Management's Discussion and Analysis

For the three and six months ended June 30, 2014

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights Inter Pipeline Ltd.'s (Inter Pipeline) significant business results and statistics for the three and six month periods ended June 30, 2014, to provide Inter Pipeline's shareholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Effective September 1, 2013, Inter Pipeline completed an arrangement pursuant to which, among other things, the outstanding Class A units of Inter Pipeline Fund were converted into common shares of Inter Pipeline Ltd. This resulted in the conversion to a dividend paying corporation, Inter Pipeline Ltd., which continues as a successor issuer to Inter Pipeline Fund (Corporate Conversion). In this MD&A, any references to Inter Pipeline prior to September 1, 2013 refer to Inter Pipeline Fund and its consolidated subsidiaries, and any references to Inter Pipeline subsequent to September 1, 2013 refer to Inter Pipeline Ltd. and its consolidated subsidiaries. Similarly, any references to common shares, shareholders or dividends used prior to September 1, 2013, refer to Class A units, unitholders and distributions of Inter Pipeline Fund, and any references to common shares, shareholders or dividends used subsequent to September 1, 2013 refer to common shares, shareholders and dividends of Inter Pipeline Ltd. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of dividends to its shareholders through 2014 and beyond; 2) the maintenance of Inter Pipeline's dividend level combined with the tax treatment of dividends to its shareholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) cash flow projections; 5) timing for completion of various projects, including the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to various oil sands projects; 6) timing and cost schedules of Polaris and Cold Lake capital projects, and forward EBITDA (as defined herein) estimates in respect of these projects; and, 7) capital forecasts.

Readers are cautioned not to place undue reliance on forward-looking statements; as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Inter Pipeline may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits, including the further development of its oil sands pipeline systems; assumptions concerning operational reliability; the availability and price of labour and construction materials; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its affiliates; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and natural gas liquids (NGL) extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; inflation; the ability to access sufficient capital from internal and external sources; risks and uncertainties associated with Inter Pipeline's ability to maintain its current level of cash dividends to its shareholders; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection, instability and political and economic conditions in or affecting countries in which Inter Pipeline and its affiliates operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; the potential delays of and costs of overruns on construction projects, including, but not limited to Inter Pipeline's current oil sands projects and future expansions of Inter Pipeline's oil sands pipeline systems; risks associated with the failure to finalize formal agreements with counterparties in circumstances where letters of intent or similar agreements have been executed and announced by Inter Pipeline; Inter Pipeline's ability to make capital investments and the amounts of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its affiliates; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; difficulty in obtaining necessary regulatory approvals and maintenance of support of such approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. The impact of any one assumption, risk, uncertainty or other factor on a particular forward-looking statement is not determinable with certainty, as these are interdependent and Inter Pipeline's future course of action depends on management's assessment of all information available at the relevant time.

Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled RISK FACTORS for further risk factors. The forward-looking statements contained in this MD&A are made as of the date of this document and, except to the extent expressly required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document and all subsequent forward-looking statements, whether written or oral, attributable to Inter Pipeline or persons acting on Inter Pipeline's behalf are expressly qualified in their entirety by these cautionary statements.

Management's Discussion and Analysis

For the three and six month periods ended June 30, 2014

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and six month periods ended June 30, 2014, as compared to the three and six month periods ended June 30, 2013. The MD&A should be read in conjunction with the June 30, 2014 unaudited condensed interim consolidated financial statements (interim financial statements), the unaudited condensed interim consolidated financial statements and MD&A for the three and six month periods ended June 30, 2013, the MD&A and audited consolidated financial statements for the year ended December 31, 2013, the Annual Information Form dated February 20, 2014, and other information filed by Inter Pipeline at www.sedar.com.

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

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles (GAAP), as outlined in the Chartered Professional Accountant (CPA) Handbook Part I, and used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP and additional GAAP financial measures may not have a standardized meaning, securities regulations require that non-GAAP and additional GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-GAAP and additional GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

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

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SECOND QUARTER HIGHLIGHTS

- Generated funds from operations* (FFO) of $132 million, a 25 percent increase over second quarter 2013
- Declared cash dividends of $104 million or $0.3225 per share
- Attractive quarterly payout ratio* of 82 percent
- Generated net income of $85 million, a gain of $18 million over second quarter 2013 normalized results
- Incurred growth capital expenditures* of $235 million, primarily related to Inter Pipeline's $2.9 billion expansion program on the Cold Lake and Polaris pipeline systems
- Total pipeline throughput volumes averaged 1,058,900 barrels per day (b/d)
- Conventional oil pipeline throughput volumes increased 30,000 b/d or 18% over second quarter 2013 levels to 200,900 b/d
- Announced a long-term agreement to provide diluent transportation service to the JACOS-Nexen Hangingstone project on the Polaris pipeline system
- Issued $900 million of 30-year fixed and 3-year floating rate notes at attractive interest rates

SUBSEQUENT EVENTS

- Announced $100 million expansion of the Mid-Saskatchewan pipeline system to accommodate strong producer demand
- The first $1.1 billion phase of the Polaris pipeline expansion was successfully completed as a new 290 kilometre (km) mainline and associated pipeline laterals were placed into commercial service
- Construction of the Canexus unit train rail loading connection to the Cold Lake pipeline system was completed on schedule and placed into commercial service

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

PERFORMANCE OVERVIEW

	Three Months Ended June 30		Six Months Ended June 30	
(millions, except per share and % amounts)	2014	2013	2014	2013
Revenues				
Oil sands transportation	$ 102.9	$ 93.3	$ 208.0	$ 184.9
Conventional oil pipelines	96.0	71.5	187.2	138.8
NGL extraction	137.0	117.5	305.4	246.9
Bulk liquid storage	40.0	38.0	86.0	77.4
	$ 375.9	$ 320.3	$ 786.6	$ 648.0
Funds from operations[1][2]				
Oil sands transportation[2]	$ 63.0	$ 49.0	$ 126.4	$ 99.8
Conventional oil pipelines	49.6	43.5	95.6	83.9
NGL extraction	34.7	31.1	83.2	74.1
Bulk liquid storage	18.2	19.5	39.8	39.9
Corporate costs	(33.9)	(37.7)	(81.7)	(82.9)
	$ 131.6	$ 105.4	$ 263.3	$ 214.8
Per share[1]	$ 0.41	$ 0.37	$ 0.84	$ 0.77
Net income (loss)[3]	$ 85.3	$ (281.6)	$ 174.9	$ (209.4)
Net income (loss) attributable to shareholders[3]	$ 81.7	$ (283.9)	$ 167.8	$ (214.2)
Per share – basic	$ 0.25	$ (1.02)	$ 0.53	$ (0.77)
Per share – diluted	$ 0.25	$ (1.02)	$ 0.52	$ (0.77)
Dividends to shareholders	$ 103.9	$ 78.2	$ 203.5	$ 155.0
Per share[4]	$ 0.3225	$ 0.2800	$ 0.6450	$ 0.5575
Shares outstanding (basic)				
Weighted average	321.6	278.8	315.3	277.6
End of period	323.0	280.0	323.0	280.0
Capital expenditures[5]				
Growth[1]	$ 243.8	$ 395.8	$ 788.5	$ 803.4
Sustaining[1]	10.2	5.8	16.4	11.7
	$ 254.0	$ 401.6	$ 804.9	$ 815.1
Payout ratio[1]	81.5%	76.1%	79.7%	74.1%

	As at June 30	As at December 31
(millions, except % amounts)	2014	2013
Total assets	$ 8,366.9	$ 7,657.7
Total debt[6]	$ 4,283.8	$ 3,960.8
Total shareholders' equity	$ 2,521.3	$ 2,100.3
Enterprise value[1]	$ 14,981.6	$ 11,885.4
Total debt to total capitalization[1]	63.0%	65.3%
Total recourse debt to capitalization[1]	51.7%	52.8%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Funds from operations[1] include non-controlling interest amounts of $4.1 million and $8.1 million for the three and six month periods ended June 30, 2014, respectively ($2.6 million and $5.6 million for the three and six month periods ended June 30, 2013, respectively).
(3) In June 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion by indirectly purchasing its general partner, for initial consideration of $170 million, plus closing adjustments of $8.6 million, and a future second instalment of $170 million.
(4) Dividends to shareholders 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) Total debt reported in the June 30, 2014 consolidated financial statements of $4,263.7 million, includes long-term debt, short-term debt and commercial paper of $4,283.8 million less discounts and debt transaction costs of $20.1 million.

THREE MONTHS ENDED JUNE 30, 2014

Inter Pipeline generated strong financial results in the second quarter of 2014. FFO* increased $26.2 million from $105.4 million in 2013 to $131.6 million in 2014. This increase is largely due to strong financial performance in the oil sands transportation, conventional oil pipelines and NGL extraction business segments. FFO* increased 28.6% or $14.0 million to $63.0 million in the oil sands transportation business, primarily due to increased results from the Cold Lake and Polaris pipeline systems. FFO* from the conventional oil pipelines business increased $6.1 million or 14.0% to a new quarterly record of $49.6 million. Higher volumes on all conventional pipeline systems, in addition to a strong contribution from Inter Pipeline's midstream marketing activities were the primary drivers for this increase. Operating results from the NGL extraction business increased $3.6 million or 11.6% to $34.7 million, largely due to higher propane-plus volumes at the Cochrane extraction facility than in 2013 which was impacted by an 18 day full plant maintenance outage. FFO* from the bulk liquid storage business declined $1.3 million due to lower utilization and storage rates, offset in part by favourable foreign exchange. Corporate costs decreased $3.8 million or 10.1% primarily due to the elimination of management and incentive fees due to the Corporate Conversion completed in September 2013.

Inter Pipeline generated net income of $85.3 million in the second quarter of 2014, an increase of $18.3 million over normalized net income* of $67 million after excluding the one-time non-cash internalization cost of $348.6 million in the comparable period in 2013. This is primarily due to the increase in FFO* discussed above offset in part by the increase in deferred income taxes.

Total dividends to shareholders increased $25.7 million or 32.9% to $103.9 million in the second quarter of 2014, compared to the same period in 2013. The increase resulted from higher monthly dividend rates and an increase in the overall number of shares outstanding. Inter Pipeline announced two monthly dividend increases in June and September 2013 totaling $0.18 per common share on an annualized basis. The overall number of common shares outstanding increased largely due to equity offerings in October 2013 and March 2014, as well as strong shareholder participation in Inter Pipeline's dividend reinvestment plan. Inter Pipeline's payout ratio* was 81.5% in the three months ended June 30, 2014.

Inter Pipeline's total consolidated debt increased $128.0 million from $4,155.8 million at March 31, 2014 to $4,283.8 million at June 30, 2014, while $245.6 million was expended by Inter Pipeline on capital projects.

SIX MONTHS ENDED JUNE 30, 2014

Inter Pipeline also generated strong financial results in the six months ended June 30, 2014. FFO* increased 22.6% or $48.5 million from $214.8 million in 2013 to $263.3 million in 2014. The increase in operating results is due to the same reasons discussed above.

Inter Pipeline recorded net income in the six months ended June 30, 2014 of $174.9 million an increase of $35.7 million over normalized net income* of $139.2 million from the same period in 2013 after excluding the one-time non-cash internalization cost of $348.6 million, for the same reasons indicated above.

Total dividends to shareholders, in the six months ended June 30, 2014, increased $48.5 million or 31.3% to $203.5 million, compared to the same period in 2013, for the same reasons mentioned above. Inter Pipeline's payout ratio* for the six months ended June 30, 2013 was an attractive 79.7%.

Inter Pipeline's consolidated debt increased $323.0 million from $3,960.8 million at December 31, 2013 to $4,283.8 million at June 30, 2014. During this period, Inter Pipeline funded capital expenditures of $770.6 million. At June 30, 2014, Inter Pipeline's total recourse debt to capitalization* ratio was 51.7%. Inter Pipeline's total debt to total capitalization ratio* at June 30, 2014 was 63.0%, which includes non-recourse debt of $1,590.2 million held within Inter Pipeline's Corridor corporate entity.

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

OUTLOOK

Inter Pipeline's long-term strategy is to acquire and develop high-quality energy infrastructure assets that generate stable and predictable cash flow. Throughout 2014, our focus remains on the execution of major pipeline expansion programs extending across our oil sands and conventional oil pipeline systems. These large scale development programs are primarily underpinned by long-term contracts with credit-worthy counterparties. Inter Pipeline's portfolio of secured organic growth projects will substantially increase cash flows and should support stable and growing returns to shareholders over the long-term. In addition, the current expansion programs are adding substantial extra transportation capacity that will competitively position Inter Pipeline to pursue future accretive growth opportunities in a capital-efficient manner.

The growth plans for Inter Pipeline's oil sands and conventional oil transportation systems are in direct response to increased producer demand. Development activity in Alberta's oil sands remains robust, and in the conventional oil pipelines segment the use of new technologies in established oil reservoirs is significantly increasing recovery rates and generating significant volume growth for Inter Pipeline.

Development of Inter Pipeline's oil sands transportation systems is central to 2014's capital investment program. The Cold Lake and Polaris pipeline systems are being expanded as a result of multiple major contracts signed over the past few years that have created a need for substantial new bitumen blend and diluent transportation services between the Cold Lake and Athabasca oil sands producing regions and market hubs in Edmonton and Hardisty, Alberta.

The oil sands transportation system expansion program is anchored by long-term cost-of-service agreements with large and stable producers. The FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips, has committed for 500,000 b/d of bitumen blend and 350,000 b/d of diluent transportation capacity for its Foster Creek, Christina Lake and Narrows Lake oil sands projects for terms in excess of 20 years. Inter Pipeline has signed a number of contracts in the past 18 months, including the recently announced JACOS-Nexen agreement, the FCCL agreements, and contracts with Canadian Natural Resources, Imperial Oil, and others, that bring total new contracted volume commitments to approximately 1.1 million b/d. To transport these additional volumes, Inter Pipeline is currently investing over $3 billion (Inter Pipeline's share) to expand and integrate its Cold Lake and Polaris pipeline systems. Once this expansion program is complete, long term annual EBITDA[*] from firm executed contracts is expected to increase by up to $400 million. The cost-of-service agreements supporting this cash flow have no exposure to volume or commodity price fluctuation.

The expansion program includes construction of approximately 400 km of new pipeline on the Cold Lake system and roughly 440 km of new pipeline and associated facilities on the Polaris pipeline system. This additional infrastructure will expand bitumen blend transportation capacity and connect diluent receipt points in the Edmonton area to the Foster Creek, Christina Lake and Narrows Lake projects.

Subsequent to quarter end, Inter Pipeline announced that the first phase of the Polaris pipeline expansion entered into commercial service. A 290 km, 30-inch diameter mainline segment connecting the Lamont pump station to FCCL's Foster Creek and Christina Lake production facilities entered commercial service in July. The successfully completed segment, representing approximately $1.1 billion of the Polaris system's $1.4 billion estimated total expansion cost, increased throughput capacity by 700,000 b/d. Remaining Polaris segments, including a diluent connection to the Narrows Lake production site, are expected to be completed on schedule in phases between late 2014 and mid 2017.

With the new Polaris mainline segment in service, diluent transportation capacity on the Polaris system has increased to approximately 820,000 b/d. Capacity on the Cold Lake system will increase by 550,000 b/d to approximately 1.2 million b/d once Cold Lake expansion components are

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

completed and in service. Ultimate throughput capacities of 1.2 million b/d and 1.9 million b/d on the Polaris and Cold Lake systems, respectively, can be achieved through the addition of pump stations and associated infrastructure. Inter Pipeline continues to aggressively pursue opportunities to utilize this excess capacity.

In the second quarter, Inter Pipeline announced a diluent transportation agreement for the Japan Canada Oil Sands Ltd. (JACOS) and Nexen Energy ULC (Nexen) Hangingstone project. Inter Pipeline will provide 7,000 b/d of firm diluent transportation capacity for a 20 year period, with the potential for further growth if the Hangingstone project is expanded in the future. A new $25 million, 2 km pipeline lateral with associated metering facilities will connect Polaris to the Hangingstone oil sands facility.

In the current quarter, Inter Pipeline completed construction of a 13 km, 24-inch diameter pipeline lateral and associated metering facility to transport bitumen blend from Inter Pipeline's Cold Lake system to a Canexus Corporation (Canexus) owned pipeline via the Polaris pump station near Lamont, Alberta, and was placed into commercial service subsequent to quarter end. Total cost of the project was approximately $60 million (Inter Pipeline's share). Canexus has contracted for 100,000 b/d of firm capacity on the new pipeline lateral, which will have an ultimate throughput capacity of 320,000 b/d.

Capital spending in Inter Pipeline's conventional oil pipelines segment is expected to total approximately $100 million in 2014, an increase of 40% from an earlier estimate of $70 million due to increased project scope. The new connections and pipeline twinning projects are a direct result of growing demand for transportation services as new technology drives increased recoveries from established oil fields. Drilling activity in areas serviced by Inter Pipeline's conventional oil transportation systems remains strong, primarily on the Mid-Saskatchewan pipeline system, creating demand for new connections and other infrastructure upgrades. The 2014 capital program will involve construction of 50 km of new mainline pipe segments, 40 km of new pipeline laterals, and all associated facilities. The $100 million capital investment is expected to generate $25-$30 million in incremental EBITDA[*] once in service by mid 2015.

During the quarter, construction began on six new stainless steel storage tanks with 57,000 barrels of total capacity at Inter Pipeline's terminal located near Mannheim, Germany. This $9 million expansion is in response to strong demand for specialty chemical storage service from the adjacent BASF Ludwigshafen plant, one of the largest chemical production complexes in the world.

Inter Pipeline continues to prudently manage its balance sheet while financing the large capital investment program currently in progress. In May, Inter Pipeline issued $900 million of medium-term notes (MTN) in Canadian debt capital markets. The issue was divided into $500 million of 30-year notes (MTN Series 5) with a fixed interest rate of 4.637%, and $400 million of 3-year notes (MTN Series 6) with a floating interest rate of 3-month Canadian Dealer Offered Rate (CDOR) plus 49 basis points. Net proceeds from the offering were used to pay down a portion of the balance drawn on Inter Pipeline's $1.25 billion syndicated credit facility and for general corporate purposes.

Inter Pipeline maintains investment grade credit ratings from major rating institutions. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's).

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

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

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended June 30			Six Months Ended June 30		
Volumes (000s b/d)	2014	2013	*% change*	2014	2013	*% change*
Cold Lake (100% basis)	497.3	465.3	*6.9*	485.6	499.0	*(2.7)*
Corridor	330.0	303.9	*8.6*	324.5	328.2	*(1.1)*
Polaris	30.7	2.6	*1,080.8*	31.4	1.9	*1,552.6*
	858.0	771.8	*11.2*	841.5	829.1	*1.5*
(millions)						
Revenue[1]	$ 102.9	$ 93.3	*10.3*	$ 208.0	$ 184.9	*12.5*
Operating expenses[1]	$ 28.0	$ 31.1	*(10.0)*	$ 57.4	$ 58.7	*(2.2)*
Funds from operations[1][2]	$ 63.0	$ 49.0	*28.6*	$ 126.4	$ 99.8	*26.7*
Capital expenditures[1]						
Growth[2]	$ 228.1	$ 382.2		$ 764.9	$ 763.8	
Sustaining[2]	0.2	0.4		0.3	0.8	
	$ 228.3	$ 382.6		$ 765.2	$ 764.6	

(1) For the three and six month periods ended June 30, 2014, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - $6.4 million and $12.8 million ($5.0 million and $9.9 million in 2013), respectively; operating expenses - $2.3 million and $4.7 million ($2.4 million and $4.3 in 2013), respectively; FFO[2] - $4.1 million and $8.1 million ($2.6 million and $5.6 million in 2013), respectively; and capital expenditures - $8.4 million and $34.3 million ($1.5 million and $3.6 million in 2013), respectively.

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

Volumes

Average volumes transported in the oil sands transportation business increased 86,200 b/d to 858,000 b/d in the second quarter and 12,400 b/d to 841,500 b/d year to date in 2014, compared to the same periods in 2013.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta. Average volumes transported on the Cold Lake pipeline system increased 32,000 b/d or 6.9% in the second quarter of 2014, over the second quarter of 2013 in which volumes were impacted by producer facility maintenance and operational issues. Year to date in 2014 average volumes decreased 13,400 b/d or 2.7% due to operational and weather related issues experienced by certain shippers earlier in the year, compared to the same period in 2013. Volumes on the Cold Lake pipeline system also typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes. Over the long-term volume growth is anticipated on the Cold Lake pipeline system, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluent and diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to and from the Scotford upgrader located northeast of Edmonton as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. In the second quarter of 2014, average volumes on the Corridor pipeline system increased 26,100 b/d or 8.6%, over the second quarter in 2013 in which volumes were impacted by a turnaround at the Muskeg River mine. Year to date average volumes decreased 3,700 b/d or 1.1% in 2014 due to operational issues and maintenance activities at the Jackpine mine, compared to the same period in 2013.

In June 2013, the Polaris pipeline system began providing diluent transportation services from the Lamont area northeast of Edmonton to Imperial's Kearl oil sands project and to Suncor's oil sands facilities, both located northeast of Fort McMurray. For the three and six months ended June 30, 2014, average volumes on the Polaris pipeline system increased 28,100 b/d and 29,500 b/d, respectively, due to the timing of diluent transportation service commencing in 2013.

Revenue

In the three and six months ended June 30, 2014, revenue from the oil sands transportation business increased $9.6 million to $102.9 million and $23.1 million to $208.0 million, respectively, compared to the same periods in 2013.

Cold Lake pipeline system revenue increased $9.5 million to $43.1 million and $19.9 million to $86.0 million during the three and six months ended June 30, 2014, respectively, over the comparable periods in 2013. Capital fee revenue associated with transportation services for Canadian Natural Resources (CNR) Kirby South oil sands project, which began in August of 2013, was the primary driver for the increase in both periods.

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

Revenue from the Corridor pipeline system decreased $0.3 million to $42.0 million in the second quarter and increased $0.4 million to $85.2 million year to date in 2014, compared to the same periods in 2013. The declining nature of Corridor's rate base unfavourably impacted revenues in both periods, but was offset by a higher return on equity due to increases in the long-term Government of Canada (GOC) benchmark bond interest rate and higher operating cost recoveries.

The Corridor Firm Service Agreement (Corridor FSA) utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of all debt financing costs, operating costs, rate base depreciation and taxes, in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's FFO[*] is not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's FFO[*] are changes to the long-term GOC bond rate upon which the annual return on equity is determined, and changes to Corridor's rate base.

Polaris pipeline system revenue increased $0.4 million to $17.8 million in the second quarter and $2.8 million to $36.8 million year to date in 2014, compared to the same periods in 2013. The increase in revenue in both periods is primarily due to timing of diluent transportation service for Suncor, which began in the second quarter of 2013 and capital fee revenue relating to Husky's Sunrise oil sands project beginning in the fourth quarter of 2013. Partially offsetting these increases are lower operating cost recoveries.

In the second quarter, the Polaris pipeline system generated revenue under long-term diluent transportation agreements with Imperial Oil, Suncor, CNR, and Husky, utilizing a cost-of-service contracting framework, which provides for a return on capital invested and recovery of all operating costs. Throughput volumes or commodity price fluctuations do not impact Polaris' FFO[*] as a result of the cost-of-service approach.

Operating Expenses

In the oil sands transportation business segment, operating expenses typically have a limited impact on Inter Pipeline's cash flow. On the Cold Lake pipeline system, substantially all operating expenditures are recovered from the shippers, while on the Corridor and Polaris pipeline systems there is full recovery of these costs. In the three and six months ended June 30, 2014, operating expenses in the oil sands transportation business decreased $3.1 million to $28.0 million and $1.3 million to $57.4 million, compared to the same periods in 2013.

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

Cold Lake pipeline operating expenses decreased $0.7 million in the second quarter and increased $2.5 million year to date in 2014, compared to the same periods in 2013. Operating expenses benefitted in both periods from a reduction in power costs as a result of lower power pricing, which was partially offset in the current quarter and more than offset year to date by higher property taxes and employee costs.

In the three and six months ended June 30, 2014, Corridor pipeline system operating expenses increased $0.5 million and $1.3 million, respectively, compared to the same periods in 2013. Higher employee and general operating costs were the primary drivers for the increase in both periods.

Polaris pipeline operating expenses decreased $2.9 million in the second quarter and $5.1 million year to date in 2014, compared to the same periods in 2013. Operating expenses were lower in both periods of 2014 as the comparable periods in 2013 included certain recoverable construction related expenditures pertaining to a project which was completed in late 2013.

Capital Expenditures

Total growth capital expenditures* on the Cold Lake pipeline system were $65.2 million in the second quarter of 2014, primarily related to Cold Lake pipeline's $1.5 billion (Inter Pipeline's share) oil sands development program to provide transportation services to existing FCCL projects. These expenditures include engineering, design, procurement and construction activities.

Cold Lake and Polaris incurred growth capital expenditures* of $5.8 million and $8.5 million in the current quarter of 2014, respectively, related to construction for bitumen blend transportation services to Canexus' unit train rail loading facility near Bruderheim, Alberta. Inter Pipeline has completed construction on a 13 km, 24-inch diameter pipeline lateral and associated metering facility to transport bitumen blend from Inter Pipeline's Cold Lake system to a Canexus owned pipeline via the Polaris pump station near Lamont, Alberta, for a total cost of approximately $60 million (Inter Pipeline's share).

In the second quarter of 2014, the Polaris pipeline system incurred total growth capital expenditures* of $162.7 million, of which $139.0 million relates to its $1.4 billion development plan, for a total of approximately $1,150 million spent to date. Subsequent to quarter end, Inter Pipeline announced that a major component of the Polaris pipeline expansion was completed and placed into commercial service. Polaris completed a 290 km 30-inch diameter mainline segment connecting the Lamont pump station to FCCL's Foster Creek and Christina Lake production facilities which entered commercial service in July 2014. The successfully completed segment, representing approximately $1.1 billion of the Polaris system's $1.4 billion estimated total expansion cost, increased throughput capacity by 700,000 b/d. The remaining Polaris pipeline expansion including a diluent connection to the Narrows Lake production site is expected to be completed on schedule in phases between late 2014 and mid 2017.

In the second quarter of 2014, Polaris growth capital expenditures* also included $1.5 million for preliminary engineering and design related to Athabasca Oil Corporation's Hangingstone project. Inter Pipeline will construct a new 10 km pipeline lateral and associated facilities which will connect the Polaris system to the Hangingstone project, for a total cost of approximately $25 million.

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

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended June 30			Six Months Ended June 30		
Volumes (000s b/d)	2014	2013	*% change*	2014	2013	*% change*
Bow River	100.6	87.6	*14.8*	100.0	95.7	*4.5*
Central Alberta	37.3	34.0	*9.7*	36.8	33.1	*11.2*
Mid-Saskatchewan	63.0	49.3	*27.8*	65.6	49.3	*33.1*
	200.9	170.9	*17.6*	202.4	178.1	*13.6*

(millions, except per barrel amount)						
Revenue	$ 96.0	$ 71.5	*34.3*	$ 187.2	$ 138.8	*34.9*
Midstream product purchases	$ 26.6	$ 14.9	*78.5*	$ 55.4	$ 28.9	*91.7*
Operating expenses	$ 20.0	$ 13.1	*52.7*	$ 35.7	$ 25.6	*39.5*
Funds from operations[1]	$ 49.6	$ 43.5	*14.0*	$ 95.6	$ 83.9	*13.9*
Revenue per barrel[2]	$ 2.95	$ 2.91	*1.4*	$ 2.95	$ 2.91	*1.4*
Capital expenditures						
Growth[1]	$ 9.3	$ 1.6		$ 14.6	$ 3.7	
Sustaining[1]	0.2	0.8		1.5	1.7	
	$ 9.5	$ 2.4		$ 16.1	$ 5.4	

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Revenue per barrel represents total revenue of the conventional oil pipelines business segment less midstream marketing revenue, revenue from take-or-pay contracts for volume shortfalls and revenue/expense from over/short volumes divided by actual volumes.

Volumes

Volume on the conventional oil pipelines increased 30,000 b/d or 17.6% in the second quarter and 24,300 b/d or 13.6% year to date in 2014, compared to the same periods in 2013. Volumes on the Mid-Saskatchewan pipeline system increased 13,700 b/d or 27.8% in the second quarter and 16,300 b/d or 33.1% year to date in 2014, compared to the same periods in 2013. Continued success utilizing horizontal drilling and completion technology in the Viking light oil play resulted in significant increases in regional production. The Central Alberta pipeline system benefitted from increased drilling activity and strong truck terminal volume resulting in increased volumes of 3,300 b/d or 9.7% in the second quarter and 3,700 b/d or 11.2% year to date in 2014, compared to the same periods in 2013. For the three and six months ended June 30, 2014, average volumes on the Bow River pipeline system increased 13,000 b/d or 14.8% and 4,300 b/d or 4.5%, respectively, compared to the same periods in 2013. In 2013, volumes on the Bow River pipeline were impacted by a third party refinery turnaround in April and May which resulted in a reduction to Hardisty south volumes.

Revenue

Revenue on the conventional oil pipelines increased $24.5 million to $96.0 million and $48.4 million to $187.2 million for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013. Additional volumes transported on the conventional oil pipeline systems in both periods discussed above resulted in incremental tolling revenue, as well as higher revenue from Inter Pipeline's midstream marketing business.

Midstream Product Purchases

Midstream product purchases increased $11.7 million in the second quarter and $26.5 million year to date in 2014, compared to the same periods in 2013, as a result of the increase in volume on the conventional systems.

Operating Expenses

Operating expenses for the three and six months ended June 30, 2014 increased $6.9 million and $10.1 million, respectively, compared to the same periods in 2013. The increase in both periods was primarily due to higher employee, remediation and general operating costs associated with the

incremental volumes. Incremental trucking costs were also incurred as a result of increased midstream marketing activities.

Capital Expenditures

In the second quarter of 2014, growth capital expenditures* in the conventional oil pipelines business were $9.3 million, which largely relate to the recently announced expansion of the Mid-Saskatchewan pipeline system.

NGL EXTRACTION BUSINESS SEGMENT

Three Months Ended June 30

	2014				2013			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,326	39.7	21.8	61.5	1,281	38.5	16.6	55.1
Empress V (100% basis)	920	24.4	10.9	35.3	822	23.5	10.1	33.6
Empress II	-	-	-	-	255	5.6	3.3	8.9
	2,246	64.1	32.7	96.8	2,358	67.6	30.0	97.6

Six Months Ended June 30

	2014				2013			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,557	43.3	23.4	66.7	1,564	46.1	21.0	67.1
Empress V (100% basis)	987	25.1	11.2	36.3	873	24.1	10.6	34.7
Empress II	-	-	-	-	128	2.8	1.7	4.5
	2,544	68.4	34.6	103.0	2,565	73.0	33.3	106.3

	Three Months Ended June 30			Six Months Ended June 30		
(millions)	2014	2013	*% change*	2014	2013	*% change*
Revenue[1]	$ 137.0	$ 117.5	*16.6*	$ 305.4	$ 246.9	*23.7*
Shrinkage gas[1]	$ 76.1	$ 51.6	*47.5*	$ 166.6	$ 113.2	*47.2*
Operating expenses[1]	$ 26.2	$ 34.7	*(24.5)*	$ 55.5	$ 59.3	*(6.4)*
Funds from operations[1][2]	$ 34.7	$ 31.1	*11.6*	$ 83.2	$ 74.1	*12.3*
Capital expenditures[1]						
Growth[2]	$ 2.6	$ 9.9		$ 3.7	$ 22.2	
Sustaining[2]	1.1	0.9		1.8	1.5	
	$ 3.7	$ 10.8		$ 5.5	$ 23.7	

(1) Revenue, shrinkage gas, operating expenses, FFO [2] and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.
(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

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

Volumes

During the three and six months ended June 30, 2014, Inter Pipeline's NGL extraction facilities processed average natural gas throughput volumes of 2,246 million cubic feet per day (mmcf/d) and 2,544 mmcf/d, respectively. This is a decrease of 112 mmcf/d in the quarter and 21 mmcf/d year to date, compared to the same periods in 2013.

Average throughput volumes at the Cochrane facility increased 45 mmcf/d in the second quarter and decreased 7 mmcf/d year to date in 2014, compared to the same periods in 2013. Cochrane throughput volumes are largely impacted by, and fluctuate with, demand for Canadian natural gas in the US west-coast region. Throughput volumes at the Cochrane facility were also impacted in the second quarter of 2013 from an 18 day full plant maintenance outage.

In 2014, throughput volumes at the Empress V facility increased 98 mmcf/d in the current quarter and 114 mmcf/d year to date, compared to the same periods in 2013. The Empress II facility had no throughput volumes for the three and six months ended June 30, 2014. Throughput volumes at the Empress facilities fluctuate with the level of natural gas exported from Alberta's eastern border and are largely dependent on successfully attracting border gas flows to the extraction facilities. Throughput volumes at the Empress II facility do not impact operating results due to the cost-of-service commercial arrangements at this facility.

Revenue

The NGL extraction business earns revenue from a combination of commodity-based, fee-based and cost-of-service arrangements. Commodity-based contracts provide for a sharing of profits from the sale of NGL products between the NGL extraction business and the purchaser. The profit share calculation consists of revenue from the sale of NGL products less costs to bring the NGL product to market, including extraction, shrinkage gas, fractionation and marketing costs. Commodity-based contracts are exposed to frac-spread and volume risks. Fee-based contracts provide a fixed fee associated with each barrel of NGL produced and recovery of operating costs, including shrinkage gas costs. There is no commodity price exposure associated with this type of contract; however, fee-based contracts are exposed to volume fluctuations. Cost-of-service contracts provide a structured return on capital invested utilizing a rate base approach and a recovery of operating costs, including shrinkage gas. This form of contract provides the most stable cash flow of the three contract types, as there is minimal volume risk and no commodity price exposure.

In the three and six months ended June 30, 2014, revenue from the NGL extraction business increased $19.5 million and $58.5 million, respectively, over the comparable periods in 2013. Revenue increases in both periods are primarily due to higher propane-plus pricing and propane-plus volumes from the Cochrane facility, and higher ethane volumes from the Empress V facility, which was partially offset by lower ethane pricing.

Frac-spread

				Three Months Ended June 30
(dollars)		2014		2013
	USD/USG [1]	*CAD/USG* [1]	*USD/USG* [1]	*CAD/USG* [1]
Market frac-spread	$ 0.781	$ 0.852	$ 0.782	$ 0.800
Realized frac-spread	$ 0.775	$ 0.846	$ 0.885	$ 0.906

				Six Months Ended June 30
(dollars)		2014		2013
	USD/USG [1]	*CAD/USG* [1]	*USD/USG* [1]	*CAD/USG* [1]
Market frac-spread	$ 0.905	$ 0.993	$ 0.812	$ 0.824
Realized frac-spread	$ 0.861	$ 0.944	$ 0.881	$ 0.894

(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.

In the three and six months ended June 30, 2014, realized frac-spreads decreased from $0.89 USD/USG to $0.78 USD/USG and from $0.88 USD/USG to $0.86 USD/USG, respectively, compared to the same periods in 2013. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2013, were $0.93 USD/USG and $0.55 USD/USG, respectively.

Shrinkage Gas

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. Shrinkage gas expense in the three and six months ended June 30, 2014, increased $24.5 million and $53.4 million, respectively, compared to the same periods in 2013. The increases are largely due to higher AECO natural gas prices in both periods, in addition to higher propane-plus volumes at Cochrane and higher ethane production from Empress V. Cochrane ethane volumes increased in the second quarter of 2014 compared to the second quarter of 2013 also adding to higher shrinkage gas expense and decreased year to date partially offsetting the increase in shrinkage gas expense. The weighted average monthly AECO prices[*] increased in the second quarter from $3.41 per gigajoule (GJ) in 2013 to $4.44/GJ in 2014 and year to date from $3.16/GJ in 2013 to $4.48/GJ in 2014.

Operating Expenses

Operating expenses decreased $8.5 million in the second quarter and $3.8 million year to date in 2014, compared to the same periods in 2013. The decreases are due to lower fuel and power costs, largely resulting from lower power pricing, and a reduction in general operating and maintenance costs, which were higher in 2013 due to the full plant maintenance outage at the Cochrane facility. Average Alberta power pool prices decreased in the second quarter from $123.41/MWh in 2013 to $42.43/MWh in 2014 and year to date from $94.52/MWh in 2013 to $51.46/MWh in 2014.

Capital Expenditures

Growth capital expenditures[†] in the NGL extraction business were $2.6 million in the second quarter of 2014, primarily relating to upgrades at the Cochrane facility.

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

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

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended June 30			Six Months Ended June 30		
	2014	2013	*% change*	2014	2013	*% change*
Utilization	75%	82%	*(8.5)*	77%	85%	*(9.4)*
(millions)						
Revenue	$ 40.0	$ 38.0	*5.3*	$ 86.0	$ 77.4	*11.1*
Operating expenses	$ 17.0	$ 16.0	*6.3*	$ 36.7	$ 32.3	*13.6*
Funds from operations[(1)]	$ 18.2	$ 19.5	*(6.7)*	$ 39.8	$ 39.9	*(0.3)*
Capital expenditures						
Growth[(1)]	$ 3.8	$ 2.1		$ 5.3	$ 13.7	
Sustaining[(1)]	7.0	1.7		9.9	4.0	
	$ 10.8	$ 3.8		$ 15.2	$ 17.7	

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

Utilization

Inter Pipeline operates a bulk liquid storage business segment through two wholly owned subsidiaries, Simon Storage Limited (Simon Storage) and Inter Terminals Denmark A/S (Inter Terminals). Simon Storage owns and operates six bulk liquid storage terminals located in the United Kingdom (UK) and Ireland, and two inland terminals located on the Rhine River in Germany, with a combined liquid storage capacity of approximately 8.1 million barrels. Inter Terminals owns and operates four coastal bulk liquid storage terminals located in Denmark, with a combined storage capacity of approximately 11.2 million barrels.

Tank utilization for the three and six months ended June 30, 2014 averaged 75% and 77%, respectively, due to the absence of strong contango in certain petroleum product futures markets which negatively impact demand for bulk liquid storage particularly at the Gulfhavn terminal in Denmark. In 2014, Simon Storage and Inter Terminals' utilization rates were 90% and 65% in the second quarter and 91% and 67% year to date, respectively, compared to 89% and 77% in the second quarter and 90% and 81% year to date in 2013, respectively.

Revenue

The business activities of Simon Storage and Inter Terminals consist primarily of bulk liquid storage, handling and blending services that are underpinned by a range of long-term and short-term fee-based contracts. Simon Storage also offers a range of ancillary services to its customers.

Bulk liquid storage revenue increased $2.0 million in the second quarter and $8.6 million year to date in 2014, over the same periods in 2013. Revenue was favourably impacted by foreign currency translation adjustments of $5.5 million and $11.4 million for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013. Simon Storage's revenue decreased $0.9 million in the current quarter largely due to lower ancillary and storage revenue partially offset by business interruption proceeds related to flooding that occurred at the Immingham and Riverside terminals in December 2013. Year to date revenue from Simon Storage was also impacted by a contract termination fee at the Immingham terminal, as revenue increased $5.7 million over the same period in 2013. Revenue from Inter Terminals decreased $2.6 million and $8.5 million in the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013. Reduced occupancy levels and lower average storage rates were the primary drivers for the decrease in revenue in both periods.

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

Foreign Exchange Rates

	Three Months Ended June 30			Six Months Ended June 30		
(dollars)	2014	2013	*% change*	2014	2013	*% change*
EURO/CAD	$ 1.4955	$ 1.3374	*11.8*	$ 1.5038	$ 1.3346	*12.7*
Pound Sterling/CAD	$ 1.8355	$ 1.5722	*16.7*	$ 1.8308	$ 1.5678	*16.8*

Operating Expenses

In the three and six months ended June 30, 2014, operating expenses in the bulk liquid storage business increased $1.0 million and $4.4 million, respectively, over the comparable periods in 2013. Foreign currency translation adjustments increased operating expenses by $2.4 million in the second quarter and $5.0 million year to date in 2014, compared to the same periods in 2013. Operating expenses from Inter Terminals decreased $0.5 million in both the three and six months ended June 30, 2014, compared to the same periods in 2013, largely due to lower fuel and power and maintenance costs. Simon Storage's operating expenses decreased $0.9 million and $0.1 million in the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013. These decreases were primarily due to lower fuel and power and ancillary costs, partially offset by higher rent and property taxes. Year to date operating expenses were also impacted by flood related costs of $1.9 million at the Immingham and Riverside terminals.

Capital Expenditures

Growth capital expenditures* in the bulk liquid storage business were $3.8 million in the second quarter of 2014. These expenditures related to a number of tank life extension and tank modification projects, in addition to new stainless steel tanks at a German terminal to accommodate chemical customer storage demand. In the second quarter of 2014, $7.0 million of sustaining capital expenditures* were incurred, primarily relating to environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects, as well as flood related expenditures at the Immingham and Riverside terminals.

OTHER EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2014	2013	2014	2013
Depreciation and amortization	$ 33.3	$ 31.4	$ 66.6	$ 62.3
Financing charges	18.1	22.3	38.9	46.2
Provision for income taxes	25.7	19.2	56.0	40.4
General and administrative	20.6	14.3	46.0	30.5
Management and incentive fees to general partner	-	4.6	-	8.8
Unrealized change in fair value of derivative financial instruments	(0.1)	0.2	(1.3)	0.9
(Gain) loss on disposal of assets	(0.8)	-	(1.7)	1.7
General partner internalization	-	348.6	-	348.6

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased $1.9 million in the second quarter and $4.3 million year to date in 2014, over the same periods in 2013. The increase is primarily due to depreciation of assets now in service, that were not in service or depreciated in the same period in 2013, partially offset by lower amortization as certain intangible assets are now fully amortized.

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

Financing Charges

	Three Months Ended		Six Months Ended	
		June 30		June 30
(millions)	2014	2013	2014	2013
Interest on credit facilities	$ 9.7	$ 9.8	$ 20.4	$ 18.0
Interest on loan payable to private placement noteholders	4.4	4.5	8.8	8.9
Interest on Corridor Debentures	2.5	2.5	5.0	5.0
Interest on MTN Series 1 to 6	16.8	9.6	30.8	19.4
Total interest	33.4	26.4	65.0	51.3
Capitalized interest	(16.7)	(5.5)	(29.0)	(8.1)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.9	0.9	1.8	1.7
Accretion of provisions and pension plan funding charges	0.5	0.5	1.1	1.3
Total financing charges	$ 18.1	$ 22.3	$ 38.9	$ 46.2

In the three and six months ended June 30, 2014, total financing charges decreased $4.2 million and $7.3 million, respectively, compared to the same periods in 2013.

Capitalized interest increased $11.2 million and $20.9 million in the three and six months ended June 30, 2014, over the same periods in 2013, due to higher capitalized interest on the Polaris and Cold Lake pipeline system expansions.

Interest on MTN's increased $7.2 million in the second quarter and $11.4 million year to date in 2014, compared to the same periods in 2013, due to the timing of issuance of the MTN Series 4 on July 19, 2013 and the MTN Series 5 and 6 on May 30, 2014.

Interest on credit facilities in the second quarter of 2014 were consistent with the same period in 2013 decreasing marginally by $0.1 million. Year to date in 2014 interest on credit facilities increased $2.4 million, compared to the same period in 2013, as a result of higher average debt levels and increased weighted average short-term interest rates. The year to date weighted average credit facility debt outstanding increased from $1,822.8 million in 2013 to $2,056.1 million in 2014.

In the three and six months ended June 30, 2014, interest on the loan payable to private placement noteholders and the Corridor debentures are consistent with the same periods in 2013.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper were consistent in the second quarter and increased $0.1 million year to date in 2014, compared to the same periods in 2013, due to timing of debt issuances.

Accretion of provisions and pension plan funding charges in the current quarter is consistent with the same period in 2013, however decreased on a year to date basis by $0.2 million due to a pension plan adjustment at Simon Storage.

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

Income Taxes

Consolidated income tax expense increased $6.5 million to $25.7 million and $15.6 million to $56.0 million in the three and six months ended June 30, 2014, respectively, over the same periods in 2013. The increase is primarily due to higher consolidated income before taxes after adjustment for the one-time non-cash general partner internalization expense.

General and Administrative

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2014	2013	2014	2013
Canada	$ 17.5	$ 12.2	$ 40.6	$ 26.1
Europe	3.1	2.1	5.4	4.4
	$ 20.6	$ 14.3	$ 46.0	$ 30.5

Canadian general and administrative expenses, in the three and six months ended June 30, 2014, increased $5.3 million and $14.5 million, respectively, over the comparable periods in 2013. The increase is primarily due to higher employee costs largely related to higher long-term incentive plan expense arising from increases in Inter Pipeline's share price, as well as the addition of new employees required to manage Inter Pipeline's business growth. Year to date general and administrative expenses also increased due to a one-time key management personnel contract renegotiation.

European general and administrative costs increased $1.0 million in the three and six months ended June 30, 2014, compared to the same periods in 2013. These increases are primarily due to higher employee costs and foreign currency translation adjustments.

Fees to General Partner

In connection with the Corporate Conversion, effective on September 1, 2013, and as a result of the dissolution and termination of Inter Pipeline Fund, Inter Pipeline is no longer obligated to pay management, incentive, acquisition or disposition fees. During the three and six months ended June 30, 2013, the general partner earned management fees from Inter Pipeline of $2.9 million and $6.0 million and accrued incentive fees of $1.7 million and $2.8 million, however, no acquisition or disposition fees were earned.

Unrealized Change in Fair Value of Derivative Financial Instruments

The change in fair value of Inter Pipeline's derivative financial instruments increased net income by $0.1 million in the current quarter and $1.3 million year to date in 2014, respectively.

Net income was favourably impacted in the current quarter by the change in fair value of electricity price swaps of $0.1 million.

Year to date in 2014, net income was favourably impacted by the change in fair value of NGL, foreign exchange and electricity price swaps of $1.2 million, $0.1 million and $0.1 million, respectively, while the change in fair value on natural gas swaps unfavourably impacted net income by $0.1 million. At June 30, 2014, there were no NGL, natural gas or foreign exchange swaps outstanding.

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

Gain on Disposal of Assets

Inter Pipeline recorded a gain on disposal of assets of $0.8 million and $1.7 million in the three and six months ended June 30, 2014, respectively. This largely relates to proceeds received for asset damage due to flooding conditions that occurred at Simon Storage's Immingham and Riverside terminals in December 2013.

General Partner Internalization

On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion (Internalization Transactions). Inter Pipeline settled the provisions of its management contract by indirectly purchasing its general partner, for initial consideration of $170 million, plus adjustments of $8.6 million, and a future second instalment of $170 million.

SUMMARY OF QUARTERLY RESULTS

(millions, except per share and % amounts)	2012 Third Quarter	2012 Fourth Quarter	2013 First Quarter	2013 Second Quarter	2013 Third Quarter	2013 Fourth Quarter	2014 First Quarter	2014 Second Quarter
Revenue								
Oil sands transportation	$ 82.4	$ 89.4	$ 91.6	$ 93.3	$ 96.2	$ 107.4	$ 105.1	$ 102.9
Conventional oil pipelines	59.2	62.0	67.3	71.5	81.1	82.3	91.2	96.0
NGL extraction	123.4	133.5	129.4	117.5	127.2	146.6	168.4	137.0
Bulk liquid storage	35.7	38.8	39.4	38.0	36.0	37.9	46.0	40.0
	$ 300.7	$ 323.7	$ 327.7	$ 320.3	$ 340.5	$ 374.2	$ 410.7	$ 375.9
Funds from operations(1)								
Oil sands transportation	$ 47.0	$ 49.0	$ 50.8	$ 49.0	$ 55.7	$ 64.2	$ 63.4	$ 63.0
Conventional oil pipelines	38.9	38.7	40.4	43.5	47.0	44.0	46.0	49.6
NGL extraction	50.4	38.7	43.0	31.1	43.2	53.4	48.5	34.7
Bulk liquid storage	17.6	20.0	20.4	19.5	17.2	16.1	21.6	18.2
Corporate costs	(44.6)	(42.7)	(45.2)	(37.7)	(39.8)	(43.2)	(47.8)	(33.9)
	$ 109.3	$ 103.7	$ 109.4	$ 105.4	$ 123.3	$ 134.5	$ 131.7	$ 131.6
Per share(1)	$ 0.40	$ 0.38	$ 0.40	$ 0.37	$ 0.44	$ 0.44	$ 0.43	$ 0.41
Net income (loss)(2)	$ 68.4	$ 59.7	$ 72.2	$ (281.6)	$ 77.8	$ 84.6	$ 89.6	$ 85.3
Net income (loss) attributable to shareholders(2)	$ 65.9	$ 57.3	$ 69.7	$ (283.9)	$ 74.8	$ 81.3	$ 86.1	$ 81.7
Per share – basic	$ 0.24	$ 0.21	$ 0.25	$ (1.02)	$ 0.27	$ 0.27	$ 0.28	$ 0.25
Per share – diluted	$ 0.24	$ 0.21	$ 0.25	$ (1.02)	$ 0.26	$ 0.26	$ 0.27	$ 0.25
Dividends to shareholders(3)	$ 71.3	$ 73.4	$ 76.8	$ 78.2	$ 84.6	$ 98.6	$ 99.6	$ 103.9
Per share(3)	$ 0.2625	$ 0.2675	$ 0.2775	$ 0.2800	$ 0.2975	$ 0.3225	$ 0.3225	$ 0.3225
Shares outstanding (basic)								
Weighted average	271.3	273.9	276.4	278.8	283.6	304.7	309.0	321.6
End of period	272.7	275.2	277.6	280.0	289.8	306.8	320.3	323.0
Capital expenditures(4)								
Growth(1)	$ 108.6	$ 128.3	$ 407.6	$ 395.8	$ 566.1	$ 549.4	$ 544.7	$ 243.8
Sustaining(1)	11.4	15.6	5.9	5.8	7.4	11.0	6.2	10.2
	$ 120.0	$ 143.9	$ 413.5	$ 401.6	$ 573.5	$ 560.4	$ 550.9	$ 254.0
Payout ratio(1)	67.0%	72.8%	72.2%	76.1%	70.5%	75.5%	78.0%	81.5%
Total debt(5)	$ 3,113.6	$ 3,127.6	$ 3,246.6	$ 3,578.0	$ 3,964.5	$ 3,960.8	$ 4,155.8	$ 4,283.8
Total shareholders' equity	$ 1,594.8	$ 1,659.5	$ 1,686.9	$ 1,414.3	$ 1,661.9	$ 2,100.3	$ 2,490.4	$ 2,521.3
Enterprise value(1)	$ 8,973.1	$ 9,593.8	$ 9,862.2	$ 9,646.1	$ 11,252.0	$ 11,885.4	$ 13,504.4	$ 14,981.6
Total debt to total capitalization(1)	66.1%	65.3%	65.8%	71.7%	70.5%	65.3%	62.5%	63.0%
Total recourse debt to capitalization(1)	47.6%	47.0%	48.7%	57.8%	58.5%	52.8%	50.7%	51.7%

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

LIQUIDITY AND CAPITAL RESOURCES

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

(i) stable dividends to shareholders over economic and industry cycles;
(ii) a flexible capital structure which optimizes the cost of capital within an acceptable level of risk; and
(iii) an investment grade credit rating.

Management may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the capital structure, Inter Pipeline may adjust the level of dividends to shareholders, issue new common shares or new debt, renegotiate new debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund organic growth capital* and acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and cash flow from its operations to fund capital requirements. At June 30, 2014, Inter Pipeline had access to committed credit facilities totaling $2.8 billion, of which $1,429.8 million remained unutilized, and demand facilities totaling $65 million of which $64.5 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 and six months ended June 30, 2014, approximately $78.6 million and $158.7 million, respectively, of equity was issued through the dividend reinvestment plan. Inter Pipeline completed an equity offering on March 26, 2014 selling 10,400,000 common shares at $28.90 per share for gross proceeds of $300.6 million. Net proceeds from the offering were used to pay down a portion of bank indebtedness that was incurred to fund Inter Pipeline's capital expenditure program and other general corporate purposes.

On May 30, 2014, Inter Pipeline issued $500 million of senior unsecured MTN Series 5 due May 30, 2044 and $400 million of senior unsecured MTN Series 6 due May 30, 2017, in the Canadian public debt market. The MTN Series 5 bear interest at a fixed rate of 4.637% per annum, payable semi-annually; while the MTN Series 6 have a floating interest rate of 3-month CDOR plus 49 basis points, payable quarterly. Net proceeds from these issuances were used to repay a portion of Inter Pipeline's bank indebtedness incurred through funding its capital expenditure program and for other general corporate purposes.

Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2013. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) subscription receipts (collectively, the "Securities") of up to $3.0 billion aggregate initial offering price of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. As a result of the equity and debt offerings in March and May of 2014, respectively, the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced to approximately $1.8 billion.

Taking market trends into consideration, Inter Pipeline regularly forecasts its operational activities and expected FFO* to ensure that sufficient funding is available for future capital programs and dividends to shareholders.

Inter Pipeline may utilize derivative financial instruments to minimize exposure to fluctuating commodity prices, foreign exchange and interest rates. Inter Pipeline's risk management policy

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

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

CAPITAL STRUCTURE

(millions, except % amounts)		Recourse		Non-recourse		June 30 2014		December 31 2013
Credit facilities available								
Corridor syndicated facility	$	-	$	1,550.0	$	1,550.0	$	1,550.0
Inter Pipeline syndicated facility		1,250.0		-		1,250.0		1,250.0
		1,250.0		1,550.0		2,800.0		2,800.0
Demand facilities[1]		40.0		25.0		65.0		65.0
	$	1,290.0	$	1,575.0	$	2,865.0	$	2,865.0
Total debt outstanding[1]								
Recourse								
Inter Pipeline syndicated facility					$	80.0	$	635.0
Loan payable to private placement noteholders						288.6		288.6
MTN Series 1 to 6[2]						2,325.0		1,425.0
Non-recourse								
Corridor syndicated facility						1,290.2		1,312.2
Corridor debentures						300.0		300.0
Total debt[1][3]						4,283.8		3,960.8
Total shareholders' equity						2,521.3		2,100.3
Total capitalization[4]					$	6,805.1	$	6,061.1
Total debt to total capitalization[4]						63.0%		65.3%
Total recourse debt to capitalization[4]						51.7%		52.8%

(1) At June 30, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately $0.3 million and $0.2 million, respectively, were not included in total debt outstanding.
(2) Inter Pipeline issued $325 million MTN Series 1 and $200 million MTN Series 2 in 2011; $400 million MTN Series 3 in 2012; $500 million MTN Series 4 in 2013; $500 million MTN Series 5 and $400 million MTN Series 6 in 2014.
(3) Total debt reported in the June 30, 2014 consolidated financial statements of $4,263.7 million, includes long-term debt, short-term debt and commercial paper outstanding of $4,283.8 million less discounts and debt transaction costs of $20.1 million.
(4) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.

Inter Pipeline's capital under management includes financial debt and shareholders' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to adjusted EBITDA*. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Management's long-term objectives are to remain below its maximum permitted ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to adjusted EBITDA* ratio of 5.5 times. Once the debt issued under the note purchase agreement matures in October 2014, the recourse debt to adjusted EBITDA* covenant will no longer exist.

At June 30, 2014, Inter Pipeline's total recourse debt to capitalization ratio* was 51.7%. This ratio is higher than normal as a result of charging the one-time, non-cash internalization cost of $348.6 million to earnings in the second quarter of 2013. This non-cash expense concurrently decreased shareholders' equity which reduced Inter Pipeline's capitalization by $348.6 million. On September 3, 2013, Inter Pipeline announced its successful Corporate Conversion, resulting in the general partner

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

internalization liability of $178.6 million being converted to common shares of Inter Pipeline. The remaining general partner internalization liability of $170 million was settled with convertible shares which will be converted to common shares upon successful completion and revenue commencement of certain organic growth projects currently under development prior to 2017, and as a result Inter Pipeline's shareholders equity will correspondingly increase. Management anticipates this will occur in early 2015. At this time, the remaining impact to equity of charging the internalization value to earnings will be reversed, and the related negative impact on Inter Pipeline's total recourse debt to capitalization* level will be eliminated. A description of the terms of the convertible shares are contained in Inter Pipeline's Annual Information Form dated February 20, 2014, under the heading "Description of Capital Structure – Description of Convertible Shares". Inter Pipeline's total debt to total capitalization ratio*, which includes non-recourse debt of $1,590.2 million held within Inter Pipeline's Corridor corporate entity, was 63.0% at June 30, 2014. The table below shows the impact the convertible shares would have on Inter Pipeline's total debt to total capitalization* and total recourse debt to capitalization* ratios at June 30, 2014.

		June 30, 2014
	Ratio	After convertible shares impact[2]
Total debt to total capitalization[1]	63.0%	61.4%
Total recourse debt to capitalization[1]	51.7%	50.0%

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Includes the impact of Inter Pipeline's convertible shares as if they were converted to common shares of Inter Pipeline at June 30, 2014.

At June 30, 2014, approximately $1,920.2 million or 44.8% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount $1,440.2 million or 75.0% relates to Corridor debt outstanding and its financing costs are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline may enter into interest rate swap agreements to manage its interest rate risk exposure. Inter Pipeline has an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

	June 30		December 31	
	2014		2013	
Maturity date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
Corridor debentures				
- Fixed to floating rate swap				
Series B - February 2, 2015	5.033%	$ 150.0	5.033%	$ 150.0

The following earnings coverage ratios are calculated on a consolidated basis for the twelve month periods ended June 30, 2014 and December 31, 2013.

	Twelve Months Ended	
	June 30	December 31
(times)	2014	2013
Interest coverage[1][2]	3.9	1.0

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

Inter Pipeline's interest coverage ratio for the twelve month period ended December 31, 2013 would have been 4.0 times had it not been impacted by the one-time non-cash general partner

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

internalization expense of $348.6 million to earnings in the second quarter of 2013. As a result of charging the internalization cost to earnings the interest coverage ratio decreased to 1.0 times for the twelve month period ended December 31, 2013.

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

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

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND GUARANTEES

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at June 30, 2014. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and cash flow from operations. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects(1)(2)				
Oil sands transportation(2)	$ 793.6	$ 437.5	$ 356.1	$ -
Conventional oil pipelines	102.5	88.8	13.7	-
NGL extraction	2.3	2.3	-	-
Bulk liquid storage	12.3	7.8	4.5	-
Growth capital funded by Inter Pipeline(2)(3)	910.7	536.4	374.3	-
Sustaining capital funded by Inter Pipeline(2)(3)	27.2	27.2	-	-
	937.9	563.6	374.3	-
Total debt(4)				
Corridor syndicated facility(5)	1,290.2	1,290.2	-	-
Inter Pipeline syndicated facility	80.0	-	80.0	-
Loan to private placement noteholders	288.6	288.6	-	-
Corridor debentures	300.0	150.0	-	150.0
MTN Series 1 to 6	2,325.0	-	600.0	1,725.0
	4,283.8	1,728.8	680.0	1,875.0
Other obligations				
Operating leases	242.0	9.6	55.0	177.4
Purchase obligations	218.6	75.5	36.2	106.9
Long-term portion of incentive plan	4.7	-	4.7	-
Working capital deficit(3)	277.9	277.9	-	-
	$ 5,964.9	$ 2,655.4	$ 1,150.2	$ 2,159.3

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2014.
(2) Inter Pipeline's expected growth and sustaining capital spending profile including the 15% non-controlling interest in Cold Lake is $1,013.8 million.
(3) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(4) At June 30, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately $0.3 million and $0.2 million, respectively, were not included in total debt outstanding. Total debt reported in the June 30, 2014 consolidated financial statements of $4,263.7 million, includes long-term debt, short-term debt and commercial paper of $4,283.8 million less discounts and debt transaction costs of $20.1 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 revolving credit facility that has no repayment requirements until December 2017.
(6) Convertible shares recorded as a liability of $170 million are not expected to be settled in cash and therefore not included in the table above.

Inter Pipeline plans to fund approximately $1 billion in organic growth capital* projects over the next five years.

Inter Pipeline's bulk liquid storage business will incur additional sustaining capital expenditures* in the foreseeable future to comply with UK's storage and containment regulations, as discussed in the risk factors relating to Post Buncefield Regulation in Inter Pipeline's 2013 annual MD&A.

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

Inter Pipeline's debt outstanding at June 30, 2014, matures at various dates up to May 2044 as follows:

(millions)		Amount	Rate	Maturity date
Inter Pipeline Ltd.				
$1.25 billion syndicated facility	$	80.0	Variable	December 5, 2018
Loan payable to private placement noteholders		288.6	6.100%	October 28, 2014
MTN Series 1		325.0	4.967%	February 2, 2021
MTN Series 2		200.0	3.839%	July 30, 2018
MTN Series 3		400.0	3.776%	May 30,2022
MTN Series 4		500.0	3.448%	July 20, 2020
MTN Series 5		500.0	4.637%	May 30, 2044
MTN Series 6		400.0	CDOR plus 49 bps	May 30, 2017
Inter Pipeline (Corridor) Inc.				
$1.55 billion syndicated facility		1,290.2	Variable	December 15, 2017
Series B debentures		150.0	5.033%	February 2, 2015
Series C debentures		150.0	4.897%	February 3, 2020

The following future obligations resulting from the normal course of operations will be primarily funded from FFO* in the respective periods that they become due or may be funded through debt:

(i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at June 30, 2014, based upon the various contractual maturity dates.

(ii) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2090.

(iii) Working capital deficiencies* arise primarily from capital expenditures outstanding in accounts payable at the end of a period, and fluctuate with changes in commodity prices.

(iv) Inter Pipeline has obligations of $37.3 million under its employee long-term incentive plan, of which $32.6 million is included in the working capital deficit*.

(v) Present value of estimated expenditures expected to be incurred on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $64.0 million at June 30, 2014. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

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

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended June 30		Six Months Ended June 30	
(millions, except per share and % amounts)	2014	2013	2014	2013
Cash provided by operating activities	$ 147.3	$ 110.1	$ 281.5	$ 230.2
Net change in non-cash operating working capital	(15.7)	(4.7)	(18.2)	(15.4)
Less funds from operations[1] attributable to non-controlling interest	(4.1)	(2.6)	(8.1)	(5.6)
Funds from operations[1] attributable to shareholders	127.5	102.8	255.2	209.2
Dividends to shareholders	$ 103.9	$ 78.2	$ 203.5	$ 155.0
Dividends per share[2]	$ 0.3225	$ 0.2800	$ 0.6450	$ 0.5575
Payout ratio[1]	81.5%	76.1%	79.7%	74.1%

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

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

FFO* is an additional GAAP financial measure that Inter Pipeline uses in managing its business and in assessing future cash requirements that impact the determination of future dividends to shareholders. Inter Pipeline expresses FFO* attributable to shareholders as cash provided by operating activities less net changes in non-cash working capital and funds from operations* attributable to non-controlling interest. The impact of net change in non-cash working capital is excluded in the calculation of FFO* primarily to compensate for the seasonality of working capital throughout the year. Certain Inter Pipeline revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the recognition of revenue. Within a 12-month calendar year, there is minimal variation between revenue recognized and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of FFO* to mitigate its quarterly impact. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, but to focus the results on cash that is generated in any reporting period.

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

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

	Three Months Ended June 30	Six Months Ended June 30			Years Ended December 31	
(millions)	2014	2014	2013	2012	2011[(1)]	2010[(1)]
Cash provided by operating activities	$ 147.3	$ 281.5	$ 468.7	$ 385.5	$ 460.5	$ 349.6
Less cash provided by operating activities attributable to non-controlling interest	(4.0)	(16.4)	(7.8)	(10.2)	-	-
Dividends to shareholders	(103.9)	(203.5)	(338.2)	(285.2)	(251.7)	(232.6)
Excess	$ 39.4	$ 61.6	$ 122.7	$ 90.1	$ 208.8	$ 117.0

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

	Three Months Ended June 30	Six Months Ended June 30			Years Ended December 31	
(millions)	2014	2014	2013	2012	2011	2010
Net income (loss) attributable to shareholders	$ 81.7	$ 167.8	$ (58.1)	$ 307.2	$ 247.9	$ 236.0
Dividends to shareholders	(103.9)	(203.5)	(338.2)	(285.2)	(251.7)	(232.6)
(Shortfall) excess	$ (22.2)	$ (35.7)	$ (396.3)	$ 22.0	$ (3.8)	$ 3.4

Cash provided by operating activities in all periods was greater than dividends to shareholders plus cash provided by operating activities attributable to non-controlling interest. Dividends were also less than net income attributable to shareholders for the years ended December 31, 2010 and 2012. Net income (loss) also includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore dividends may exceed net income attributable to shareholders.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at June 30, 2014 are as follows:

(millions)	Total
Common shares outstanding	323.0

At August 5, 2014, Inter Pipeline had 323.8 million common shares outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

MARKET RISK MANAGEMENT

Inter Pipeline utilizes derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign currencies and interest rates. Risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price, foreign exchange and interest rate risk to assist with stabilizing FFO*. Inter Pipeline endeavours to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline prohibits the use of

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

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

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

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt and commercial paper outstanding at June 30, 2014. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

NGL Extraction Business

Frac-spread Risk Management

Inter Pipeline is exposed to frac-spread risk which is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Derivative financial instruments may be utilized to manage frac-spread risk. As at June 30, 2014, 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 June 30, 2014, there are no heat rate swap agreements outstanding.

Inter Pipeline has an existing electricity price swap agreement in the conventional oil pipelines business. At June 30, 2014, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant would have changed the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately $0.2 million.

Bulk Liquid Storage Business

Foreign Exchange Risk Management

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at June 30, 2014, there are no foreign exchange hedges outstanding.

Corporate

Interest Rate Risk Management

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of its floating-to-fixed interest rate swap agreements. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure. As at June 30, 2014, Inter Pipeline has a fixed-to-floating interest rate swap agreement on Corridor's Series B debentures.

Based on the variable rate obligations outstanding at June 30, 2014, a 1% change in interest rates at this date would have changed interest expense for the three and six months ended June 30, 2014, by

approximately $3.7 million and $7.1 million, respectively, assuming all other variables remain constant. Of these amounts, $3.2 million and $6.4 million, for the three and six months ended June 30, 2014, respectively, relate to the $1.55 billion unsecured revolving credit facility and are recoverable through the terms of the Corridor FSA, therefore the after-tax income impact for the three and six months ended June 30, 2014 would be $0.4 million and $0.5 million, respectively.

CREDIT RISK

Inter Pipeline's credit risk exposure relates primarily to customers and financial counterparties holding cash and derivative financial instruments, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through credit approval and monitoring procedures. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, business performance, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees or some other form of credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At June 30, 2014, accounts receivable associated with these two business segments were $87.0 million or 58.8% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

With respect to credit risk arising from cash and cash equivalents, deposits and derivative financial instruments, Inter Pipeline believes the risk of non-performance of counterparties is minimal as cash, deposits and derivative financial instruments outstanding are predominantly held with major financial institutions or investment grade corporations.

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. At June 30, 2014, accounts receivable outstanding meeting the definition of past due and impaired is insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three and six month periods ended June 30, 2014 or 2013.

CONTROLS AND PROCEDURES

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

CRITICAL ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION

The preparation of Inter Pipeline's consolidated financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 3 *Summary of Significant Accounting Policies* of the December 31, 2013 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

The amounts recorded for derivative financial instruments, business combinations, consolidation of non-controlling interest, non-financial asset impairment, property, plant and equipment, provisions, deferred income taxes and depreciation and amortization are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

Inter Pipeline's interim financial statements for the three and six months ended June 30, 2014 have been presented in accordance with IAS 34 and have been prepared by management following the same accounting policies and methods of computation as disclosed in the audited consolidated financial statements for the year ended December 31, 2013.

FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 15 *Revenue from Contracts with Customers (IFRS 15)*

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

RISK FACTORS

During the second quarter of 2014, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2013 annual MD&A.

NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES

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

Non-GAAP Financial Measures

The following non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund monthly dividends. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

Adjusted working capital deficiency is calculated by subtracting current liabilities from current assets including cash and excluding the fair value of derivative financial instruments, convertible shares, commercial paper and current portion of long-term debt.

(millions)	June 30 2014	December 31 2013
Current assets		
Cash and cash equivalents	$ 104.0	$ 47.2
Accounts receivable	147.9	246.3
Prepaid expenses and other deposits	48.8	41.3
Current liabilities		
Dividends payable	(34.7)	(33.0)
Accounts payable, accrued liabilities and provisions	(518.7)	(578.7)
Current income taxes payable	-	(31.2)
Deferred revenue	(25.2)	(6.8)
Adjusted working capital deficiency	$ (277.9)	$ (314.9)

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

(millions, except per share amounts)	June 30 2014	December 31 2013
Closing share price	$ 33.12	$ 25.83
Total closing number of common shares	323.0	306.8
	10,697.8	7,924.6
Total debt	4,283.8	3,960.8
Enterprise value	$ 14,981.6	$ 11,885.4

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

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

	Three Months Ended June 30			
			2014	2013
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 228.1	$ 0.2	$ 228.3	$ 382.6
Conventional oil pipelines	9.3	0.2	9.5	2.4
NGL extraction	2.6	1.1	3.7	10.8
Bulk liquid storage	3.8	7.0	10.8	3.8
Corporate	-	1.7	1.7	2.0
Capital expenditures	$ 243.8	$ 10.2	$ 254.0	$ 401.6
Capital expenditures funded by Inter Pipeline(1)	$ 235.4	$ 10.2	$ 245.6	$ 400.1

	Six Months Ended June 30			
			2014	2013
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 764.9	$ 0.3	$ 765.2	$ 764.6
Conventional oil pipelines	14.6	1.5	16.1	5.4
NGL extraction	3.7	1.8	5.5	23.7
Bulk liquid storage	5.3	9.9	15.2	17.7
Corporate	-	2.9	2.9	3.7
Capital expenditures	$ 788.5	$ 16.4	$ 804.9	$ 815.1
Capital expenditures funded by Inter Pipeline(1)	$ 754.2	$ 16.4	$ 770.6	$ 811.5

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

Normalized net income is calculated as net income (loss) from the comparative periods in 2013 excluding the one-time non-cash general partner internalization expense of $348.6 million. This measure is used by the investment community to better gauge the change in net income after excluding the large one-time charge.

Interest coverage is calculated as net income (loss) attributable to shareholders plus income taxes, and borrowing costs, divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations. This measure is used by the investment community to determine the ease with which borrowing costs are satisfied.

Payout ratio is calculated by expressing dividends declared to shareholders for the period as a percentage of funds from operations attributable to shareholders. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current dividends.

Total debt to total capitalization is calculated by dividing the sum of total debt including demand facilities and excluding discounts and debt transaction costs by total capitalization. Total capitalization includes the sum of total debt (as above) and shareholders' equity. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

Additional GAAP Financial Measures

The following additional GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund monthly dividends. Management considers these additional GAAP financial measures to be important indicators in assessing its performance.

EBITDA, adjusted EBITDA and funds from operations are reconciled from the components of net income as noted below. Funds from operations is expressed before changes in non-cash working capital, see the **DIVIDENDS TO SHAREHOLDERS** section of this report for further discussion. EBITDA is expressed as net income before total interest less capitalized interest, income taxes, depreciation and amortization; adjusted EBITDA also includes additional adjustments for (gain) loss

on disposal of assets, non-cash expense and unrealized change in fair value of derivative financial instruments. These additional adjustments are made to exclude various non-cash items, or items of an unusual nature that are not reflective of ongoing operations. These adjustments are also made to better reflect the historical measurement of EBITDA used in the investment community as an approximate measure of an entities operating cash flow based on data from its income statement.

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

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2014	2013	2014	2013
Net income (loss)	$ 85.3	$ (281.6)	$ 174.9	$ (209.4)
Financing charges	18.1	22.3	38.9	46.2
Current income tax expense	13.2	13.6	30.1	28.1
Deferred income tax expense	12.5	5.6	25.9	12.3
Depreciation and amortization	33.3	31.4	66.6	62.3
EBITDA	162.4	(208.7)	336.4	(60.5)
(Gain) loss on disposal of assets	(0.8)	-	(1.7)	1.7
Non-cash financing charges	(1.5)	(1.4)	(2.9)	(3.0)
Non-cash expense (recovery)	1.4	1.2	(1.1)	(1.6)
Unrealized change in fair value of derivative financial instruments	(0.1)	0.2	(1.3)	0.9
General partner internalization	-	348.6	-	348.6
Adjusted EBITDA	$ 161.4	$ 139.9	$ 329.4	$ 286.1
Less adjusted EBITDA attributable to non-controlling interest	(4.1)	(2.6)	(8.1)	(5.6)
Adjusted EBITDA attributable to shareholders	$ 157.3	$ 137.3	$ 321.3	$ 280.5

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2014	2013	2014	2013
Net income (loss)	$ 85.3	$ (281.6)	$ 174.9	$ (209.4)
Depreciation and amortization	33.3	31.4	66.6	62.3
(Gain) loss on disposal of assets	(0.8)	-	(1.7)	1.7
Non-cash expense (recovery)	1.4	1.2	(1.1)	(1.6)
Unrealized change in fair value of derivative financial instruments	(0.1)	0.2	(1.3)	0.9
Deferred income tax expense	12.5	5.6	25.9	12.3
General partner internalization	-	348.6	-	348.6
Funds from operations	131.6	105.4	263.3	214.8
Less funds from operations attributable to non-controlling interest	(4.1)	(2.6)	(8.1)	(5.6)
Funds from operations attributable to shareholders	$ 127.5	$ 102.8	$ 255.2	$ 209.2
Funds from operations	$ 131.6	$ 105.4	$ 263.3	$ 214.8
Total interest less capitalized interest	16.6	20.9	36.0	43.2
Current income tax expense	13.2	13.6	30.1	28.1
Adjusted EBITDA	161.4	139.9	329.4	286.1
Less adjusted EBITDA attributable to non-controlling interest	(4.1)	(2.6)	(8.1)	(5.6)
Adjusted EBITDA attributable to shareholders	$ 157.3	$ 137.3	$ 321.3	$ 280.5

Total recourse debt to capitalization is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization

excluding outstanding debt facilities with no recourse to Inter Pipeline. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 7th day of August, 2014.

Inter Pipeline Ltd.

Interim Consolidated Balance Sheets

(unaudited) (thousands of Canadian dollars)	**As at June 30 2014**	As at December 31 2013
ASSETS		
Current Assets		
Cash and cash equivalents (note 19)	**$ 103,994**	$ 47,236
Accounts receivable	**147,929**	246,310
Derivative financial instruments (note 16)	**3,042**	5,051
Prepaid expenses and other deposits	**48,849**	41,302
Total Current Assets	**303,814**	339,899
Non-Current Assets		
Derivative financial instruments (note 16)	**-**	395
Property, plant and equipment (note 5)	**7,452,184**	6,699,702
Goodwill and intangible assets	**610,858**	617,704
Total Assets	**$ 8,366,856**	$ 7,657,700
LIABILITIES AND EQUITY		
Current Liabilities		
Dividends payable (note 6)	**$ 34,722**	$ 32,980
Accounts payable, accrued liabilities and provisions (notes 8 and 9)	**518,660**	578,748
Current income taxes payable	**-**	31,232
Derivative financial instruments (note 16)	**-**	1,394
Deferred revenue	**25,166**	6,763
Convertible shares (note 11)	**170,000**	-
Current portion of long-term debt (note 7)	**438,311**	287,983
Commercial paper (note 7)	**1,287,425**	1,309,452
Total Current Liabilities	**2,474,284**	2,248,552
Non-Current Liabilities		
Long-term debt (note 7)	**2,538,011**	2,345,591
Convertible shares (note 11)	**-**	170,000
Long-term payable	**-**	395
Provisions (note 8)	**64,042**	65,102
Employee benefits (note 9)	**10,735**	11,886
Long-term deferred revenue and other liabilities	**14,637**	16,461
Deferred income taxes	**439,541**	415,446
Total Liabilities	**5,541,250**	5,273,433
Commitments (notes 5 and 14)		
Shareholders' Equity		
Shareholders' equity (note 11)	**2,460,116**	2,045,954
Total reserves (note 11)	**61,145**	54,296
Total Shareholders' Equity	**2,521,261**	2,100,250
Non-Controlling Interest (note 12)	**304,345**	284,017
Total Equity	**2,825,606**	2,384,267
Total Liabilities and Equity	**$ 8,366,856**	$ 7,657,700

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Changes in Equity

(unaudited) (thousands of Canadian dollars)

	Attributable to Shareholders of Inter Pipeline Ltd.								
	Class A Limited Liability Partnership Units *(note 11)*	Class B Unlimited Liability Partnership Units *(note 11)*	Share Capital *(note 11)*	Earnings / (Deficit)	Contributed Surplus	Reserves *(note 11)*	Total Shareholders' Equity	Non-Controlling Interest *(note 12)*	Total Equity
Balance, January 1, 2014	$ -	$ -	$ 3,096,752	$ (1,053,255)	$ 2,457	$ 54,296	$ 2,100,250	$ 284,017	**$ 2,384,267**
Net income for the period	-	-	-	167,802	-	-	167,802	7,059	**174,861**
Other comprehensive income	-	-	-	-	-	6,849	6,849	-	**6,849**
Dividends declared (note 6)	-	-	-	(203,497)	-	-	(203,497)	-	**(203,497)**
Issuance of common shares (note 11)									
Issued under Premium Dividend™ and Dividend Reinvestment Plan	-	-	158,654	-	-	-	158,654	-	**158,654**
Issued for cash (net of issue costs)	-	-	291,203	-	-	-	291,203	-	**291,203**
Stated capital adjustment (note 11)	-	-	(1,026,500)	1,026,500	-	-	-	-	**-**
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	-	-	(8,336)	**(8,336)**
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	-	-	21,605	**21,605**
Balance, June 30, 2014	$ -	$ -	$ 2,520,109	$ (62,450)	$ 2,457	$ 61,145	$ 2,521,261	$ 304,345	**$ 2,825,606**
Balance, January 1, 2013	$ 1,681,274	$ 1,681	$ -	$ -	$ -	$ (23,504)	$ 1,659,451	$ 93,357	$ 1,752,808
Net (loss) income for the period	(214,011)	(214)	-	-	-	-	(214,225)	4,813	(209,412)
Other comprehensive income	-	-	-	-	-	15,062	15,062	-	15,062
Dividends declared (note 6)	(154,838)	(155)	-	-	-	-	(154,993)	-	(154,993)
Issuance of common shares (note 11)									
Issued under Premium Dividend™ and Dividend Reinvestment Plan	108,851	109	-	-	-	-	108,960	-	108,960
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	-	-	(5,829)	(5,829)
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	-	-	5,383	5,383
Balance, June 30, 2013	$ 1,421,276	$ 1,421	$ -	$ -	$ -	$ (8,442)	$ 1,414,255	$ 97,724	$ 1,511,979

See accompanying condensed notes to the interim consolidated financial statements.

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Inter Pipeline Ltd.

Interim Consolidated Statements of Net Income (Loss)

(unaudited) (thousands of Canadian dollars)	Three Months Ended June 30 **2014**	Three Months Ended June 30 2013	Six Months Ended June 30 **2014**	Six Months Ended June 30 2013
REVENUES				
Operating revenues	**$ 375,827**	$ 320,276	**$ 786,565**	$ 647,955
EXPENSES				
Shrinkage gas	**76,101**	51,646	**166,556**	113,240
Midstream product purchases	**26,617**	14,908	**55,445**	28,863
Operating	**91,286**	94,832	**185,347**	175,877
Depreciation and amortization	**33,296**	31,377	**66,562**	62,303
Financing charges (note 18)	**18,025**	22,326	**38,858**	46,204
General and administrative	**20,568**	14,203	**45,989**	30,451
Unrealized change in fair value of derivative financial instruments	**(129)**	194	**(1,343)**	910
Management and incentive fees to general partner (note 13)	**-**	4,590	**-**	8,772
General partner internalization (note 13)	**-**	348,584	**-**	348,584
(Gain) loss on disposal of assets	**(869)**	-	**(1,729)**	1,733
	264,895	582,660	**555,685**	816,937
INCOME (LOSS) BEFORE INCOME TAXES	**110,932**	(262,384)	**230,880**	(168,982)
Provision for income taxes (note 10)				
Current	**13,183**	13,583	**30,146**	28,102
Deferred	**12,510**	5,677	**25,873**	12,328
	25,693	19,260	**56,019**	40,430
NET INCOME (LOSS)	**$ 85,239**	$ (281,644)	**$ 174,861**	$ (209,412)
Net income (loss) attributable to				
Shareholders of Inter Pipeline Ltd.	**$ 81,678**	$ (283,876)	**$ 167,802**	$ (214,225)
Non-controlling interest (note 12)	**3,561**	2,232	**7,059**	4,813
	$ 85,239	$ (281,644)	**$ 174,861**	$ (209,412)
Net income (loss) per share attributable to shareholders of Inter Pipeline Ltd. (note 11)				
Basic	**$ 0.25**	$ (1.02)	**$ 0.53**	$ (0.77)
Diluted	**$ 0.25**	$ (1.02)	**$ 0.52**	$ (0.77)

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Comprehensive Income (Loss)

(unaudited) (thousands of Canadian dollars)	Three Months Ended June 30 **2014**	Three Months Ended June 30 2013	Six Months Ended June 30 **2014**	Six Months Ended June 30 2013
NET INCOME (LOSS)	**$ 85,239**	$ (281,644)	**$ 174,861**	$ (209,412)
OTHER COMPREHENSIVE (LOSS) INCOME (note 11)				
Item that may be reclassified subsequently to net income (loss)				
Unrealized (loss) gain on translating financial statements of foreign operations	**(25,703)**	34,895	**6,849**	14,819
Items that will not be reclassified to net income (loss)				
Actuarial gain on defined benefit pension plan	**-**	-	**-**	322
Income tax relating to defined benefit pension reserve	**-**	-	**-**	(79)
	(25,703)	34,895	**6,849**	15,062
COMPREHENSIVE INCOME (LOSS)	**$ 59,536**	$ (246,749)	**$ 181,710**	$ (194,350)
Comprehensive income (loss) attributable to				
Shareholders of Inter Pipeline Ltd.	**$ 55,975**	$ (248,981)	**$ 174,651**	$ (199,163)
Non-controlling interest (note 12)	**3,561**	2,232	**7,059**	4,813
	$ 59,536	$ (246,749)	**$ 181,710**	$ (194,350)

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Cash Flows

(unaudited) (thousands of Canadian dollars)	Three Months Ended June 30 **2014**	Three Months Ended June 30 2013	Six Months Ended June 30 **2014**	Six Months Ended June 30 2013
OPERATING ACTIVITIES				
Net income (loss)	**$ 85,239**	$ (281,644)	**$ 174,861**	$ (209,412)
Items not involving cash:				
Depreciation and amortization	**33,296**	31,377	**66,562**	62,303
(Gain) loss on disposal of assets	**(869)**	-	**(1,729)**	1,733
Non-cash expense (recovery)	**1,550**	1,212	**(897)**	(1,690)
Unrealized change in fair value of derivative financial instruments	**(129)**	194	**(1,343)**	910
General partner internalization (note 13)	**-**	348,584	**-**	348,584
Deferred income tax expense	**12,510**	5,677	**25,873**	12,328
Funds from operations	**131,597**	105,400	**263,327**	214,756
Net change in non-cash operating working capital (note 19)	**15,686**	4,675	**18,168**	15,421
Cash provided by operating activities	**147,283**	110,075	**281,495**	230,177
INVESTING ACTIVITIES				
Expenditures on property, plant and equipment	**(253,523)**	(401,629)	**(807,073)**	(816,823)
Proceeds on sale of assets	**1,586**	-	**2,972**	8
Capital contributions received from Cold Lake non-controlling interest	**8,713**	1,855	**21,605**	5,383
Net change in non-cash investing working capital (note 19)	**(122,255)**	(9,619)	**964**	165,096
Cash used in investing activities	**(365,479)**	(409,393)	**(781,532)**	(646,336)
FINANCING ACTIVITIES				
Cash dividends paid to shareholders of Inter Pipeline Ltd. (note 6)	**(25,319)**	(23,628)	**(44,843)**	(46,033)
Cash distributions paid by Cold Lake to non-controlling interest	**(4,245)**	(2,933)	**(8,336)**	(5,829)
Increase in debt	**128,570**	330,738	**323,397**	449,615
Transaction costs on debt	**(4,490)**	(1,491)	**(4,480)**	(1,643)
Issuance of common shares	**-**	-	**300,560**	-
Share issue costs	**342**	-	**(12,177)**	-
Net change in non-cash financing working capital (note 19)	**2,127**	1,910	**2,457**	2,138
Cash provided by financing activities	**96,985**	304,596	**556,578**	398,248
Effect of foreign currency translation on foreign currency denominated cash	**(884)**	1,527	**217**	1,090
(Decrease) increase in cash and cash equivalents	**(122,095)**	6,805	**56,758**	(16,821)
Cash and cash equivalents, beginning of period	**226,089**	41,353	**47,236**	64,979
Cash and cash equivalents, end of period	**$ 103,994**	$ 48,158	**$ 103,994**	$ 48,158
Cash taxes paid	**$ 15,501**	$ 244	**$ 63,793**	$ 8,758
Cash interest paid	**$ 25,842**	$ 26,953	**$ 62,660**	$ 52,491

See accompanying condensed notes to the interim consolidated financial statements.

1. STRUCTURE OF THE CORPORATION

Inter Pipeline Ltd. (Inter Pipeline or the Corporation) was incorporated under the provisions of the *Business Corporations Act* (Alberta) on January 29, 2013. On May 31, 2013, the Corporation changed its name to Inter Pipeline Ltd. from 1726761 Alberta Ltd. On September 1, 2013, the Corporation carried on the business of Inter Pipeline Fund (the Fund) following the conversion from a limited partnership to a dividend paying corporation (Corporate Conversion) pursuant to a plan of arrangement under the *Business Corporations* Act (Alberta) (the Arrangement). The Fund was dissolved and, as a result, comparative figures in these and future financial statements reflect the history of the Fund, as previously reported, to the date of Corporate Conversion. In these unaudited condensed interim consolidated financial statements (interim financial statements), Inter Pipeline will refer to common shares, shareholders, restricted share units (RSUs) and dividends, which were formerly referred to as partnership units, unitholders, deferred unit rights and distributions under the partnership structure.

Inter Pipeline is comprised of four industry operating segments located in two geographic segments: oil sands transportation business, conventional oil pipelines business and natural gas liquids (NGL) extraction business, all operating in Canada, and the bulk liquid storage business, which operates in Europe. The head office, principal address and records office of Inter Pipeline are located at 2600, 237 – 4th Avenue SW, Calgary, Alberta, Canada.

These interim financial statements include the accounts of Inter Pipeline, its subsidiary companies, partnerships and any joint arrangements as at and for the three and six months ended June 30, 2014.

These interim financial statements were authorized for issue in accordance with a resolution of the Board of Directors of Inter Pipeline on August 7, 2014.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 – *Interim Financial Reporting*. These interim financial statements do not contain all disclosures required by International Financial Reporting Standards (IFRS) for annual financial statements and accordingly, should be read in conjunction with Inter Pipeline’s audited consolidated financial statements and notes thereto for the year ended December 31, 2013.

Inter Pipeline has consistently applied the same accounting policies for all periods presented in these interim financial statements as those used in Inter Pipeline’s audited consolidated financial statements for the year ended December 31, 2013, and the interim financial statements for the three months ended March 31, 2014.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 15 *Revenue from Contracts with Customers (IFRS 15)*

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

4. SEGMENT REPORTING

Inter Pipeline operates its business under the following principal business segments:

Three Months Ended June 30, 2014

	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 102,842	$ 96,042	$ 136,959	$ -	$ 335,843	$ 39,984	$ 375,827
EXPENSES							
Shrinkage gas	-	-	76,101	-	76,101	-	76,101
Midstream product purchases	-	26,617	-	-	26,617	-	26,617
Operating	27,970	20,092	26,217	-	74,279	17,007	91,286
Depreciation and amortization	12,420	2,666	7,442	934	23,462	9,834	33,296
Financing charges	8,457	171	75	9,064	17,767	258	18,025
General and administrative	2,162	-	-	15,325	17,487	3,081	20,568
Unrealized change in fair value of derivative financial instruments	-	(129)	-	-	(129)	-	(129)
Gain on disposal of assets	-	(29)	-	-	(29)	(840)	(869)
	51,009	49,388	109,835	25,323	235,555	29,340	264,895
INCOME (LOSS) BEFORE INCOME TAXES	51,833	46,654	27,124	(25,323)	100,288	10,644	110,932
Provision for (recovery of) income taxes	9,511	-	-	16,242	25,753	(60)	25,693
NET INCOME (LOSS)	$ 42,322	$ 46,654	$ 27,124	$ (41,565)	$ 74,535	$ 10,704	$ 85,239
Items not involving cash:							
Depreciation and amortization*	12,420	2,637	7,442	934	23,433	8,994	32,427
Non-cash expense (recovery)	168	468	168	1,903	2,707	(1,157)	1,550
Unrealized change in fair value of derivative financial instruments	-	(129)	-	-	(129)	-	(129)
Deferred income tax expense (recovery)	8,162	-	-	4,749	12,911	(401)	12,510
FUNDS FROM (USED IN) OPERATIONS	$ 63,072	$ 49,630	$ 34,734	$ (33,979)	$ 113,457	$ 18,140	$ 131,597
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 228,356	$ 9,397	$ 3,816	$ 1,678	$ 243,247	$ 10,776	$ 254,023
							As at June 30, 2014
Property, plant and equipment - net book value	$ 5,780,849	$ 491,132	$ 418,492	$ 15,139	$ 6,705,612	$ 746,572	$ 7,452,184
Goodwill and intangible assets - net book value	$ 224,123	$ -	$ 195,080	$ -	$ 419,203	$ 191,655	$ 610,858
Other assets	$ 112,424	$ 87,937	$ 45,528	$ 2,890	$ 248,779	$ 55,035	$ 303,814
TOTAL ASSETS	$ 6,117,396	$ 579,069	$ 659,100	$ 18,029	$ 7,373,594	$ 993,262	$ 8,366,856

* Includes gain on disposal of assets

Three Months Ended June 30, 2013

	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 93,352	$ 71,438	$ 117,451	$ -	$ 282,241	$ 38,035	$ 320,276
EXPENSES							
Shrinkage gas	-	-	51,646	-	51,646	-	51,646
Midstream product purchases	-	14,908	-	-	14,908	-	14,908
Operating	31,074	12,986	34,729	-	78,789	16,043	94,832
Depreciation and amortization	11,224	2,513	6,794	645	21,176	10,201	31,377
Financing charges	8,681	157	66	13,181	22,085	241	22,326
General and administrative	2,828	-	-	9,321	12,149	2,054	14,203
Unrealized change in fair value of derivative financial instruments	-	(180)	374	-	194	-	194
Management and incentive fees to general partner	-	-	-	4,590	4,590	-	4,590
General partner internalization	-	-	-	348,584	348,584	-	348,584
	53,807	30,384	93,609	376,321	554,121	28,539	582,660
INCOME (LOSS) BEFORE INCOME TAXES	39,545	41,054	23,842	(376,321)	(271,880)	9,496	(262,384)
Provision for (recovery of) income taxes	6,844	-	-	12,854	19,698	(438)	19,260
NET INCOME (LOSS)	$ 32,701	$ 41,054	$ 23,842	$ (389,175)	$ (291,578)	$ 9,934	$ (281,644)
Items not involving cash:							
Depreciation and amortization	11,224	2,513	6,794	645	21,176	10,201	31,377
Non-cash expense	49	123	100	785	1,057	155	1,212
Unrealized change in fair value of derivative financial instruments	-	(180)	374	-	194	-	194
Deferred income tax expense (recovery)	5,054	-	-	1,378	6,432	(755)	5,677
General partner internalization	-	-	-	348,584	348,584	-	348,584
FUNDS FROM (USED IN) OPERATIONS	$ 49,028	$ 43,510	$ 31,110	$ (37,783)	$ 85,865	$ 19,535	$ 105,400
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 382,511	$ 2,391	$ 10,782	$ 2,021	$ 397,705	$ 3,924	$ 401,629
							As at December 31, 2013
Property, plant and equipment - net book value	$ 5,039,268	$ 479,761	$ 422,890	$ 14,546	$ 5,956,465	$ 743,237	$ 6,699,702
Goodwill and intangible assets - net book value	$ 225,262	$ -	$ 200,186	$ -	$ 425,448	$ 192,256	$ 617,704
Other assets	$ 153,737	$ 65,048	$ 73,014	$ 405	$ 292,204	$ 48,090	$ 340,294
TOTAL ASSETS	$ 5,418,267	$ 544,809	$ 696,090	$ 14,951	$ 6,674,117	$ 983,583	$ 7,657,700

Six Months Ended June 30, 2014

	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 208,014	$ 187,227	$ 305,344	$ -	$ 700,585	$ 85,980	$ 786,565
EXPENSES							
Shrinkage gas	-	-	166,556	-	166,556	-	166,556
Midstream product purchases	-	55,445	-	-	55,445	-	55,445
Operating	57,386	35,722	55,517	-	148,625	36,722	185,347
Depreciation and amortization	24,772	5,279	15,082	1,707	46,840	19,722	66,562
Financing charges	16,921	341	150	20,898	38,310	548	38,858
General and administrative	4,659	-	-	35,923	40,582	5,407	45,989
Unrealized change in fair value of derivative financial instruments	-	(96)	(1,247)	-	(1,343)	-	(1,343)
Gain on disposal of assets	-	(36)	-	-	(36)	(1,693)	(1,729)
	103,738	96,655	236,058	58,528	494,979	60,706	555,685
INCOME (LOSS) BEFORE INCOME TAXES	104,276	90,572	69,286	(58,528)	205,606	25,274	230,880
Provision for income taxes	18,650	-	-	36,383	55,033	986	56,019
NET INCOME (LOSS)	$ 85,626	$ 90,572	$ 69,286	$ (94,911)	$ 150,573	$ 24,288	$ 174,861
Items not involving cash:							
Depreciation and amortization*	24,772	5,243	15,082	1,707	46,804	18,029	64,833
Non-cash (recovery) expense	(64)	(88)	94	620	562	(1,459)	(897)
Unrealized change in fair value of derivative financial instruments	-	(96)	(1,247)	-	(1,343)	-	(1,343)
Deferred income tax expense (recovery)	16,128	-	-	10,836	26,964	(1,091)	25,873
FUNDS FROM (USED IN) OPERATIONS	126,462	95,631	83,215	(81,748)	223,560	39,767	263,327
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 765,213	$ 16,097	$ 5,579	$ 2,854	$ 789,743	$ 15,192	$ 804,935

* Includes gain on disposal of assets

Inter Pipeline Ltd.
Condensed Notes to Interim Consolidated Financial Statements
(unaudited)
June 30, 2014
(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Six Months Ended June 30, 2013

	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 184,935	$ 138,774	$ 246,849	$ -	$ 570,558	$ 77,397	$ 647,955
EXPENSES							
Shrinkage gas	-	-	113,240	-	113,240	-	113,240
Midstream product purchases	-	28,863	-	-	28,863	-	28,863
Operating	58,659	25,557	59,345	-	143,561	32,316	175,877
Depreciation and amortization	22,411	4,948	13,516	1,229	42,104	20,199	62,303
Financing charges	17,428	314	133	27,521	45,396	808	46,204
General and administrative	5,306	-	-	20,752	26,058	4,393	30,451
Unrealized change in fair value of derivative financial instruments	-	(272)	1,182	-	910	-	910
Management and incentive fees to general partner	-	-	-	8,772	8,772	-	8,772
General partner internalization	-	-	-	348,584	348,584	-	348,584
(Gain) loss on disposal of assets	-	(8)	1,741	-	1,733	-	1,733
	103,804	59,402	189,157	406,858	759,221	57,716	816,937
INCOME (LOSS) BEFORE INCOME TAXES	81,131	79,372	57,692	(406,858)	(188,663)	19,681	(168,982)
Provision for (recovery of) income taxes	13,459	-	-	27,805	41,264	(834)	40,430
NET INCOME (LOSS)	$ 67,672	$ 79,372	$ 57,692	$ (434,663)	$ (229,927)	$ 20,515	$ (209,412)
Items not involving cash:							
Depreciation and amortization*	22,411	4,940	15,257	1,229	43,837	20,199	64,036
Non-cash (recovery) expense	(276)	(123)	(11)	(1,916)	(2,326)	636	(1,690)
Unrealized change in fair value of derivative financial instruments	-	(272)	1,182	-	910	-	910
Deferred income tax expense (recovery)	9,983	-	-	3,820	13,803	(1,475)	12,328
General partner internalization	-	-	-	348,584	348,584	-	348,584
FUNDS FROM (USED IN) OPERATIONS	$ 99,790	$ 83,917	$ 74,120	$ (82,946)	$ 174,881	$ 39,875	$ 214,756
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 764,500	$ 5,398	$ 23,732	$ 3,698	$ 797,328	$ 17,754	$ 815,082

* Includes (gain) loss on disposal of assets

5. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities and Equipment	Pipeline Line Fill	Construction Work in Progress	Total
COST				
Balance, January 1, 2013	$ 5,092,910	$ 273,829	$ 343,398	$ 5,710,137
Additions/transfers from construction*	635,497	-	1,946,788	2,582,285
Disposals/completed construction*	(7,914)	-	(633,328)	(641,242)
Foreign currency translation adjustments	82,445	-	(68)	82,377
Balance, December 31, 2013	5,802,938	273,829	1,656,790	7,733,557
Additions/transfers from construction*	78,755	7,455	796,339	882,549
Disposals/completed construction*	(2,488)	-	(77,614)	(80,102)
Foreign currency translation adjustments	10,429	-	251	10,680
Balance, June 30, 2014	**$ 5,889,634**	**$ 281,284**	**$ 2,375,766**	**$ 8,546,684**
ACCUMULATED DEPRECIATION				
Balance, January 1, 2013	$ 904,631	$ 11,998	$ -	$ 916,629
Depreciation	102,770	2,905	-	105,675
Disposals	(1,500)	-	-	(1,500)
Foreign currency translation adjustments	13,051	-	-	13,051
Balance, December 31, 2013	1,018,952	14,903	-	1,033,855
Depreciation	57,152	1,452	-	58,604
Disposals	(1,246)	-	-	(1,246)
Foreign currency translation adjustments	3,287	-	-	3,287
Balance, June 30, 2014	**$ 1,078,145**	**$ 16,355**	**$ -**	**$ 1,094,500**
NET BOOK VALUE				
Balance, December 31, 2013	$ 4,783,986	$ 258,926	$ 1,656,790	$ 6,699,702
Balance, June 30, 2014	**$ 4,811,489**	**$ 264,929**	**$ 2,375,766**	**$ 7,452,184**

* The majority of property, plant and equipment additions are related to constructed assets and are initially recorded as construction work in progress before being transferred to pipelines, facilities and equipment or pipeline line fill when the related asset is available for use.

At June 30, 2014, Inter Pipeline expects to spend approximately $937.9 million on property, plant and equipment, of which $563.6 million is due within one year and $374.3 million is due in one to five years. These amounts do not include capital expenditures related to the 15% non-controlling interest in Cold Lake.

6. DIVIDENDS TO SHAREHOLDERS

	Three months ended June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Dividends declared to shareholders of Inter Pipeline Ltd.	**$ 103,880**	$ 78,179	**$ 203,497**	$ 154,993
Dividends settled with the issuance of shares under the Premium Dividend™ and Dividend Reinvestment Plan	**(78,561)**	(54,551)	**(158,654)**	(108,960)
Cash dividends paid to shareholders of Inter Pipeline Ltd.	**$ 25,319**	$ 23,628	**$ 44,843**	$ 46,033
Declared amount ($ per share)	**$ 0.3225**	$ 0.2800	**$ 0.6450**	$ 0.5575

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As at June 30, 2014, dividends of $34.7 million were payable on 323.0 million outstanding common shares at $0.1075 per share (December 31, 2013 - $33.0 million payable on 306.8 million outstanding common shares at $0.1075 per share).

On July 9, 2014, Inter Pipeline declared dividends of $0.1075 per share. The dividends will be paid on or about August 15, 2014, to all shareholders of record on July 22, 2014. The total estimated declared dividends are $34.8 million.

7. LONG-TERM DEBT, SHORT-TERM DEBT AND COMMERCIAL PAPER

	June 30 2014	December 31 2013
$1,550 million Unsecured Revolving Credit Facility (a)	$ 1,290,200	$ 1,312,200
$1,250 million Unsecured Revolving Credit Facility (b)	80,000	635,000
Loan payable to Private Placement noteholders	288,648	288,648
Corridor Debentures (c)	300,000	300,000
Senior Unsecured MTN (d)	2,325,000	1,425,000
Long-term debt, short term debt and commercial paper (excluding transaction costs and discounts)	4,283,848	3,960,848
Less: current portion of long-term debt and commercial paper*	(1,728,848)	(1,600,848)
Long-term debt (excluding transaction costs and discounts)	2,555,000	2,360,000
Transaction costs, net of accumulated amortization	(18,264)	(15,588)
Discount, net of accumulated amortization	(1,837)	(2,234)
Add: Current portion of transaction costs and discounts	3,112	3,413
Long-term debt	2,538,011	2,345,591
Current portion of long-term debt including transaction costs and discounts	438,311	287,983
Commercial paper including transaction costs and discounts* (a)	1,287,425	1,309,452
	$ 4,263,747	$ 3,943,026

* Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2017.

(a) At June 30, 2014, letters of credit of $0.2 million were issued by Corridor.

(b) At June 30, 2014, letters of credit of $0.3 million were issued by Inter Pipeline.

(c) Corridor Debentures are defined as the $150 million 5.033% Series B debentures due February 2, 2015 and the $150 million 4.897% Series C debentures due February 3, 2020.

(d) On May 27, 2014, Inter Pipeline issued $500 million and $400 million of Senior Unsecured Medium-Term Notes (MTN) in the Canadian public debt market under Inter Pipeline's short form base shelf prospectus dated December 9, 2013, a related prospectus supplement dated May 27, 2014 and related pricing supplements dated May 27, 2014. The $500 million MTN series 5 (MTN Series 5), due May 30, 2044, bear interest at the rate of 4.637% per annum, payable semi-annually. The $400 million floating rate MTN series 6 (MTN Series 6), due May 30, 2017, bear interest at the three month Canadian Dealer Offered Rate plus 49 basis points, payable and reset quarterly. The proceeds from these issuances were used to repay bank indebtedness incurred through funding Inter Pipeline's capital expenditure program and for other general corporate purposes.

Senior Unsecured MTN are defined as the $325 million 4.967% MTN Series 1 due February 2, 2021, the $200 million 3.839% MTN Series 2 due July 30, 2018, the $400 million 3.776% MTN Series 3 due May 30, 2022, the $500 million 3.448% MTN Series 4 due July 20, 2020, and the MTN Series 5 and the MTN Series 6, as described above.

8. PROVISIONS

	June 30 2014	December 31 2013
Decommissioning obligations	**$ 45,349**	$ 46,473
Environmental liabilities	**18,693**	18,629
Provisions	**$ 64,042**	$ 65,102

In addition to the above provisions, $56.0 million is included in accounts payable, accrued liabilities and provisions related to construction reclamation work at June 30, 2014 (December 31, 2013 - $41.2 million).

9. EMPLOYEE BENEFITS

	June 30 2014	December 31 2013
Pension liability	**$ 6,002**	$ 6,254
Long-term incentive plan liability	**4,733**	5,632
Employee benefits	**$ 10,735**	$ 11,886

For the three and six months ended June 30, 2014, employee benefits expense recognized in net income (loss) were $30.6 million and $60.8 million, respectively (three and six months ended June 30, 2013 - $19.4 million and $39.2 million, respectively).

a) Long-Term Incentive Plan

The following table summarizes the status of Inter Pipeline's RSUs as at June 30, 2014, and December 31, 2013:

	Number of RSUs
Balance, January 1, 2013	1,294,485
Granted	663,635
Exercised	(794,226)
Forfeitures	(31,651)
Balance, December 31, 2013	1,132,243
Granted	605,341
Exercised	(77,377)
Forfeitures	(16,569)
Balance, June 30, 2014	**1,643,638**

At June 30, 2014, a current liability related to RSUs of $32.6 million (December 31, 2013 - $18.5 million) is included in accounts payable, accrued liabilities and provisions. At June 30, 2014, 574,341 RSUs are exercisable. Inter Pipeline's closing share price at June 30, 2014 was $33.12.

The total intrinsic value of RSUs vested and not exercised as at June 30, 2014 was $20.3 million (December 31, 2013 - $17.6 million).

The weighted average remaining contractual life of the outstanding RSUs as at June 30, 2014 was 1.6 years (December 31, 2013 - 1.5 years).

For the three months ended June 30, 2014, RSU costs of $2.1 million were included in operating expenses and $6.9 million were included in general and administrative expenses (three months ended June 30, 2013 - $0.4 million and $2.1 million, respectively). For the six months ended June 30, 2014, RSU costs of $3.9 million were included in operating expenses and $12.4 million were included in general and administrative expenses (six months ended June 30, 2013 - $1.2 million and $5.5 million, respectively).

10. INCOME TAXES

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income (loss) before income taxes as shown in the following table:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	**2014**	2013
Income (loss) before income taxes per consolidated financial statements	**$ 110,932**	$ (262,384)	**$ 230,880**	$ (168,982)
Income before income taxes attributable to non-controlling interest	**(3,572)**	(2,243)	**(7,081)**	(4,835)
Adjusted income before income taxes	**107,360**	(264,627)	**223,799**	(173,817)
Tax rate	**25.0%**	25.0%	**25.0%**	25.0%
	26,840	(66,157)	**55,950**	(43,454)
General partner internalization	**-**	87,369	**-**	87,369
Deductible intercompany interest	**(1,762)**	(1,532)	**(218)**	(3,027)
Impact of rate reductions	**-**	(1,257)	**-**	(1,257)
Other	**615**	837	**287**	799
Provision for income taxes	**$ 25,693**	$ 19,260	**$ 56,019**	$ 40,430

11. SHAREHOLDERS' EQUITY

Shares Issued, Fully Paid and Outstanding

Authorized

Unlimited number of common shares, with voting rights and no par value.

Class A preferred shares, limited to not more than 20% of the number of issued and outstanding common shares, with no voting rights.

Issued, Fully Paid and Outstanding

	Number of Class A Units	Number of Class B Units	Number of Common Shares	Total Number	Share Capital
Balance, January 1, 2013	274,880,318	275,422	-	275,155,740	$ 2,339,745
Issued under Premium Dividend™ and Dividend Reinvestment Plan	6,639,917	6,657	4,143,952	10,790,526	246,691
Exchanged on Corporate Conversion	(281,520,235)	-	281,520,235	-	-
Cancellation of Class B units	-	(282,079)	-	(282,079)	(2,489)
Common shares issued on Corporate Conversion	-	-	7,411,683	7,411,683	178,584
Common shares issued, net of issue costs	-	-	13,719,500	13,719,500	334,221
Balance, December 31, 2013	-	-	306,795,370	306,795,370	$ 3,096,752
Issued under Premium Dividend™ and Dividend Reinvestment Plan	-	-	5,803,599	5,803,599	$ 158,654
Common shares issued, net of issue costs	-	-	10,400,000	10,400,000	291,203
Stated capital adjustment	-	-	-	-	(1,026,500)
Balance, June 30, 2014	**-**	**-**	**322,998,969**	**322,998,969**	**$ 2,520,109**

Common Share Issuance

On March 26, 2014, Inter Pipeline closed an equity offering to sell 10,400,000 common shares at $28.90 per share for gross proceeds of $300.6 million. Share issue costs (net of tax) of $9.4 million were incurred, resulting in net proceeds of $291.2 million.

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Stated Capital Adjustment

On May 12, 2014, Inter Pipeline's Board of Directors approved a legal stated capital amount of $1,636.6 million for Inter Pipeline's common shares on the date of Corporate Conversion pursuant to the Arrangement. As a result, Inter Pipeline's share capital was reduced by $1,026.5 million to correspond with the revised legal stated capital amount of the common shares and Inter Pipeline's deficit on the date of Corporate Conversion was eliminated. This stated capital adjustment did not result in any changes to Inter Pipeline's total shareholders' equity, only the components therein.

Calculation of Net Income (Loss) per Common Share

Basic net income (loss) per common share attributable to shareholders is calculated by dividing the net income (loss) for the period attributable to common shareholders of Inter Pipeline by the weighted average number of common shares outstanding during the period. The number of diluted shares outstanding is calculated using the Treasury Stock method based on the weighted average number of shares outstanding for the period as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	**2014**	2013
Net income (loss) attributable to shareholders – basic and diluted	**$ 81,678**	$ (283,876)	**$ 167,802**	$ (214,225)
Weighted average shares outstanding – basic	**321,647,890**	278,815,580	**315,347,540**	277,612,294
Effect of Premium Dividend™ and Dividend Reinvestment Plan *	**673,466**	-	**705,185**	-
Effect of convertible shares	**7,055,406**	-	**7,055,406**	-
Weighted average shares outstanding – diluted	**329,376,762**	278,815,580	**323,108,131**	277,612,294
Net income (loss) per common share attributable to shareholders –				
basic	**$ 0.25**	$ (1.02)	**$ 0.53**	$ (0.77)
diluted	**$ 0.25**	$ (1.02)	**$ 0.52**	$ (0.77)

* The effect of shares issued under the Premium Dividend™ and Dividend Reinvestment Plan of 609,666 and 620,260 for the three and six months ended June 30, 2013, respectively, was not included in the calculation of diluted net loss per common share attributable to shareholders, as they are anti dilutive.

Convertible Shares

The convertible shares issued on September 1, 2013 following Corporate Conversion are partially contingent on the outcome of certain organic growth projects in the Foster Creek and Christina Lake areas currently under development. These convertible shares will be converted to common shares of Inter Pipeline on a one for one basis when the Foster Creek and Christina Lake projects are both generating revenue. If this does not occur prior to January 1, 2017, the convertible shares will be exchanged on a 70/170th basis and their value will be reduced to $70 million. Inter Pipeline has classified the convertible shares as a current liability as the new diluent delivery service to the Foster Creek and Christina Lake projects was placed into commercial service in July 2014, while the new bitumen blend facilities in support of the Foster Creek project are expected to be in service and generating revenue in early 2015.

™ Denotes trademark of Canaccord Genuity Corp.

Reserves

Reserves are summarized as follows:

	Foreign Currency Translation Reserve	Defined Benefit Pension Reserve	Total Reserves
Balance, January 1, 2013	$ (13,437)	$ (10,067)	$ (23,504)
Other comprehensive income	14,819	243	15,062
Balance, June 30, 2013	$ 1,382	$ (9,824)	$ (8,442)
Balance, January 1, 2014	$ 67,541	$ (13,245)	$ 54,296
Other comprehensive income	6,849	-	6,849
Balance, June 30, 2014	**$ 74,390**	**$ (13,245)**	**$ 61,145**

12. NON-CONTROLLING INTEREST

Summarized information on the balance sheets and results of operations relating to the 15% non-controlling interest in Cold Lake, which has its principal place of business in Calgary, Alberta, are:

	June 30 2014	December 31 2013
Current assets	**$ 7,565**	$ 21,703
Non-current assets	**311,736**	273,229
Current liabilities	**(14,938)**	(10,884)
Non-current liabilities	**(18)**	(31)
Proportionate share of net assets	**$ 304,345**	$ 284,017

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	**2014**	2013
Revenues	**$ 6,420**	$ 5,012	**$ 12,825**	$ 9,860
Expenses	**(2,848)**	(2,769)	**(5,744)**	(5,025)
Current income tax	**(11)**	(11)	**(22)**	(22)
Proportionate share of net income and comprehensive income	**$ 3,561**	$ 2,232	**$ 7,059**	$ 4,813

13. RELATED PARTY TRANSACTIONS

No revenue was earned from related parties for the three and six months ended June 30, 2014 and 2013.

Following Corporate Conversion on September 1, 2013, Inter Pipeline is no longer required to pay management, acquisition, divestiture and incentive fees to a general partner, which were previously required under the Fund's Limited Partnership Agreement (LPA). In the three and six months ended June 30, 2013, the Fund's general partner earned $2.9 million and $6.0 million, respectively, in management fees and $1.7 million and $2.8 million, respectively, of incentive fees were accrued. As the annual distributable cash threshold of the LPA was not met prior to Corporate Conversion, the incentive fee was reversed when the LPA was terminated on September 1, 2013. Prior to Corporate Conversion, on June 1, 2013, Inter Pipeline recognized a one-time, non-cash, general partner internalization expense of $348.6 million related to the indirect purchase of its general partner.

Certain key management personnel contracts were renegotiated effective January 1, 2014, resulting in recognition of additional employee benefits expense of $nil and $5.0 million for the three and six months ended June 30, 2014, respectively (three and six months ended June 30, 2013 – $nil and $nil, respectively).

14. COMMITMENTS AND CONTINGENCIES

Inter Pipeline has purchase obligation commitments totaling approximately $218.6 million at June 30, 2014. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the United Kingdom's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $5.0 million to $7.0 million over the next seven years. Refer to note 5 for expected property, plant and equipment expenditures.

Inter Pipeline has lease agreements for office space, storage, property, plant and equipment and land for periods ranging from 2014 to 2090. At June 30, 2014, the future lease obligations are approximately $242.0 million.

15. CAPITAL DISCLOSURES

Capital under management includes long-term debt, short-term debt and commercial paper (excluding discounts and transaction costs) and shareholders' equity.

At June 30, 2014, Inter Pipeline had access to committed credit facilities totaling $2,800.0 million, of which $1,429.8 million remained unutilized. Inter Pipeline also had access to demand facilities of $65.0 million, of which $64.5 million remained unutilized. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

Management's long-term objectives are to remain well below its maximum permitted ratio of 65% recourse debt to capitalization* and maximum senior recourse debt to adjusted EBITDA** ratio of 5.5 times. Once the debt issued under the amended note purchase agreement matures in October 2014, the recourse debt to adjusted EBITDA** covenant will no longer exist.

The recourse debt to capitalization* and senior recourse debt to adjusted EBITDA** measures below are similar to the coverage ratio terms contained in Inter Pipeline's credit agreements. Adjusted EBITDA** calculated below includes the 15% non-controlling interest in Cold Lake and all net income associated with non-recourse subsidiaries, while the credit agreements only include distributed earnings attributable to shareholders of Inter Pipeline.

	June 30 2014	December 31 2013
Long-term debt, short-term debt and commercial paper		
(excluding transaction costs and discounts, per note 7)		
Recourse debt	**$ 2,693,648**	$ 2,348,648
Non-recourse debt	**1,590,200**	1,612,200
	4,283,848	3,960,848
Total shareholders' equity	**2,521,261**	2,100,250
Total capitalization	**$ 6,805,109**	$ 6,061,098
Capitalization (excluding non-recourse debt)	**$ 5,214,909**	$ 4,448,898
Recourse debt to capitalization*	**51.7%**	52.8%

* Recourse debt to capitalization is an additional GAAP measure and is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline.

** Adjusted EBITDA is an additional GAAP measure whose nearest GAAP measure is net income. Additional GAAP measures do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

	Twelve Months Ended	
	June 30 2014	December 31 2013
Net income (loss)	**$ 337,278**	$ (46,995)
Financing charges	**84,536**	91,882
Provision for income taxes	**102,186**	86,597
Depreciation and amortization	**130,945**	126,686
EBITDA*	**654,945**	258,170
Loss on disposal of assets	**267**	3,729
Non-cash recovery	**(2,885)**	(3,760)
Unrealized change in fair value of derivative financial instruments	**6,812**	9,065
General partner internalization	**-**	348,584
Adjusted EBITDA*	**$ 659,139**	$ 615,788
Recourse debt to adjusted EBITDA*	**4.1**	3.8

* EBITDA and adjusted EBITDA are additional GAAP measures whose nearest GAAP measure is net income. Additional GAAP measures do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

Inter Pipeline was compliant with all covenants throughout each of the periods presented.

16. FINANCIAL INSTRUMENTS

a) Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at June 30, 2014, are classified as follows:

	Fair Value Through Profit or Loss	Cash, Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non-Financial Asset or Liability*	Carrying Value of Asset or Liability
Assets**						
Cash and cash equivalents	$ -	$ 103,994	$ -	$ 103,994	$ -	$ 103,994
Accounts receivable	-	131,892	-	131,892	16,037	147,929
Derivative financial instruments***	3,042	-	-	3,042	-	3,042
Prepaid expenses and other deposits	-	29,765	-	29,765	19,084	48,849
Liabilities						
Dividends payable	$ -	$ -	$ 34,722	$ 34,722	$ -	$ 34,722
Accounts payable, accrued liabilities and provisions	2,834	-	411,298	414,132	104,528	518,660
Deferred revenue and other liabilities	20	-	16,343	16,363	23,440	39,803
Convertible shares (note 11)	-	-	170,000	170,000	-	170,000
Long-term debt, short-term debt and commercial paper (note 7)****	-	-	4,283,848	4,283,848	-	4,283,848

* Not all components of assets and liabilities meet the definition of a financial asset or liability.
** Inter Pipeline does not have any assets that meet the definition of "available-for-sale" or "held-to-maturity."
*** Financial instruments at fair value through profit or loss are recorded at fair value using a discounted cash flow methodology.
**** Carrying values include commercial paper and exclude discounts and transaction costs with the respective accumulated amortization.

b) Fair Value of Financial Instruments

The fair value of long-term debt, convertible shares and derivative financial instruments are included in the following tables.

At June 30, 2014, the carrying values of fixed rate debt and convertible shares compared to fair values are as follows:

	Carrying Value*	Fair Value
Loan payable to Private Placement noteholders	$ 288,648	$ 292,697
Corridor Debentures	$ 300,000	$ 319,161
Senior Unsecured MTN Series 1 to 5	$ 1,925,000	$ 2,016,297
Convertible shares	$ 170,000	$ 229,795

* Carrying value excludes transaction costs, discount and accumulated amortization.

The fair values of derivatives and other financial instruments used for risk management activities are recorded in the consolidated balance sheets as follows:

	June 30 2014	December 31 2013
Current asset	**$ 3,042**	$ 5,051
Non-current asset	**-**	395
Current liability	**-**	(1,394)
Non-current liability	**(20)**	-
	$ 3,022	$ 4,052

Derivative financial instruments carried at fair value are as follows:

	June 30 2014	December 31 2013
Frac-spread risk management		
NGL swaps	**$ -**	$ (1,287)
Natural gas swaps	**-**	147
Foreign exchange swaps	**-**	(107)
	-	(1,247)
Interest rate risk management		
Interest rate swaps	**2,834**	5,206
	2,834	5,206
Power price risk management		
Electricity price swap	**188**	93
	188	93
	$ 3,022	$ 4,052

17. RISK MANAGEMENT

Inter Pipeline is exposed to a number of inherent financial risks arising in the normal course of operations which include market price risk related to commodity prices, interest rates and foreign currency exchange rates, credit risk and liquidity risk.

a) Market Risk

Frac-spread Risk Management

Inter Pipeline may enter into NGL, AECO natural gas, and foreign exchange swap contracts to manage frac-spread risk exposure in the NGL extraction business. As at June 30, 2014, there are no frac-spread hedges outstanding, however, Inter Pipeline may decide to hedge this risk in the future.

Power Price Risk Management

Inter Pipeline enters into electricity price swap contracts to manage power price risk exposure in the conventional oil pipelines business. During the three and six months ended June 30, 2014, Inter Pipeline entered into an electricity price swap agreement in addition to the existing electricity price swap agreement entered into in 2013. Inter Pipeline may also enter into financial heat rate swap contracts to manage power price risk exposure in the NGL extraction business. As at June 30, 2014, there are no heat rate price swap agreements outstanding.

At June 30, 2014, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant would have changed the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk, and consequently after-tax income, by approximately $0.2 million.

Interest Rate Risk Management

Based on the variable rate debt obligations outstanding at June 30, 2014, a 1% change in interest rates at this date would have changed interest expense for the three and six months ended June 30, 2014, by approximately $3.7 million and $7.1 million, respectively, assuming all other variables remain constant. Of these amounts, $3.2 million and $6.4 million for the three and six months ended June 30, 2014, respectively, relate to the $1,550 million Unsecured Revolving Credit Facility (note 7) and are recoverable through the terms of Corridor's firm service agreement, therefore the after-tax income impact for the three and six months ended June 30, 2014 would be $0.4 million and $0.5 million, respectively.

Foreign Exchange Risk Management

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at June 30, 2014, there are no foreign exchange hedges outstanding.

b) Credit Risk

With respect to credit risk arising from cash, deposits and derivative financial instruments, Inter Pipeline believes the risks of non-performance of counterparties are minimal as cash, deposits and derivative financial instruments outstanding are predominantly held with major financial institutions or investment grade corporations.

At June 30, 2014, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval, ongoing monitoring procedures and historical experience.

At June 30, 2014, accounts receivable outstanding meeting the definition of past due and impaired are insignificant.

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 June 30, 2014, accounts receivable associated with these two business segments were $87.0 million or 58.8% 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.

Liquidity Risk

The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at June 30, 2014, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Dividends payable	$ 34,722	$ 34,722	$ -	$ -
Accounts payable, accrued liabilities and provisions	518,660	518,660	-	-
Deferred revenue and other liabilities	39,803	25,166	8,761	5,876
Convertible shares*	170,000	170,000	-	-
Long-term debt, short-term debt and commercial paper**	4,283,848	1,728,848	680,000	1,875,000
	$ 5,047,033	$ 2,477,396	$ 688,761	$ 1,880,876

* Convertible shares are expected to be converted to equity and will not be settled in cash (note 11).
** Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Unsecured Revolving Credit Facility that has no repayment requirements until December 2017.

18. FINANCING CHARGES

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	**2014**	2013
Interest expense on credit facilities	**$ 9,743**	$ 9,770	**$ 20,448**	$ 17,970
Interest on loan payable to Private Placement noteholders	**4,403**	4,438	**8,817**	8,876
Interest on Corridor Debentures	**2,516**	2,488	**5,009**	5,002
Interest on Senior Unsecured MTN	**16,719**	9,731	**30,760**	19,462
Total interest	**33,381**	26,427	**65,034**	51,310
Capitalized interest	**(16,767)**	(5,447)	**(29,072)**	(8,084)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	**875**	852	**1,804**	1,669
Accretion of provisions and pension plan funding charges	**536**	494	**1,092**	1,309
Financing charges	**$ 18,025**	$ 22,326	**$ 38,858**	$ 46,204

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	**2014**	2013
Accounts receivable	**$ 31,269**	$ (1,720)	**$ 98,381**	$ 7,526
Prepaid expense and other deposits	**(21,330)**	(7,823)	**(7,547)**	(8,720)
Dividends payable	**1,412**	922	**1,742**	1,150
Accounts payable, accrued liabilities and provisions	**(110,932)**	(7,713)	**(58,111)**	155,197
Current income taxes payable	**-**	13,388	**(31,232)**	19,377
Deferred revenue	**(4,891)**	203	**18,403**	8,392
Impact of foreign exchange rate differences and other	**30**	(291)	**(47)**	(267)
Changes in non-cash working capital	**$ (104,442)**	$ (3,034)	**$ 21,589**	$ 182,655
These changes relate to the following activities:				
Operating	**$ 15,686**	$ 4,675	**$ 18,168**	$ 15,421
Investing	**(122,255)**	(9,619)	**964**	165,096
Financing	**2,127**	1,910	**2,457**	2,138
Changes in non-cash working capital	**$ (104,442)**	$ (3,034)	**$ 21,589**	$ 182,655

Cash and Cash Equivalents

	June 30 2014	December 31 2013
Cash on hand and at banks	**$ 92,793**	$ 36,984
Short-term deposits	**11,201**	10,252
	$ 103,994	$ 47,236