Inter Pipeline Ltd.

Interim Consolidated Balance Sheets

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

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Changes in Equity

(unaudited) (thousands of Canadian dollars)

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

See accompanying condensed notes to the interim consolidated financial statements.

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Inter Pipeline Ltd.

Interim Consolidated Statements of Net Income (Loss)

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

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Comprehensive Income (Loss)

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

See accompanying condensed notes to the interim consolidated financial statements.

Inter Pipeline Ltd.

Interim Consolidated Statements of Cash Flows

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

See accompanying condensed notes to the interim consolidated financial statements.

1. STRUCTURE OF THE CORPORATION

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

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

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

3. FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

4. SEGMENT REPORTING

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

Three Months Ended June 30, 2014

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

* Includes gain on disposal of assets

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Three Months Ended June 30, 2013

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Six Months Ended June 30, 2014

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

* Includes gain on disposal of assets

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Six Months Ended June 30, 2013

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

* Includes (gain) loss on disposal of assets

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

6. DIVIDENDS TO SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

8. PROVISIONS

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

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

9. EMPLOYEE BENEFITS

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

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

a) Long-Term Incentive Plan

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

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

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

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

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

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

10. INCOME TAXES

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

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

11. SHAREHOLDERS' EQUITY

Shares Issued, Fully Paid and Outstanding

Authorized

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

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

Issued, Fully Paid and Outstanding

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

Common Share Issuance

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

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Stated Capital Adjustment

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

Calculation of Net Income (Loss) per Common Share

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

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

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

Convertible Shares

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

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Reserves

Reserves are summarized as follows:

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

12. NON-CONTROLLING INTEREST

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

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

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

13. RELATED PARTY TRANSACTIONS

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

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

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

14. COMMITMENTS AND CONTINGENCIES

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

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

15. CAPITAL DISCLOSURES

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

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

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

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

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

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

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

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

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

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

16. FINANCIAL INSTRUMENTS

a) Classification of Financial Assets and Financial Liabilities

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

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

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

b) Fair Value of Financial Instruments

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

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

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

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

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

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

Derivative financial instruments carried at fair value are as follows:

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

17. RISK MANAGEMENT

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

a) Market Risk

Frac-spread Risk Management

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

Power Price Risk Management

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

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

Interest Rate Risk Management

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

Foreign Exchange Risk Management

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

b) Credit Risk

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

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

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

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

Liquidity Risk

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

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

* Convertible shares are expected to be converted to equity and will not be settled in cash (note 11).

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

18. FINANCING CHARGES

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

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

19. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

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

Cash and Cash Equivalents

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