

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

ESTABLISHMENT OF AUDIT COMMITTEE

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

MEMBERSHIP

The Committee shall consist of not less than three directors, a minimum of twenty-five percent 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.

All Committee members shall be “financially literate” meaning having the ability to read and understand a set of financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements. At least one member of the Committee shall have accounting or related financial management expertise.

MANDATE

1. General Mandate

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting matters.

2. Specific Mandate

- I. The Committee shall carry out the responsibilities of an audit committee as are prescribed by law or requested by the Board from time to time including, without limitation, the following matters:

Matters relating to oversight of financial reporting

- a) Review the Company’s quarterly and annual financial statements, MD&A and earnings news releases before such information is publicly disclosed. This review will include a discussion with management and the external auditors of significant issues regarding the financial results, accounting principles, practices and management estimates and judgments;
- b) Ensure that adequate procedures are in place for the review of the Company’s disclosure of financial information extracted or derived from the Company’s financial statements and periodically assess those procedures;

- c) Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements;
- d) Review any changes in accounting policy;
- e) Obtain and review summaries of significant or unusual transactions, and other potentially complex matters whose treatment in the financial statements merits advance consideration;

Matters relating to oversight of external auditors

- f) Have responsibility for oversight of the external auditors who shall report directly to the Committee;
- g) Make recommendations to the Board with respect to the external auditors as well as compensation to be paid to such auditors;
- h) Review and approve the annual Audit Plan, process, results and performance of the independent external auditors;
- i) Pre-approve all non-audit services to be provided to the Company by the external auditors;
- j) Review all material written communications between the external auditors and management, including the annual management representation letter, summary of unrecorded differences, and reports (including recommendations regarding internal controls which shall be reviewed with the auditors and management to understand proposed steps to be taken to address any identified issues);
- k) Be involved in the resolution of disagreements between management and the external auditor regarding financial reporting;
- l) Review and approve any hiring policies regarding partners, employees and former partners and employees of the present and any former external auditors;
- m) Annually evaluate, and periodically undertake a comprehensive review of, the external auditors, in conjunction with management, prior to making a recommendation to the Board regarding the Board's determination of whether to recommend the auditors to the Company's shareholders for appointment at the Company's next annual general meeting of shareholders, or whether to consider possible rotation of audit firms and/or audit partners, which evaluation shall include an assessment of: the qualifications and performance of the external auditors; the quality and candor of the external auditors' communications with the Committee and the Company; and the external auditors' independence, objectivity and professional skepticism;

Matters relating to oversight of internal controls

- n) Monitor the integrity of the financial reporting process and the system of internal controls that management and the Board have established;
- o) Review on a quarterly basis the process and progress of the Company in evaluating the internal control system to ensure readiness to comply with the required officer certifications of the effectiveness of internal controls in the timeframes prescribed by law;

Matters relating to oversight of internal audit

- p) Review and approve the annual Internal Audit Plan and receive and consider quarterly updates from the internal auditors with respect to the work performed pursuant to the Internal Audit Plan;
- q) Review and approve the Internal Audit Charter annually;

Matters relating to oversight of risk management

- r) On a quarterly basis, receive and consider updates by management with respect to the Company's market risk management program and the extent of market risk management transactions outstanding;
- s) Monitor the management of the principal risks that could impact the financial reporting of the Company;

Matters relating to whistleblowing

- t) Monitor the maintenance by the Company of a "Whistleblower" policy establishing a process pursuant to which anonymous submissions from directors, officers, employees, contractors, consultants and representatives can be made regarding the Company's actions or business practices, including accounting, internal controls or auditing matters;
- u) Review and respond to any complaints of a financial nature or relating to internal financial controls received by the Company through the "whistleblower" process and report any such complaints and their disposition to the Board at least annually;

Other matters

- v) Review the Annual Information Form and any Information Circular;
- w) Periodically self-assess the Committee's performance and effectiveness in fulfilling its role; and
- x) Conduct other investigations or assignments as assigned by the Board or deemed necessary by the Committee to fulfill its mandate.

- II. Notwithstanding the foregoing oversight responsibilities of the Committee:
- a) Management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements and publicly disclosed documents as well as the Company's financial reporting process, accounting policies, internal controls over financial reporting, internal audit function, risk management activities and disclosure controls and procedures;
 - b) The external auditors are responsible for planning and conducting audits of the Company's annual financial statements; expressing an opinion as to the conformity of such annual financial statements with GAAP or any other applicable laws, rules and regulations; and planning and conducting reviews of the Company's quarterly financial statements; and
 - c) Each member of the Committee shall be entitled to rely on the integrity of those persons within the Company and the integrity of the professionals and experts (including the Company's internal auditor (or others responsible for the internal audit function, including contracted non-employee or audit or accounting firms engaged to provide internal audit services), and the Company's external auditors) from which the Committee receives information and, absent actual knowledge to the contrary, the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts.

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 quarterly. The Chair or any two members of the Committee may call a meeting of the Committee. The Committee shall meet in camera at least quarterly with management and the external auditors to discuss audit, financial and other matters as appropriate. The Committee may meet privately with the Company's internal auditors as the Committee deems necessary or if requested by the Company's internal auditors.

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 at least annually or otherwise, as it deems appropriate, and propose or recommend changes to the Board.

13. Outside Advisors

The Committee shall have the authority to conduct any investigation appropriate to fulfilling its responsibilities and shall have direct access to anyone in the organization and to the external auditors who will report directly to the Committee. 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. The Committee has the authority to communicate directly with any internal and external auditors. The Chair of the Committee shall have the authority to approve the engagement of, and compensation to be paid to, any outside advisors by the Company's internal auditors in order for said auditors to carry out their duties.

14. External Auditors

The external auditors shall receive notice of every meeting of the Committee.