



Management's Discussion and Analysis

For the three and six months ended June 30, 2015

FORWARD-LOOKING INFORMATION

The following **Management's Discussion and Analysis (MD&A)** highlights Inter Pipeline Ltd.'s (Inter Pipeline) significant business results and statistics for the three and six month periods ended June 30, 2015, to provide Inter Pipeline's shareholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Effective September 1, 2013, Inter Pipeline completed an arrangement pursuant to which, among other things, the outstanding Class A units of Inter Pipeline Fund were converted into common shares of Inter Pipeline Ltd. This resulted in the conversion to a dividend paying corporation, Inter Pipeline Ltd., which continues as a successor issuer to Inter Pipeline Fund (Corporate Conversion). In this MD&A, any references to Inter Pipeline prior to September 1, 2013 refer to Inter Pipeline Fund and its consolidated subsidiaries, and any references to Inter Pipeline subsequent to September 1, 2013 refer to Inter Pipeline Ltd. and its consolidated subsidiaries. Similarly, any references to common shares, shareholders or dividends used prior to September 1, 2013, refer to Class A units, unitholders and distributions of Inter Pipeline Fund, and any references to common shares, shareholders or dividends used subsequent to September 1, 2013 refer to common shares, shareholders and dividends of Inter Pipeline Ltd. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of dividends to its shareholders through 2015 and beyond; 2) the maintenance of Inter Pipeline's dividend level combined with the tax treatment of dividends to its shareholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) funds from operations projections; 5) timing for completion of various projects, including the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to various oil sands projects; 6) timing and cost schedules of Polaris and Cold Lake capital projects, and forward EBITDA (as defined herein) estimates in respect of these projects; and, 7) capital expenditure forecasts.

Readers are cautioned not to place undue reliance on forward-looking statements; as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Inter Pipeline may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits, including the further development of its oil sands pipeline systems; assumptions concerning operational reliability; the availability and price of labour and construction materials; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its affiliates; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and natural gas liquids (NGL) extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; inflation; the ability to access sufficient capital from internal and external sources; risks and uncertainties associated with Inter Pipeline's ability to maintain its current level of cash dividends to its shareholders; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection, instability and political and economic conditions in or affecting countries in which Inter Pipeline and its affiliates operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; the potential delays of, and costs of overruns on, construction projects in all of Inter Pipeline's business units, including, but not limited to, Inter Pipeline's expansion of the Cold Lake and Polaris pipeline systems and expansions of Inter Pipeline's oil sands pipeline systems generally; 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 Inter Pipeline's business; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its affiliates; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; difficulty in obtaining necessary regulatory approvals and maintenance of support of such approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. The impact of any one assumption, risk, uncertainty or other factor on a particular forward-looking statement cannot be determined 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, 2015

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and six month periods ended June 30, 2015, as compared to the three and six month periods ended June 30, 2014. The MD&A should be read in conjunction with the June 30, 2015 unaudited condensed interim consolidated financial statements (interim financial statements), the unaudited condensed interim consolidated financial statements and MD&A for the quarterly period ended June 30, 2014, the MD&A and audited consolidated financial statements for the year ended December 31, 2014, the **Annual Information Form** dated February 19, 2015, 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 (IASB).

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

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

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DIRECTOR APPOINTMENT

- Ms. Margaret A. McKenzie joined Inter Pipeline's Board of Directors on August 6, 2015

SECOND QUARTER HIGHLIGHTS

- Generated record funds from operations* (FFO) of \$181 million, or \$0.54 per share, a 38 percent increase over the second quarter of 2014
- Declared record cash dividends of \$123 million or \$0.3675 per share
- Attractive quarterly payout ratio* of 72 percent
- Total pipeline throughput volumes remained strong averaging 1,062,400 barrels per day (b/d)
- Completed a \$45 million capacity expansion project on the Polaris pipeline system in support of the second phase of the Kearl oil sands project operated by Imperial Oil Resources Ventures Limited (Imperial)
- Initiated diluent transportation service for Athabasca Oil Corporation's (AOC) Hangingstone project on the Polaris pipeline system
- Acquired four petroleum and petrochemical storage terminals in Sweden for \$131 million, increasing European storage capacity by approximately 40 percent
- Substantially completed a major expansion of the Mid-Saskatchewan pipeline system, adding approximately 95,000 b/d of new capacity

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

PERFORMANCE OVERVIEW

	Three Months Ended June 30		Six Months Ended June 30	
<i>(millions, except per share and % amounts)</i>	2015	2014	2015	2014
Revenues				
Oil sands transportation	\$ 182.7	\$ 102.9	\$ 360.1	\$ 208.0
Conventional oil pipelines	74.7	96.0	152.5	187.2
NGL extraction	88.8	137.0	191.3	305.4
Bulk liquid storage	44.4	40.0	92.5	86.0
	\$ 390.6	\$ 375.9	\$ 796.4	\$ 786.6
Funds from operations⁽¹⁾⁽²⁾				
Oil sands transportation ⁽²⁾	\$ 135.0	\$ 63.0	\$ 265.2	\$ 126.4
Conventional oil pipelines	46.5	49.6	93.3	95.6
NGL extraction	23.3	34.7	52.0	83.2
Bulk liquid storage	20.6	18.2	41.1	39.8
Corporate costs	(44.4)	(33.9)	(94.1)	(81.7)
	\$ 181.0	\$ 131.6	\$ 357.5	\$ 263.3
Per share ⁽¹⁾	\$ 0.54	\$ 0.41	\$ 1.07	\$ 0.84
Net income	\$ 73.8	\$ 85.3	\$ 196.6	\$ 174.9
Net income attributable to shareholders	\$ 65.3	\$ 81.7	\$ 179.0	\$ 167.8
Per share – basic	\$ 0.19	\$ 0.25	\$ 0.54	\$ 0.53
Per share – diluted	\$ 0.19	\$ 0.25	\$ 0.54	\$ 0.52
Dividends to shareholders	\$ 123.1	\$ 103.9	\$ 244.9	\$ 203.5
Per share ⁽³⁾	\$ 0.3675	\$ 0.3225	\$ 0.7350	\$ 0.6450
Shares outstanding (basic)				
Weighted average	334.8	321.6	333.2	315.3
End of period	335.3	323.0	335.3	323.0
Capital expenditures⁽⁴⁾				
Growth ⁽¹⁾	\$ 67.3	\$ 243.8	\$ 199.6	\$ 788.5
Sustaining ⁽¹⁾	10.5	10.2	20.2	16.4
	\$ 77.8	\$ 254.0	\$ 219.8	\$ 804.9
Payout ratio⁽¹⁾	71.9%	81.5%	72.6%	79.7%
			As at	As at
			June 30	December 31
<i>(millions, except % amounts)</i>			2015	2014
Total assets			\$ 8,955.5	\$ 8,647.2
Total debt⁽⁵⁾			\$ 4,865.1	\$ 4,590.7
Total shareholders' equity			\$ 2,732.2	\$ 2,548.1
Enterprise value⁽¹⁾			\$ 14,487.4	\$ 16,314.8
Total debt to total capitalization⁽¹⁾			64.0%	64.3%
Total recourse debt to capitalization⁽¹⁾			54.7%	54.2%

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

(2) Funds from operations⁽¹⁾ include non-controlling interest amounts of \$9.8 million and \$20.0 million for the three and six months ended June 30, 2015, respectively (\$4.1 million and \$8.1 million for the three and six months ended June 30, 2014, respectively).

(3) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

(4) Amounts reported on a 100% basis that includes non-controlling interest.

(5) Total debt reported in the June 30, 2015 interim financial statements of \$4,844.7 million, includes long-term debt, short-term debt and commercial paper of \$4,865.1 million less discounts and debt transaction costs of \$20.4 million.

Three Months Ended June 30, 2015

Inter Pipeline generated record quarterly financial results with FFO^{*} of \$181.0 million in the second quarter of 2015, an increase of \$49.4 million or 37.5% from \$131.6 million in the second quarter of 2014. The increase is predominantly due to record quarterly FFO^{*} of \$135.0 million from the oil sands transportation business, an increase of \$72.0 million or 114.3% from the same period in 2014. The primary driver for the increase is the expanded transportation services that entered commercial service on the Cold Lake and Polaris pipeline systems. Financial results were also \$2.4 million higher in the bulk liquid storage business due to an increase in utilization rates and the acquisition of Inter Terminals Sweden in June 2015. Partially offsetting these increases was lower FFO^{*} from the NGL extraction business of \$11.4 million largely due to reduced frac-spread pricing; higher corporate costs of \$10.5 million largely due to lower capitalized interest costs; and lower operating results from the conventional oil pipelines business of \$3.1 million due to a lower contribution from midstream marketing activities.

Inter Pipeline's net income in the second quarter decreased \$11.5 million from \$85.3 million in 2014 to \$73.8 million in 2015. This decrease is primarily due to an increase in deferred income tax arising from legislation announced by the Government of Alberta which increased the general corporate tax rate from 10% to 12% effective July 1, 2015, as well as higher depreciation and amortization expense, which was largely offset by increased FFO^{*} discussed above.

In the second quarter, total dividends to shareholders increased \$19.2 million or 18.5% from \$103.9 million in 2014 to \$123.1 million in 2015, due to higher monthly dividend rates and a greater overall number of shares outstanding. In November 2014, Inter Pipeline announced a dividend rate increase of \$0.18 per common share on an annualized basis. The overall number of common shares outstanding increased primarily due to the conversion of the convertible shares in January 2015 and strong shareholder participation in Inter Pipeline's dividend reinvestment plan. Inter Pipeline's payout ratio^{*} was 71.9% for the three months ended June 30, 2015.

Inter Pipeline's total consolidated debt increased \$184.4 million from \$4,680.7 million at March 31, 2015 to \$4,865.1 million at June 30, 2015. During this period, Inter Pipeline completed the acquisition of Inter Terminals Sweden for approximately \$131 million excluding closing adjustments and expended \$76.8 million (Inter Pipeline's share) on capital projects.

Six Months Ended June 30, 2015

Inter Pipeline also generated strong financial results in the six months ended June 30, 2015, as FFO^{*} increased to \$357.5 million in 2015, up 35.8% or \$94.2 million from \$263.3 million in 2014. The increase in operating results is largely due to the same reasons discussed above.

Inter Pipeline's net income increased \$21.7 million to \$196.6 million in the six months ended June 30, 2015, compared to \$174.9 million in the same period in 2014. This increase is due to higher FFO^{*} as mentioned above, offset in part by an increase to deferred income tax, and depreciation and amortization expense.

Total dividends to shareholders increased \$41.4 million or 20.3% to \$244.9 million in the six months ended June 30, 2015, over the comparable period in 2014, largely for the same reasons discussed above. For the six months ended June 30, 2015, Inter Pipeline's payout ratio^{*} was 72.6%.

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

Inter Pipeline's consolidated debt increased \$274.4 million from \$4,590.7 million at December 31, 2014 to \$4,865.1 million at June 30, 2015, primarily due to funding the acquisition of Inter Terminals Sweden and incurring \$213.3 million (Inter Pipeline's share) on capital expenditures. At June 30, 2015, Inter Pipeline's total recourse debt to capitalization^{*} ratio was 54.7%, and its total debt to total capitalization ratio^{*} was 64.0%, which includes non-recourse debt of \$1,559.7 million held within Inter Pipeline's Corridor corporate entity.

OUTLOOK

Inter Pipeline owns and operates world scale energy infrastructure assets in western Canada and Europe. Our long-term strategy is to acquire and develop high-quality assets that generate stable and predictable cash flow, while delivering strong returns to shareholders.

In the first half of 2015, Inter Pipeline completed a number of projects under our capital expenditure program, which focused on expanding our oil sands transportation and conventional oil gathering businesses. In January, for example, major elements of the integrated expansion of the Cold Lake and Polaris pipeline systems were completed and entered commercial service. These projects were underpinned by long-term cost of service contracts with credit-worthy counterparties that substantially increased the amount and stability of Inter Pipeline's FFO^{*}.

Inter Pipeline's oil sands transportation segment is expected to benefit over the longer term as a result of the capacity expansion programs completed mid 2014 and early 2015. At the start of this quarter, we began diluent transportation service for AOC's Hangingstone project on the Polaris pipeline system, which is expected to generate long-term annual EBITDA^{*} of \$5 million over a 25-year ship-or-pay contract term. In June, we completed a \$45 million capacity expansion project on our Polaris pipeline system in support of the second phase of the Kearl oil sands project operated by Imperial. This expansion will generate an incremental \$19 million in annual EBITDA^{*} under a 25-year ship-or-pay transportation contract.

Inter Pipeline is well positioned to expand its oil sands transportation business further over the next several years. Total bitumen blend transportation capacity on the Cold Lake system is approximately 1.2 million b/d, diluent capacity on the Polaris system is approximately 865,000 b/d, and bitumen blend capacity on the Corridor pipeline system is 465,000 b/d. Ultimate throughput capacities of 1.9 million b/d, 1.4 million b/d and 1.3 million b/d on the Cold Lake, Corridor and Polaris systems, respectively, can be achieved through the addition of cost effective pump stations and associated infrastructure. In aggregate, Inter Pipeline has over 2.3 million b/d of potential aggregate spare capacity on our three oil sands transportation systems. Notwithstanding the challenging oil price environment, Inter Pipeline continues to actively engage potential shippers to utilize available capacity.

The outlook also remains positive for Inter Pipeline's conventional oil pipelines segment, despite the continued volatility in crude oil prices. In July, Inter Pipeline completed a \$112 million expansion of our Mid-Saskatchewan pipeline system to accommodate future anticipated volume growth. Total capacity for our Mid-Saskatchewan pipeline system increased by 95,000 b/d through the construction of 50 km of new mainline pipe segments and 40 km of new pipeline laterals and associated facilities. Now fully in-service, the expansion will benefit producers in the Kindersley-Kerrobert area of

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

Saskatchewan where horizontal drilling and multi-stage fracturing within the Viking formation has led to significant production growth.

Additionally, Inter Pipeline continues to advance a \$65 million storage tank expansion at Kerrobert, which will include the construction of three new tanks totalling approximately 400,000 barrels of storage. This expansion project, which is expected to be ready for service in the latter half of 2016, will support both operational and merchant storage opportunities on the Mid-Saskatchewan pipeline system.

On June 10, 2015, Inter Pipeline completed the acquisition of four petroleum and petrochemical storage terminals in Sweden from a subsidiary of Koninklijke Vopak N.V for approximately \$131 million, excluding customary closing adjustments. This acquisition increased Inter Pipeline's total storage capacity in Europe by 40% to approximately 27 million barrels, strengthening our position as a leading storage business in Europe and as the largest independent bulk liquid storage provider in Scandinavia. The acquisition was completed at an attractive purchase price multiple of approximately 6.7 times average historical EBITDA*. The transaction is expected to be immediately accretive to Inter Pipeline's annual FFO* by approximately \$0.04 per share.

In 2015, Inter Terminals has experienced an increase in the demand for storage services. Utilization rates in the second quarter of 2015 were substantially higher, averaging 93% compared to 75% in the second quarter of 2014. Utilization was favourably impacted by stronger contango pricing relationships in certain petroleum futures markets.

Inter Pipeline continues to maintain a strong balance sheet with significant liquidity available on our \$1.25 billion committed credit facility. As at June 30, 2015, Inter Pipeline had over \$570 million of available capacity on its revolving credit facility. Inter Pipeline also ended the quarter with a recourse debt to capitalization ratio of 54.7%, which is within management's targeted level of 50% to 55%. Inter Pipeline maintains its financial flexibility in order to facilitate the funding of our growth capital expenditure program and other future initiatives.

As a result of our strong financial position and the stable nature of our business, Inter Pipeline maintains investment grade credit ratings. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's).

Inter Pipeline's outlook remains positive. Our extensive energy infrastructure base is well positioned to compete for organic growth opportunities as they arise. With a strong balance sheet and proven project management and operational success, Inter Pipeline is well positioned to continue to generate long-term positive results for our shareholders.

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

RESULTS OF OPERATIONS

Oil Sands Transportation Business Segment

<i>Volumes (000s b/d)</i>	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	% change	2015	2014	% change
Cold Lake (100% basis)	519.0	497.3	4.4	551.1	485.6	13.5
Corridor	215.1	330.0	(34.8)	297.2	324.5	(8.4)
Polaris	119.8	30.7	290.2	126.8	31.4	303.8
	853.9	858.0	(0.5)	975.1	841.5	15.9
<i>(millions)</i>						
Revenue ⁽¹⁾	\$ 182.7	\$ 102.9	77.6	\$ 360.1	\$ 208.0	73.1
Operating expenses ⁽¹⁾	\$ 32.7	\$ 28.0	16.8	\$ 64.2	\$ 57.4	11.8
Funds from operations ⁽¹⁾⁽²⁾	\$ 135.0	\$ 63.0	114.3	\$ 265.2	\$ 126.4	109.8
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 24.5	\$ 228.1		\$ 105.6	\$ 764.9	
Sustaining ⁽²⁾	1.2	0.2		1.3	0.3	
	\$ 25.7	\$ 228.3		\$ 106.9	\$ 765.2	

(1) For the three and six month periods ended June 30, 2015, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - \$12.6 million and \$25.1 million (\$6.4 million and \$12.8 million in 2014), respectively; operating expenses - \$2.6 million and \$4.7 million (\$2.3 million and \$4.7 million in 2014), respectively; FFO⁽²⁾ - \$9.8 million and \$20.0 million (\$4.1 million and \$8.1 million in 2014), respectively; and capital expenditures - \$1.0 million and \$6.5 million (\$8.4 million and \$34.3 million in 2014), respectively.

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

Volumes

Volume in the oil sands transportation business averaged 853,900 b/d in the second quarter, a decrease of 4,100 b/d or 0.5%, and 975,100 b/d year to date in 2015, an increase of 133,600 b/d or 15.9%, over the comparable periods in 2014.

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 the three and six months ended June 30, 2015, Cold Lake pipeline system volumes increased 21,700 b/d or 4.4% and 65,500 b/d or 13.5%, respectively, over the same periods in 2014. This increase is largely due to incremental production from Canadian Natural Resources (CNR) Kirby South facility and Imperial's Cold Lake oil sands development, as well as FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips, Foster Creek expansion which began shipments in September 2014. Wildfires in the Fort McMurray region during the quarter impacted various producer volumes serviced by the Cold Lake pipeline system. Inter Pipeline's Cold Lake assets were not damaged by the wildfires, but certain facilities in the area experienced a temporary loss of power. Cold Lake pipeline system volumes typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes. Volume growth is anticipated over the long-term on the Cold Lake pipeline system, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluent and diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to and from the Scotford upgrader located northeast of Edmonton as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. Average volumes on the Corridor pipeline system decreased 114,900 b/d in the second quarter and 27,300 b/d year to date in 2015, compared to the same periods in 2014. Volumes were impacted by maintenance activities at the Scotford upgrader in the second quarter of 2015.

The Polaris pipeline system is comprised of a 12-inch diameter diluent pipeline that commenced commercial operations in August 2012 and a 30-inch diameter diluent pipeline that commenced commercial operations in July 2014. The Polaris pipeline system provides diluent transportation service from a diluent receipt point in the area north east of Edmonton to Imperial's Kearn, Husky's Sunrise, Suncor's oil sands, CNR's Kirby South, AOC's Hangingstone and FCCL's Foster Creek and Christina Lake oil sands projects. Average volumes transported on the Polaris pipeline system increased 89,100 b/d and 95,400 b/d, in the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. The increase is largely due to diluent transportation services to FCCL's Foster Creek and Christina Lake facilities and CNR's Kirby South facility which began in the third quarter of 2014. The Polaris pipeline system was not directly impacted by wildfires occurring in the current quarter; however the wildfires did impact diluent transportation volumes to certain customer facilities located in the area serviced by the Polaris pipeline system.

Revenue

Revenue from the oil sands transportation business increased \$79.8 million or 77.6% to \$182.7 million in the second quarter and increased \$152.1 million or 73.1% to \$360.1 million year to date in 2015, over the same periods in 2014.

Cold Lake pipeline system's revenue increased \$41.1 million and \$81.9 million in the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. The increase is primarily due to capital fee revenue from FCCL for blend transportation service, related to the Cold Lake mainline expansion which entered into commercial service in January of 2015.

The Cold Lake pipeline system is operated pursuant to long-term contracts with the FCCL Partnership and the Cold Lake founders, who have committed to utilizing the Cold Lake pipeline system and to paying for such usage over the term of such contracts which extend indefinitely subject to certain provisions contained in the applicable contracts. These agreements provide 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. Volumes shipped below the ship-or-pay commitments pursuant to both the FCCL Partnership and CNR Kirby South contracts will not affect FFO* generated over the life of the contract. 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.

Corridor pipeline revenue decreased in the three and six months ended June 30, 2015 by \$0.6 million and \$2.8 million, respectively, compared to the same periods in 2014. The reduction in revenue in both periods is due to a lower return on equity arising from a decrease in the long-term Government of Canada (GOC) benchmark bond interest, a lower return on debt due to lower interest rates and the declining nature of Corridor's rate base, which was offset in part by higher operating cost recoveries.

The Corridor Firm Service Agreement (Corridor FSA) utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of debt financing costs, substantially all 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.

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

Revenue from the Polaris pipeline system increased \$39.3 million in the second quarter and \$73.0 million year to date in 2015, compared to the same periods in 2014. The increase is primarily due to FCCL capital fee revenue for diluent transportation service, associated with the Polaris pipeline expansion project, which entered commercial service in phases in the third quarter of 2014 and the first quarter of 2015. Revenues were also higher as a result of increased capital fee revenue associated with Husky's Sunrise and CNR's Kirby South oil sands projects, incremental revenue from Imperial's Kearl expansion service beginning in the current quarter, revenue from the Canexus unit train loading connection which began in July of 2014, service beginning for AOC Hangingstone and increased operating cost recoveries.

The Polaris pipeline system generates revenue under various long-term diluent transportation agreements utilizing a cost-of-service approach providing for a return on capital invested and recovery of substantially all operating costs. Throughput volumes below the ship-or-pay commitments or commodity price fluctuations will not impact Polaris' FFO* over the life of the contracts as a result of the cost-of-service approach.

Operating Expenses

Operating expenses in the oil sands transportation business segment typically have a limited impact on Inter Pipeline's FFO*, as substantially all operating expenditures are recovered from the shippers on the Cold Lake, Corridor and Polaris pipeline systems. In the three and six months ended June 30, 2015, operating expenses in the oil sands transportation business increased \$4.7 million and \$6.8 million, respectively, over the same periods in 2014.

On the Cold Lake pipeline system, operating expenses increased \$1.0 million in the current quarter largely due to higher power costs and decreased \$0.3 million year to date mainly due to lower power costs, compared to the same periods in 2014. Average Alberta power pool prices increased in the second quarter from \$42.43/MWh in 2014 to \$57.22/MWh in 2015 and decreased year to date from \$51.46/MWh in 2014 to \$43.20/MWh in 2015.

On the Corridor pipeline system operating costs increased \$1.5 million in the second quarter and \$1.9 million year to date in 2015, largely due to higher planned integrity program and subsidence repair costs, over the same periods in 2014.

Operating costs on the Polaris pipeline system increased \$2.2 million and \$5.2 million in the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. Higher operating costs resulted from incremental employee costs, general operating costs and property taxes which are predominantly attributable to the pipeline expansion.

Capital Expenditures

Growth capital expenditures* of \$24.5 million were incurred in the oil sands transportation business in the second quarter of 2015.

On the Cold Lake pipeline system total growth capital expenditures* of \$7.1 million were incurred in the second quarter of 2015, of which approximately \$6 million relates to Cold Lake pipeline's estimated \$1.8 billion (\$1.5 billion - Inter Pipeline's share) oil sands development program. These expenditures include final trailing and clean-up costs on the recently completed portion of the project. Remaining Cold Lake pipeline expansion expenditures are for the construction of a bitumen blend connection to FCCL's Narrows Lake oil sands project for an estimated cost of \$250 million (\$212 million - Inter Pipeline's share).

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

The Polaris pipeline system incurred total growth capital expenditures* of \$17.3 million in the second quarter of 2015, of which approximately \$6 million relates to its \$1.5 billion expansion program, for trailing and clean-up costs on the recently completed portions of the Polaris pipeline system expansion. Remaining Polaris pipeline expansion expenditures are for the construction of a diluent connection to FCCL's Narrows Lake oil sands project for an estimated cost of \$80 million.

Growth capital expenditures* on the Polaris pipeline system also included approximately \$4 million in the current quarter relating to final trailing and clean-up costs for a recently completed delivery connection to AOC's Hangingstone project, for a total project spend to date of approximately \$29 million.

The Polaris pipeline system also incurred growth capital expenditures* of approximately \$3 million relating to the construction of a new pipeline lateral and associated facilities connecting the Polaris pipeline system to the JACOS-Nexen Hangingstone project, for a total project spend to date of approximately \$8 million. The total estimated cost of this project is \$25 million.

Approximately \$2 million in growth capital expenditures* incurred on the Polaris pipeline system in the current quarter relate to the capacity expansion work in support of the second phase of Imperial's Kearl oil sands project. This project was completed in June 2015 at a cost of approximately \$45 million.

The remaining Polaris pipeline system growth capital expenditures* of approximately \$2 million relate to various other development initiatives.

Conventional Oil Pipelines Business Segment

Volumes (000s b/d)	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	% change	2015	2014	% change
Bow River	99.6	100.6	(1.0)	101.5	100.0	1.5
Central Alberta	32.5	37.3	(12.9)	33.6	36.8	(8.7)
Mid-Saskatchewan	76.4	63.0	21.3	76.3	65.6	16.3
	208.5	200.9	3.8	211.4	202.4	4.4

(millions, except per barrel amount)

Revenue	\$ 74.7	\$ 96.0	(22.2)	\$ 152.5	\$ 187.2	(18.5)
Midstream product purchases	\$ 12.1	\$ 30.2	(59.9)	\$ 27.0	\$ 61.1	(55.8)
Operating expenses	\$ 16.9	\$ 16.4	3.0	\$ 31.8	\$ 30.0	6.0
Funds from operations ⁽¹⁾	\$ 46.5	\$ 49.6	(6.3)	\$ 93.3	\$ 95.6	(2.4)
Revenue per barrel ⁽²⁾	\$ 2.94	\$ 2.95	(0.3)	\$ 2.95	\$ 2.95	-
Capital expenditures						
Growth ⁽¹⁾	\$ 36.9	\$ 9.3		\$ 84.3	\$ 14.6	
Sustaining ⁽¹⁾	1.3	0.2		2.3	1.5	
	\$ 38.2	\$ 9.5		\$ 86.6	\$ 16.1	

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

(2) Revenue per barrel represents total revenue of the conventional oil pipelines business segment less midstream marketing revenue, revenue from take-or-pay contracts for volume shortfalls and revenue/expense from over/short volumes, divided by actual volumes.

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

Volumes

Average volumes on the conventional oil pipelines increased 7,600 b/d or 3.8% in the current quarter and 9,000 b/d or 4.4% year to date in 2015, over the same periods in 2014. Mid-Saskatchewan pipeline system volumes increased 13,400 b/d or 21.3% and 10,700 b/d or 16.3% in the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. Horizontal drilling and multi-stage hydraulic fracturing completion technologies continue to increase regional production in the Viking light oil play, driving the increase on the Mid-Saskatchewan light oil system. Volumes on the Central Alberta pipeline system decreased 4,800 b/d in the current quarter and 3,200 b/d year to date in 2015, compared to the same periods in 2014, largely due to a decrease in truck terminal volumes. Bow River pipeline system volumes were consistent with the comparative periods in 2014 with a decrease of 1,000 b/d in the second quarter and an increase of 1,500 b/d year to date in 2015.

Revenue

For the three and six months ended June 30, 2015, revenue from the conventional oil pipelines business decreased \$21.3 million to \$74.7 million and \$34.7 million to \$152.5 million, respectively, compared to the same periods in 2014. Lower revenue from Inter Pipeline's midstream marketing activities was the primary driver decreasing \$23.4 million in the current quarter and \$41.8 million year to date in 2015, compared to the same periods in 2014, as a result of lower overall stream prices and lower activity. Partially offsetting this decrease was higher transportation revenue from incremental volumes shipped on the conventional oil pipeline systems.

Midstream Product Purchases

Midstream product purchases decreased \$18.1 million and \$34.1 million for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. The decrease is largely due to lower product pricing, and lower activity.

Operating Expenses

Operating expenses in the conventional oil pipelines business increased \$0.5 million in the second quarter largely due to higher planned integrity program and watercourse crossing repair costs and increased \$1.8 million year to date primarily due to higher watercourse crossing repair, partially offset in both instances by lower employee costs, compared to the same periods in 2014.

Capital Expenditures

In the second quarter of 2015, the conventional oil pipelines business incurred growth capital expenditures^{*} of \$36.9 million. Approximately \$34 million of the quarterly growth capital expenditures^{*} relate to the \$112 million expansion of the Mid-Saskatchewan pipeline system involving the construction of over 50 km of new mainline pipe, 40 km of new pipeline laterals and associated pumping and metering facilities, which was completed in July 2015. Growth capital expenditures^{*} also include approximately \$1 million relating to the 400,000 barrel crude oil storage expansion project at the Kerrobert Terminal on the Mid-Saskatchewan pipeline system.

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

NGL Extraction Business Segment

Three Months Ended June 30							
2015				2014			
	<i>mmcf/d</i>	<i>(000s b/d)</i>		<i>mmcf/d</i>	<i>(000s b/d)</i>		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus
Cochrane	1,758	37.5	27.0	64.5	1,326	39.7	21.8
Empress V (100% basis)	725	18.8	7.1	25.9	920	24.4	10.9
Empress II	-	-	-	-	-	-	-
	2,483	56.3	34.1	90.4	2,246	64.1	32.7

Six Months Ended June 30							
2015				2014			
	<i>mmcf/d</i>	<i>(000s b/d)</i>		<i>mmcf/d</i>	<i>(000s b/d)</i>		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus
Cochrane	1,799	41.7	28.1	69.8	1,557	43.3	23.4
Empress V (100% basis)	844	21.9	9.9	31.8	987	25.1	11.2
Empress II	-	-	-	-	-	-	-
	2,643	63.6	38.0	101.6	2,544	68.4	34.6

<i>(millions)</i>	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	% change	2015	2014	% change
Revenue ⁽¹⁾	\$ 88.8	\$ 137.0	(35.2)	\$ 191.3	\$ 305.4	(37.4)
Shrinkage gas ⁽¹⁾	\$ 40.6	\$ 76.1	(46.6)	\$ 91.8	\$ 166.6	(44.9)
Operating expenses ⁽¹⁾	\$ 24.9	\$ 26.2	(5.0)	\$ 47.2	\$ 55.5	(15.0)
Funds from operations ⁽¹⁾⁽²⁾	\$ 23.3	\$ 34.7	(32.9)	\$ 52.0	\$ 83.2	(37.5)
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 0.2	\$ 2.6		\$ 0.5	\$ 3.7	
Sustaining ⁽²⁾	\$ 1.1	\$ 1.1		\$ 5.0	\$ 1.8	
	\$ 1.3	\$ 3.7		\$ 5.5	\$ 5.5	

(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

Average natural gas throughput volumes processed at Inter Pipeline's NGL extraction facilities increased 237 million cubic feet per day (mmcf/d) to 2,483 mmcf/d in the current quarter and 99 mmcf/d to 2,643 mmcf/d year to date in 2015, compared to the same periods in 2014.

At the Cochrane facility, average throughput volumes increased 432 mmcf/d and 242 mmcf/d for the three and six months ended June 30, 2015, respectively, compared to the same periods in 2014. Throughput volumes at the Cochrane facility are largely impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region. Ethane deliveries from Cochrane and Empress V facilities were lower in 2015 as a result of downstream facility issues, resulting in the partial reinjection of certain ethane volumes.

Throughput volumes at the Empress V facility decreased 195 mmcf/d in the second quarter and 143 mmcf/d year to date in 2015, compared to the same periods in 2014, due to reduced exports through the eastern gate, planned maintenance

activity at the facility and downstream issues. The Empress II facility did not process any throughput volumes in 2015 or 2014, which does not impact operating results due to cost-of-service commercial arrangements at this facility. Throughput volumes at the Empress facilities are dependent on the level of natural gas exported from Alberta's eastern border and are reliant on successfully attracting border gas flows to the extraction facilities.

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 decreased \$48.2 million to \$88.8 million in the current quarter and \$114.1 million to \$191.3 million year to date in 2015, compared to the same periods in 2014. The decrease in revenue was primarily due to lower propane-plus and ethane product pricing as well as lower ethane volumes from the Cochrane and Empress V facilities, offset in part by higher propane-plus volumes from the Cochrane facility.

Frac-spread

		Three Months Ended June 30			
<i>(dollars)</i>		2015		2014	
		USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾
Market frac-spread	\$	0.346	0.425	0.781	0.852
Realized frac-spread	\$	0.347	0.426	0.775	0.846

		Six Months Ended June 30			
<i>(dollars)</i>		2015		2014	
		USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾
Market frac-spread	\$	0.357	0.442	0.905	0.993
Realized frac-spread	\$	0.361	0.446	0.861	0.944

(1) The differential between USD/USG and CAD/USG frac-spreads is due to fluctuations in exchange rates between US and Canadian dollars.

Market frac-spread is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in US dollars per US gallon (USD/USG). This price is converted to Canadian dollars per US gallon (CAD/USG) based on the average monthly Bank of Canada CAD/USD noon rate. Realized frac-spread is defined in a similar manner and is calculated on a weighted average basis using market frac-spread for unhedged production and fixed-price frac-spread prices for any hedged production. Natural gas purchased for shrinkage is based on the actual combination of the monthly index and daily price of AECO paid. Propane-plus market price differentials, natural gas transportation and extraction premium costs have not been significant

historically, and therefore are not included in the calculation of realized frac-spread. See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for further discussion of frac-spread hedges.

Realized frac-spreads for the three and six months ended June 30, 2015, decreased from \$0.78 USD/USG to \$0.35 USD/USG and from \$0.86 USD/USG to \$0.36 USD/USG, respectively, compared to the same periods in 2014. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2014, were \$0.97 USD/USG and \$0.59 USD/USG, respectively.

Shrinkage Gas

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. Shrinkage gas expense for the three and six months ended June 30, 2015 decreased \$35.5 million and \$74.8 million, respectively, compared to the same periods in 2014. The decrease is primarily due to lower AECO natural gas prices as the weighted average monthly AECO prices* decreased in the second quarter from \$4.44 per gigajoule (GJ) in 2014 to \$2.53/GJ in 2015 and year to date from \$4.48/GJ in 2014 to \$2.67/GJ in 2015.

Operating Expenses

Operating expenses for the three and six months ended June 30, 2015 in the NGL extraction business decreased \$1.3 million and \$8.3 million, respectively, compared to the same periods in 2014. Operating costs were lower in both periods due to a reduction in general operating and maintenance costs; while fuel and power costs were also lower year to date largely due to favourable power pricing and natural gas pricing mentioned above. Average Alberta power pool prices increased in the second quarter from \$42.43/MWh in 2014 to \$57.22/MWh in 2015 and decreased year to date from \$51.46/MWh in 2014 to \$43.20/MWh in 2015.

Capital Expenditures

In the second quarter of 2015, the NGL extraction business incurred growth capital expenditures[†] of \$0.2 million, and sustaining capital expenditures[†] of \$1.1 million largely relating to facility and equipment upgrades at the Cochrane facility.

Bulk Liquid Storage Business Segment

<i>(millions)</i>	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	% change	2015	2014	% change
Utilization	93%	75%	24.0	92%	77%	19.5
<i>(millions)</i>						
Revenue	\$ 44.4	\$ 40.0	11.0	\$ 92.5	\$ 86.0	7.6
Operating expenses	\$ 20.5	\$ 17.0	20.6	\$ 40.4	\$ 36.7	10.1
Funds from operations ⁽¹⁾	\$ 20.6	\$ 18.2	13.2	\$ 41.1	\$ 39.8	3.3
Capital expenditures						
Growth ⁽¹⁾	\$ 5.7	\$ 3.8		\$ 9.2	\$ 5.3	
Sustaining ⁽¹⁾	\$ 2.8	\$ 7.0		\$ 5.4	\$ 9.9	
	\$ 8.5	\$ 10.8		\$ 14.6	\$ 15.2	

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

* 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

Utilization

Inter Pipeline operates a bulk liquid storage business branded as Inter Terminals with operations in the United Kingdom (UK), Germany, Ireland, Denmark and Sweden. Inter Terminals represents one of the largest independent bulk liquid storage businesses in Europe, with a combined storage capacity of approximately 27 million barrels located across 16 terminals. These terminals are strategically located with five terminals at the coastal ports of Immingham, Teesside and Tyneside in the UK, one terminal on the Shannon estuary in Ireland, two terminals on the Rhine River at Mannheim, Germany, four deep draft coastal terminals in Denmark located on the Danish Straits and four coastal terminals in Sweden located along the Baltic Sea and Danish Straits.

Average utilization rates increased in the second quarter from 75% in 2014 to 93% in 2015 and year to date from 77% in 2014 to 92% in 2015. Stronger contango pricing relationships in certain petroleum product futures markets drove the increase in utilization rates, particularly at the Gulfhavn terminal in Denmark. Average utilization rates at Inter Terminals Denmark improved from 65% to 95% in the second quarter of 2014 to 2015 and from 67% to 93% year to date in 2014 to 2015.

Revenue

In the three and six months ended June 30, 2015, revenue from the bulk liquid storage business increased \$4.4 million and \$6.5 million, respectively, compared to the same periods in 2014. Revenue increased largely due to higher occupancy and activity levels at the Gulfhavn, Stigsnaes and Ensted terminals in Denmark, as well as the inclusion of revenue from Inter Terminals Sweden which was acquired in June 2015. These increases were partially offset by lower revenue from business interruption proceeds from flooding at the Immingham and Riverside terminals, and also on a year to date basis from lower non-recurring contract termination fees. Foreign currency translation adjustments also decreased revenue by \$1.0 million in the second quarter and \$1.4 million year to date in 2015, compared to the same periods in 2014. Year to date in 2015, FFO* was also impacted by a contract termination in the first quarter of 2015 which included the release of long-term deferred revenue decreasing FFO* by \$2.9 million.

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

Foreign Exchange Rates

<i>(dollars)</i>	Three Months Ended June 30			Six Months Ended June 30		
	2015	2014	% change	2015	2014	% change
Euro/CAD	\$ 1.3598	\$ 1.4955	(9.1)	\$ 1.3782	\$ 1.5038	(8.4)
Pound Sterling/CAD	\$ 1.8843	\$ 1.8355	2.7	\$ 1.8817	\$ 1.8308	2.8

Operating Expenses

Operating expenses in the bulk liquid storage business for the three and six months ended June 30, 2015 increased \$3.5 million and \$3.7 million, respectively, compared to the same periods in 2014. The increase is primarily due to higher fuel and power, repair and employee costs, as well as operating costs from Inter Terminals Sweden. Partially offsetting these increases were foreign currency translation adjustments, reducing operating expenses by \$0.2 million in the second quarter and \$0.3 million year to date in 2015, compared to the same periods in 2014.

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

Capital Expenditures

The bulk liquid storage business incurred \$5.7 million of growth capital expenditures* in the second quarter of 2015, largely relating to a number of tank life extensions and tank modification projects. Growth capital expenditures*, also included approximately \$1 million related to the construction of six stainless steel tanks at a German terminal for a total estimated project cost of \$9 million.

In the current quarter, the bulk liquid storage business also incurred \$2.8 million in sustaining capital expenditures* which include flood related expenditures at the Riverside terminal, environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects.

Acquisition of Inter Terminals Sweden

On June 10, 2015, Inter Pipeline completed the acquisition of four petroleum and petrochemical storage terminals in Sweden from a subsidiary of Koninklijke Vopak N.V. The acquisition was valued at approximately \$130.9 million, less closing adjustments for working capital and debt, for cash consideration of \$128.8 million and was funded from Inter Pipeline's existing revolving credit facility. The acquisition is highly complementary to Inter Pipeline's existing terminals in Denmark, resulting in enhanced product storage and custom blending solutions, while increasing Inter Terminals total storage capacity to approximately 27 million barrels.

Operating results for Inter Terminals Sweden have been included in the consolidated financial statements since June 11, 2015. Inter Terminals Sweden contributed \$2.5 million and \$0.4 million to revenue and net income, respectively, from the date of acquisition to June 30, 2015. If the acquisition had taken place on January 1, 2015, for the six months ended June 30, 2015, management estimates that Inter Terminals Sweden would have contributed \$22.8 million to revenue and \$2.9 million to net income.

The acquisition was accounted for by the acquisition method as at the closing date of June 10, 2015. Determinations of fair value often require management to make assumptions and estimates about future events. The purchase price allocation is preliminary as Inter Pipeline is working to determine the fair value of assets acquired and liabilities assumed at the acquisition date. Changes in any of the assumptions or estimates used in determining the fair values, including closing adjustments and completion of detailed valuation procedures, could positively or negatively impact the carrying amounts assigned. The following table presents the provisional purchase price allocation based on the best information available to date:

Cash	\$	0.9
Property, plant and equipment		157.9
Non-cash working capital		(3.2)
Decommissioning obligation		(10.2)
Deferred income tax liability		(16.6)
	\$	128.8

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

Other Expenses

<i>(millions)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Provision for income taxes	\$ 71.4	\$ 25.7	\$ 105.7	\$ 56.0
Depreciation and amortization	43.6	33.3	85.9	66.6
Financing charges	33.9	18.1	68.0	38.9
General and administrative	17.0	20.6	35.6	46.0
Loss (gain) on disposal of assets	3.7	(0.8)	2.5	(1.7)
Unrealized change in fair value of derivative financial instruments	(0.4)	(0.1)	(0.3)	(1.3)

Income Taxes

Consolidated income tax expense increased \$45.7 million to \$71.4 million and \$49.7 million to \$105.7 million in the three and six months ended June 30, 2015, respectively, over the same periods in 2014. On June 18, 2015, the Government of Alberta announced legislation which increases its general provincial corporate tax rate from 10% to 12%, effective July 1, 2015. This increase in tax rates resulted in deferred tax expense of \$35.9 million recognized in the current quarter. The remaining variance is due to higher consolidated income before income taxes.

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased \$10.3 million and \$19.3 million in the three and six months ended June 30, 2015, over the same periods in 2014. This increase is primarily due to depreciation of new assets now in service that were not in service or depreciated in the same periods in 2014.

Financing Charges

<i>(millions)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Interest on credit facilities	\$ 8.7	\$ 9.7	\$ 17.9	\$ 20.4
Interest on loan payable to private placement noteholders	-	4.4	-	8.8
Interest on Corridor Debentures	1.8	2.5	3.8	5.0
Interest on MTN Series 1 to 7	23.7	16.8	45.2	30.8
Total interest	34.2	33.4	66.9	65.0
Capitalized interest	(1.6)	(16.7)	(1.8)	(29.0)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.8	0.9	1.6	1.8
Accretion of provisions and pension plan funding charges	0.5	0.5	1.3	1.1
Total financing charges	\$ 33.9	\$ 18.1	\$ 68.0	\$ 38.9

Total financing charges for the three and six months ended June 30, 2015, increased \$15.8 million and \$29.1 million, respectively, over same periods in 2014.

Capitalized interest decreased \$15.1 million in the current quarter and \$27.2 million year to date in 2015, compared to the same periods in 2014, due to the completion of major components of the Polaris pipeline and Cold Lake pipeline system expansions.

Interest on medium-term notes (MTN) increased \$6.9 million and \$14.4 million for the three and six months ended June 30, 2015, respectively, over the same periods in 2014, due to the timing of issuance of MTN Series 5 and 6 on May 30, 2014 and MTN Series 7 on March 23, 2015.

In the three and six months ended June 30, 2015, interest on the loan payable to private placement noteholders decreased \$4.4 million and \$8.8 million, respectively, compared to the same periods in 2014, as the loan matured on October 28, 2014 and was repaid.

Interest on credit facilities decreased \$1.0 million in the second quarter and \$2.5 million year to date in 2015, compared to the same periods in 2014, due to lower weighted average short-term interest rates, offset in part by higher average debt levels.

Interest on Corridor debentures for the three and six months ended June 30, 2015, decreased \$0.7 million and \$1.2 million, respectively, compared to the same periods in 2014, as Corridor's \$150 million Series B debentures matured and were repaid on February 2, 2015.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper decreased \$0.1 million in the current quarter and \$0.2 million year to date in 2015, compared to the same periods in 2014, due to the timing of debt maturities offset in part by MTN issuances discussed above.

Accretion of provisions and pension plan funding charges were comparable in the second quarter of 2014 and 2015 and increased \$0.2 million year to date in 2015 over 2014, largely due to changes in discount rates for environmental provisions.

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

General and Administrative

<i>(millions)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
Canada	\$ 14.3	\$ 17.5	\$ 29.7	\$ 40.6
Europe	2.7	3.1	5.9	5.4
	\$ 17.0	\$ 20.6	\$ 35.6	\$ 46.0

Canadian general and administrative expenses for the three and six months ended June 30, 2015, decreased \$3.2 million and \$10.9 million, respectively, compared to the same periods in 2014. The decrease was largely driven by a reduction in employee costs as a result of lower long-term incentive plan expense primarily resulting from changes in Inter Pipeline's share price. Employee costs were also lower year to date in 2015 due to the inclusion of a one-time key management personnel contract renegotiation in the first quarter of 2014.

European general and administrative costs decreased \$0.4 million in the current quarter largely due to lower external service and employee costs, offset in part by higher acquisition related costs, compared to the second quarter of 2014. Year to date in 2015, European general and administrative costs increased \$0.5 million, from the same period in 2014, due to higher acquisition related costs and a foreign currency loss realized in the first quarter of 2015, partially offset by lower employee costs.

Loss on Disposal of Assets

Inter Pipeline recorded a loss on disposal of assets of \$3.7 million and \$2.5 million in the three and six months ended June 30, 2015. The loss on disposal of assets in the current quarter relates to sale or disposal of various equipment and line fill from the oil sands transportation and NGL extraction businesses, which was offset in part on a year to date basis from proceeds received for asset damage due to flooding that occurred at Inter Terminals Riverside terminal in late 2013.

Unrealized Change in Fair Value of Derivative Financial Instruments

In the three and six months ended June 30, 2015, the change in fair value of Inter Pipeline's derivative financial instruments increased net income by \$0.4 million and \$0.3 million, respectively, due to the change in fair value of electricity price swaps.

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

SUMMARY OF QUARTERLY RESULTS

	2013		2014		2015			
<i>(millions, except per share and % amounts)</i>	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
Revenue								
Oil sands transportation	\$ 96.2	\$ 107.4	\$ 105.1	\$ 102.9	\$ 128.2	\$ 140.5	\$ 177.4	\$ 182.7
Conventional oil pipelines	81.1	82.3	91.2	96.0	89.6	87.1	77.8	74.7
NGL extraction	127.2	146.6	168.4	137.0	120.2	123.0	102.5	88.8
Bulk liquid storage	36.0	37.9	46.0	40.0	41.6	39.5	48.1	44.4
	\$ 340.5	\$ 374.2	\$ 410.7	\$ 375.9	\$ 379.6	\$ 390.1	\$ 405.8	\$ 390.6
Funds from operations⁽¹⁾								
Oil sands transportation	\$ 55.7	\$ 64.2	\$ 63.4	\$ 63.0	\$ 82.5	\$ 97.2	\$ 130.2	\$ 135.0
Conventional oil pipelines	47.0	44.0	46.0	49.6	48.7	46.8	46.8	46.5
NGL extraction	43.2	53.4	48.5	34.7	34.4	24.7	28.7	23.3
Bulk liquid storage	17.2	16.1	21.6	18.2	19.8	15.8	20.5	20.6
Corporate costs	(39.8)	(43.2)	(47.8)	(33.9)	(44.4)	(24.8)	(49.7)	(44.4)
	\$ 123.3	\$ 134.5	\$ 131.7	\$ 131.6	\$ 141.0	\$ 159.7	\$ 176.5	\$ 181.0
Per share ⁽¹⁾	\$ 0.44	\$ 0.44	\$ 0.43	\$ 0.41	\$ 0.43	\$ 0.49	\$ 0.53	\$ 0.54
Net income	\$ 77.8	\$ 84.6	\$ 89.6	\$ 85.3	\$ 95.0	\$ 79.6	\$ 122.8	\$ 73.8
Net income attributable to shareholders	\$ 74.8	\$ 81.3	\$ 86.1	\$ 81.7	\$ 91.4	\$ 75.6	\$ 113.7	\$ 65.3
Per share – basic	\$ 0.27	\$ 0.27	\$ 0.28	\$ 0.25	\$ 0.28	\$ 0.24	\$ 0.34	\$ 0.19
Per share – diluted	\$ 0.26	\$ 0.26	\$ 0.27	\$ 0.25	\$ 0.28	\$ 0.23	\$ 0.34	\$ 0.19
Dividends to shareholders ⁽²⁾	\$ 84.6	\$ 98.6	\$ 99.6	\$ 103.9	\$ 104.7	\$ 114.9	\$ 121.8	\$ 123.1
Per share ⁽²⁾	\$ 0.2975	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3525	\$ 0.3675	\$ 0.3675
Shares outstanding (basic)								
Weighted average	283.6	304.7	309.0	321.6	324.2	325.8	331.5	334.8
End of period	289.8	306.8	320.3	323.0	325.4	326.2	334.2	335.3
Capital expenditures ⁽³⁾								
Growth ⁽¹⁾	\$ 566.1	\$ 549.4	\$ 544.7	\$ 243.8	\$ 256.3	\$ 149.2	\$ 132.3	\$ 67.3
Sustaining ⁽¹⁾	7.4	11.0	6.2	10.2	12.0	13.8	9.7	10.5
	\$ 573.5	\$ 560.4	\$ 550.9	\$ 254.0	\$ 268.3	\$ 163.0	\$ 142.0	\$ 77.8
Payout ratio ⁽¹⁾	70.5%	75.5%	78.0%	81.5%	76.6%	74.0%	73.3%	71.9%
Total assets	\$ 6,993.1	\$ 7,657.7	\$ 8,307.7	\$ 8,366.9	\$ 8,548.2	\$ 8,647.2	\$ 8,733.8	\$ 8,955.5
Total debt ⁽⁴⁾	\$ 3,964.5	\$ 3,960.8	\$ 4,155.8	\$ 4,283.8	\$ 4,396.3	\$ 4,590.7	\$ 4,680.7	\$ 4,865.1
Total shareholders' equity	\$ 1,661.9	\$ 2,100.3	\$ 2,490.4	\$ 2,521.3	\$ 2,566.9	\$ 2,548.1	\$ 2,737.6	\$ 2,732.2
Enterprise value ⁽¹⁾	\$ 11,252.0	\$ 11,885.4	\$ 13,504.4	\$ 14,981.6	\$ 16,223.6	\$ 16,314.8	\$ 15,590.4	\$ 14,487.4
Total debt to total capitalization ⁽¹⁾	70.5%	65.3%	62.5%	63.0%	63.1%	64.3%	63.1%	64.0%
Total recourse debt to capitalization ⁽¹⁾	58.5%	52.8%	50.7%	51.7%	52.2%	54.2%	53.2%	54.7%

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

(2) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

(3) Amounts reported on a 100% basis that includes non-controlling interest.

(4) Total debt includes long-term debt, short-term debt and commercial paper before discounts and debt transaction costs.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund 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 FFO^{*} in excess of dividends to fund capital requirements. At June 30, 2015, Inter Pipeline had access to committed credit facilities totalling \$2.8 billion, of which \$711.3 million remained unutilized, and demand facilities totalling \$104.3 million of which \$102.3 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three and six months ended June 30, 2015, approximately \$31.2 million and \$62.8 million, respectively, of equity was issued through the dividend reinvestment plan.

On March 10, 2015, Inter Pipeline subsidiaries Inter Terminals Limited and Inter Terminals EOT ApS entered into a Pound Sterling 20 million demand facility for general corporate and working capital purposes.

On March 23, 2015, Inter Pipeline issued \$300 million of senior unsecured MTN Series 7 due March 24, 2025 in the Canadian public debt market. The MTN Series 7 bear interest at a fixed rate of 3.173% per annum, payable semi-annually. Net proceeds from the issuance were used to repay a portion of Inter Pipeline's bank indebtedness incurred through funding its capital expenditure program and for general corporate purposes.

Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2013. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) subscription receipts (collectively, the "Securities") of up to \$3.0 billion aggregate of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. As a result of the equity offering in March 2014 and debt offerings in May 2014 and March 2015, the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced to approximately \$1.5 billion.

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

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

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

Capital Structure

			June 30	December 31
<i>(millions, except % amounts)</i>	Recourse	Non-recourse	2015	2014
Credit facilities available				
Corridor syndicated facility	\$ -	\$ 1,550.0	\$ 1,550.0	\$ 1,550.0
Inter Pipeline syndicated facility	1,250.0	-	1,250.0	1,250.0
	1,250.0	1,550.0	2,800.0	2,800.0
Demand facilities ⁽¹⁾⁽²⁾	79.3	25.0	104.3	65.0
	\$ 1,329.3	\$ 1,575.0	\$ 2,904.3	\$ 2,865.0
Total debt outstanding⁽²⁾				
Recourse				
Inter Pipeline syndicated facility			\$ 679.0	\$ 686.0
MTN Series 1 to 7 ⁽³⁾			2,625.0	2,325.0
Inter Terminals demand facility ⁽¹⁾			1.4	-
Non-recourse				
Corridor syndicated facility			1,409.7	1,279.7
Corridor debentures ⁽⁵⁾			150.0	300.0
Total debt ⁽²⁾⁽⁴⁾			4,865.1	4,590.7
Total shareholders' equity			2,732.2	2,548.1
Total capitalization ⁽⁶⁾			\$ 7,597.3	\$ 7,138.8
Total debt to total capitalization ⁽⁶⁾			64.0%	64.3%
Total recourse debt to capitalization ⁽⁶⁾			54.7%	54.2%

(1) Demand facilities consist of: Inter Pipeline's \$40 million demand facility; Corridor's \$25 million demand facility; and Inter Terminals Limited and Inter Terminals EOT ApS Pound Sterling 20 million demand facility which was entered into on March 10, 2015 and converted at a Pound Sterling/CAD rate of 1.9626 at June 30, 2015.

(2) At June 30, 2015, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.4 million and \$0.2 million, respectively, were not included in total debt outstanding.

(3) Inter Pipeline issued \$325 million MTN Series 1 and \$200 million MTN Series 2 in 2011; \$400 million MTN Series 3 in 2012; \$500 million MTN Series 4 in 2013; \$500 million MTN Series 5 and \$400 million MTN Series 6 in 2014; \$300 million MTN Series 7 in 2015.

(4) Total debt reported in the June 30, 2015 interim financial statements of \$4,844.7 million, includes long-term debt, short-term debt and commercial paper outstanding of \$4,865.1 million less discounts and debt transaction costs of \$20.4 million.

(5) On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid.

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

Inter Pipeline's capital under management includes financial debt and shareholders' equity. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate

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

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*. At June 30, 2015, Inter Pipeline's total recourse debt to capitalization ratio* was 54.7%. Inter Pipeline's total debt to total capitalization ratio*, which includes non-recourse debt of \$1,559.7 million held within Inter Pipeline's Corridor corporate entity, was 64.0% at June 30, 2015.

At June 30, 2015, approximately \$2,490.1 million or 51.2% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount \$1,409.7 million or 56.6% relates to Corridor debt outstanding and its financing costs are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline may enter into interest rate swap agreements to manage its interest rate risk exposure.

The following interest coverage* ratio is calculated on a consolidated basis for the twelve month periods ended June 30, 2015 and December 31, 2014.

<i>(times)</i>	Twelve Months Ended	
	June 30	December 31
	2015	2014
Interest coverage ⁽¹⁾⁽²⁾	4.4	3.8

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

(2) Net income attributable to shareholders plus income taxes and borrowing costs, divided by the sum of borrowing costs, capitalized borrowing costs and any retirement of obligations.

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

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

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

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at June 30, 2015. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and FFO* in excess of dividends. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

<i>(millions)</i>	Total	Less than one year	One to five years	After five years
Capital expenditure projects ⁽¹⁾⁽²⁾				
Oil sands transportation ⁽²⁾	\$ 361.6	\$ 62.2	\$ 299.4	\$ -
Conventional oil pipelines	97.2	49.3	47.9	-
NGL extraction	5.3	5.3	-	-
Bulk liquid storage	17.2	17.2	-	-
Growth capital funded by Inter Pipeline ⁽²⁾⁽³⁾	481.3	134.0	347.3	-
Sustaining capital funded by Inter Pipeline ⁽²⁾⁽³⁾	49.1	49.1	-	-
	530.4	183.1	347.3	-
Total debt ⁽⁴⁾⁽⁵⁾⁽⁶⁾				
Corridor syndicated facility ⁽⁶⁾	1,409.7	1,409.7	-	-
Inter Pipeline syndicated facility	679.0	-	679.0	-
Corridor debentures ⁽⁵⁾	150.0	-	150.0	-
MTN Series 1 to 7	2,625.0	-	600.0	2,025.0
Inter Terminals demand facility	1.4	1.4	-	-
	4,865.1	1,411.1	1,429.0	2,025.0
Other obligations				
Operating leases	315.6	12.5	86.4	216.7
Purchase obligations	217.5	56.7	49.0	111.8
Long-term portion of incentive plan	4.8	-	4.8	-
Adjusted working capital deficit ⁽³⁾	94.4	94.4	-	-
	\$ 6,027.8	\$ 1,757.8	\$ 1,916.5	\$ 2,353.5

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2015.

(2) Inter Pipeline's expected growth and sustaining capital⁽³⁾ spending profile including the 15% non-controlling interest in Cold Lake is \$571.9 million.

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

(4) At June 30, 2015, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.4 million and \$0.2 million, respectively, were not included in total debt outstanding. Total debt reported in the June 30, 2015 interim financial statements of \$4,844.7 million, includes long-term debt, short-term debt and commercial paper of \$4,865.1 million less discounts and debt transaction costs of \$20.4 million.

(5) On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid.

(6) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated revolving credit facility that has no repayment requirements until December 2018.

Inter Pipeline's bulk liquid storage business will incur additional sustaining capital expenditures* in the foreseeable future to comply with UK storage and containment regulations, as discussed in the risk factors section relating to Buncefield Regulation in Inter Pipeline's 2014 annual MD&A.

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

Inter Pipeline's debt outstanding at June 30, 2015, matures at various dates up to May 2044 as follows:

<i>(millions)</i>	Amount	Rate	Maturity date
Inter Pipeline Ltd.			
\$1.25 billion syndicated facility	\$ 679.0	Variable	December 5, 2019
MTN Series 1	325.0	4.967%	February 2, 2021
MTN Series 2	200.0	3.839%	July 30, 2018
MTN Series 3	400.0	3.776%	May 30, 2022
MTN Series 4	500.0	3.448%	July 20, 2020
MTN Series 5	500.0	4.637%	May 30, 2044
MTN Series 6	400.0	CDOR plus 49 bps	May 30, 2017
MTN Series 7	300.0	3.173%	March 24, 2025
Inter Pipeline (Corridor) Inc.			
\$1.55 billion syndicated facility	1,409.7	Variable	December 14, 2018
Series C debentures	150.0	4.897%	February 3, 2020
Inter Terminals Limited and Inter Terminals EOT ApS			
Pound Sterling 20 million demand facility	1.4	Variable	Demand

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, 2015, 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 2094.
- (iii) Working capital deficiencies* arise primarily from capital expenditures outstanding in accounts payable and accrued liabilities at the end of a period.
- (iv) Inter Pipeline has obligations of \$33.3 million under its employee long-term incentive plan, of which \$28.5 million is included in the working capital deficit*.
- (v) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is \$78.8 million at June 30, 2015. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

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

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>(millions, except per share and % amounts)</i>	2015	2014	2015	2014
Cash provided by operating activities	\$ 163.3	\$ 147.3	\$ 321.9	\$ 281.5
Net change in non-cash operating working capital	17.7	(15.7)	35.6	(18.2)
Less funds from operations ⁽¹⁾ attributable to non-controlling interest	(9.8)	(4.1)	(20.0)	(8.1)
Funds from operations ⁽¹⁾ attributable to shareholders	171.2	127.5	337.5	255.2
Dividends to shareholders	\$ 123.1	\$ 103.9	\$ 244.9	\$ 203.5
Dividends per share ⁽²⁾	\$ 0.3675	\$ 0.3225	\$ 0.7350	\$ 0.6450
Payout ratio ⁽¹⁾	71.9%	81.5%	72.6%	79.7%

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

(2) Dividends to shareholders are calculated based on the number of common shares outstanding at each record date.

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

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

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

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

<i>(millions)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Cash provided by operating activities	\$ 163.3	\$ 147.3	\$ 321.9	\$ 281.5
Less cash provided by operating activities attributable to non-controlling interest	(16.2)	(4.0)	(18.4)	(16.4)
Dividends to shareholders	(123.1)	(103.9)	(244.9)	(203.5)
Excess	\$ 24.0	\$ 39.4	\$ 58.6	\$ 61.6

<i>(millions)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Net income attributable to shareholders	\$ 65.3	\$ 81.7	\$ 179.0	\$ 167.8
Dividends to shareholders	(123.1)	(103.9)	(244.9)	(203.5)
Shortfall	\$ (57.8)	\$ (22.2)	\$ (65.9)	\$ (35.7)

Cash provided by operating activities in all periods was greater than dividends to shareholders plus cash provided by operating activities attributable to non-controlling interest. Dividends were greater than net income attributable to shareholders in all periods, as net 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.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at June 30, 2015 are as follows:

<i>(millions)</i>	Total
Common shares outstanding	335.3

At August 4, 2015, Inter Pipeline had 335.7 million common shares outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Market Risk Management

Inter Pipeline utilizes derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign currencies and interest rates. Market risk management strategies 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 market risk management policy.

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

Inter Pipeline may enter 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, 2015. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

NGL Extraction Business

FRAC-SPREAD RISK MANAGEMENT

Inter Pipeline is exposed to frac-spread risk which is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Derivative financial instruments may be utilized to manage frac-spread risk. As at June 30, 2015, there are no frac-spread hedges outstanding.

POWER PRICE RISK MANAGEMENT

Inter Pipeline may use derivative financial instruments to manage power price risk in its NGL extraction and conventional oil pipelines business segments. When deemed appropriate, Inter Pipeline enters into financial heat rate swap and power price swap contracts to manage power price risk exposure in these businesses. As at June 30, 2015, there are no heat rate price swap agreements outstanding.

Inter Pipeline has existing electricity price swap agreements in the conventional oil pipelines business. At June 30, 2015, 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 \$0.1 million.

Bulk Liquid Storage Business

FOREIGN EXCHANGE RISK MANAGEMENT

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at June 30, 2015, there are no foreign exchange hedges outstanding.

Corporate

INTEREST RATE RISK MANAGEMENT

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of its floating-to-fixed interest rate swap agreements. Inter Pipeline manages its interest rate risk by balancing its exposure to

fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure. As at June 30, 2015, there are no interest rate hedges outstanding.

Based on the variable rate obligations outstanding at June 30, 2015, a 1% change in interest rates at this date would have changed interest expense for the three and six months ended June 30, 2015, by approximately \$6.2 million and \$12.3 million, respectively, assuming all other variables remain constant. Of these amounts, \$3.5 million and \$7.0 million for the three and six months ended June 30, 2015, 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, 2015 would be \$2.0 million and \$3.9 million, respectively.

Credit Risk

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At June 30, 2015, accounts receivable associated with these two business segments were \$116.5 million or 70.2% 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. Accounts receivable are deemed past due if they are aged greater than 60 days and are considered to be impaired if one or more events have occurred that would impact the estimated future cash flows of that asset. At June 30, 2015, accounts receivable outstanding meeting the definition of either past due or impaired are insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three and six month periods ended June 30, 2015 or 2014.

CONTROLS AND PROCEDURES

There have been no significant changes in Inter Pipeline's internal control over financial reporting (ICFR) during the period March 31, 2015 to June 30, 2015 that have materially affected, or are reasonably likely to materially affect, Inter Pipeline's ICFR.

Management has limited the scope of their design of disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of the recently acquired Inter Terminals Sweden, the results of which are consolidated in Inter Pipeline's interim financial statements at June 30, 2015. See the Bulk Liquid Storage Business Segment in the **RESULTS OF OPERATIONS** section of this report for further information regarding the acquisition of Inter Terminals Sweden.

In June 2015, Inter Pipeline acquired Inter Terminals Sweden. Where possible, Inter Terminals Sweden has adopted Inter Pipeline's DC&P and ICFR. For business processes unique to Inter Terminals Sweden, management is committed to completing DC&P and ICFR before the end of the second quarter of the 2016 fiscal year.

CRITICAL ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION

The preparation of Inter Pipeline's interim financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 3 *Summary of Significant Accounting Policies* of the December 31, 2014 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

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

Inter Pipeline's interim financial statements for the three and six months ended June 30, 2015 have been presented in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting* and have been prepared by management following the same accounting policies and methods of computation as disclosed in the audited consolidated financial statements for the year ended December 31, 2014.

FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2015 or later periods with early adoption permitted. The standards impacted are as follows:

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, 2018, 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.

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and shall be applied to annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Inter Pipeline is currently assessing the impact of IFRS 9; however the extent of the impact has not yet been determined.

RISK FACTORS

During the second quarter of 2015, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2014 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", "EBITDA", "adjusted EBITDA" "enterprise value", "growth capital expenditures", "sustaining capital expenditures", "interest coverage", "payout ratio" and "total debt to total capitalization" are not measures recognized by GAAP. Certain additional GAAP financial measures presented in the consolidated financial statements and referred to in this MD&A, namely "funds from operations", "funds from operations per share", and "total recourse debt to capitalization" are not measures recognized by GAAP. These non-GAAP and additional GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that non-GAAP and additional GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

Non-GAAP Financial Measures

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

Adjusted working capital deficiency is calculated by subtracting current liabilities from current assets including cash and excluding the fair value of derivative financial instruments, commercial paper and current portion of long-term debt. This financial measure is used by Inter Pipeline in the Contractual Obligations, Commitments and Guarantees table in the **LIQUIDITY AND CAPITAL RESOURCES** section of this MD&A to capture other working capital items not specifically included in the table.

<i>(millions)</i>	June 30 2015	December 31 2014
Current assets		
Cash and cash equivalents	\$ 73.1	\$ 61.1
Accounts receivable	165.8	156.8
Prepaid expenses and other deposits	27.4	27.0
Current income taxes receivable	1.4	11.5
Current liabilities		
Dividends payable	(41.1)	(40.0)
Accounts payable, accrued liabilities and provisions	(303.5)	(390.2)
Deferred revenue	(17.5)	(18.8)
Adjusted working capital deficiency	\$ (94.4)	\$ (192.6)

EBITDA, adjusted EBITDA are reconciled from the components of net income as noted below. EBITDA is expressed as net income before total interest less capitalized interest, income taxes, depreciation and amortization; adjusted EBITDA also includes additional adjustments for loss (gain) on disposal of assets, non-cash expense (recovery), non-cash financing charges and unrealized change in fair value of derivative financial instruments. These additional adjustments are made to exclude various non-cash items, or items of an unusual nature that are not reflective of ongoing operations. These adjustments are also made to better reflect the historical measurement of EBITDA used in the investment community as an approximate measure of an entity's operating cash flow based on data from its income statement.

<i>(millions)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Net income	\$ 73.8	\$ 85.3	\$ 196.6	\$ 174.9
Financing charges	33.9	18.1	68.0	38.9
Current income tax expense	14.0	13.2	28.3	30.1
Deferred income tax expense	57.4	12.5	77.4	25.9
Depreciation and amortization	43.6	25.7	85.9	56.0
EBITDA	222.7	154.8	456.2	325.8
Loss (gain) on disposal of assets	3.7	(0.1)	2.5	(1.3)
Non-cash financing charges	(1.4)	(1.5)	(3.0)	(2.9)
Non-cash expense (recovery)	2.9	1.4	(4.6)	(1.1)
Unrealized change in fair value of derivative financial instruments	(0.4)	(0.8)	(0.3)	(1.7)
Adjusted EBITDA	\$ 227.5	\$ 153.8	\$ 450.8	\$ 318.8
Less adjusted EBITDA attributable to non-controlling interest	(9.9)	(4.1)	(20.1)	(8.1)
Adjusted EBITDA attributable to shareholders	\$ 217.6	\$ 149.7	\$ 430.7	\$ 310.7

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

<i>(millions, except per share amounts)</i>	June 30	December 31
	2015	2014
Closing share price	\$ 28.70	\$ 35.94
Total closing number of common shares outstanding	335.3	326.2
	9,622.3	11,724.1
Total debt	4,865.1	4,590.7
Enterprise value	\$ 14,487.4	\$ 16,314.8

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.

<i>(millions)</i>	Three Months Ended			
	June 30			
	2015			2014
	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 24.5	\$ 1.2	\$ 25.7	\$ 228.3
Conventional oil pipelines	36.9	1.3	38.2	9.5
NGL extraction	0.2	1.1	1.3	3.7
Bulk liquid storage	5.7	2.8	8.5	10.8
Corporate	-	4.1	4.1	1.7
Capital expenditures	\$ 67.3	\$ 10.5	\$ 77.8	\$ 254.0
Capital expenditures funded by Inter Pipeline ⁽¹⁾	\$ 66.3	\$ 10.5	\$ 76.8	\$ 245.6

<i>(millions)</i>	Six Months Ended			
	June 30			
	2015			2014
	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 105.6	\$ 1.3	\$ 106.9	\$ 765.2
Conventional oil pipelines	84.3	2.3	86.6	16.1
NGL extraction	0.5	5.0	5.5	5.5
Bulk liquid storage	9.2	5.4	14.6	15.2
Corporate	-	6.2	6.2	2.9
Capital expenditures	\$ 199.6	\$ 20.2	\$ 219.8	\$ 804.9
Capital expenditures funded by Inter Pipeline ⁽¹⁾	\$ 193.1	\$ 20.2	\$ 213.3	\$ 770.6

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

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

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

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

Additional GAAP Financial Measures

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

Funds from operations are reconciled from the components of net income as noted below. Funds from operations is expressed before changes in non-cash working capital, see the **DIVIDENDS TO SHAREHOLDERS** section of this report for further discussion. Funds from operations per share is calculated on a weighted average basis using basic common shares outstanding during the period. These measures, together with other measures, are used by the investment community to assess the source, sustainability and cash available for dividends.

<i>(millions)</i>	Three Months Ended		Six Months Ended	
	2015	2014	2015	2014
Net income	\$ 73.8	\$ 85.3	\$ 196.6	\$ 174.9
Depreciation and amortization	43.6	25.7	85.9	56.0
Loss (gain) on disposal of assets	3.7	(0.1)	2.5	(1.3)
Non-cash expense (recovery)	2.9	1.4	(4.6)	(1.1)
Unrealized change in fair value of derivative financial instruments	(0.4)	(0.8)	(0.3)	(1.7)
Deferred income tax expense	57.4	12.5	77.4	25.9
Funds from operations	181.0	124.0	357.5	252.7
Less funds from operations attributable to non-controlling interest	(9.8)	(4.1)	(20.0)	(8.1)
Funds from operations attributable to shareholders	\$ 171.2	\$ 119.9	\$ 337.5	\$ 244.6
Funds from operations	\$ 181.0	\$ 124.0	\$ 357.5	\$ 252.7
Total interest less capitalized interest	32.5	16.6	65.0	36.0
Current income tax expense	14.0	13.2	28.3	30.1
Adjusted EBITDA	227.5	153.8	450.8	318.8
Less adjusted EBITDA attributable to non-controlling interest	(9.9)	(4.1)	(20.1)	(8.1)
Adjusted EBITDA attributable to shareholders	\$ 217.6	\$ 149.7	\$ 430.7	\$ 310.7

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

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 6th day of August, 2015