**98%**	90%	*8.9*
(millions)			
Revenue	**$ 65.8**	$ 48.1	*36.8*
Operating expenses	**$ 27.6**	$ 19.9	*38.7*
Funds from operations(1)	**$ 31.3**	$ 20.5	*52.7*
Capital expenditures			
Growth(1)	**$ 10.2**	$ 3.5	
Sustaining(1)	**1.5**	2.6	
	$ 11.7	$ 6.1	

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

Utilization

Inter Pipeline operates a bulk liquid storage business branded as Inter Terminals with operations in the United Kingdom (UK), Germany, Ireland, Denmark and Sweden. Inter Terminals represents one of the largest independent bulk liquid storage businesses in Europe, with a combined storage capacity of approximately 27 million barrels located across 16 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, four coastal terminals in Denmark located on the Danish Straits and four coastal terminals in Sweden located along the Baltic Sea and Danish Straits.

In the three months ended March 31, 2016, utilization rates averaged 98% compared to 90% in the same period of 2015. This increase stems from stronger contango pricing relationships in certain petroleum product futures markets. In the first quarter of 2015 to 2016, utilization rates increased in Denmark from 92% to 100% and in the UK, Germany and Ireland from 89% to 95%, respectively, while utilization averaged 98% in Sweden in the current quarter.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Revenue

The bulk liquid storage business earns revenue for bulk liquid storage and handling services that are underpinned by a range of long-term and short-term fee-based contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

In the first quarter of 2016, revenue from the bulk liquid storage business increased $17.7 million, over the comparable period in 2015. The acquisition of Inter Terminals Sweden in June 2015 largely drove the increase in revenue adding $16.6 million for the three months ended March 31, 2016. Revenue from the Denmark terminals increased $2.8 million in the current quarter as a result of higher utilization and activity levels, over the same period in 2015. Revenue from the UK, German and Ireland terminals decreased $4.7 million in the first quarter of 2016, largely due to non-recurring revenue in the first quarter of 2015 from a contract termination fee. Foreign currency translation adjustments favourably impacted revenue by $3.0 million in the first quarter of 2016, compared to the same period in 2015.

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

Foreign Exchange Rates

	Three Months Ended March 31		
(dollars)	**2016**	2015	*% change*
Euro/CAD	**$ 1.5155**	$ 1.3967	*8.5*
Pound Sterling/CAD	**$ 1.9674**	$ 1.8792	*4.7*

Operating Expenses

In the three months ended March 31, 2016, operating costs from the bulk liquid storage business increased $7.7 million, over the comparable period in 2015. The increase is primarily due to the inclusion of operating costs from Inter Terminals Sweden of $6.4 million. In addition, foreign currency translation adjustments increased operating expenses by $1.2 million in the current quarter, over the same period in 2015.

Capital Expenditures

For the three months ended March 31, 2016, the bulk liquid storage business incurred growth capital expenditures* of $10.2 million, largely related to a number of tank life extensions and tank modification projects. Approximately $1.0 million of growth capital expenditures* relate to the construction of six stainless steel tanks at a German terminal, for a total of approximately $7 million spent to date, and a total estimated project cost of $9 million. Tank construction and associated receipt and redelivery infrastructure is substantially completed, and modifications have begun to tailor the tanks to customer contract specifications.

The bulk liquid storage business also incurred $1.5 million in sustaining capital expenditures* in the current quarter, related to environmental performance enhancement initiatives, and terminal infrastructure and safety improvement projects.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

NGL Extraction Business Segment

	Three Months Ended March 31							
	2016				2015			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**1,986**	**38.1**	**32.0**	**70.1**	1,840	46.0	29.3	75.3
Empress V (100% basis)	**972**	**22.8**	**12.9**	**35.7**	965	25.0	12.7	37.7
Empress II	**-**	**-**	**-**	**-**	-	-	-	-
	2,958	**60.9**	**44.9**	**105.8**	2,805	71.0	42.0	113.0

	Three Months Ended March 31		
(millions)	**2016**	2015	*% change*
Revenue[1]	**$ 77.5**	$ 102.5	*(24.4)*
Shrinkage gas[1]	**$ 36.4**	$ 51.2	*(28.9)*
Operating expenses[1]	**$ 17.4**	$ 22.3	*(22.0)*
Funds from operations[1][2]	**$ 23.6**	$ 28.7	*(17.8)*
Capital expenditures[1]			
Growth[2]	**$ 0.3**	$ 0.3	
Sustaining[2]	**6.4**	3.9	
	$ 6.7	$ 4.2	

(1) Revenue, shrinkage gas, operating expenses, FFO[2] and capital expenditures for the Empress V NGL straddle plant are recorded based on Inter **Pipeline's 50% ownership.**

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

Volumes

In the current quarter, Inter Pipeline's NGL straddle plants processed average natural gas throughput volumes of 2,958 million cubic feet per day (mmcf/d), an increase of 153 mmcf/d over the same period in 2015.

Average throughput volumes at the Cochrane plant increased 146 mmcf/d in the first quarter, over the same period in 2015. Throughput volumes at the Cochrane plant are largely impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region. Ethane deliveries continue to be impacted by third party downstream facility issues and partial reinjection of ethane volumes at Cochrane and Empress V.

At the Empress V plant, average throughput volumes increased 7 mmcf/d in the three months ended March 31, 2016, over the same period in 2015. The Empress II plant received no throughput volumes in the first quarter of 2016 and 2015, which does not impact operating results due to cost-of-service commercial arrangements in place at this plant. At the Empress plants, natural gas throughput volumes 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 straddle plants.

Revenue

The NGL extraction business earns revenue from the recovery of certain higher value hydrocarbon liquids, namely ethane and propane-plus, from export-destined natural gas streams pursuant to a combination of commodity-based, fee-based and cost-of-service contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

For the three months ended March 31, 2016, revenue from the NGL extraction business was $77.5 million, a decrease of $25.0 million from the same period in 2015. Revenue decreased as a result of lower propane-plus and ethane product pricing, and reduced ethane volumes, which was partially offset by increased revenue from higher propane-plus volumes from the Cochrane plant.

Frac-spread

	Three Months Ended March 31							
(dollars)				**2016**				2015
		USD/USG [(1)]		*CAD/USG [(1)]*		*USD/USG [(1)]*		*CAD/USG [(1)]*
Market frac-spread	**$**	**0.300**	**$**	**0.410**	$	0.368	$	0.457
Realized frac-spread	**$**	**0.312**	**$**	**0.426**	$	0.374	$	0.465

(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.

First quarter realized frac-spreads decreased from $0.37 USD/USG in 2015 to $0.31 USD/USG in 2016. The 5-year and 15-year simple average market frac-spreads at December 31, 2015 were $0.85 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 straddle plants. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. In the current quarter, shrinkage gas expense decreased $14.8 million from the same period in 2015, as a result of lower AECO natural gas prices and a reduction in ethane volumes, offset in part by higher propane-plus volumes at the Cochrane plant. Weighted average monthly AECO prices* decreased in the first quarter from $2.80 per gigajoule (GJ) in 2015 to $2.00/GJ in 2016.

Operating Expenses

In the first quarter of 2016, NGL extraction's operating expenses decreased $4.9 million, compared to the same period in 2015. Fuel and power costs decreased as a result of lower natural gas and power pricing, while general operating and maintenance costs were also lower due to various cost optimization initiatives and equipment reliability enhancements. Average Alberta power pool prices decreased in the first quarter from $29.02/MWh in 2015 to $18.11/MWh in 2016.

---

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

Capital Expenditures

The NGL extraction business incurred total growth capital expenditures* of $0.3 million in the current quarter, on equipment upgrades at the Cochrane plant. Total sustaining capital expenditures* of $6.4 million in the first quarter of 2016, largely relate to a planned turbine overhaul and other processing system upgrades at the Cochrane plant.

Other Expenses

(millions)	Three Months Ended March 31 **2016**	2015
Income tax expense	**$ 32.0**	$ 34.3
Depreciation and amortization	**54.9**	42.4
Financing charges	**35.3**	34.1
General and administrative	**43.2**	18.6
Loss (gain) on disposal of assets	**0.5**	(1.2)
Unrealized change in fair value of derivative financial instruments	**-**	0.1

Income Tax Expense

In the three months ended March 31, 2016, consolidated income tax expense decreased $2.3 million to $32.0 million, from the same period in 2015. This decrease is primarily due to lower consolidated income before income taxes and partly offset by the increase in the Alberta provincial corporate tax rate from 10% to 12%, effective July 1, 2015.

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased $12.5 million in the three months ended March 31, 2016, over the same period in 2015. This increase is primarily due to depreciation of new assets now in service and assets acquired from the Inter Terminals Sweden acquisition, as well as accelerated amortization of certain intangible assets in the NGL extraction business.

Financing Charges

(millions)	Three Months Ended March 31 **2016**	2015
Interest on credit facilities	**$ 8.5**	$ 9.2
Interest on Corridor Debentures	**1.8**	2.0
Interest on Medium-Term Notes Series 1 to 7	**23.5**	21.5
Total interest	**33.8**	32.7
Capitalized interest	**-**	(0.2)
Amortization of transaction costs on financial debt	**0.8**	0.8
Accretion of provisions and pension plan funding charges	**0.7**	0.8
Total financing charges	**$ 35.3**	$ 34.1

In the first quarter of 2016, total financing charges increased $1.2 million over the same period in 2015.

Interest on medium-term notes increased $2.0 million in the current quarter compared to the same period in 2015, due to the timing of issuance of Series 7 on March 23, 2015.

Capitalized interest in the current quarter is comparable to the same period in 2015 decreasing $0.2 million.

---

* Please refer to the NON-GAAP FINANCIAL MEASURES section

In the first quarter of 2016, interest on credit facilities decreased $0.7 million due to a decline in weighted average short-term interest rates and average debt levels, compared to the same period in 2015.

Interest on Corridor debentures decreased $0.2 million in the three months ended March 31, 2016, compared to the same period in 2015, as Corridor's $150 million Series B debentures matured and was repaid on February 2, 2015.

Accretion of provisions and pension plan funding charges in the current quarter were comparable to the same period in 2015 decreasing $0.1 million.

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

General and Administrative

	Three Months Ended March 31	
(millions)	**2016**	2015
Canada	**$ 37.2**	$ 15.4
Europe	**6.0**	3.2
	$ 43.2	$ 18.6

In the three months ended March 31, 2016, Canadian general and administrative expenses increased $21.8 million, over the same period in 2015, primarily due to higher rent expense and employee costs. In the current quarter, Inter Pipeline's head office was relocated to new premises. The previous non-cancellable office leases were deemed to be onerous contracts, which gave rise to a one-time adjustment in rent expense of $14.9 million being the difference between future lease obligations and the estimated sublease recoveries. The non-cash long-term portion of this one-time adjustment is $12.0 million, resulting in a net impact to FFO* of $2.9 million in the current quarter. The increase in employee costs is largely due to higher long-term incentive plan expense arising from greater changes in Inter Pipeline's share price during the current quarter, compared to the same period in 2015.

In the first quarter of 2016, European general and administrative costs increased $2.8 million, over the same period in 2015, largely due to the inclusion of Inter Terminals Sweden's general and administrative costs of $2.0 million, as well as higher employee and consulting costs.

Loss on Disposal of Assets

For the three months ended March 31, 2016, Inter Pipeline derecognized certain assets in the bulk liquid storage business for a loss on disposal of assets of $0.5 million.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

SUMMARY OF QUARTERLY RESULTS

	2014			2015				2016
(millions, except volume, per share and % amounts)	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**First Quarter**
Pipeline volumes *(000s b/d)* [(1)]								
Oil sands transportation	858.0	942.3	1,023.9	1,097.7	853.9	1,119.9	1,111.8	**1,104.2**
Conventional oil pipelines	200.9	202.6	213.2	214.2	208.5	209.4	214.8	**208.5**
Total pipeline volumes	1,058.9	1,144.9	1,237.1	1,311.9	1,062.4	1,329.3	1,326.6	**1,312.7**
NGL extraction volumes *(000s b/d)* [(1)]								
Ethane	64.1	48.2	66.6	71.0	56.3	62.0	59.1	**60.9**
Propane-plus	32.7	33.0	36.8	42.0	34.1	40.8	41.3	**44.9**
Total NGL extraction volumes	96.8	81.2	103.4	113.0	90.4	102.8	100.4	**105.8**
Utilization								
Bulk liquid storage	75%	78%	84%	90%	93%	93%	97%	**98%**
Revenue								
Oil sands transportation	$ 102.9	$ 128.2	$ 140.5	$ 177.4	$ 182.7	$ 195.2	$ 213.4	**$ 191.6**
Conventional oil pipelines	96.0	89.6	87.1	77.8	74.7	80.9	89.0	**$ 81.5**
Bulk liquid storage	40.0	41.6	39.5	48.1	44.4	57.1	64.8	**$ 65.8**
NGL extraction	137.0	120.2	123.0	102.5	88.8	91.0	88.5	**$ 77.5**
	$ 375.9	$ 379.6	$ 390.1	$ 405.8	$ 390.6	$ 424.2	$ 455.7	**$ 416.4**
Funds from operations[(2)]								
Oil sands transportation	$ 63.0	$ 82.5	$ 97.2	$ 130.2	$ 135.0	$ 146.1	$ 157.8	**$ 139.4**
Conventional oil pipelines	49.6	48.7	46.8	46.8	46.5	49.8	51.5	**$ 50.0**
Bulk liquid storage	18.2	19.8	15.8	20.5	20.6	29.0	28.2	**$ 31.3**
NGL extraction	34.7	34.4	24.7	28.7	23.3	23.6	25.2	**$ 23.6**
Corporate costs	(33.9)	(44.4)	(24.8)	(49.7)	(44.4)	(43.3)	(51.3)	**$ (58.3)**
	$ 131.6	$ 141.0	$ 159.7	$ 176.5	$ 181.0	$ 205.2	$ 211.4	**$ 186.0**
Per share[(2)]	$ 0.41	$ 0.43	$ 0.49	$ 0.53	$ 0.54	$ 0.61	$ 0.63	**$ 0.55**
Net income	$ 85.3	$ 95.0	$ 79.6	$ 122.8	$ 73.8	$ 128.4	$ 138.0	**$ 104.6**
Net income attributable to shareholders	$ 81.7	$ 91.4	$ 75.6	$ 113.7	$ 65.3	$ 118.7	$ 129.7	**$ 95.8**
Per share – basic	$ 0.25	$ 0.28	$ 0.24	$ 0.34	$ 0.19	$ 0.35	$ 0.39	**$ 0.28**
Per share – diluted	$ 0.25	$ 0.28	$ 0.23	$ 0.34	$ 0.19	$ 0.35	$ 0.39	**$ 0.28**
Dividends to shareholders[(3)]	$ 103.9	$ 104.7	$ 114.9	$ 121.8	$ 123.1	$ 123.5	$ 128.7	**$ 131.3**
Per share[(3)]	$ 0.3225	$ 0.3225	$ 0.3525	$ 0.3675	$ 0.3675	$ 0.3675	$ 0.3825	**$ 0.3900**
Shares outstanding (basic)								
Weighted average	321.6	324.2	325.8	331.5	334.8	335.8	336.3	**336.6**
End of period	323.0	325.4	326.2	334.2	335.3	336.2	336.4	**336.7**
Capital expenditures[(4)]								
Growth[(2)]	$ 244.0	$ 256.6	$ 150.3	$ 132.5	$ 67.8	$ 43.4	$ 52.6	**$ 32.2**
Sustaining[(2)]	10.0	11.7	12.7	9.5	10.0	12.3	27.8	**18.0**
	$ 254.0	$ 268.3	$ 163.0	$ 142.0	$ 77.8	$ 55.7	$ 80.4	**$ 50.2**
Payout ratio[(2)]	81.5%	76.6%	74.0%	73.3%	71.9%	63.6%	63.8%	**74.6%**
Total assets	$ 8,366.9	$ 8,548.2	$ 8,647.2	$ 8,733.8	$ 8,955.5	$ 9,010.4	$ 9,029.4	**$ 8,921.9**
Total debt[(5)]	$ 4,283.8	$ 4,396.3	$ 4,590.7	$ 4,680.7	$ 4,865.1	$ 4,876.2	$ 4,851.7	**$ 4,850.2**
Total shareholders' equity	$ 2,521.3	$ 2,566.9	$ 2,548.1	$ 2,737.6	$ 2,732.2	$ 2,805.4	$ 2,821.1	**$ 2,752.9**
Enterprise value[(2)]	$ 14,981.6	$ 16,223.6	$ 16,314.8	$ 15,590.4	$ 14,487.4	$ 13,153.2	$ 12,323.7	**$ 13,857.0**
Consolidated Net Debt to Total Capitalization[(2)]	48.6%	50.1%	52.2%	51.4%	52.8%	52.7%	52.8%	**53.8%**

(1) Cold Lake volumes and Empress V NGL production reported on a 100% basis.

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

(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.

Inter Pipeline's capital under management includes financial debt and shareholders' equity. Management may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the capital structure, Inter Pipeline may adjust the level of cash dividends paid to shareholders, issue new common or preferred shares, issue new debt, renegotiate existing 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, 2016, Inter Pipeline had access to committed credit facilities totaling $2.8 billion, of which $733.0 million remained unutilized, and demand facilities totaling $102.3 million of which $93.8 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 months ended March 31, 2016, approximately $6.4 million of equity was issued through the dividend reinvestment plan.

Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2015. 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 at March 31, 2016, no Securities have been issued under the base shelf prospectus.

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

---

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Credit Facilities and Debt Outstanding

(millions)	Recourse	Non-recourse	March 31 2016	December 31 2015
Credit facilities available				
Corridor syndicated credit facility	$ -	$ 1,550.0	**$ 1,550.0**	$ 1,550.0
Inter Pipeline syndicated credit 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]	77.3	25.0	**102.3**	105.8
	$ 1,327.3	$ 1,575.0	**$ 2,902.3**	$ 2,905.8
Total debt outstanding[2]				
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility			**$ 692.0**	$ 664.0
Medium-Term Notes Series 1 to 7			**2,625.0**	2,625.0
Inter Terminals demand facility[1]			**8.2**	26.5
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility			**1,375.0**	1,386.2
Corridor Debentures			**150.0**	150.0
Total debt outstanding[2][3]			**$ 4,850.2**	$ 4,851.7

(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 were converted at a Pound Sterling/CAD rate of 1.8654 at March 31, 2016.

(2) At March 31, 2016, outstanding Inter Pipeline letters of credit of approximately $0.3 million were not included in total debt outstanding.

(3) Financial debt reported in the March 31, 2016 consolidated financial statements of $4,832.1 million, includes long-term debt, short-term debt and commercial paper outstanding of $4,850.2 million less discounts and debt transaction costs of $18.1 million.

Inter Pipeline's debt outstanding at March 31, 2016, matures at various dates up to May 2044 as follows:

(millions)	Amount	Rate	Maturity date
Inter Pipeline Ltd.			
Inter Pipeline syndicated credit facility	$ 692.0	Variable	December 4, 2020
Medium-Term Notes			
Series 1	325.0	4.967%	February 2, 2021
Series 2	200.0	3.839%	July 30, 2018
Series 3	400.0	3.776%	May 30,2022
Series 4	500.0	3.448%	July 20, 2020
Series 5	500.0	4.637%	May 30, 2044
Series 6	400.0	CDOR plus 49 bps	May 30, 2017
Series 7	300.0	3.173%	March 24, 2025
Inter Pipeline (Corridor) Inc.			
Corridor syndicated credit facility	1,375.0	Variable	December 13, 2019
Corridor Debentures	150.0	4.897%	February 3, 2020
Inter Terminals Limited and Inter Terminals EOT ApS			
Pound Sterling 20 million demand facility	8.2	Variable	Demand

Financial Covenants

Inter Pipeline was in compliance with all covenants under its credit facilities and medium-term notes as at March 31, 2016.

The following table provides a listing of the key financial covenants as at March 31, 2016:

	Maximum Ratio	March 31 2016
Inter Pipeline Ltd.		
Inter Pipeline syndicated credit facility		
Consolidated Net Debt to Total Capitalization(1)(2)(3)(4)	65%	53.8%
Medium-Term Notes Series 1 to 7		
Funded Debt to Total Capitalization(2)(5)(6)	70%	54.1%
Inter Pipeline (Corridor) Inc.		
Corridor syndicated credit facility		
Corridor Debentures		
Rate Base Debt to Rate Base(7)(8)	75%	73.5%

(1) "Consolidated Net Debt" includes the aggregate amount of all debt of the borrower and its restricted subsidiaries, but excludes debt of any unrestricted subsidiary which is not guaranteed by the borrower or any restricted subsidiary, subordinated debt, non-recourse debt and debt attributable to any non-controlling interest, less cash and cash equivalents owned by the borrower and its restricted subsidiaries, but excluding any such cash or cash equivalents owned by an unrestricted subsidiary or attributable to any non-controlling interest, provided that the use or application of such cash and cash equivalents is not encumbered or restricted by contract or regulatory requirements.

(2) Inter Pipeline (Corridor) Inc. is not considered a restricted subsidiary under Inter Pipeline's syndicated credit facility or medium-term note indenture and, as a result, its debt and assets are excluded from all financial covenant calculations under those agreements.

(3) "Total Capitalization" for Inter Pipeline's syndicated credit facility covenant is the sum of debt, but excluding non-recourse debt, debt attributable to unrestricted subsidiaries or any non-controlling interest, plus convertible debentures, plus consolidated shareholders' equity of the borrower, but excluding any shareholders' equity from or attributable to non-recourse assets, unrestricted subsidiaries or any non-controlling interest, plus a $243.8 million adjustment related to Canadian SIFT legislation.

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

(5) "Funded Debt" includes long-term debt of the issuer and its restricted subsidiaries, but excluding non-recourse debt, subordinated debt and any obligations of the issuer to a restricted subsidiary or of a restricted subsidiary to the issuer or another restricted subsidiary.

(6) "Total Capitalization" for Inter Pipeline's medium-term notes covenant is the sum of Funded Debt plus subordinated debt, plus consolidated equity, plus the amount of any minority interests in restricted subsidiaries, plus a $243.8 million adjustment related to Canadian SIFT legislation.

(7) "Rate Base Debt" includes all Corridor debt excluding debt incurred in connection with financing additions to the rate base prior to the time those additions form part of the rate base, debt incurred to fund recoverable expenditures under the Corridor Firm Service Agreement (FSA) and subordinated debt.

(8) "Rate Base" includes the invested capital to bring the asset to service pursuant to the Corridor FSA.

The Corridor pipeline system is operated under the Corridor FSA, which is a long-term cost-of-service contract that provides for the 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, Corridor's FFO* is not impacted by throughput volumes or commodity price fluctuations. Inter Pipeline actively manages Corridor's debt level to ensure the actual rate base debt to rate base ratio is very close to the benchmark criteria (i.e. not more than 75%) to optimize its defined capital structure.

At March 31, 2016, approximately $2,475.2 million or 51.0% of Inter Pipeline's total debt outstanding was exposed to variable interest rates. Of this amount $1,375.0 million or 55.6% 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.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

The following interest coverage* ratio is calculated on a consolidated basis for the twelve month periods ended March 31, 2016 and December 31, 2015.

	Twelve Months Ended	
	March 31	December 31
(times)	**2016**	2015
Interest coverage[(1)(2)]	**5.3**	5.4

(1) Please refer to the NON-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.

Credit Ratings

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

	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 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, 2016. 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.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects(1)(2)				
Oil sands transportation(2)	$ 342.6	$ 40.9	$ 257.9	$ 43.8
Conventional oil pipelines	77.6	77.6	-	-
Bulk liquid storage	36.2	36.2	-	-
NGL extraction	4.7	4.7	-	-
Growth capital funded by Inter Pipeline(2)(3)	461.1	159.4	257.9	43.8
Sustaining capital funded by Inter Pipeline(2)(3)	47.7	47.7	-	-
	508.8	207.1	257.9	43.8
Total debt(4)(5)(6)				
Corridor syndicated credit facility(5)	1,375.0	1,375.0	-	-
Inter Pipeline syndicated credit facility	692.0	-	692.0	-
Corridor Debentures	150.0	-	150.0	-
Medium-Term Notes Series 1 to 7	2,625.0	-	1,425.0	1,200.0
Inter Terminals demand facility	8.2	8.2	-	-
	4,850.2	1,383.2	2,267.0	1,200.0
Other obligations				
Operating leases	339.8	25.5	97.9	216.4
Purchase obligations	209.0	43.1	56.5	109.4
Long-term portion of incentive plan	4.5	-	4.5	-
Adjusted working capital deficit(3)	49.3	49.3	-	-
	$ 5,961.6	$ 1,708.2	$ 2,683.8	$ 1,569.6

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2016.

(2) Inter Pipeline's expected growth and sustaining capital(3) spending profile including the 15% non-controlling interest in Cold Lake is $548.2 million.

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

(4) At March 31, 2016, outstanding Inter Pipeline letters of credit of approximately $0.3 million were not included in total debt outstanding. Financial debt reported in the March 31, 2016 consolidated financial statements of $4,832.1 million, includes long-term debt, short-term debt and commercial paper of $4,850.2 million less discounts and debt transaction costs of $18.1 million.

(5) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated credit facility that has no repayment requirements until December 2019.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

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) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2094.

(ii) Working capital deficiencies* arise primarily from capital expenditures outstanding in accounts payable and accrued liabilities at the end of a period.

(iii) Inter Pipeline has obligations of $26.3 million under its employee long-term incentive plan, of which $21.8 million is included in the working capital deficit*.

(iv) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL straddle plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $96.2 million at March 31, 2016. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended March 31	
(millions, except per share and % amounts)	**2016**	2015
Cash provided by operating activities	**$ 175.3**	$ 158.6
Net change in non-cash operating working capital	**10.7**	17.9
Less funds from operations[1] attributable to non-controlling interest	**(10.1)**	(10.2)
Funds from operations[1] attributable to shareholders	**$ 175.9**	$ 166.3
Dividends to shareholders	**$ 131.3**	$ 121.8
Dividends per share[2]	**$ 0.3900**	$ 0.3675
Payout ratio[1]	**74.6%**	73.3%

(1) Please refer to the NON-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 objective is to provide shareholders with stable dividends over economic and industry cycles. 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 a non-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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

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.

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

	Three Months Ended March 31	
(millions)	**2016**	2015
Cash provided by operating activities	**$ 175.3**	$ 158.6
Less cash provided by operating activities attributable to non-controlling interest	**(9.7)**	(2.2)
Dividends to shareholders	**(131.3)**	(121.8)
Excess	**$ 34.3**	$ 34.6

	Three Months Ended March 31	
(millions)	**2016**	2015
Net income attributable to shareholders	**$ 95.8**	$ 113.7
Dividends to shareholders	**(131.3)**	(121.8)
Shortfall	**$ (35.5)**	$ (8.1)

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 as net income 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, 2016 are as follows:

(millions)	Total
Common shares outstanding	336.7

At May 5, 2016, Inter Pipeline had 336.8 million common shares outstanding.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Market Risk Management

Inter Pipeline may utilize derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign currencies and interest rates. Market risk management strategies 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 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 market risk management policy.

Inter Pipeline may enter 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 long-term debt, short-term debt and commercial paper outstanding at March 31, 2016. 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, 2016, 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, 2016, there are no electricity price swap or heat rate price swap agreements outstanding.

Bulk Liquid Storage Business

FOREIGN EXCHANGE RISK MANAGEMENT

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant

---

* Please refer to the NON-GAAP FINANCIAL MEASURES section

historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at March 31, 2016, there are no foreign currency 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 value 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 may enter into interest rate or cross-currency swap agreements to manage its interest rate price risk exposure. As at March 31, 2016, there are no interest rate hedges outstanding.

Based on the variable rate obligations outstanding at March 31, 2016, a 1% change in interest rates at this date would have changed interest expense for the three months ended March 31, 2016, by approximately $6.2 million assuming all other variables remain constant. Of this amount, $3.4 million for the three months ended March 31, 2016, relate to Corridor's syndicated credit facility and is recoverable through the terms of the Corridor FSA, therefore the after-tax income impact for the three months ended March 31, 2016 would be $2.0 million.

Credit Risk

Inter Pipeline's credit risk exposure relates primarily to the non-performance of its customers and financial counterparties holding cash, accounts receivable, and prepaid expenses and other deposits. Credit risk is managed through Inter Pipeline's credit management policy, which establishes guidelines for defining and measuring credit risk, determining credit risk thresholds and monitoring credit risk exposures to counterparties and vendors. 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, 2016, accounts receivable associated with these two business segments were $93.3 million or 63.8% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

With respect to credit risk arising from cash and cash equivalents, deposits and derivative financial instruments, Inter Pipeline believes the risk of non-performance of counterparties is minimal as cash and deposits 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. Accounts receivable are deemed past due if they are aged greater than 60 days and are considered to be impaired if one or more events have occurred that would impact the estimated future cash flows of that asset. At March 31, 2016, accounts receivable outstanding meeting the definition of either past due or impaired are insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three month periods ended March 31, 2016 or 2015.

CONTROLS AND PROCEDURES

There have been no significant changes in Inter Pipeline’s internal control over financial reporting (ICFR) during the period December 31, 2015 to March 31, 2016 that have materially affected, or are reasonably likely to materially affect, Inter Pipeline’s ICFR.

Management has limited the scope of their design of disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of Inter Terminals Sweden, the results of which are consolidated in Inter Pipeline’s interim financial statements at June 30 and September 30, 2015, audited consolidated financial statements at December 31, 2015 and interim financial statements at March 31, 2016. See the Bulk Liquid Storage Business Segment in the **RESULTS OF OPERATIONS** section of this report for further information regarding Inter Terminals Sweden.

In June 2015, Inter Pipeline acquired Inter Terminals Sweden. Where possible, Inter Terminals Sweden has adopted Inter Pipeline’s DC&P and ICFR. For business processes unique to Inter Terminals Sweden, management is committed to completing DC&P and ICFR before the end of the second quarter of the 2016 fiscal year.

CRITICAL ACCOUNTING ESTIMATES

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, 2015 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 month period ended March 31, 2016 have been presented in accordance with International Accounting Standards (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, 2015.

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, 2018, 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.

IFRS 16 *Leases* (IFRS 16)

IFRS 16 replaces IAS 17 *Leases* and shall be applied to annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Inter Pipeline is currently assessing the impact of IFRS 16; however, the extent of the impact has not yet been determined.

RISK FACTORS

During the first quarter of 2016, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2015 annual MD&A.

NON-GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "EBITDA", "adjusted EBITDA", "Consolidated Net Debt to Total Capitalization", "enterprise value", "funds from operations", "funds from operations per share", "growth capital expenditures", "sustaining capital expenditures", "interest coverage", and "payout ratio" are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

The following non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund monthly 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, commercial paper and current portion of long-term debt. This financial measure is used by Inter Pipeline in the Contractual Obligations, Commitments and Guarantees table in the **LIQUIDITY AND CAPITAL RESOURCES** section of this MD&A to capture other working capital items not specifically included in the table.

(millions)	March 31 **2016**	December 31 2015
Current assets		
Cash and cash equivalents	**$ 27.5**	$ 40.3
Accounts receivable	**146.4**	183.1
Prepaid expenses and other deposits	**14.6**	26.9
Current liabilities		
Dividends payable	**(43.8)**	(43.8)
Accounts payable, accrued liabilities and provisions	**(178.0)**	(220.6)
Current income taxes payable	**(1.8)**	(29.6)
Deferred revenue	**(14.2)**	(7.5)
Adjusted working capital deficiency	**$ (49.3)**	$ (51.2)

EBITDA and 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 loss (gain) on disposal of assets, non-cash expense (recovery), 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.

	Three Months Ended March 31	
(millions)	**2016**	2015
Net income	**$ 104.6**	$ 122.8
Financing charges	**35.3**	34.1
Current income tax expense	**19.0**	14.3
Deferred income tax expense	**13.0**	20.0
Depreciation and amortization	**54.9**	42.4
EBITDA	**$ 226.8**	$ 233.6
Loss (gain) on disposal of assets	**0.5**	(1.2)
Non-cash financing charges	**(1.5)**	(1.6)
Non-cash expense (recovery)	**13.0**	(7.6)
Unrealized change in fair value of derivative financial instruments	**-**	0.1
Adjusted EBITDA	**$ 238.8**	$ 223.3
Less adjusted EBITDA attributable to non-controlling interest	**(10.1)**	(10.2)
Adjusted EBITDA attributable to shareholders	**$ 228.7**	$ 213.1

Adjusted EBITDA by contract type is a percentage of adjusted EBITDA, reconciled in the table above, based on (i) cost-of-service contracts which generally provide for a return on invested capital and recovery of substantially all operating costs. This includes both cost-of-service contracts (agreements that are not impacted by throughput volume or commodity price fluctuations) and modified cost-of-service contracts (agreements that may have throughput volume exposure in certain circumstances) collectively referred to as cost-of-service contracts, (ii) fee-based contracts are generally subject to throughput volume and operating cost exposure, but not commodity price fluctuations, and (iii) commodity-based contracts are generally subject to throughput volume, operating cost and commodity price fluctuations. This measure, in combination with other measures, is used by the investment community to assess the overall stability and predictability of the business.

	Three Months Ended March 31	
	2016	2015
Adjusted EBITDA by contract type		
Cost-of-service	**61%**	61%
Fee-based	**32%**	31%
Commodity-based	**7%**	8%

	Cost-of-service	Fee-based	Commodity-based
Contract type by business segment			
Oil sands transportation	√	-	-
Conventional oil pipelines	-	√	√
Bulk liquid storage	-	√	-
NGL extraction	√	√	√

Consolidated Net Debt to Total Capitalization is disclosed and discussed in the Financial Covenant table of the **LIQUIDITY AND CAPITAL RESOURCES** section of this report. This measure in combination with other measures, are used by the investment community to assess the financial strength of the business.

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

(millions, except per share amounts)	March 31 **2016**	December 31 2015
Closing share price	**$ 26.75**	$ 22.21
Total closing number of common shares outstanding	**336.7**	336.4
	9,006.8	7,472.0
Total debt	**4,850.2**	4,851.7
Enterprise value	**$ 13,857.0**	$ 12,323.7

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

	Three Months Ended March 31	
(millions)	**2016**	2015
Net income	**$ 104.6**	$ 122.8
Depreciation and amortization	**54.9**	42.4
Loss (gain) on disposal of assets	**0.5**	(1.2)
Non-cash expense (recovery)	**13.0**	(7.6)
Unrealized change in fair value of derivative financial instruments	**-**	0.1
Deferred income tax expense	**13.0**	20.0
Funds from operations	**$ 186.0**	$ 176.5
Less funds from operations attributable to non-controlling interest	**(10.1)**	(10.2)
Funds from operations attributable to shareholders	**$ 175.9**	$ 166.3
Funds from operations	**$ 186.0**	$ 176.5
Total interest less capitalized interest	**33.8**	32.5
Current income tax expense	**19.0**	14.3
Adjusted EBITDA	**$ 238.8**	$ 223.3
Less adjusted EBITDA attributable to non-controlling interest	**(10.1)**	(10.2)
Adjusted EBITDA attributable to shareholders	**$ 228.7**	$ 213.1

Growth capital expenditures are generally defined as expenditures which are recoverable or 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			
			2016	2015
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 5.0**	**$ 0.1**	**$ 5.1**	$ 81.2
Conventional oil pipelines	**16.7**	**0.6**	**17.3**	48.4
Bulk liquid storage	**10.2**	**1.5**	**11.7**	6.1
NGL extraction	**0.3**	**6.4**	**6.7**	4.2
Corporate(2)	**-**	**9.4**	**9.4**	2.1
Capital expenditures	**$ 32.2**	**$ 18.0**	**$ 50.2**	$ 142.0
Capital expenditures funded by Inter Pipeline(1)	**$ 32.0**	**$ 18.0**	**$ 50.0**	$ 136.5

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

(2) Corporate sustaining capital predominately relates to leasehold improvement costs for the new office space.

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.

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 9th day of May, 2016

Interim Consolidated Balance Sheets

(unaudited) (millions of Canadian dollars)	March 31 2016	As at December 31 2015
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 27.5**	$ 40.3
Accounts receivable	**146.4**	183.1
Prepaid expenses and other deposits	**14.6**	26.9
Total Current Assets	**188.5**	250.3
Non-Current Assets		
Property, plant and equipment (note 2)	**8,153.0**	8,183.9
Goodwill and intangible assets	**580.4**	595.2
Total Assets	**$ 8,921.9**	$ 9,029.4
LIABILITIES AND EQUITY		
Current Liabilities		
Dividends payable (note 4)	**$ 43.8**	$ 43.8
Accounts payable, accrued liabilities and provisions (note 7)	**178.0**	220.6
Current income taxes payable	**1.8**	29.6
Deferred revenue	**14.2**	7.5
Demand facility (note 5)	**8.1**	26.4
Commercial paper (note 5)	**1,373.1**	1,384.4
Total Current Liabilities	**1,619.0**	1,712.3
Non-Current Liabilities		
Long-term debt (note 5)	**3,450.9**	3,421.9
Provisions (note 6)	**108.2**	89.6
Employee benefits (note 7)	**17.8**	20.3
Long-term deferred revenue and other liabilities	**10.6**	10.7
Deferred income taxes	**627.4**	618.0
Total Liabilities	**5,833.9**	5,872.8
Commitments (notes 2 and 10)		
Shareholders' Equity		
Shareholders' equity (note 8)	**2,678.1**	2,707.2
Total reserves	**74.8**	113.9
Total Shareholders' Equity	**2,752.9**	2,821.1
Non-Controlling Interest (note 9)	**335.1**	335.5
Total Equity	**3,088.0**	3,156.6
Total Liabilities and Equity	**$ 8,921.9**	$ 9,029.4

See accompanying condensed notes to the interim consolidated financial statements.

Interim Consolidated Statements of Changes in Equity

(unaudited) (millions of Canadian dollars)

	Attributable to Shareholders of Inter Pipeline Ltd.						
	Share Capital (note 8)	Earnings / (Deficit)	Contributed Surplus	Reserves	Total Shareholders' Equity	Non-Controlling Interest (note 9)	Total Equity
Balance, January 1, 2016	$ 2,889.4	$ (184.7)	$ 2.5	$ 113.9	$ 2,821.1	$ 335.5	**$ 3,156.6**
Net income for the period	-	95.8	-	-	95.8	8.8	**104.6**
Other comprehensive loss	-	-	-	(39.1)	(39.1)	-	**(39.1)**
Dividends declared (note 4)	-	(131.3)	-	-	(131.3)	-	**(131.3)**
Issuance of common shares (note 8)							
Issued under Premium Dividend™ and Dividend Reinvestment Plan	6.4	-	-	-	6.4	-	**6.4**
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	(9.3)	**(9.3)**
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	0.1	**0.1**
Balance, March 31, 2016	$ 2,895.8	$ (220.2)	$ 2.5	$ 74.8	$ 2,752.9	$ 335.1	**$ 3,088.0**
Balance, January 1, 2015	$ 2,625.9	$ (115.0)	$ 2.5	$ 34.7	$ 2,548.1	$ 326.5	$ 2,874.6
Net income for the period	-	113.7	-	-	113.7	9.1	122.8
Other comprehensive loss	-	-	-	(4.0)	(4.0)	-	(4.0)
Dividends declared (note 4)	-	(121.8)	-	-	(121.8)	-	(121.8)
Issuance of common shares (note 8)							
Issued under Premium Dividend™ and Dividend Reinvestment Plan	31.6	-	-	-	31.6	-	31.6
Exchanged from convertible shares	170.0	-	-	-	170.0	-	170.0
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	(5.9)	(5.9)
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	6.4	6.4
Balance, March 31, 2015	$ 2,827.5	$ (123.1)	$ 2.5	$ 30.7	$ 2,737.6	$ 336.1	$ 3,073.7

See accompanying condensed notes to the interim consolidated financial statements.

™ Denotes trademark of Canaccord Genuity Corp.

Interim Consolidated Statements of Net Income

(unaudited) (millions of Canadian dollars)	Three Months Ended March 31 2016	2015
REVENUES		
Operating revenues	**$ 416.4**	$ 405.8
EXPENSES		
Shrinkage gas	**36.4**	51.2
Midstream product purchases	**17.2**	14.9
Operating	**92.3**	88.6
Depreciation and amortization	**54.9**	42.4
Financing charges (note 14)	**35.3**	34.1
General and administrative	**43.2**	18.6
Unrealized change in fair value of derivative financial instruments	**-**	0.1
Loss (gain) on disposal of assets	**0.5**	(1.2)
Total Expenses	**279.8**	248.7
INCOME BEFORE INCOME TAXES	**136.6**	157.1
Income tax expense		
Current	**19.0**	14.3
Deferred	**13.0**	20.0
Total Income Tax Expense	**32.0**	34.3
NET INCOME	**$ 104.6**	$ 122.8
Net income attributable to		
Shareholders of Inter Pipeline Ltd.	**$ 95.8**	$ 113.7
Non-controlling interest (note 9)	**8.8**	9.1
Net Income	**$ 104.6**	$ 122.8
Net income per share attributable to shareholders of Inter Pipeline Ltd. (note 8)		
Basic and diluted	**$ 0.28**	$ 0.34

See accompanying condensed notes to the interim consolidated financial statements.

Interim Consolidated Statements of Comprehensive Income

	Three Months Ended March 31	
(unaudited) (millions of Canadian dollars)	**2016**	2015
NET INCOME	**$ 104.6**	$ 122.8
OTHER COMPREHENSIVE LOSS		
Item that may be reclassified subsequently to net income		
Unrealized loss on translating financial statements of foreign operations	**(39.1)**	(4.0)
Other Comprehensive Loss	**(39.1)**	(4.0)
COMPREHENSIVE INCOME	**$ 65.5**	$ 118.8
Comprehensive income attributable to		
Shareholders of Inter Pipeline Ltd.	**$ 56.7**	$ 109.7
Non-controlling interest (note 9)	**8.8**	9.1
Comprehensive Income	**$ 65.5**	$ 118.8

See accompanying condensed notes to the interim consolidated financial statements.