Management's Discussion and Analysis

For the three and six months ended June 30, 2013

Forward-Looking Information

The following Management's Discussion and Analysis (MD&A) highlights Inter Pipeline Fund's (Inter Pipeline) significant business results and statistics for the three and six month periods ended June 30, 2013, to provide Inter Pipeline's unitholders 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. 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 distributions to its unitholders through 2013 and beyond; 2) the maintenance of Inter Pipeline's distribution level combined with the tax treatment of distributions to its unitholders effective in 2011 should result in a favourable after-tax treatment for Inter Pipeline's taxable unitholders; 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 Polaris diluent pipeline project for the new pipeline connection to the Sunrise oil sands project (Sunrise project), the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to the Narrows Lake, Christina Lake and Foster Creek oil sands projects and Cochrane liquid sweetening project; 6) timing and cost schedules of Polaris and Cold Lake capital projects, and forward EBITDA estimates in respect of these projects; 7) capital forecasts; and, 8) Inter Pipeline's acquisition of Pipeline Management Inc. (General Partner) and planned corporate conversion.

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 its General Partner, the general partner of Inter Pipeline at the time of preparation, 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 distributions to its unitholders; 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; the risk that the corporate conversion may not be completed when planned or at all or on the terms and conditions in the unitholder meeting materials and the failure to obtain the necessary unitholder, Court, regulatory or other third party approvals required in order to proceed with the conversion; 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, 2013

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and six month periods ended June 30, 2013, as compared to the three and six month periods ended June 30, 2012. The MD&A should be read in conjunction with the June 30, 2013 unaudited condensed interim consolidated financial statements (interim financial statements), the interim financial statements and MD&A for the three and six month periods ended June 30, 2012, the MD&A and audited consolidated financial statements for the year ended December 31, 2012, the **Annual Information Form** and other information filed by Inter Pipeline at www.sedar.com.

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

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles (GAAP), as outlined in the CICA Handbook Part 1, 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.

Page

SECOND QUARTER HIGHLIGHTS

- Funds from operations* (FFO) totaled $105 million, in line with second quarter 2012 levels
- Low quarterly payout ratio* of 76%
- Declared cash distributions of $78 million or $0.28 per unit
- Throughput volumes on oil sands and conventional oil pipeline systems averaged 942,700 barrels per day (b/d)
- Conventional oil pipeline systems transported 170,900 b/d and generated record quarterly FFO* of $43.5 million
- Announced a $0.03 per unit annualized distribution increase, Inter Pipeline's second increase in cash distributions in nine months
- Entered into a new long-term ethane sales agreement with NOVA Chemicals
- Increased capacity on Inter Pipeline's revolving credit facility from $750 million to $1.25 billion
- Announced internalization of general partner and plans for corporate conversion†
- Normalized net income of $67 million after excluding one-time, non-cash internalization costs† of $349 million

SUBSEQUENT EVENTS

- Executed long-term agreement to provide bitumen blend transportation service to a new unit train loading facility owned by Canexus Corporation
- Issued $500 million of 7-year notes at an attractive interest rate of 3.45%
- Announced Polaris pipeline expansion for additional diluent deliveries to Kearl oil sands project

---

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

† Please refer to the **TRANSACTIONS WITH RELATED PARTIES** section

PERFORMANCE OVERVIEW

(millions, except per unit and % amounts)	Three Months Ended June 30 2013[1]	Three Months Ended June 30 2012[1] (restated)	Six Months Ended June 30 2013[1]	Six Months Ended June 30 2012[1] (restated)
Revenues				
Oil sands transportation	$ 93.3	$ 72.4	$ 184.9	$ 147.5
NGL extraction	117.5	106.3	246.9	243.0
Conventional oil pipelines	71.5	58.8	138.8	110.0
Bulk liquid storage	38.0	42.4	77.4	81.1
	$ 320.3	$ 279.9	$ 648.0	$ 581.6
Funds from operations[2][3]				
Oil sands transportation[3]	$ 49.0	$ 44.0	$ 99.8	$ 88.1
NGL extraction	31.1	48.5	74.1	105.5
Conventional oil pipelines	43.5	35.3	83.9	75.8
Bulk liquid storage	19.5	23.3	39.9	42.6
Corporate costs	(37.7)	(41.0)	(82.9)	(91.1)
	$ 105.4	$ 110.1	$ 214.8	$ 220.9
Per unit[2]	$ 0.37	$ 0.41	$ 0.77	$ 0.83
Net (loss) income[4]	$ (281.6)	$ 106.8	$ (209.4)	$ 188.9
Net (loss) income attributable to unitholders[4]	$ (283.9)	$ 104.4	$ (214.2)	$ 184.0
Per unit – basic and diluted	$ (1.02)	$ 0.39	$ (0.77)	$ 0.69
Distributions to unitholders[5]	$ 78.2	$ 70.6	$ 155.0	$ 140.5
Per unit[5]	$ 0.2800	$ 0.2625	$ 0.5575	$ 0.5250
Units outstanding (basic)				
Weighted average	278.8	268.6	277.6	267.1
End of period	280.0	270.0	280.0	270.0
Capital expenditures				
Growth[2]	$ 395.8	$ 68.6	$ 803.4	$ 108.8
Sustaining[2]	5.8	7.0	11.7	13.4
	$ 401.6	$ 75.6	$ 815.1	$ 122.2
Payout ratio[2]	76.1%	65.8%	74.1%	65.3%

(millions, except % amounts)	As at June 30 2013[1]	As at December 31 2012[1] (restated)
Total assets	$ 6,429.6	$ 5,682.4
Total debt[6]	$ 3,578.0	$ 3,127.6
Total partners' equity	$ 1,414.3	$ 1,659.5
Enterprise value[2]	$ 9,646.1	$ 9,593.8
Total debt to total capitalization[2][7]	71.7%	65.3%
Total recourse debt to capitalization[2][7]	57.8%	47.0%

(1) IFRS 10 *Consolidated Financial Statements* adoption is effective as of January 1, 2013 and restated for 2012 as required for comparative purposes.
(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(3) Funds from operations[2] include non-controlling interest amounts of $2.6 million and $5.6 million for the three and six months ended June 30, 2013, respectively ($2.8 million and $5.6 million for the three and six months ended June 30, 2012, respectively).
(4) On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its current limited partnership structure to position the business for a planned conversion to corporate form 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. Please refer to the **TRANSACTIONS WITH RELATED PARTIES** section.
(5) Distributions to unitholders are calculated based on the number of units outstanding at each record date.
(6) Total debt reported in the June 30, 2013 interim financial statements of $3,561.7 million, includes long-term debt and commercial paper of $3,578.0 million less discounts and debt transaction costs of $16.3 million.
(7) Upon successful conversion to corporate form, the General Partner internalization liabilities totalling $348.6 million on the balance sheet would be reduced in two phases, and partners' equity would correspondingly increase, as preferred shares are converted to common shares of Inter Pipeline's successor corporation. This impact on Inter Pipeline's total debt to total capitalization and total recourse debt to capitalization ratios at June 30, 2013 would be a decrease to 67.0% and 52.4%, respectively.

THREE MONTHS ENDED JUNE 30, 2013

Inter Pipeline generated strong financial results for the three months ended June 30, 2013, despite a scheduled 18 day full plant maintenance turnaround at the Cochrane NGL extraction facility. In the second quarter, FFO* decreased $4.7 million from $110.1 million in 2012 to $105.4 million in 2013. The decrease was largely due to the turnaround at the Cochrane extraction facility which, when combined with lower propane plus frac-spreads resulted in FFO* that was $17.4 million or 36% lower in the NGL extraction business when compared to 2012. The conventional oil pipelines business generated very strong operating results with FFO increasing by $8.2 million, or 23.2% primarily due to higher volumes in the Mid-Saskatchewan and Central Alberta pipeline's and increased tariffs, as well as the successful internalization of the midstream marketing business. FFO* in the oil sands transportation business increased 11.4% or $5.0 million largely due to the Polaris pipeline system entering commercial service in the third quarter of 2012. FFO* was $3.8 million lower in the bulk liquid storage business primarily due to decreased utilization and storage rates. Corporate costs were reduced in the second quarter of 2013 by $3.3 million primarily due to increased capitalized interest and lower current income taxes. Inter Pipeline's payout ratio* for the three months ended June 30, 2013 was a positive 76.1%.

In the second quarter of 2013, Inter Pipeline recorded a net loss of $281.6 million compared to net income of $106.8 million in the second quarter of 2012. The difference is largely driven by a one-time non-cash General Partner internalization expense of $348.6 million related to a planned conversion to corporate form, and a significant favourable change in the mark-to-market adjustment of its derivative financial instruments in the second quarter of 2012, which did not recur in 2013.

For the three months ended June 30, 2013, total distributions to unitholders were $78.2 million, an increase of 10.8% or $7.6 million, over the same period in 2012. This increase was largely due to increased monthly distributions of $0.005 per unit in December 2012 and an increase in the overall number of units outstanding.

Inter Pipeline's total consolidated debt at June 30, 2013 increased $331.4 million from $3,246.6 million at March 31, 2013 to $3,578.0 million, while $401.6 million was spent on capital projects.

SIX MONTHS ENDED JUNE 30, 2013

Inter Pipeline also generated strong financial results for the six months ended June 30, 2013. FFO decreased only slightly from $220.9 million in 2012 to $214.8 million in 2013. The decrease in operating results for the six months ended June 30, 2013 is due to the same reasons discussed above. Inter Pipeline's payout ratio* was 74.1% for the six months ended June 30, 2013.

Inter Pipeline recorded a net loss of $209.4 million in the six months ended June 30, 2013, versus net income of $188.9 million in the same period in 2012. The difference is due to the same reasons discussed above for the three months ended June 30.

Total distributions to unitholders during the first six months of 2013 were $155.0 million an increase of 10.3% or $14.5 million over the comparable period in 2012, for the same reasons mentioned above.

Inter Pipeline's consolidated debt increased $450.4 million from $3,127.6 million at December 31, 2012 to $3,578.0 million at June 30, 2013. During this period, Inter Pipeline's capital expenditures totalled $815.1 million. At June 30, Inter Pipeline's recourse debt to capitalization ratio was 57.8%. 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. The non-cash expense concurrently decreased partners' equity which reduced Inter Pipeline's capitalization by $348.6 million. The $348.6 million negative impact on equity is anticipated to be reversed in two phases. First, $178.6 million will be credited to equity upon successful conversion to a corporation, anticipated to be on September 1, 2013. Second, the remaining $170 million will be credited to equity upon revenue commencement for two identified oil sands projects. Management anticipates this will occur in early 2015. At that time the

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

full impact to equity of charging the internalization value to earnings will be reversed, and the related negative impact on Inter Pipeline's recourse debt to capitalization level will be eliminated. Inter Pipeline's total debt to total capitalization ratio* at June 30, 2013 was 71.7%, which includes non-recourse debt of $1,640.4 million held within Inter Pipeline's Corridor corporate entity, compared to 65.3% at December 31, 2012. Inter Pipeline's total debt to total capitalization and total recourse debt to capitalization ratios at June 30, 2013 would have been 67.0% and 52.4%, respectively if the $348.6 million internalization expense was not charged to earnings.

OUTLOOK

Inter Pipeline's business strategy is to acquire and develop long-life, high-quality energy infrastructure assets that generate stable and predictable cash flow. Inter Pipeline continues to advance this strategy through the successful development of our large portfolio of growth initiatives within our four well established business segments. With over $2.7 billion of organic growth projects currently underway, longer term cash flows are expected to materially increase and provide steady and growing distributions to unitholders.

Inter Pipeline's current growth plans center on development of our oil sands transportation infrastructure. Alberta's oil sands continue to represent one of the world's largest proven crude oil reserves deposits, which are being steadily developed and for which significant transportation infrastructure is required. Inter Pipeline currently has over 2,500 kilometres (km) of oil sands related pipelines spanning the main producing areas of Alberta's oil sands region. These systems will be expanded over the next few years in direct response to increased producer demand for dedicated transportation capacity. The expansions will significantly increase diluent and diluted bitumen transportation capabilities between major market hubs in Edmonton and Hardisty, Alberta, and the Cold Lake and Athabasca oil sands regions.

Expansion plans are anchored by major long term transportation service agreements signed in the first quarter of 2013. The FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips, has entered into contracts for committed capacity of 500,000 b/d of bitumen blend and 350,000 b/d of diluent. To accommodate these volumes, a $2.6 billion integrated oil sands development program is underway that will expand and integrate Inter Pipeline's Cold Lake and Polaris pipeline systems, and connect both systems to production sites in the Cold Lake region. Inter Pipeline will provide transportation services to existing FCCL projects at Foster Creek and Christina Lake, as well as the Narrows Lake project which is under development. Approximately $70 million of annual EBITDA* related to this capital investment is expected to commence in mid 2014. Once all pipeline infrastructure has been fully commissioned, long term annual EBITDA* is expected to increase to a range between $260 million and $290 million. The agreements are for an initial term of 20 years and can be extended for a further 30 years.

As part of the expansion program, approximately $1.4 billion (Inter Pipeline's 85% share) will be invested on the Cold Lake pipeline system to construct approximately 400 km of new pipeline that will twin existing pipeline segments and extend the Cold Lake system north to the Narrows Lake production site. On the Polaris system, approximately 440 km of new pipeline and associated infrastructure will be constructed at an estimated cost of $1.2 billion. This investment will connect diluent receipt points in the Edmonton area to the Christina Lake, Narrows Lake and Foster Creek projects. The projects related to the Foster Creek and Christina Lake facilities for diluent and diluted bitumen transportation are expected to enter commercial service in phases commencing in mid 2014. Those related to the Narrows Lake project are anticipated to be operational in mid 2017.

When completed, capacity on the Cold Lake system will increase by 550,000 b/d to approximately 1.2 million b/d and Polaris system capacity will increase by 700,000 b/d to approximately 820,000 b/d. The Cold Lake and Polaris systems can be further expanded to ultimate throughput capacities of 1.9 million b/d and 1.2 million b/d, respectively, through the addition of pump stations and associated infrastructure.

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

Subsequent to quarter end, Inter Pipeline announced a long term agreement to provide bitumen blend transportation services to Canexus Corporation's unit train rail loading operations near Bruderheim, Alberta. Under terms of the 10-year agreement, Inter Pipeline will construct a 13-kilometre, 24-inch diameter pipeline lateral and associated metering facility to transport bitumen blend from Inter Pipeline's Cold Lake system to a Canexus connection at the Polaris pumping station near Lamont, Alberta. Total cost of the project is approximately $50 million, and the accretive investment is expected to generate about $10 million per year in incremental EBITDA* over the life of the contract. Canexus has contracted for 100,000 b/d of firm capacity on the new lateral, which will have an ultimate throughput capacity of 320,000 b/d. Inter pipeline will use the additional capacity to pursue additional bitumen blend delivery opportunities.

Also subsequent to quarter end, Inter Pipeline announced that Imperial Oil has elected to increase its firm capacity commitment on the Polaris pipeline system for the expansion of its Kearl oil sands project. Under the terms of an existing 25-year ship-or-pay agreement, Imperial has exercised its option for an additional 60,000 b/d of diluent transportation capacity, bringing total diluent commitments for Kearl to 120,000 b/d. Inter Pipeline will spend $45 million to re-commission three existing pump stations on the Polaris system. The additional transportation service is expected to begin in mid 2015. Inter Pipeline expects that the additional volume commitment will generate approximately $19 million per year in incremental EBITDA, bringing total annual contributions from the Kearl agreement to approximately $56 million per year.

The Canexus agreement is indicative of product transportation opportunities that exist due to Inter Pipeline's extensive infrastructure base. With the additional capacity being constructed through the current expansion program, Inter Pipeline continues to aggressively pursue further diluent and bitumen blend transportation opportunities.

In the second quarter, Inter Pipeline announced it had completed several internal transactions related to the restructuring of its current limited partnership structure to position the business for a planned conversion to a new corporate entity, Inter Pipeline Ltd. Inter Pipeline indirectly purchased its General Partner, for initial consideration of approximately $179 million and a future second instalment of $170 million, which is partly contingent on the outcome of certain organic growth projects currently under development. All consideration will be in the form of shares rather than cash. The accretive transaction will eliminate all management, acquisition, disposition and incentive fees payable to an external manager, while improving access to capital markets and strengthening corporate governance practices. Inter Pipeline has scheduled a special meeting to be held in Calgary, Alberta on August 22, 2013 for unitholders to vote on certain matters related to the restructuring events.

During the quarter, Inter Pipeline announced that it had entered into a long term ethane sales agreement with NOVA Chemicals. The agreement, which extends from 2015 through 2024, will see NOVA Chemicals purchase the majority of the ethane produced from Inter Pipeline's Cochrane extraction facility. The new agreement will add approximately $20 million per year in incremental EBITDA* once in effect in 2015. The agreement also provides provisions for the interim 2013 and 2014 period, during which EBITDA* will increase by approximately $10 million annually. Inter Pipeline is pleased to extend the relationship with one of Canada's leading petrochemical manufacturers.

In the second quarter, Inter Pipeline continued to position its balance sheet to facilitate growth plans underway. The capacity of Inter Pipeline's revolving credit facility was increased from $750 million to $1.25 billion, with the ability to increase the facility to $1.5 billion with lender approval. 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).

Subsequent to quarter end, Inter Pipeline also issued $500 million 7-year medium term notes (MTN Series 4) in Canadian debt capital markets. The debt issue was well received by the market and attractively priced at 3.448%. Net proceeds of the offering were used to reduce variable debt

---

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

outstanding under Inter Pipeline's $1.25 billion revolving credit facility. At June 30, 2013, including the impact of this offering, Inter Pipeline only had 29.7% of its total recourse debt outstanding exposed to variable interest rates.

Inter Pipeline continues to grow and strengthen its position as a rewarding investment for unitholders. Stable and predictable cash flow streams and a well-delineated growth program give us confidence that our business will generate stable and growing returns to unitholders for the next number of years.

RESULTS OF OPERATIONS

OIL SANDS TRANSPORTATION BUSINESS SEGMENT

	Three Months Ended June 30			Six Months Ended June 30		
Volumes (000s b/d)	2013	2012	*% change*	2013	2012	*% change*
Cold Lake (100% basis)	465.3	471.4	*(1.3)*	499.0	478.9	*4.2*
Corridor	303.9	324.7	*(6.4)*	329.7	308.6	*6.8*
Polaris	2.6	-	*100.0*	1.9	-	*100.0*
	771.8	796.1	*(3.1)*	830.6	787.5	*5.5*

(millions)		*(restated)*			*(restated)*	
Revenue(1)	$ 93.3	$ 72.4	*28.9*	$ 184.9	$ 147.5	*25.4*
Operating expenses(1)	$ 31.1	$ 17.7	*75.7*	$ 58.7	$ 37.3	*57.4*
Funds from operations(1)(2)	$ 49.0	$ 44.0	*11.4*	$ 99.8	$ 88.1	*13.3*
Capital expenditures(1)						
Growth(2)	$ 382.2	$ 33.1		$ 763.8	$ 62.4	
Sustaining(2)	0.4	0.9		0.8	1.8	
	$ 382.6	$ 34.0		$ 764.6	$ 64.2	

(1) For the three and six months ended June 30, 2013, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - $5.0 million and $9.9 million ($4.3 million and $8.8 million in 2012), respectively; operating expenses - $2.4 million and $4.3 million ($1.4 million and $3.0 million in 2012), respectively; FFO(2) - $2.6 million and $5.6 million ($2.8 million and $5.6 million in 2012), respectively; and capital expenditures - $1.5 million and $3.6 million ($1.8 million and $2.5 million in 2012), respectively.

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

Volumes

Average volumes transported on the oil sands transportation pipeline systems decreased 3.1% to 771,800 b/d in the second quarter and increased 5.5% to 830,600 b/d year to date in 2013, compared to the same periods in 2012.

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. In 2013, average volumes on the Cold Lake pipeline system decreased 6,100 b/d or 1.3% in the second quarter and increased 20,100 b/d or 4.2% year to date, compared to the same periods in 2012. Cold Lake pipeline system volumes fluctuate largely due to the timing of steam injection cycles associated with certain shippers' production processes. In the second quarter volumes were also affected by production interruptions as a result of producer facility maintenance activities and producer operational issues. Volume growth is anticipated on the Cold Lake pipeline system over the long-term, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta, as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. During the second quarter of 2013, average volumes on the Corridor pipeline system decreased 20,800 b/d or 6.4% compared to the same period in 2012, due to a longer turnaround down time at the Muskeg River mine. Year to date in 2013, average volumes increased

21,100 b/d or 6.8%, over the comparable period in 2012, due to higher production from Athabasca Oil Sands Project's Jackpine mine, which was partially offset by the turnaround discussed above.

The Polaris pipeline system currently provides diluent transportation services from the area northeast of Edmonton to both Kearl and Suncor oil sands projects and will begin diluent transportation service for the Sunrise oil sands project in the second half of 2013. The Polaris pipeline system began transporting diluent to the Kearl oil sands project in March 2013 and to the Suncor oil sands project in June 2013. Average volumes on the Polaris pipeline system were 2,600 b/d and 1,900 b/d for the three and six months ended June 30, 2013.

Revenue

Revenue from the oil sands transportation business increased $20.9 million to $93.3 million during the second quarter and $37.4 million to $184.9 million year to date in 2013, over the comparable periods in 2012.

Revenue generated from the Cold Lake pipeline system increased during the three and six months ended June 30, 2013, by $4.8 million and $7.3 million, respectively, compared to the same periods in 2012. The increase in revenue for both periods is primarily due to higher power and operating cost recoveries.

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.

For the three and six months ended June 30, 2013, revenues from the Corridor pipeline system decreased $1.3 million and $3.9 million, respectively, compared to the same periods in 2012. Revenues were reduced by $3.1 million in the second quarter and $5.9 million year to date in 2013 as a result of the transfer of a surplus 12-inch diameter pipeline to the Polaris pipeline system in the third quarter of 2012, resulting in a reduction to the Corridor rate base. In both periods of 2013 compared to 2012 this decrease was partially offset by higher revenues from operating expense recoveries and a higher return on equity due to an increase in the long-term Government of Canada (GOC) benchmark bond interest rate.

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.

Revenue generated from the Polaris pipeline system was $17.4 million and $34.0 million for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. In the third quarter of 2012 the Polaris pipeline system began generating revenue, consisting of capital fee revenue, operating cost recoveries and the reimbursement of certain construction related expenditures.

On August 15, 2012, Corridor's 12-inch diameter pipeline was transferred to the Polaris pipeline system and removed from Corridor's rate base as it entered commercial service. The Polaris pipeline system currently generates revenue under a 25-year and a 5-year diluent transportation agreement with Imperial Oil and Suncor, respectively, utilizing a cost-of-service approach providing for a return

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

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 agreements.

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. For the three and six months ended June 30, 2013, operating expenses increased in the oil sands transportation business by $13.4 million to $31.1 million and $21.4 million to $58.7 million, respectively, compared to the same periods in 2012.

Operating expenses for the Cold Lake pipeline system increased $7.3 million in the second quarter and $9.6 million year to date in 2013, compared to the same periods in 2012. These increases are primarily due to higher power costs resulting from increased power pricing, as well as higher right-of-way, and general operating costs.

Operating expenses decreased $0.2 million and $0.7 million on the Corridor pipeline system for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. The decrease is primarily due to the transfer of the 12-inch pipeline to the Polaris pipeline system which reduced operating expenses by $1.3 million in the second quarter and $2.3 million year to date in 2013. These decreases were largely offset by higher operating costs and property taxes.

Operating expenses from the Polaris pipeline system were $6.3 million and $12.5 million in the second quarter and year to date of 2013. These increases are primarily due to certain construction related expenditures, employee costs, routine operating costs and property taxes.

Capital Expenditures

The Cold Lake pipeline system incurred total growth capital expenditures* of $264.2 million during the second quarter of 2013, largely related to Cold Lake pipeline's $1.4 billion (85% share) oil sands development program to provide transportation services to existing FCCL projects. These expenditures include engineering, design, procurement of long lead items and preliminary construction activities.

Cold Lake also incurred $9.3 million in growth capital expenditures included in the total above, related to the west leg expansion project. A total of $67.3 million has been spent to date on this project that involves increasing the bitumen blend capacity on the mainline from approximately 535,000 b/d to 650,000 b/d by expanding existing pump stations and the addition of two new pump stations. The project is expected to cost $90.0 million (100%), with an in service date in the second half of 2013.

Also included in Cold Lake and Polaris growth capital spending in the current quarter is $0.3 million and $0.7 million, respectively, for initial engineering and design, relating to bitumen blend transportation services to Canexus Corporation's unit train rail loading operations near Bruderheim, Alberta. Under terms of the 10-year agreement, Inter Pipeline will construct a 13-kilometre, 24-inch diameter pipeline lateral and associated metering facility to transport bitumen blend from Inter Pipeline's Cold Lake system to a Canexus connection at the Polaris pumping station near Lamont, Alberta, for a total cost of approximately $50 million.

In the second quarter of 2013, the Corridor pipeline system incurred total growth capital expenditures* of $1.0 million largely related to the purchase of heavy duty transportation equipment.

Total growth capital expenditures* incurred in the second quarter of 2013 on the Polaris pipeline system were $117.0 million, of which $102.8 million relates to its $1.2 billion development plan, for a total of $240.1 million spent to date. These expenditures relate to engineering, design, procurement of long lead items and preliminary construction activities. The remaining Polaris pipeline growth capital expenditures* of $14.2 million relate to various other development initiatives, including pipeline

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

construction activities related to the Sunrise oil sands project. Further description of the Cold Lake and Polaris development plans can be found in the **Outlook** section of this MD&A.

NGL EXTRACTION BUSINESS SEGMENT

Three Months Ended June 30

	2013				2012			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,281	38.5	16.6	55.1	1,595	47.9	23.7	71.6
Empress V (100% basis)	822	23.5	10.1	33.6	833	12.7	10.3	23.0
Empress II	255	5.6	3.3	8.9	370	7.3	4.5	11.8
	2,358	67.6	30.0	97.6	2,798	67.9	38.5	106.4

Six Months Ended June 30

	2013				2012			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,564	46.1	21.0	67.1	1,737	52.1	24.6	76.7
Empress V (100% basis)	873	24.1	10.6	34.7	832	17.5	8.9	26.4
Empress II	128	2.8	1.7	4.5	185	3.7	2.3	6.0
	2,565	73.0	33.3	106.3	2,754	73.3	35.8	109.1

	Three Months Ended June 30			Six Months Ended June 30		
(millions)	2013	2012	*% change*	2013	2012	*% change*
Revenue(1)	$ 117.5	$ 106.3	*10.5*	$ 246.9	$ 243.0	*1.6*
Shrinkage gas(1)	$ 51.6	$ 36.7	*40.6*	$ 113.2	$ 92.7	*22.1*
Operating expenses(1)	$ 34.7	$ 21.1	*64.5*	$ 59.3	$ 44.6	*33.0*
Funds from operations(1)(2)	$ 31.1	$ 48.5	*(35.9)*	$ 74.1	$ 105.5	*(29.8)*
Capital expenditures(1)						
Growth(2)	$ 9.9	$ 5.3		$ 22.2	$ 10.2	
Sustaining(2)	0.9	0.4		1.5	0.8	
	$ 10.8	$ 5.7		$ 23.7	$ 11.0	

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

Volumes

Inter Pipeline's NGL extraction facilities processed average natural gas throughput volumes of 2,358 million cubic feet per day (mmcf/d) during the second quarter and 2,565 mmcf/d year to date in 2013, a decrease of 440 mmcf/d and 189 mmcf/d, respectively, compared to same periods in 2012.

Average natural gas throughput volumes at the Cochrane facility decreased 314 mmcf/d and 173 mmcf/d for the three and six months ended June 30, 2013, compared to the same periods in 2012. The decrease in throughput volumes was largely due to a scheduled full plant maintenance outage at the Cochrane facility, which was completed in 18 days during the second quarter of 2013.

Combined throughput volumes at the Empress facilities decreased 126 mmcf/d and 16 mmcf/d during the second quarter and year to date in 2013, compared to the same periods in 2012. At the Empress facilities, throughput volumes fluctuate in accordance with natural gas exports from Alberta's eastern border and are also largely dependent on successfully attracting border gas flows to the extraction facilities.

In the second quarter of 2012, ethane volumes at the Empress V and Cochrane facilities were adversely affected by petrochemical outages at Fort Saskatchewan and Joffre, Alberta.

Revenue

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

Revenue from the NGL extraction business increased $11.2 million in the second quarter and $3.9 million year to date in 2013, compared to the same periods in 2012. The increase in revenue was mainly driven by higher ethane pricing and increased ethane volumes at the Empress V facility, but partially offset by reduced volumes as a result of the 18 day scheduled full plant outage at the Cochrane facility.

Frac-spread

				Three Months Ended June 30
(dollars)		2013		2012
	USD/USG [(1)]	*CAD/USG* [(1)]	*USD/USG* [(1)]	*CAD/USG* [(1)]
Market frac-spread	$ 0.782	$ 0.800	$ 1.031	$ 1.038
Realized frac-spread	$ 0.885	$ 0.906	$ 1.001	$ 1.009

				Six Months Ended June 30
(dollars)		2013		2012
	USD/USG [(1)]	*CAD/USG* [(1)]	*USD/USG* [(1)]	*CAD/USG* [(1)]
Market frac-spread	$ 0.812	$ 0.824	$ 1.149	$ 1.153
Realized frac-spread	$ 0.881	$ 0.894	$ 1.077	$ 1.082

(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 the remaining hedged production. 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 second quarter of 2013 realized frac-spreads decreased from $1.00 USD/USG in 2012 to $0.89 USD/USG and decreased year to date 2013 from $1.08 USD/USG in 2012 to $0.88 USD/USG. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2012, were $0.91 USD/USG and $0.50 USD/USG, respectively.

Shrinkage

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. During the three and six months ended June 30, 2013, shrinkage gas expense increased $14.9 million and $20.5 million, respectively, compared to the same periods in 2012. The increase in both periods is primarily due to higher AECO natural gas prices. Weighted average monthly AECO prices[*] increased 96.0% in the second quarter from $1.74 per gigajoule (GJ) in 2012 to $3.41/GJ in 2013 and 53.4% year to date from $2.06/GJ in 2012 to $3.16/GJ in 2013.

Operating Expenses

Operating expenses increased $13.6 million and $14.7 million for the three and six months ended June 30, 2013, compared to the same periods in 2012. The increases were due to higher fuel and power costs as a result of increased pricing, higher general operating and maintenance costs, and costs associated with the scheduled full plant outage in the current quarter. Average Alberta power pool prices increased in the second quarter from $40.03/MWh in 2012 to $123.41/MWh in 2013 and year to date from $50.07/MWh in 2012 to $94.52/MWh in 2013. For the increase in AECO prices please refer to the shrinkage gas discussion above.

Capital Expenditures

In the second quarter of 2013, the NGL extraction business incurred $9.9 million in growth capital expenditures[†], of which $9.4 million related to a liquid sweetening project at the Cochrane facility. Sustaining capital expenditures[†] of $0.9 million during the second quarter of 2013, primarily relate to processing equipment upgrades at the Cochrane facility.

[*] 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

CONVENTIONAL OIL PIPELINES BUSINESS SEGMENT

	Three Months Ended June 30			Six Months Ended June 30		
Volumes (000s b/d)	2013	2012	*% change*	2013	2012	*% change*
Bow River	87.6	106.3	*(17.6)*	95.7	109.3	*(12.4)*
Central Alberta	34.0	26.9	*26.4*	33.1	26.3	*25.9*
Mid-Saskatchewan	49.3	38.2	*29.1*	49.3	39.8	*23.9*
	170.9	171.4	*-0.3*	178.1	175.4	*1.5*

(millions)	2013	2012	*% change*	2013	2012	*% change*
Revenue	$ 71.5	$ 58.8	*21.6*	$ 138.8	$ 110.0	*26.2*
Midstream product purchases	$ 14.9	$ 12.8	*16.4*	$ 28.9	$ 12.8	*125.8*
Operating expenses	$ 13.1	$ 11.9	*10.1*	$ 25.6	$ 22.1	*15.8*
Funds from operations(1)	$ 43.5	$ 35.3	*23.2*	$ 83.9	$ 75.8	*10.7*
Revenue per barrel(2)	$ 2.93	$ 2.75	*6.5*	$ 2.94	$ 2.81	*4.6*
Capital expenditures						
Growth(1)	$ 1.6	$ 26.3		$ 3.7	$ 29.2	
Sustaining(1)	0.8	0.2		1.7	1.0	
	$ 2.4	$ 26.5		$ 5.4	$ 30.2	

(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 and revenue from take-or-pay contracts for volume shortfalls divided by actual volumes.

Volumes

Average volumes transported on the conventional oil pipelines decreased 500 b/d in the second quarter and increased 2,700 b/d year to date in 2013, compared to the same periods in 2012. Volumes on the Mid-Saskatchewan pipeline increased 11,100 b/d or 29.1% and 9,500 b/d or 23.9% during the second quarter and year to date in 2013, respectively, compared to the same periods in 2012. The increase is largely due to increased production from the Viking light oil play as horizontal drilling activity continued to grow. The Central Alberta pipeline system also experienced an increase in volumes of 7,100 b/d or 26.4% in the second quarter and 6,800 b/d or 25.9% year to date in 2013, over the comparable periods in 2012. Increased drilling activity and stronger truck terminal throughput were the primary drivers for the volume increases. Volumes on the Bow River pipeline declined 18,700 b/d or 17.6% and 13,600 b/d or 12.4% during the second quarter and year to date in 2013, respectively, compared to the same periods in 2012. The volume decreases are largely due to a third party refinery turnaround in April and May which impacted Hardisty south volumes; as well as lower trucked in volumes and natural production declines.

Revenue

Revenues in the conventional oil pipelines business increased $12.7 million to $71.5 million and $28.8 million to $138.8 million for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. The increase in both periods is largely due to higher midstream marketing revenue due to increased blending activity, and the fact that prior to internalization of this function in early 2012 revenue was recorded net of product purchases and trucking costs. Revenue in both periods was also higher due to increased volumes on the Mid-Saskatchewan and Central Alberta pipelines and higher pipeline tariffs.

Midstream Product Purchases

For the three and six months ended June 30, 2013, midstream product purchases increased $2.1 million and $16.1 million, respectively, compared to the same periods in 2012. The increase in both periods is due to increased blending activity, partially offset by lower product pricing. On a year to date basis, midstream product purchases were also higher in 2013 due to the timing of internalizing the midstream marketing activities in 2012 as discussed above.

Operating Expenses

Operating expenses increased $1.2 million in the second quarter and $3.5 million year to date in 2013, compared to the same periods in 2012. The increase in both periods is mainly due to higher pipeline integrity costs, particularly on the Mid-Saskatchewan and Bow River pipelines.

Capital Expenditures

During the second quarter of 2013, the conventional oil pipelines business incurred $1.6 million in growth capital expenditures*, largely on the Mid-Saskatchewan pipeline system relating to facility upgrades and third party connections.

BULK LIQUID STORAGE BUSINESS SEGMENT

	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	*% change*	2013	2012	*% change*
Utilization	82%	95%	*(13.1)*	85%	92%	*(7.5)*
(millions)						
Revenue	$ 38.0	$ 42.4	*(10.4)*	$ 77.4	$ 81.1	*(4.6)*
Operating expenses	$ 16.0	$ 15.7	*1.9*	$ 32.3	$ 31.8	*1.6*
Funds from operations(1)	$ 19.5	$ 23.3	*(16.3)*	$ 39.9	$ 42.6	*(6.3)*
Capital expenditures						
Growth(1)	$ 2.1	$ 3.9		$ 13.7	$ 7.0	
Sustaining(1)	1.7	4.8		4.0	8.6	
	$ 3.8	$ 8.7		$ 17.7	$ 15.6	

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

Utilization

Inter Pipeline operates a bulk liquid storage business 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.

Despite the uncertain European economic environment, demand for bulk liquid storage has remained relatively strong with tank utilization averaging 82% in the second quarter and 85% year to date in 2013. Utilization rates at Inter Terminals were 77% and 81%, while Simon Storage utilization rates were 89% and 90% in the second quarter and year to date in 2013, respectively. Utilization rates are adversely impacted by the absence of strong contango in certain petroleum product futures markets.

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.

Revenue in the bulk liquid storage business decreased $4.4 million and $3.7 million for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. Inter Terminals revenue decreased $4.7 million in the second quarter and $4.0 million year to date 2013, compared to the same periods in 2012. The decrease in both periods is due to lower occupancy levels. Revenue from the Simon Storage business increased $0.2 million in the second quarter and $0.1 million year to date in 2013, over the comparable periods in 2012, largely due to higher rental

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

and other storage revenue. Foreign currency translation adjustments increased revenues by $0.1 million in the second quarter and $0.2 million year to date in 2013, compared to the same periods in 2012.

Operating Expenses

Operating expenses in the bulk liquid storage business increased $0.3 million and $0.5 million for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. Inter Terminals operating expenses for the second quarter and year to date 2013 were $0.2 million higher than the comparable periods in 2012, largely due to higher fuel and power costs. Operating costs at Simon Storage increased $0.1 million and $0.3 million for the three and six months ended June 30, 2013, compared to the same periods in 2012, primarily due to higher property tax expense.

Capital Expenditures

The bulk liquid storage business incurred growth capital expenditures[*] of $2.1 million during the second quarter of 2013. These expenditures primarily relate to a number of tank life extensions and tank modification projects at the UK and German terminals. Sustaining capital expenditures of $1.7 million incurred during the second quarter of 2013 primarily relate to environmental performance enhancement initiatives, and other improvement projects on terminal infrastructure and safety.

OTHER EXPENSES

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2013	2012 *(restated)*	2013	2012 *(restated)*
Depreciation and amortization	$ 31.4	$ 34.5	$ 62.3	$ 62.5
Financing charges	22.3	25.0	46.2	48.3
Provision for income taxes	19.2	32.7	40.4	55.3
General and administrative	14.3	13.9	30.5	29.0
Acquisition fee to General Partner	-	-	-	4.6
Management and incentive fees to General Partner	4.6	3.3	8.8	7.0
Unrealized change in fair value of derivative financial instruments	0.2	(52.1)	0.9	(55.2)
(Gain) loss on disposal of assets	-	(0.1)	1.7	(0.1)
General Partner internalization	348.6	-	348.6	-

Depreciation and Amortization

In the three and six months ended June 30, 2013, depreciation and amortization of tangible and intangible assets decreased $3.1 million and $0.2 million, respectively, compared to the same periods in 2012. The decrease in both periods is primarily due to higher amortization of certain intangible assets in the Inter Terminals business in the second quarter of 2012. This decrease is partially offset by depreciation on assets now in service that were not in service or depreciated in 2012.

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

Financing Charges

(millions)	Three Months Ended June 30 2013	Three Months Ended June 30 2012 (restated)	Six Months Ended June 30 2013	Six Months Ended June 30 2012 (restated)
Interest on credit facilities	$ 9.8	$ 8.9	$ 18.0	$ 18.5
Interest on loan payable to General Partner	4.5	5.7	8.9	11.5
Interest on Corridor Debentures	2.5	2.5	5.0	5.0
Interest on MTN Series 1, 2 and 3	9.6	7.4	19.4	13.3
Total interest	26.4	24.5	51.3	48.3
Capitalized interest	(5.5)	(0.8)	(8.1)	(2.6)
Amortization of transaction costs on long-term debt and commercial paper	0.9	0.8	1.7	1.6
Accretion of provisions and pension plan funding charges	0.5	0.5	1.3	1.0
Total financing charges	$ 22.3	$ 25.0	$ 46.2	$ 48.3

Total financing charges decreased $2.7 million and $2.1 million for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012.

Capitalized interest increased $4.7 million in the second quarter and $5.5 million year to date in 2013 over the comparable periods in 2012, largely due to capitalized interest on the Polaris and Cold Lake pipeline system expansions and the liquid sweetening project at the Cochrane NGL extraction facility.

Interest on the loan payable to the General Partner decreased $1.2 million and $2.6 million during the three months and six months ended June 30, 2013, respectively, compared to the same periods in 2012. The decrease is due to the repayment of the $91.2 million tranche of the loan on October 29, 2012.

Interest on medium-term notes (MTN) increased $2.2 million in the second quarter and $6.1 million year to date in 2013, compared to the same periods in 2012. The increase is due to the timing of issuance of the MTN Series 3 on May 28, 2012.

In the three and six months ended June 30, 2013, interest on credit facilities increased $0.9 million and decreased $0.5 million, respectively, compared to the same periods in 2012. In the second quarter of 2013, debt levels and interest rates were higher than the comparable period in 2012. On a year to date basis, debt levels and interest rates were lower in 2013 than 2012. In 2013, the weighted average credit facility debt outstanding increased $105.5 million to $1,943.5 million in the second quarter and decreased $74.2 million to $1,822.8 million year to date, compared to the same periods in 2012.

Accretion of provisions and pension plan funding charges in the second quarter of 2013 is consistent with the comparable period in 2012; however on a year to date basis it increased $0.3 million in 2013 compared to 2012. This increase is due to a pension plan adjustment during the first quarter of 2013 at Simon Storage.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper is $0.1 million higher for both the second quarter and year to date in 2013, compared to the same periods in 2012, due to new issuances.

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

Income Taxes

For the three and six months ended June 30, 2013, consolidated income tax expense decreased $13.5 million to $19.2 million and $14.9 million to $40.4 million, respectively, compared to the same periods in 2012 The decrease is primarily due to lower 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)	2013	2012	2013	2012
Canada	$ 12.2	$ 11.0	$ 26.1	$ 23.4
Europe	2.1	2.9	4.4	5.6
	$ 14.3	$ 13.9	$ 30.5	$ 29.0

Canadian general and administrative expenses increased $1.2 million in the second quarter and $2.7 million year to date in 2013, compared to the same periods in 2012. The increase in both periods is largely due to higher external services and costs relating to the internalization of the General Partner, as well as increased rent.

European general and administrative costs decreased $0.8 million and $1.2 million during the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. The decrease in both periods is primarily due to costs associated with the acquisition of Inter Terminals incurred in 2012.

Fees to General Partner

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, respectively (three and six months ended June 30, 2012 - $2.9 million and $6.2 million, respectively). This fee is equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (LPA). Incentive fees of $1.7 million in the second quarter and $2.8 million year to date in 2013 were accrued to the General Partner as annualized Distributable Cash for 2013 is expected to be in excess of $1.01 per unit annually (second quarter of 2012 - $0.4 million; year to date 2012 - $0.8 million) and this obligation exists until the planned corporate conversion is approved. If the planned corporate conversion is approved then incentive fees accrued will be reversed in the period. No acquisition fees were earned during the three and six months ended June 30, 2013 (three and six months ended June 30, 2012 - $nil and $4.6 million, respectively).

See the **TRANSACTIONS WITH RELATED PARTIES** section for additional information on fees to the General Partner.

Unrealized Change in Fair Value of Derivative Financial Instruments

For the three and six months ended June 30, 2013, Inter Pipeline's mark-to-market valuation of derivative financial instruments resulted in an increase to net loss of $0.2 million and $0.9 million, respectively.

In the second quarter of 2013, net loss was unfavourably impacted by the mark-to-market adjustment on foreign currency swaps of $0.6 million and on natural gas swaps of $0.1 million for price and volume changes between April and June. The mark-to-market adjustment for NGL and electricity price swaps decreased net loss by $0.3 million and $0.2 million, respectively, for price and volume changes between April and June.

Year to date 2013, the mark-to-market adjustment on NGL swaps for price and volume changes between January and June and on foreign currency swaps unfavourably impacted net loss by $2.7 million and $1.8 million, respectively. Net loss was favourably impacted by the mark-to-market adjustment for natural gas and electricity price swaps by $3.3 million and $0.3 million, respectively, for price and volume changes between January and June.

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

Loss on Disposal of Assets

For the six months ended June 30, 2013, Inter Pipeline incurred a loss of $1.7 million on the disposal of assets largely related to a turbine exchange in the NGL extraction business.

General Partner Internalization

On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its current limited partnership structure to position the business for a planned conversion to corporate form (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.

See the **TRANSACTIONS WITH RELATED PARTIES** section for additional information on Inter Pipeline's Internalization Transactions.

SUMMARY OF QUARTERLY RESULTS

	2011(1)		2012(1)				2013	
(millions, except per unit and % amounts)	Third Quarter	Fourth Quarter	First Quarter *(restated)*	Second Quarter *(restated)*	Third Quarter *(restated)*	Fourth Quarter *(restated)*	First Quarter	Second Quarter
Revenue								
Oil sands transportation	$ 73.0	$ 71.3	$ 75.1	$ 72.4	$ 82.4	$ 89.4	$ 91.6	$ 93.3
NGL extraction	158.2	129.1	136.7	106.3	123.4	133.5	129.4	117.5
Conventional oil pipelines	45.7	46.3	51.2	58.8	59.2	62.0	67.3	71.5
Bulk liquid storage	25.2	26.5	38.7	42.4	35.7	38.8	39.4	38.0
	$ 302.1	$ 273.2	$ 301.7	$ 279.9	$ 300.7	$ 323.7	$ 327.7	$ 320.3
Funds from operations(2)								
Oil sands transportation	$ 41.8	$ 39.5	$ 44.1	$ 44.0	$ 47.0	$ 49.0	$ 50.8	$ 49.0
NGL extraction(3)	62.6	44.1	57.0	48.5	50.4	38.7	43.0	31.1
Conventional oil pipelines	35.6	33.5	40.5	35.3	38.9	38.7	40.4	43.5
Bulk liquid storage	9.0	9.4	19.3	23.3	17.6	20.0	20.4	19.5
Corporate costs	(37.1)	(36.4)	(50.1)	(41.0)	(44.6)	(42.7)	(45.2)	(37.7)
	$ 111.9	$ 90.1	$ 110.8	$ 110.1	$ 109.3	$ 103.7	$ 109.4	$ 105.4
Per unit(2)	$ 0.43	$ 0.35	$ 0.42	$ 0.41	$ 0.40	$ 0.38	$ 0.40	$ 0.37
Net income (loss)(4)	$ 76.6	$ 45.8	$ 82.1	$ 106.8	$ 68.4	$ 59.7	$ 72.2	$ (281.6)
Net income (loss) attributable to unitholders(4)	$ 76.6	$ 45.8	$ 79.6	$ 104.4	$ 65.9	$ 57.3	$ 69.7	$ (283.9)
Per unit – basic & diluted	$ 0.29	$ 0.17	$ 0.30	$ 0.39	$ 0.24	$ 0.21	$ 0.25	$ (1.02)
Distributions to unitholders(5)	$ 62.5	$ 65.1	$ 69.9	$ 70.6	$ 71.3	$ 73.4	$ 76.8	$ 78.2
Per unit(5)	$ 0.2400	$ 0.2475	$ 0.2625	$ 0.2625	$ 0.2625	$ 0.2675	$ 0.2775	$ 0.2800
Units outstanding (basic)								
Weighted average	259.9	262.7	265.7	268.6	271.3	273.9	276.4	278.8
End of period	261.2	264.2	267.2	270.0	272.7	275.2	277.6	280.0
Capital expenditures								
Growth(2)	$ 29.8	$ 34.2	$ 40.2	$ 68.6	$ 108.6	$ 128.3	$ 407.6	$ 395.8
Sustaining(2)	5.0	7.2	6.4	7.0	11.4	15.6	5.9	5.8
	$ 34.8	$ 41.4	$ 46.6	$ 75.6	$ 120.0	$ 143.9	$ 413.5	$ 401.6
Payout ratio(2)	55.8%	72.3%	64.7%	65.8%	67.0%	72.8%	72.2%	76.1%
Total debt(6)	$ 2,719.1	$ 2,672.1	$ 3,145.8	$ 3,082.7	$ 3,113.6	$ 3,127.6	$ 3,246.6	$ 3,578.0
Total partners' equity	$ 1,404.4	$ 1,419.8	$ 1,493.7	$ 1,559.4	$ 1,594.8	$ 1,659.5	$ 1,686.9	$ 1,414.3
Enterprise value(2)	$ 6,901.1	$ 7,593.3	$ 8,374.5	$ 8,268.8	$ 8,973.1	$ 9,593.8	$ 9,862.2	$ 9,646.1
Total debt to total capitalization(2)(7)	65.9%	65.3%	67.8%	66.4%	66.1%	65.3%	65.8%	71.7%
Total recourse debt to capitalization(2)(7)	40.1%	38.9%	48.2%	46.1%	47.6%	47.0%	48.7%	57.8%

(1) IFRS 10 adoption is effective as of January 1, 2013 and restated for 2012 as required for comparative purposes, therefore the 2011 quarterly information is still presented in accordance with International Accounting Standards (IAS) 31. Accordingly, the 2011 quarterly information may not be comparable to that for 2012 and 2013.
(2) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(3) In the third quarter of 2011, FFO(2) increased in the NGL extraction business by $20.5 million due to a one-time pricing adjustment relating to propane-plus sales at the Cochrane NGL extraction plant from 2007 to 2011.
(4) On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its current limited partnership structure to position the business for a planned conversion to corporate form 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. Please refer to the **TRANSACTIONS WITH RELATED PARTIES** section.
(5) Distributions to unitholders are calculated based on the number of units outstanding at each record date.
(6) Total debt includes long-term debt, short-term debt and commercial paper before discounts and debt transaction costs.
(7) Upon successful conversion to corporate form, the General Partner internalization liabilities totalling $348.6 million on the balance sheet would be reduced in two phases, and partners' equity would correspondingly increase, as preferred shares are converted to common shares of Inter Pipeline's successor corporation. This impact on Inter Pipeline's total debt to total capitalization and total recourse debt to capitalization ratios at June 30, 2013 would be a decrease to 67.0% and 52.4%, respectively.

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 distributions to unitholders 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 distributions to unitholders, issue new Class A units 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, 2013, Inter Pipeline had access to committed credit facilities totaling $2.8 billion, of which $735.6 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.

On April 19, 2013, Inter Pipeline increased the size of its senior unsecured revolving credit facility (Inter Pipeline syndicated facility) from $750 million to $1.25 billion. The term of the credit facility remains unchanged with a maturity date of December 5, 2017. Inter Pipeline also increased the size of its demand facility from $20 million to $40 million on May 14, 2013.

In addition to committed credit facilities, Inter Pipeline issues equity capital from time to time to ensure its balance sheet remains well prepared for expected growth. Approximately $108.9 million of equity was issued through the distribution reinvestment plan during the first six months of 2013.

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 distributions to unitholders.

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

In November 2012, Inter Pipeline filed a short form base shelf prospectus with Canadian regulatory authorities. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) Class A units; (ii) debt securities and (iii) 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. On July 19, 2013, Inter Pipeline issued $500 million of senior unsecured MTN Series 4 due July 20, 2020, in the Canadian public debt market. The MTN Series 4 were issued under Inter Pipeline's short form base shelf prospectus dated November 30, 2012, a related prospectus supplement and a related pricing supplement both dated July 16, 2013. The MTN Series 4 bear interest at the rate of 3.448% per

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

annum, payable semi-annually. Net proceeds from the offering were used to repay a portion of Inter Pipeline's existing bank indebtedness.

CAPITAL STRUCTURE

(millions, except % amounts)	Recourse	Non-recourse	June 30 2013	December 31 2012
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	750.0
	1,250.0	1,550.0	2,800.0	2,300.0
Demand facilities(1)	40.0	25.0	65.0	45.0
	$ 1,290.0	$ 1,575.0	$ 2,865.0	$ 2,345.0
Total debt outstanding				
Recourse				
Inter Pipeline syndicated facility			$ 724.0	$ 260.0
Loan payable to General Partner			288.6	288.6
MTN Series 1, 2 and 3(2)			925.0	925.0
Non-recourse				
Corridor syndicated facility			1,340.4	1,354.0
Corridor debentures			300.0	300.0
Total debt(1)(3)			3,578.0	3,127.6
Total partners' equity			1,414.3	1,659.5
Total capitalization(4)			$ 4,992.3	$ 4,787.1
Total debt to total capitalization(4)(5)			71.7%	65.3%
Total recourse debt to capitalization(4)(5)			57.8%	47.0%

(1) At June 30, 2013, 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 and issued $400 million MTN Series 3 in 2012.
(3) Total debt reported in the June 30, 2013 consolidated financial statements of $3,561.7 million, includes long-term debt and commercial paper outstanding of $3,578.0 million less discounts and debt transaction costs of $16.3 million.
(4) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(5) Upon successful conversion to corporate form, the General Partner internalization liabilities totalling $348.6 million on the balance sheet would be reduced in two phases, and partners' equity would correspondingly increase, as preferred shares are converted to common shares of Inter Pipeline's successor corporation. This impact on Inter Pipeline's total debt to total capitalization and total recourse debt to capitalization ratios at June 30, 2013 would be a decrease to 67.0% and 52.4%, respectively.

Inter Pipeline's capital under management includes financial debt and partners' equity. Capital availability is monitored through a number of measures, including total recourse debt to capitalization* and recourse debt to 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 EBITDA* ratio of 4.25 times. In March 2013, terms under an amended note purchase agreement became effective, which enabled the permitted recourse debt to EBITDA* ratio to increase from 4.25 to 5.5 times. The higher ratio provides Inter Pipeline with greater financial flexibility to fund the oil sands transportation expansion projects previously discussed. Once the debt issued under the note purchase agreement matures in October 2014, the recourse debt to EBITDA* covenant will no longer exist. At June 30, Inter Pipeline's recourse debt to capitalization ratio* was 57.8%. This ratio is higher than normal as a result of charging the one-time, non-cash internalization cost of $348.6 million to

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

earnings in the second quarter. The non-cash expense concurrently decreased partners' equity which reduced Inter Pipeline's capitalization by $348.6 million. The $348.6 million negative impact on equity is anticipated to be reversed in two phases. First, $178.6 million will be credited to equity upon successful conversion to a corporation, anticipated to be on September 1, 2013. Second, the remaining $170 million will be credited to equity upon revenue commencement for two identified oil sands projects. Management anticipates this will occur in early 2015. At that time the full impact to equity of charging the internalization value to earnings will be reversed, and the related negative impact on Inter Pipeline's recourse debt to capitalization level will be eliminated. Inter Pipeline's total debt to total capitalization ratio* at June 30, 2013 was 71.7%, which includes non-recourse debt of $1,640.4 million held within Inter Pipeline's Corridor corporate entity, compared to 65.3% at December 31, 2012. Inter Pipeline's total debt to total capitalization* and total recourse debt to capitalization* ratios at June 30, 2013 would have been 67.0% and 52.4%, respectively if the $348.6 million internalization expense was not charged to earnings.

At June 30, 2013, approximately $2,214.4 million or 61.9% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount $1,490.4 million or 67.3% relates to Corridor debt outstanding and is directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate risk exposure. In 2007, Inter Pipeline acquired an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures.

	June 30 2013		December 31 2012	
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, 2013 and December 31, 2012.

	Twelve Months Ended June 30 2013	Twelve Months Ended December 31 2012
(times)		
Interest coverage(1)(2)	0.7	4.8

(1) Please refer to the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section.
(2) Net (loss) income attributable to unitholders 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 months ended June 30, 2013 would have been 4.0 times had it not been impacted by the one-time non-cash General Partner internalization expense of $348.6 million to earnings in the second quarter. As a result of charging the internalization cost to earnings the interest coverage ratio decreased to 0.7 times.

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

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 Fund		
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, 2013. 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)	$ 2,121.7	$ 819.9	$ 1,301.8	$ -
NGL extraction	9.1	9.1	-	-
Conventional oil pipelines	12.2	12.2	-	-
Bulk liquid storage	6.5	6.5	-	-
Growth capital funded by Inter Pipeline(2)(3)	2,149.5	847.7	1,301.8	-
Sustaining capital funded by Inter Pipeline(2)(3)	25.0	25.0	-	-
	2,174.5	872.7	1,301.8	-
Total debt(4)				
Corridor syndicated facility(5)	1,340.4	1,340.4	-	-
Inter Pipeline syndicated facility	724.0	-	724.0	-
Loan to General Partner	288.6	-	288.6	-
Corridor debentures	300.0	-	150.0	150.0
MTN Series 1, 2, 3	925.0	-	-	925.0
	3,578.0	1,340.4	1,162.6	1,075.0
Other obligations				
Derivative financial instruments	6.9	6.9	-	-
Operating leases	227.1	8.8	45.0	173.3
Purchase obligations	167.0	30.2	40.6	96.2
Long-term portion of incentive plan	3.5	-	3.5	-
Working capital deficit(3)	289.8	289.8	-	-
	$ 6,446.8	$ 2,548.8	$ 2,553.5	$ 1,344.5

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months of 2013.

(2) Inter Pipeline's expected growth and sustaining capital spending profile including the 15% non-controlling interest in Cold Lake is $2,452.84 million.

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

(4) At June 30, 2013, 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, 2013 interim financial statements of $3,561.7 million, includes long-term debt and commercial paper of $3,578.0 million less discounts and debt transaction costs of $16.3 million.

(5) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated credit facility that has no repayment requirements until December 2016.

(6) The General Partner internalization liabilities of $348.6 million are not expected to be settled in cash, assuming the planned corporate conversion and exchange of shares is approved, and therefore not included in the table above.

Inter Pipeline plans to fund approximately $2.1 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 2012 annual MD&A.

Inter Pipeline's debt outstanding at June 30, 2013, matures at various dates up to May 2022:

- Inter Pipeline's loan payable to the General Partner of $288.6 million matures on October 28, 2014.
- Corridor's Series B debentures mature on February 2, 2015, and Corridor's Series C debentures mature on February 3, 2020.
- On December 15, 2011, Corridor entered into a $1.55 billion senior unsecured syndicated revolving credit facility with an initial maturity date of December 15, 2015. On December 15, 2012, the initial maturity date was extended to December 15, 2016.
- On December 5, 2011, Inter Pipeline entered into a $750 million senior unsecured syndicated revolving credit facility with an initial maturity date of December 5, 2016. On December 5, 2012, the initial maturity date was extended to December 5, 2017 and Inter Pipeline entered into a new $20 million demand operating facility replacing the previous one entered into on December 5, 2011. Inter Pipeline's $750 million senior unsecured syndicated revolving credit facility was increased to $1.25 billion on April 19, 2013, with the maturity date unchanged at December 5, 2017. On May 14, 2013, Inter Pipeline increased the size of its demand facility from $20 million to $40 million.
- Inter Pipeline's and Corridor's credit facilities can be extended beyond their initial maturity date under certain circumstances.
- Inter Pipeline's MTN Series 1, 2 and 3 mature on February 2, 2021, July 30, 2018 and May 30, 2022, respectively. On July 19, 2013, Inter Pipeline issued $500 million of MTN Series 4 that mature on July 20, 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, 2013, 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 $28.3 million under its employee long-term incentive plan, of which $24.8 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 $61.8 million at June 30, 2013. 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

DISTRIBUTIONS TO UNITHOLDERS

(millions, except per unit and % amounts)	Three Months Ended June 30 2013	Three Months Ended June 30 2012 (restated)	Six Months Ended June 30 2013	Six Months Ended June 30 2012 (restated)
Cash provided by operating activities	$ 110.1	$ 136.5	$ 230.2	$ 199.4
Net change in non-cash operating working capital	(4.7)	(26.4)	(15.4)	21.5
Less funds from operations[1] attributable to non-controlling interest	(2.6)	(2.8)	(5.6)	(5.6)
Cash available for distribution to unitholders[1]	102.8	107.3	209.2	215.3
Change in discretionary reserves[1]	(24.6)	(36.7)	(54.2)	(74.8)
Distributions to unitholders	$ 78.2	$ 70.6	$ 155.0	$ 140.5
Distributions per unit[2]	$ 0.2800	$ 0.2625	$ 0.5575	$ 0.5250
Payout ratio[1]	76.1%	65.8%	74.1%	65.3%

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

It is the goal of the General Partner to provide unitholders with stable distributions over time. As a result, not all cash available for distribution* is distributed to unitholders. Rather, a portion of cash available for distribution* is reserved and reinvested in the business to effectively manage its capital structure, and in particular, debt levels. The General Partner makes its distribution decisions based on the underlying assumptions in each year's annual operating and capital budget and long-term forecast, consistent with its policy to provide unitholders with stable distributions.

Cash available for distribution* is a non-GAAP financial measure that the General Partner uses in managing Inter Pipeline's business and in assessing future cash requirements that impact the determination of future distributions to unitholders. Inter Pipeline defines cash available for distribution* 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 "Cash available for distribution*" 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 cash available for distribution* to mitigate the quarterly impact this difference has on cash available for distribution*. 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.

In addition, in determining actual distributions, Inter Pipeline applies a discretionary reserve* to cash available for distribution*, which is designed to ensure stability of distributions over economic and industry cycles and to enable Inter Pipeline to absorb the impact of material one-time events. Therefore, not all cash available for distribution* is necessarily distributed to unitholders. The reconciliation is prepared using reasonable and supportable assumptions, reflecting Inter Pipeline's planned course of action in light of management and the board of directors' judgment regarding the most probable set of economic conditions. Investors should be aware that actual results may vary, possibly materially, from such forward-looking adjustments.

The discretionary reserve* increased $24.6 million in the second quarter of 2013 and $54.2 million year to date due primarily to the strong operating results of Inter Pipeline's business segments. Inter Pipeline will continue to manage the discretionary reserve* and future distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

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

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

(millions)	Three Months Ended June 30 2013	Six Months Ended June 30 2013	2012 (restated)	Years Ended December 31 2011[1]	2010[1]
Cash provided by operating activities	$ 110.1	$ 230.2	$ 385.5	$ 460.5	$ 349.6
Less cash provided by operating activities attributable to non-controlling interest	0.2	(1.2)	(10.2)	-	-
Distributions to unitholders	(78.2)	(155.0)	(285.2)	(251.7)	(232.6)
Excess	$ 32.1	$ 74.0	$ 90.1	$ 208.8	$ 117.0

(millions)	Three Months Ended June 30 2013	Six Months Ended June 30 2013	2012	Years Ended December 31 2011[1]	2010[1]
Net (loss) income attributable to unitholders	$ (283.9)	$ (214.2)	$ 307.2	$ 247.9	$ 236.0
Distributions to unitholders	(78.2)	(155.0)	(285.2)	(251.7)	(232.6)
(Shortfall) excess	$ (362.1)	$ (369.2)	$ 22.0	$ (3.8)	$ 3.4

(1) IFRS 10 adoption is effective as of January 1, 2013 and restated for 2012 as required for comparative purposes. The 2011, 2010 and 2009 information is still presented in accordance with IAS 31 and accordingly may not be comparable to that for 2012 and 2013. Please refer to the **ACCOUNTING POLICIES ADOPTED IN 2013** section for further discussion.

Distributions in all periods are less than cash provided by operating activities. Distributions were also less than net income attributable to unitholders, except for the year ended December 31, 2011 and added to the shortfall for the three and six months ended June 30 2013 which was in a net loss position largely due to a one-time non-cash General Partner internalization expense of $348.6 million. Net (loss) income also includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments, therefore distributions may exceed net income attributable to unitholders.

The overall distributions of Inter Pipeline are governed by the LPA, specifically section 5.2, which specifies the terms for Inter Pipeline to make distributions. Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, distributions to unitholders are always equal to Distributable Cash.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units at June 30, 2013 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	279.7	0.3	280.0

At August 6, 2013, Inter Pipeline had 280.6 million Class A units and 0.3 million Class B units for a total of 280.9 million units 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 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, 2013. 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 are utilized to manage frac-spread risk. Inter Pipeline transacts with third party counterparties to sell a notional portion of its NGL products and purchase related notional quantities of natural gas at fixed prices. NGL price swap agreements are transacted in US currency, therefore Inter Pipeline also enters into foreign exchange contracts to sell US dollars to convert notional US dollar amounts in the NGL swaps to Canadian dollars.

The following table presents the proportion of future propane-plus volumes hedged under contracts outstanding and the average net price of the frac-spread hedges at June 30, 2013 and August 6, 2013. The CAD/USG average price would approximate the following USD/USG price based on the average USD/CAD forward curve at June 30, 2013 and August 6, 2013.

	August 6, 2013			June 30, 2013		
	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)	% Forecast Propane-plus Volumes Hedged	Average Price (USD/USG)	Average Price (CAD/USG)
July to December 2013	39%	$ 0.94	$ 0.98	40%	$ 0.93	$ 0.98
January to December 2014	3%	$ 0.75	$ 0.79	-	-	-

Based on propane-plus volume hedges outstanding at June 30, 2013, the following table illustrates how a 10% change in NGL and AECO natural gas commodity prices and foreign exchange rates in isolation could individually impact the mark-to-market valuation of Inter Pipeline's derivative financial

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

instruments and consequently after-tax income assuming rates associated with each of the other components and all other variables remain constant:

(millions)	Fair value of derivative financial instruments	Change in net income based on 10% increase in prices/rates[1]	Change in net income based on 10% decrease in prices/rates[1]
NGL[2]	$ 13.6	$ (2.5)	$ 2.5
AECO natural gas	(3.5)	0.7	(0.7)
Foreign exchange	(3.3)	(3.5)	3.5
Frac-spread risk management	$ 6.8		

(1) Negative amounts represent a liability increase or asset decrease.
(2) Assumes that a commodity price change will impact all propane, normal butane, isobutane and pentanes-plus products linearly.

Power Price Risk Management

Inter Pipeline uses 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, 2013, there are no heat rate price swap agreements outstanding.

During the six months ended June 30, 2013, Inter Pipeline entered into an electricity price swap agreement in the conventional oil pipelines business in addition to the existing electricity price swap entered into in 2012. At June 30, 2013, 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.

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.

Based on the variable rate obligations outstanding at June 30, 2013, a 1% change in interest rates at this date would have changed interest expense on credit facilities for the three and six months ended June 30, 2013, by approximately $5.1 million and $10.2 million, respectively, assuming all other variables remain constant. Of these amounts, $3.3 million and $6.6 million, for the three and six months ended June 30, 2013, 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, 2013 would be $1.4 million and $2.7 million, respectively.

Realized and Unrealized Gains (Losses) on Derivative Instruments – Fair Value Through Profit or Loss

Derivative financial instruments designated as "fair value through profit or loss" are recorded on the consolidated balance sheet at fair value. Any gain or loss upon settlement of these contracts is recorded as a realized gain or loss in net income. Prior to settlement, any change in the fair value of these instruments is recognized in net income as an unrealized change in fair value of derivative financial instruments.

The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. Fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument.

Gains (losses) on derivative financial instruments recognized in the calculation of net (loss) income are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2013	2012	2013	2012
Realized gain (loss) on derivative financial instruments				
Revenues				
NGL swaps	$ 6.0	$ 4.2	$ 11.2	$ 2.1
Foreign exchange swaps (frac-spread hedges)	(1.0)	(0.3)	(1.7)	(0.3)
	5.0	3.9	9.5	1.8
Shrinkage gas expense				
Natural gas swaps	(1.5)	(4.8)	(3.4)	(8.3)
	(1.5)	(4.8)	(3.4)	(8.3)
Operating expenses				
Electricity price swaps	0.3	-	0.3	-
	0.3	-	0.3	-
Financing charges				
Interest rate swaps	1.2	1.2	2.4	2.4
	1.2	1.2	2.4	2.4
General and administrative				
Foreign exchange swaps	-	0.9	-	0.9
	-	0.9		0.9
Net realized gain (loss) on derivative financial instruments	5.0	1.2	8.8	(3.2)
Unrealized change in fair value of derivative financial instruments				
NGL swaps	0.3	46.8	(2.7)	51.0
Natural gas swaps	(0.1)	6.8	3.3	1.9
Foreign exchange swaps (frac-spread hedges)	(0.6)	(2.1)	(1.8)	2.3
Electricity price swaps	0.2	-	0.3	-
Foreign exchange swaps (other)	-	0.6	-	-
Unrealized change in fair value of derivative financial instruments	(0.2)	52.1	(0.9)	55.2
Total gain on derivative financial instruments	$ 4.8	$ 53.3	$ 7.9	$ 52.0

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 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, 2013, accounts receivable associated with these two business segments were $78.8 million or 56.6% 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, 2013, 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 months ended June 30, 2013 or 2012.

Upon acquisition of the General Partner in 2002, Pipeline Assets Corp. (PAC), the sole shareholder of the General Partner, assumed the obligations of the former General Partner of Inter Pipeline under a support agreement. The support agreement obligates the affiliates controlled by PAC to provide certain personnel and services if requested by the General Partner, to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts have been paid under the terms of the support agreement since PAC acquired its interests in the General Partner.

On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its current limited partnership structure to position the business for a planned conversion to corporate form. Inter Pipeline indirectly purchased its General Partner, for initial consideration valued at $170 million, plus closing adjustments of $8.6 million, and a future second instalment of $170 million which is contingent on the outcome of certain organic growth projects currently under development. PAC's shareholders have agreed to accept all consideration in the form of preferred shares in a new entity rather than cash. In the second quarter of 2013, Inter Pipeline recognized a $348.6 million non-cash expense and corresponding financial liabilities related to this transaction. It is anticipated that the preferred shares issued in relation to the initial payment plus closing adjustments will be exchanged for common shares of Inter Pipeline's successor upon unitholder approval of a corporate conversion later in 2013. Similarly, it is anticipated that the preferred shares issued in relation to the second instalment will ultimately be converted into common shares of Inter Pipeline's corporate successor upon the earlier of revenue commencement from the two identified oil sands expansion projects or January 1, 2017. Inter Pipeline entered into a support agreement to unconditionally guarantee the performance of obligations under the preferred share provisions and to provide sufficient funds to declare and pay dividends on and to redeem the Preferred Shares in certain circumstances. Inter Pipeline intends to seek unitholder approval for its planned conversion to a corporation on August 22, 2013. In addition to unitholder approval, the conversion will be subject to receipt of all required regulatory, stock exchange and Court of Queen's Bench of Alberta approvals. Additional information relating to Inter Pipeline's Internalization Transactions and planned corporate conversion can be found in the Share Purchase Agreement dated June 1, 2013, Inter Pipeline's news release dated June 2, 2013, and the Material Change report dated June 2, 2013, and the Information Circular dated July 23, 2013, which are available on SEDAR at www.sedar.com. Additional information related to the Internalization Transactions is also available on Inter Pipeline's website at http://www.interpipelinefund.com/ under the icon titled "General Partner Internalization".

Prior to the Internalization Transactions, the General Partner was a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain officers and directors of the General Partner had non-voting shares in PAC that entitled them to dividends. These officers and directors of the General Partner received a cumulative total of $0.9 million in dividends in the second quarter of 2013 (second quarter of 2012 - $0.4 million) totaling $1.2 million for the six months ended June 30, 2013 (six months ended June 30, 2012 - $1.3 million), from PAC pursuant to their ownership of non-voting shares.

Under the LPA, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline or in the performance of its duties as General Partner of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the LPA. In addition, as an incentive to the General Partner to enhance the profitability of Inter Pipeline and the distributions declared in respect of Inter Pipeline's units, the General Partner is entitled to earn an annual incentive fee calculated as a percentage of available Distributable Cash (as defined in the LPA). The percentage of available Distributable Cash payable to the General Partner as an incentive fee will be 15% of available Distributable Cash in excess of $1.01 per unit annually but less than or equal to $1.10 per unit annually, 25% of available Distributable Cash in excess of $1.10 per unit annually but less than or equal to $1.19 per unit annually and 35% of available Distributable Cash in excess of $1.19 per unit annually. The incentive fee is paid at the time of distribution of Distributable Cash for the last calendar month of each year. In addition, the General Partner is entitled to be paid an acquisition fee equal to 1.0% of the purchase price of any New Assets (as defined in the LPA) acquired by Inter Pipeline, and a disposition fee equal to 0.5% of the sale price of any assets sold by Inter Pipeline. See the Other Expenses section of **RESULTS OF OPERATIONS** for details of fees paid to the General Partner during the period.

In 2004, Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At the same time, the General Partner had received $379.8 million by way of a private placement note issuance and immediately loaned the funds to Inter Pipeline. This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional note holders, except for an interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. Inter Pipeline has guaranteed the notes issued by the General Partner to the note holders. The guarantee may be exercised in the event of a default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 bps over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs. On October 29, 2012, Inter Pipeline repaid the first tranche of the loan from the General Partner which amounted to $91.2 million, so $288.6 million remains outstanding. At June 30, 2013, interest payable to the General Partner on the loan was $3.2 million (December 31, 2012 - $3.2 million). Following the planned corporate conversion, the General Partner will be amalgamated with Inter Pipeline. As a result, the loan balance will be owed directly to the private placement note holders by Inter Pipeline's successor.

Amounts due to or from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner as noted above. At June 30, 2013, there were amounts owed to the General Partner by Inter Pipeline of $3.8 million (December 31, 2012 – $2.7 million).

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 2013.

CRITICAL ACCOUNTING ESTIMATES

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 2 *Summary of Significant Accounting Policies* of the December 31, 2012 consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

The amounts recorded for fair value of derivative financial instruments, intangible assets, goodwill, property, plant and equipment, provisions, employee benefits, deferred 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.

ACCOUNTING POLICIES ADOPTED IN 2013

Inter Pipeline's interim financial statements for the three and six months ended June 30, 2013 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 interim financial statements for the three months ended March 31, 2013.

New accounting policies that Inter Pipeline adopted effective January 1, 2013 include: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IFRS 13 *Fair Value Measurement*, IAS 19 *Employee Benefits (Revised)* and IAS 1 *Presentation of Financial Statements, Amendment*. For details on the implications of these standards to Inter Pipeline please refer to the interim financial statements and/or the MD&A for the three months ended March 31, 2013.

RISK FACTORS

During the second quarter of 2013, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2012 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", "cash available for distribution to unitholders", "discretionary reserve", "enterprise value", "interest coverage", "payout ratio", "growth capital expenditures", "sustaining capital expenditures" 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", "funds from operations", "funds from operations per unit", 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 distributions.

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, General Partner internalization liabilities and commercial paper.

(millions)	June 30 2013	December 31 2012 (restated)
Current assets		
Cash and cash equivalents	$ 48.2	$ 65.0
Accounts receivable	139.2	146.7
Prepaid expenses and other deposits	40.0	31.3
Current liabilities		
Distributions payable to unitholders	(26.6)	(25.5)
Accounts payable and accrued liabilities	(448.0)	(293.0)
Current income taxes payable	(28.1)	(8.7)
Deferred revenue	(14.5)	(6.1)
Adjusted working capital deficiency	$ (289.8)	$ (90.3)

Cash available for distribution to unitholders includes cash provided by operating activities less net changes in non-cash working capital and funds from operations attributable to non-controlling interest. This measure is used by the investment community to calculate the annualized yield of the units.

Discretionary reserve is calculated as cash available for distribution to unitholders less actual distributions declared. This measure is used by the investment community to determine the amount of cash reserved and reinvested in the business.

Enterprise value is calculated by multiplying the period-end closing unit price by the total number of units 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 unit amounts)	June 30 2013	December 31 2012
Closing unit price	$ 21.67	$ 23.50
Total closing number of Class A and B units	280.0	275.2
	6,068.1	6,466.2
Total debt	3,578.0	3,127.6
Enterprise value	$ 9,646.1	$ 9,593.8

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

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

				Three Months Ended June 30
			2013(1)	2012
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 382.2	$ 0.4	$ 382.6	$ 34.0
NGL extraction	9.9	0.9	10.8	5.7
Conventional oil pipelines	1.6	0.8	2.4	26.5
Bulk liquid storage	2.1	1.7	3.8	8.7
Corporate	-	2.0	2.0	0.7
	$ 395.8	$ 5.8	$ 401.6	$ 75.6
Capital expenditures funded by Inter Pipeline(1)	$ 394.3	$ 5.8	$ 400.1	$ 73.8

				Six Months Ended June 30
			2013(1)	2012
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	$ 763.8	$ 0.8	$ 764.6	$ 64.2
NGL extraction	22.2	1.5	23.7	11.0
Conventional oil pipelines	3.7	1.7	5.4	30.2
Bulk liquid storage	13.7	4.0	17.7	15.6
Corporate	-	3.7	3.7	1.2
Capital expenditures	$ 803.4	$ 11.7	$ 815.1	$ 122.2
Capital expenditures funded by Inter Pipeline(1)	$ 799.8	$ 11.7	$ 811.5	$ 119.7

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

Interest coverage is calculated as net (loss) income attributable to unitholders 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 distributions declared to unitholders for the period as a percentage of cash available for distribution. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current distributions.

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 partners' 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 distributions. Management considers these additional GAAP financial measures to be important indicators in assessing its performance.

EBITDA and funds from operations are reconciled from the components of net (loss) income as noted below. Funds from operations are expressed before changes in non-cash working capital. **Funds from operations per unit** are calculated on a weighted average basis using basic units outstanding during the period. These measures, together with other measures, are used by the investment community to assess the source and sustainability of distributions.

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	2013	2012 *(restated)*	2013	2012 *(restated)*
Net (loss) income	$ (281.6)	$ 106.8	$ (209.4)	$ 188.9
Depreciation and amortization	31.4	34.5	62.3	62.5
Loss on disposal of assets	-	(0.1)	1.7	(0.1)
Non-cash expense (recovery)	1.2	2.6	(1.6)	(0.5)
Unrealized change in fair value of derivative financial instruments	0.2	(52.1)	0.9	(55.2)
Deferred income tax expense	5.6	18.4	12.3	25.3
General Partner internalization	348.6	-	348.6	-
Funds from operations	105.4	110.1	214.8	220.9
Less funds from operations attributable to non-controlling interest	(2.6)	(2.8)	(5.6)	(5.6)
Funds from operations attributable to unitholders	$ 102.8	$ 107.3	$ 209.2	$ 215.3
Funds from operations	$ 105.4	$ 110.1	$ 214.8	$ 220.9
Total interest less capitalized interest	20.9	23.8	43.2	45.7
Current income tax expense	13.6	14.3	28.1	30.0
EBITDA	139.9	148.2	286.1	296.6
Less EBITDA attributable to non-controlling interest	(2.6)	(2.8)	(5.6)	(5.6)
EBITDA attributable to unitholders	$ 137.3	$ 145.4	$ 280.5	$ 291.0

Total recourse debt to capitalization is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline. This measure in combination with other measures, are used by the investment community to assess the financial strength of the entity.

ELIGIBLE INVESTORS

Pursuant to Inter Pipeline's LPA dated October 9, 1997, as amended, all unitholders are required to be residents of Canada. A copy of the limited partnership agreement can be found at www.interpipelinefund.com. If a unitholder is a non-resident of Canada (Non-Eligible unitholder), he will not be considered to be a member of the partnership effective the date the Class A units were acquired. Inter Pipeline requires all Non-Eligible unitholders to dispose of their Class A units in accordance with the limited partnership agreement.

In most cases, a unitholder with an address outside of Canada will be a Non-Eligible unitholder.

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's **Annual Information Form**, is available on SEDAR at www.sedar.com. Inter Pipeline's Statement of Corporate Governance is included in Inter Pipeline's **Annual Information Form**.

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

Dated at Calgary, Alberta this 8th day of August, 2013.