

**INTER PIPELINE LTD.
COMPENSATION COMMITTEE
TERMS OF REFERENCE**

ESTABLISHMENT OF COMPENSATION COMMITTEE

A committee of the Board of Directors of Inter Pipeline Ltd. (the “Company”) to be known as the “Compensation Committee” is hereby established.

MEMBERSHIP

The Committee shall consist of not less than three directors, a majority of whom are resident Canadians (as defined in the Alberta Business Corporations Act), and all of whom are independent directors within the meaning of the current definition of such term prescribed by the Toronto Stock Exchange and any regulatory body having jurisdiction over the Company.

MANDATE

1. General Mandate

The mandate of the Committee is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities in relation to the Company’s compensation programs, including executive compensation and related matters, and director compensation programs.

2. Specific Mandate

I. The Compensation Committee shall:

- a) Review the compensation philosophy of the Company and make recommendations to the Board as to changes to improve the Company’s ability to recruit, retain and motivate employees;
- b) Review and approve corporate goals and objectives relative to Chief Executive Officer (“CEO”) compensation, evaluate the CEO’s performance in light of those corporate goals and objectives, and make recommendations to the Board with respect to the CEO’s compensation level based on this evaluation;
- c) Make recommendations to the Board with respect to non-CEO officer and director compensation, incentive-compensation plans and share or equity-based plans;
- d) Select, and periodically review, the Company’s comparator group of companies used to benchmark officer, employee and director compensation;

- e) Investigate and report to the Board as to the implementation and administration of the Restricted Share Unit Plan and the Performance Share Unit Plan and make recommendations to the Board as to the application of such plans and any proposed amendments thereto;
 - f) Review and recommend to the Board any agreements with officers with respect to compensation, benefits, or termination arrangements and oversee administration of any such agreements as required;
 - g) Review the application of the Company's compensation philosophy to Company employees reporting through senior management and make recommendations to the Board as to appropriate levels of authority for senior management as to compensation of those employees;
 - h) Review the compensation packages of Company employees who hold positions of senior management and make recommendations on appropriate forms and levels of compensation for such employees to the Board;
 - i) Provide risk management oversight in relation to the Company's compensation policies and practices;
 - j) Review executive compensation disclosure to be included in the Company's Information Circulars; and
 - k) Oversee the retention of, and the relationship with, executive compensation consultants.
- II. The Committee clearly places the onus on management to report employee compensation matters that may be relevant to the Committee.

ADMINISTRATIVE MATTERS

1. Appointment of Committee Members

Members of the Committee shall be appointed annually by the Board.

2. Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board and shall be filled by the Board if the membership of the Committee is less than three directors.

3. Committee Chair

The Board shall appoint a Chair of the Committee. The Chair shall convene and direct meetings of the Committee and prepare and/or approve an agenda in advance of each meeting.

4. Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen to preside at the meeting.

5. Secretary of Committee

The Committee shall appoint a Secretary who need not be a director of the Company.

6. Meetings

The Committee shall meet at least semi-annually. The Chair or any two members of the Committee may call a meeting of the Committee.

7. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing (including by email or by facsimile communication) to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive a notice of a meeting; and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

8. Quorum

A simple majority of the members of the Committee, present in person or by telephone or other communication device that permits all persons participating in the meeting to speak to each other, shall constitute a quorum.

9. Voting

Voting in respect of matters before the Committee will be by simple majority. In the case of an equality of votes, the Chair will not have a second or deciding vote.

10. Attendance of Non-Committee Members at Meeting

At the invitation of the Chair of the Committee, one or more officers, employees or consultants of the Company may attend any meeting of the Committee. All directors of the Company may attend all meetings of the Committee.

11. Procedures, Records and Reporting

The Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate (but generally, not later than the next meeting of the Board).

12. Review of Terms of Reference

The Committee shall review its terms of reference annually or otherwise, as it deems appropriate, and propose or recommend changes to the Board.

13. Outside Advisors

The Committee has the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.