Management's Discussion and Analysis

For the three and six months ended June 30, 2018

FORWARD-LOOKING INFORMATION

The following **Management's Discussion and Analysis (MD&A)** highlights Inter Pipeline Ltd. and its subsidiaries' (collectively, Inter Pipeline) significant operating and financial results for the three and six month periods ended June 30, 2018, to provide readers with information about Inter Pipeline, including management's assessment of its future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. All statements, other than statements of historical fact included in the MD&A, which address activities, events or developments that Inter Pipeline expects or anticipates to occur in the future, are forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target", "outlook", "focus", "could" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A may include, but are not limited to, statements regarding: 1) Inter Pipeline's belief that it is well positioned to maintain its current level of dividends to its shareholders; 2) Inter Pipeline being well positioned to operate and grow in the future including anticipated benefits of acquisitions, growth and development opportunities associated with acquisitions; 3) financial forecasts or anticipated financial performance; 4) timing and cost of capital projects, and forward EBITDA (as defined herein) estimates in respect of these projects; 5) capital expenditure forecasts; 6) the future value of petrochemicals and natural gas liquids (NGL); and 7) the plans and forecasts described under the **OUTLOOK** section.

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. Inter Pipeline applies a variety of factors and assumptions when making forward-looking statements and making forecasts, projections, predictions or estimations, which include, but are not limited to, Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; Inter Pipeline's ability to maintain its investment grade credit ratings; the availability and price of labour, equipment and materials; assumptions concerning operational reliability; the availability and price of energy commodities; the availability of adequate levels of insurance; and general economic and business conditions.

By their nature, forward-looking statements are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its affiliates; competitive factors, pricing pressures and supply and demand in the oil and gas transportation, NGL processing and storage industries; fluctuations in currency and interest rates; risks of war, hostilities, civil insurrection, instability and terrorist actions, as well as political and economic conditions, in or affecting countries in which Inter Pipeline and its affiliates operate; public opinion regarding the production, transportation and use of oil and gas; severe weather and environmental conditions; risks associated with technology; Inter Pipeline's ability to access external sources of debt and equity capital; the potential delays of, and costs of overruns on, construction projects in all of Inter Pipeline's business segments; 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 or threatened future lawsuits and regulatory actions against Inter Pipeline and its affiliates; increases in maintenance, operating or financing costs; difficulty in obtaining necessary regulatory approvals or land access rights and maintenance of support of such approvals and rights; the realization of the anticipated benefits of acquisitions; 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 assumptions, risks, uncertainties and 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, 2018

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and six month periods ended June 30, 2018, as compared to the three and six month periods ended June 30, 2017. The MD&A should be read in conjunction with the June 30, 2018 unaudited condensed interim consolidated financial statements (interim financial statements), the interim financial statements and MD&A for the quarterly period ended June 30, 2017, the audited consolidated financial statements and MD&A for the year ended December 31, 2017, the **Annual Information Form**, and other information filed by Inter Pipeline at www.sedar.com.

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

This MD&A reports certain financial measures that are not recognised 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 financial measures may not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-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.

Table of Contents

FORWARD-LOOKING INFORMATION 2
SECOND QUARTER HIGHLIGHTS 4
SUBSEQUENT EVENT 4
PERFORMANCE OVERVIEW 5
OUTLOOK 7
RESULTS OF OPERATIONS 8
SUMMARY OF QUARTERLY RESULTS 20
LIQUIDITY AND CAPITAL RESOURCES 21
DIVIDENDS TO SHAREHOLDERS 26
OUTSTANDING SHARE DATA 27
RISK MANAGEMENT AND FINANCIAL INSTRUMENTS 27
TRANSACTIONS WITH RELATED PARTIES 29
CONTROLS AND PROCEDURES 29
CRITICAL ACCOUNTING ESTIMATES 29
ACCOUNTING POLICIES ADOPTED IN 2018 30
FUTURE ACCOUNTING PRONOUNCEMENT 30
RISK FACTORS 31
NON-GAAP FINANCIAL MEASURES 31
ADDITIONAL INFORMATION 34

SECOND QUARTER HIGHLIGHTS

- Funds from operations (FFO) totalled $262 million, a 26 percent increase over second quarter 2017
- Net income for the quarter was a $136 million
- Declared cash dividends of $162 million, or $0.42 per share
- Attractive quarterly payout ratio* of 62 percent
- NGL processing business segment generated record quarterly FFO of $101 million
- Total pipeline throughput volumes averaged 1,377,700 barrels per day (b/d)
- Construction activities at the $3.5 billion Heartland Petrochemical Complex site continue to track on schedule and on budget

SUBSEQUENT EVENT

- Approved $82 million expansion of the Central Alberta Pipeline system crude terminal near Stettler, Alberta

* Please refer to the NON-GAAP FINANCIAL MEASURES section

PERFORMANCE OVERVIEW

	Three Months Ended June 30		Six Months Ended June 30	
(millions, except volumes, per share and % amounts)	**2018**	2017	**2018**	2017
Pipeline volumes *(000s b/d)*				
Oil sands transportation	**1,181.3**	1,121.1	**1,229.9**	1,185.9
Conventional oil pipelines	**196.4**	205.5	**202.9**	207.7
Total pipeline volumes	**1,377.7**	1,326.6	**1,432.8**	1,393.6
NGL processing volumes *(000s b/d)* [(1)]				
Natural gas processing - Ethane	**43.9**	44.1	**54.0**	52.5
Natural gas processing - Propane-plus	**41.3**	31.4	**43.8**	37.1
Redwater Olefinic Fractionator sales volume	**27.8**	20.6	**30.4**	26.1
Total NGL processing volumes	**113.0**	96.1	**128.2**	115.7
Utilization				
Bulk liquid storage	**84%**	98%	**83%**	98%
Revenue				
Oil sands transportation	**$ 200.3**	$ 199.0	**$ 400.4**	$ 390.1
NGL processing	**195.3**	138.9	**409.4**	352.3
Conventional oil pipelines	**184.7**	121.6	**365.3**	240.3
Bulk liquid storage	**50.7**	56.5	**101.9**	112.0
Total Revenue	**$ 631.0**	$ 516.0	**$ 1,277.0**	$ 1,094.7
Funds from operations				
Oil sands transportation	**$ 150.0**	$ 149.6	**$ 298.9**	$ 298.0
NGL processing	**101.3**	28.4	**199.9**	110.3
Conventional oil pipelines	**48.2**	52.7	**98.9**	106.1
Bulk liquid storage	**17.4**	25.3	**36.1**	51.5
Corporate costs	**(55.4)**	(49.0)	**(118.1)**	(112.0)
Total funds from operations	**$ 261.5**	$ 207.0	**$ 515.7**	$ 453.9
Per share [(2)]	**$ 0.68**	$ 0.56	**$ 1.35**	$ 1.22
Net income	**$ 136.1**	$ 102.3	**$ 278.8**	$ 242.3
Per share – basic and diluted	**$ 0.35**	$ 0.27	**$ 0.73**	$ 0.65
Dividends to shareholders	**$ 162.0**	$ 150.9	**$ 322.4**	$ 300.6
Per share [(3)]	**$ 0.420**	$ 0.405	**$ 0.840**	$ 0.810
Shares outstanding (basic)				
Weighted average	**384.9**	372.1	**383.2**	370.7
End of period	**386.7**	373.5	**386.7**	373.5
Capital expenditures				
Growth [(2)]	**$ 185.5**	$ 94.5	**$ 331.6**	$ 147.2
Sustaining [(2)]	**14.8**	17.3	**20.9**	27.6
Total capital expenditures	**$ 200.3**	$ 111.8	**$ 352.5**	$ 174.8
Payout ratio [(2)]	**61.9%**	72.9%	**62.5%**	66.2%

	As at June 30	As at December 31
(millions, except % amounts)	**2018**	2017
Total assets	**$ 10,570.3**	$ 10,361.7
Total debt [(4)]	**$ 5,387.2**	$ 5,457.2
Total equity	**$ 3,592.4**	$ 3,463.8
Enterprise value [(2)]	**$ 14,915.4**	$ 15,342.5
Consolidated Net Debt to Total Capitalization [(2)]	**52.5%**	53.5%

(1) Empress V NGL production reported on a 100% basis.

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

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

(4) Financial debt reported in the June 30, 2018 interim consolidated financial statements of $5,367.3 million, includes long-term debt, short-term debt and commercial paper of $5,387.2 million less discounts and debt transaction costs of $19.9 million.

Three Months Ended June 30, 2018

Inter Pipeline generated strong financial results in the second quarter of 2018, as FFO increased $54.5 million or 26.3% to $261.5 million from $207.0 million in the second quarter of 2017. The increase in FFO was largely driven by the NGL processing business as its FFO increased to a record $101.3 million, mainly due to higher contribution from offgas processing as a result of higher product pricing in the current quarter and the absence of a full plant maintenance outage over 29 days in the second quarter of 2017. FFO generated in oil sands transportation was consistent quarter over quarter, while conventional oil pipelines business FFO decreased due to higher integrity and remediation costs. FFO from the bulk liquid storage business declined as a result of lower demand for storage. FFO was marginally impacted by higher general and administrative costs and current income taxes, which were partially offset by lower financing costs.

In the second quarter, Inter Pipeline's net income increased $33.8 million from $102.3 million in 2017 to $136.1 million in 2018. Net income was favorably impacted by the increase in FFO as discussed above, offset partially by higher deferred income taxes, depreciation and amortization expense.

Total dividends to shareholders increased $11.1 million or 7.4% from $150.9 million in the second quarter of 2017 to $162.0 million in the second quarter of 2018. The increase is due to a greater number of common shares outstanding, due to strong shareholder participation in the dividend reinvestment plan, and a higher monthly dividend paid per share. In November 2017, Inter Pipeline announced a dividend rate increase of $0.06 per share on an annualized basis. Inter Pipeline's payout ratio[*] was 61.9% for the three months ended June 30, 2018.

Inter Pipeline's total debt outstanding decreased $8.9 million from $5,396.1 million at March 31, 2018 to $5,387.2 million at June 30, 2018. During this period, Inter Pipeline also invested $200.3 million in capital projects. At June 30, 2018, total debt includes non-recourse debt of $1,418.5 million held by Inter Pipeline (Corridor) Inc.

Six Months Ended June 30, 2018

Inter Pipeline also generated solid financial results in the six month period ended June 30, 2018, as FFO increased $61.8 million or 13.6% from $453.9 million in 2017 to $515.7 million in 2018. The increase in FFO is largely due to the same reasons mentioned above. However, year to date FFO was also impacted by higher integrity related costs in the conventional oil pipelines business. Corporate costs were higher due to increased employee costs, in addition to the reasons discussed above.

Inter Pipeline's year to date net income increased $36.5 million from $242.3 million in 2017 to $278.8 million in 2018. The increase results from higher FFO as discussed above, offset in part by higher deferred income taxes, depreciation and amortization expense.

In the six months ended June 30, 2018, total dividends to shareholders increased $21.8 million or 7.3% from $300.6 million in 2017 to $322.4 million in 2018, for the same reasons mentioned above. Inter Pipeline's payout ratio[*] for the six months ended June 30, 2018 was 62.5%.

Inter Pipeline's total debt outstanding was $5,387.2 million at June 30, 2018, or $70.0 million lower than $5,457.2 million at December 31, 2017, while incurring $352.5 million in capital projects. Total debt includes non-recourse debt held at Inter Pipeline (Corridor) Inc. of $1,418.5 million at June 30, 2018, compared to $1,441.0 million at December 31, 2017.

---

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

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 2018, we continue to develop and leverage our existing asset base, control costs and pursue additional growth opportunities.

Construction is ongoing at the Heartland Petrochemical Complex site, which will be Canada's first integrated propane dehydrogenation (PDH) and polypropylene (PP) complex. The facilities are estimated to cost $3.5 billion in aggregate and will be located in Strathcona County, Alberta near Inter Pipeline's Redwater Olefinic Fractionator. The complex will convert low-cost, locally sourced propane into 525,000 tonnes of high value polypropylene per year and is scheduled to be in service in late 2021. Once the Heartland Petrochemical Complex is operational, Inter Pipeline expects to earn approximately $450 million to $500 million per year in long-term average annual EBITDA[*], representing a strong return on invested capital.

In 2018, approximately $700 million is expected to be invested in the Heartland Petrochemical Complex on a range of activities including finalizing engineering, the continued procurement of equipment, module fabrication and site construction activities. In sum, Inter Pipeline has invested approximately $695 million in this project since inception and $279.3 million in the first half of 2018.

Inter Pipeline's largest business segment is oil sands transportation, which is comprised of 100 percent ownership in the Corridor, Cold Lake and Polaris pipeline systems. Collectively, these systems have more than 2.5 million b/d of installed pipeline capacity, including 1.2 million b/d of bitumen blend capacity on the Cold Lake pipeline system, 879,000 b/d of diluent capacity on the Polaris pipeline system and 465,000 b/d of bitumen blend capacity on the Corridor pipeline system. Inter Pipeline's oil sands pipeline systems transported approximately 1,181,300 b/d of bitumen blend and diluent during the second quarter of 2018, up 5% compared to a year ago. These bitumen blend and diluent pipeline systems are underpinned by long-term commercial arrangements with creditworthy counterparties that generate stable cost-of-service FFO.

As one of Canada's largest NGL processing businesses, Inter Pipeline continues to benefit from favourable frac spreads and strong demand. Our three major straddle facilities processed approximately 3.0 billion cubic feet of natural gas per day and produced 85,200 b/d of NGL during the second quarter of 2018. Pioneer 1 and Pioneer 2 offgas plants processed an average of 138 million cubic feet of natural gas per day during the quarter with average NGL sales volumes from the Redwater Olefinic Fractionator of approximately 27,800 b/d. In aggregate, these facilities are capable of processing in excess of six billion cubic feet of natural gas per day and producing over 240,000 b/d of NGL.

Inter Pipeline's three conventional oil pipeline systems transported 196,400 b/d during the second quarter of 2018. Subsequent to the second quarter of 2018, Inter Pipeline approved an $82 million expansion project for the Central Alberta Pipeline system crude terminal near Stettler, Alberta. This capital investment further positions Inter Pipeline to better serve the developing light oil in Alberta's Eastern Duvernay basin. The expansion includes the construction of two 130,000 barrel crude oil storage tanks, additional truck unloading capacity and associated pumping and metering facilities,

---

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

which will better position Inter Pipeline to meet the growing customer demand. This expansion is expected to enter service in phases beginning in mid-2019, with full operations expected in the second quarter of 2020.

Inter Pipeline's European bulk liquid storage business diversifies our asset base by both geography and market. With operations in the United Kingdom (UK), Sweden, Denmark, Germany and Ireland, we continue to seek opportunities to economically expand our existing storage capacity, while diversifying our product handling capabilities. Demand for certain petroleum products in Europe continues to face a steep backwardated pricing environment, particularly in Denmark. As a result, the average storage utilization rate during the second quarter was 84%.

Inter Pipeline is committed to maintaining a strong balance sheet and financial flexibility. We will continue financing our capital expenditure program primarily through undistributed cash flow, our revolving credit facility and proceeds from our dividend reinvestment plan. As at June 30, 2018, Inter Pipeline had $1.1 billion of available capacity on its $1.5 billion revolving credit facility and a consolidated net debt to total capitalization ratio[(1)] of 52.5%. Subsequent to quarter end, on July 30, 2018, $200 million of medium-term notes matured and were repaid with funds available under Inter Pipeline's revolving credit facility.

As a result of our financial position and the stable nature of our business, Inter Pipeline has strong investment grade credit ratings. Standard & Poor's (S&P) has assigned Inter Pipeline a credit rating of BBB+ (negative outlook), while DBRS Limited (DBRS) downgraded Inter Pipeline in July 2018 to BBB (stable trend) from BBB (high) (under review with negative implications). Inter Pipeline (Corridor) Inc. has investment grade credit ratings of A- from S&P and A (low) from DBRS, each with a stable trend.

The FFO that underpins our monthly dividend is stable, diversified and largely supported by investment grade counterparties. Our extensive energy infrastructure base continues to be well positioned to compete for future accretive growth opportunities, both locally and internationally. With a strong balance sheet and proven operational capability, Inter Pipeline is well-positioned to continue generating long-term positive results for our shareholders.

RESULTS OF OPERATIONS

Oil Sands Transportation Business Segment

	Three Months Ended June 30			Six Months Ended June 30		
Volumes (000s b/d)	**2018**	2017	*% change*	**2018**	2017	*% change*
Cold Lake	**574.5**	554.0	*3.7*	**584.8**	589.2	*(0.7)*
Corridor	**375.3**	384.2	*(2.3)*	**400.1**	399.8	*0.1*
Polaris	**231.5**	182.9	*26.6*	**245.0**	196.9	*24.4*
	1,181.3	1,121.1	*5.4*	**1,229.9**	1,185.9	*3.7*
(millions)						
Revenue	**$ 200.3**	$ 199.0	*0.7*	**$ 400.4**	$ 390.1	*2.6*
Operating expenses	**$ 36.6**	$ 37.8	*(3.2)*	**$ 72.8**	$ 68.6	*6.1*
Funds from operations	**$ 150.0**	$ 149.6	*0.3*	**$ 298.9**	$ 298.0	*0.3*
Capital expenditures						
Growth[(1)]	**$ 10.9**	$ 13.3		**$ 18.9**	$ 17.9	
Sustaining[(1)]	**0.1**	0.1		**0.1**	0.3	
	$ 11.0	$ 13.4		**$ 19.0**	$ 18.2	

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

Volumes

In the three and six months ended June 30, 2018, average volumes transported in the oil sands transportation business increased by 60,200 b/d, and 44,000 b/d, respectively, over the same period in 2017.

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 current quarter, average volumes on the Cold Lake pipeline system increased by 20,500 b/d, however volumes decreased 4,400 b/d year to date, from the same periods in 2017. For both periods, volumes from Cenovus' Foster Creek project increased, but were partially offset by lower volumes from Imperial's Cold Lake oil sands project. Volumes on the Cold Lake pipeline system typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes, however volume growth is anticipated over the long-term which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluent from the Scotford upgrader located northeast of Edmonton, Alberta to the Muskeg River and Jackpine mines near Fort McMurray, Alberta and bitumen blend produced from the mines back to the Scotford upgrader. In addition, feedstock and upgraded products are shipped between the Scotford upgrader and certain pipeline terminals in Edmonton. In the current quarter, average volumes on the Corridor pipeline system decreased by 8,900 b/d from the same period in 2017, largely due to a turnaround at the Scotford upgrader. Year to date, volumes remained relatively consistent, increasing by 300 b/d, compared to the same period in 2017.

The Polaris pipeline system provides diluent transportation service from the Edmonton area to the Athabasca and Cold Lake areas of Alberta. In the three and six months ended June 30, 2018, average volumes on the Polaris pipeline system increased by 48,600 b/d and 48,100 b/d, respectively, compared to the same periods in 2017. The increase is primarily due to higher deliveries to FCCL Partnership's Christina Lake and Foster Creek projects and Imperial's Kearl oil sands project.

Revenue

The oil sands transportation business earns revenue for the transportation of petroleum products which are underpinned by a range of long-term cost-of-service contracts as defined in the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section.

Revenue from the oil sands transportation business increased in the three and six months ended June 30, 2018, by $1.3 million and $10.3 million, respectively, over the same periods in 2017. The increase is primarily due to incremental capital and interconnection fee revenues. For the six months ended June 30, 2018, revenues also increased due to higher capital fee revenues largely related to increases in the long-term Government of Canada bond rate.

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 shippers on the Cold Lake, Corridor and Polaris pipeline systems. Operating expenses in the oil sands transportation business decreased $1.2 million in the current quarter, compared to the same period in 2017, largely due to repair and remediation costs related to a bitumen blend release on the Cold Lake pipeline system in Strathcona County in the second quarter of 2017. Operating expenses increased $4.2 million year to date in 2018, largely due to higher costs for power and other general operating costs.

Capital Expenditures

The oil sands transportation business incurred growth capital expenditures* of $10.9 million in the second quarter of 2018 primarily related to the Kirby North connection.

NGL Processing Business Segment

Natural gas processing

	Three Months Ended June 30							
	2018				2017			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**2,022**	**24.6**	**28.7**	**53.3**	1,332	19.9	19.6	39.5
Empress V (100% basis)	**825**	**18.0**	**10.3**	**28.3**	920	24.2	11.8	36.0
Empress II	**194**	**1.3**	**2.3**	**3.6**	-	-	-	-
	3,041	**43.9**	**41.3**	**85.2**	2,252	44.1	31.4	75.5

	Six Months Ended June 30							
	2018				2017			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**2,043**	**26.8**	**28.8**	**55.6**	1,767	29.9	25.2	55.1
Empress V (100% basis)	**923**	**21.9**	**11.5**	**33.4**	950	22.6	11.9	34.5
Empress II	**282**	**5.3**	**3.5**	**8.8**	-	-	-	-
	3,248	**54.0**	**43.8**	**97.8**	2,717	52.5	37.1	89.6

Offgas processing

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	**2018**	2017
(mmcf/d)				
Offgas plants throughput volume	**138**	144	**153**	138
(000s b/d)				
Offgas plants production volume	**28.2**	26.8	**31.0**	26.4
Redwater Olefinic Fractionator sales volume	**27.8**	20.6	**30.4**	26.1
Redwater Olefinic Fractionator volume composition[(1)]				
Ethane-ethylene	**41%**	41%	**41%**	40%
Paraffinic NGL				
Propane	**29%**	29%	**29%**	29%
Normal butane	**7%**	7%	**7%**	8%
Olefinic NGL				
Polymer grade propylene	**11%**	11%	**12%**	12%
Alky feed	**8%**	8%	**8%**	8%
Olefinic condensate	**4%**	4%	**3%**	3%

(1) Composition is based on production volumes, which may differ from sales volumes.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

NGL processing financial results

	Three Months Ended June 30			Six Months Ended June 30		
(millions)	**2018**	2017	*% change*	**2018**	2017	*% change*
Revenue[1]	**$ 195.3**	$ 138.9	*40.6*	**$ 409.4**	$ 352.3	*16.2*
Cost of sales[1]	**$ 47.9**	$ 63.1	*(24.1)*	**$ 118.4**	$ 150.1	*(21.1)*
Operating expenses[1]	**$ 46.3**	$ 47.5	*(2.5)*	**$ 90.7**	$ 91.8	*(1.2)*
Funds from operations[1]	**$ 101.3**	$ 28.4	*256.7*	**$ 199.9**	$ 110.3	*81.2*
Capital expenditures[1]						
Growth[2]	**$ 159.1**	$ 63.3		**$ 290.9**	$ 91.4	
Sustaining[2]	**4.8**	6.1		**6.6**	11.6	
	$ 163.9	$ 69.4		**$ 297.5**	$ 103.0	

(1) Empress V straddle plant is recorded based on Inter Pipeline's 50% ownership.

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

Volumes

Inter Pipeline's straddle plants processed average natural gas volumes of 3,041 million cubic feet per day (mmcf/d) in the current quarter and 3,248 mmcf/d year to date in 2018, an increase of 789 mmcf/d and 531 mmcf/d, respectively, over the comparable periods in 2017.

In the three and six months ended June 30, 2018, average throughput volumes at the Cochrane straddle plant increased by 690 mmcf/d and 276 mmcf/d, respectively, compared to the same periods in 2017. The increase in throughput volumes was largely due to a scheduled full plant maintenance outage over 29 days in the second quarter of 2017. Throughput volumes at the Cochrane straddle plant are impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region, as well as third party pipeline matters.

At the Empress V straddle plant, average throughput volumes decreased by 95 mmcf/d and 27 mmcf/d in the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017 due to a 16 day scheduled turnaround in the current quarter. The Empress II straddle plant had average throughput volumes in the three and six months ended June 30, 2018, of 194 mmcf/d and 282 mmcf/d, respectively, compared to no throughput volumes in the same periods in 2017. The increase in throughput volumes at the Empress II straddle plant does not materially impact operating results due to the cost-of-service commercial arrangements in place. Natural gas throughput volumes at the Empress straddle plants 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 straddle plants.

Combined NGL production from the straddle plants increased in the second quarter by 9,700 b/d to 85,200 b/d in 2018, from 75,500 b/d in 2017, and year to date by 8,200 b/d to 97,800 b/d in 2018, from 89,600 b/d in 2017. The second quarter increase is largely due to higher volumes processed at the Cochrane straddle plant as there was no full plant turnaround in 2018, while the year to date increase was mainly driven by the Empress II straddle plant. NGL production from the straddle plants is largely driven by changing throughput levels, composition of the natural gas, operating conditions and third party downstream facility constraints which can result in partial reinjection of volumes.

Inter Pipeline's Pioneer I and Pioneer II offgas plants processed average volumes of 138 mmcf/d and 153 mmcf/d during the three and six months ended June 30, 2018, respectively, compared to 144 mmcf/d and 138 mmcf/d during the three and six months ended June 30, 2017. Average ethane-plus volumes produced from the offgas plants increased 1,400 b/d in the second quarter to 28,200 b/d in 2018 and increased 4,600 b/d in year to date to 31,000 b/d in 2018. Throughput volumes to, and production volumes from, Inter Pipeline's offgas plants can be impacted by the operations associated with

connected third party oil sands upgraders in the Fort McMurray area, offgas composition, as well as various downstream issues.

Average NGL sales volumes from the Redwater Olefinic Fractionator increased in the three and six months ended June 30, 2018, by 7,200 b/d and 4,300 b/d, respectively, compared to the same periods in 2017. Sales from the Redwater Olefinic Fractionator can be impacted by the volumes and composition of the ethane-plus production from the offgas plants, cavern storage levels, operational and commercial matters, and various downstream related issues. Production from the offgas plants and sales volumes at the Redwater Olefinic Fractionator can differ due to varying inventory levels associated with the cavern storage facilities at the Redwater Olefinic Fractionator, operational and commercial matters, and other downstream issues. Sales volumes from the Redwater Olefinic Fractionator were impacted in the prior quarter and year to date periods by a scheduled full plant turnaround for 20 days during the second quarter of 2017.

Revenue

The NGL processing business earns revenue from the recovery of certain higher value hydrocarbon liquids from export-destined natural gas streams and offgas streams pursuant to a combination of commodity-based, fee-based and cost-of-service contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

Revenue from the NGL processing business increased by $56.4 million and $57.1 million in the three and six months ended June 30, 2018, respectively, due to higher volumes and pricing related to olefinic, paraffinic, and propane-plus products.

Frac-spread

	Three Months Ended June 30			
(dollars)		**2018**		2017
	USD/USG [(1)]	*CAD/USG* [(1)]	*USD/USG* [(1)]	*CAD/USG* [(1)]
Cochrane propane-plus market frac-spread	**$ 0.87**	**$ 1.13**	$ 0.51	$ 0.69
Cochrane propane-plus realized frac-spread	**$ 0.86**	**$ 1.11**	$ 0.50	$ 0.67
Offgas olefinic market frac-spread	**$ 1.82**	**$ 2.37**	$ 1.26	$ 1.66
Offgas olefinic realized frac-spread	**$ 1.61**	**$ 2.10**	$ 1.03	$ 1.38
Offgas paraffinic market frac-spread	**$ 0.47**	**$ 0.61**	$ 0.21	$ 0.28
Offgas paraffinic realized frac-spread	**$ 0.40**	**$ 0.51**	$ 0.17	$ 0.23

	Six Months Ended June 30			
(dollars)		**2018**		2017
	USD/USG [(1)]	*CAD/USG* [(1)]	*USD/USG* [(1)]	*CAD/USG* [(1)]
Cochrane propane-plus market frac-spread	**$ 0.82**	**$ 1.04**	$ 0.56	$ 0.74
Cochrane propane-plus realized frac-spread	**$ 0.80**	**$ 1.02**	$ 0.56	$ 0.74
Offgas olefinic market frac-spread	**$ 1.73**	**$ 2.22**	$ 1.36	$ 1.81
Offgas olefinic realized frac-spread	**$ 1.57**	**$ 2.01**	$ 1.21	$ 1.61
Offgas paraffinic market frac-spread	**$ 0.49**	**$ 0.64**	$ 0.31	$ 0.42
Offgas paraffinic realized frac-spread	**$ 0.42**	**$ 0.55**	$ 0.27	$ 0.36

(1) The differential between USD/USG and CAD/USG frac-spreads is due to fluctuations in exchange rates between US and Canadian dollars. This conversion is calculated based on Bank of Canada exchange rates.

Frac-spread is the difference between the selling prices for certain NGL and the input cost of the natural gas required to produce the respective products, including shrinkage gas.

The market frac-spread for propane-plus from the Cochrane straddle plant 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). Cochrane propane-plus 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 combination of the monthly index and daily price of AECO paid. The Cochrane propane-plus realized frac-spread does not include market price differentials or extraction premiums. Differences between realized propane-plus frac-spread and market propane-plus frac-spread from the Cochrane straddle plant are due in part to differences between the monthly index price of AECO and daily index price of AECO.

The Cochrane propane-plus realized frac-spread increased in the second quarter from $0.50 USD/USG in 2017 to $0.86 USD/USG in 2018 and year to date from $0.56 USD/USG in 2017 to $0.80 USD/USG in 2018. The 5-year average Cochrane propane-plus market frac-spread price at December 31, 2017 was $0.61 USD/USG.

Offgas processing produces both olefinic and paraffinic NGL which are sold under multiple shorter term, individually negotiated contracts with unique pricing benchmarks. As a result, market and realized olefinic and paraffinic frac-spreads may change period over period. The spread between offgas market and realized frac-spread will fluctuate due to changing inventory levels, timing differences between the production of offgas NGL and sales of the products and underlying contractual arrangements that vary with price and volume.

Olefins are typically higher value petrochemicals that do not naturally exist and consist of polymer grade propylene, alky feed and olefinic condensate. Paraffins are generally lower value NGL consisting of propane and normal butane. The olefinic market frac-spread for offgas processing is defined as the difference between the weighted average prices of propylene, alky feed and olefinic condensate products sold less applicable differentials and the daily index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Propylene pricing is based on a North American Gulf Coast benchmark price, while alky feed and olefinic condensate are currently priced on a differential to West Texas Intermediate (WTI) light sweet crude. The olefinic realized frac-spread for offgas processing is defined as the difference between the realized price of the propylene, alky feed and olefinic condensate products sold for unhedged production and fixed price frac-spread prices for any hedged production, and the realized cost of shrinkage gas purchased, including natural gas transportation, extraction premiums and associated costs, calculated in USD/USG. Shrinkage natural gas cost is based on a weighted average cost dependent on product inventory levels and applicable AECO daily and monthly index natural gas prices. The offgas olefinic realized frac-spread does not include product transportation or marketing fees.

The paraffinic market frac-spread for offgas processing is defined as the difference between the weighted average prices of propane and butane products less applicable differentials and the daily index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Propane is currently based on a Conway monthly posting less a weighted average differential. Butane is currently priced based on a differential to WTI light sweet crude. The paraffinic realized frac-spread for offgas processing is defined as the difference between the realized price of the propane and butane products sold for unhedged production and fixed price frac-spread prices for any hedged production and the realized cost of shrinkage gas purchased, including natural gas transportation, extraction premiums and associated costs, calculated in USD/USG. Shrinkage natural gas cost is based on a weighted average cost dependent on product inventory levels and applicable AECO daily and monthly index natural gas prices. The offgas paraffinic realized frac-spread does not include product transportation or marketing fees.

In the second quarter, the offgas olefinic and the offgas paraffinic realized frac-spreads increased from $1.03 USD/USG and $0.17 USD/USG in 2017, respectively, to $1.61 USD/USG and $0.40 USD/USG in 2018. Year to date, the offgas olefinic and offgas paraffinic realized frac-spreads increased from $1.21 USD/USG and $0.27 USD/USG, respectively, to $1.57 USD/USG and $0.42 USD/USG in 2018.

See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for further discussion of frac-spread hedges.

Cost of Sales

Cost of sales in the NGL processing business segment primarily represents shrinkage gas, which is natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the straddle plants and offgas processed at the offgas plants. Cost of sales for offgas processing also includes transportation expenses. The price for shrinkage gas is based on a combination of AECO daily spot prices and monthly index natural gas prices. In the three and six months ended June 30, 2018, cost of sales decreased $15.2 million and $31.7 million, respectively, over the comparable periods in 2017. Cost of sales from offgas processing decreased by $0.3 million in the second quarter and $6.1 million year to date in 2018, over the same periods in 2017. Cost of sales at Inter Pipeline's straddle plants decreased $14.9 million in the second quarter and $25.6 million year to date in 2018, over the same periods in 2017 largely due to lower AECO natural gas prices from the same periods in 2017. Weighted average AECO prices* decreased in the second quarter from $2.63/GJ in 2017 to $0.97/GJ in 2018 and year to date from $2.71/GJ in 2017 to $1.36/GJ.

Operating Expenses

Operating expenses in the NGL processing business decreased $1.2 million in the current quarter and $1.1 million year to date, over the same periods in 2017. Offgas processing operating expenses decreased by $6.6 million and $7.1 million in the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017, largely due to a prior period adjustment, partially offset by higher power costs. Operating expenses for Inter Pipeline's straddle plants increased $5.4 million for the current quarter and increased $6.0 million year to date, over the same periods in 2017, largely due to a scheduled plant maintenance outage at the Empress V facility, as well as increased power costs arising from increased pricing, compared to the same period in 2017. Average Alberta power pool prices increased in the second quarter from $19.29/MWh in 2017 to $56.01/MWh in 2018 and year to date from $20.83/MWh in 2017 to $45.52/MWh in 2018.

Capital Expenditures

In the second quarter of 2018, the NGL processing business incurred total growth capital expenditures[†] of $159.1 million, of which $153.5 million relates to engineering, design, procurement and civil construction on the Heartland Petrochemical Complex. The remaining growth capital expenditures[†] largely relate to various equipment and facility upgrades at the Redwater Olefinic Fractionator. Total sustaining capital expenditures[†] in the current quarter of $4.8 million primarily relate to processing equipment maintenance and upgrades at the Cochrane straddle plant and the Redwater Olefinic Fractionator.

---

[*] 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 FINANCIAL MEASURES section

Conventional Oil Pipelines Business Segment

	Three Months Ended June 30			Six Months Ended June 30		
Volumes (000s b/d)	**2018**	2017	*% change*	**2018**	2017	*% change*
Bow River	**82.1**	92.0	*(10.8)*	**85.2**	91.7	*(7.1)*
Central Alberta	**26.5**	26.7	*(0.7)*	**25.2**	26.1	*(3.4)*
Mid-Saskatchewan	**87.8**	86.8	*1.2*	**92.5**	89.9	*2.9*
	196.4	205.5	*(4.4)*	**202.9**	207.7	*(2.3)*

(millions, except per barrel amount)						
Revenue	**$ 184.7**	$ 121.6	*51.9*	**$ 365.3**	$ 240.3	*52.0*
Cost of sales	**$ 114.0**	$ 53.5	*113.1*	**$ 226.2**	$ 102.5	*120.7*
Operating expenses	**$ 26.0**	$ 15.6	*66.7*	**$ 43.5**	$ 30.7	*41.7*
Funds from operations	**$ 48.2**	$ 52.7	*(8.5)*	**$ 98.9**	$ 106.1	*(6.8)*
Revenue per barrel[1]	**$ 3.09**	$ 2.94	*5.1*	**$ 3.00**	$ 2.88	*4.2*
Capital expenditures						
Growth[2]	**$ 5.1**	$ 3.9		**$ 8.2**	$ 8.7	
Sustaining[2]	**2.2**	1.0		**3.5**	1.6	
	$ 7.3	$ 4.9		**$ 11.7**	$ 10.3	

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

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

Volumes

Average volumes transported on the conventional oil pipelines systems decreased by 9,100 b/d and 4,800 b/d in the three and six months ended June 30, 2018, respectively, from the same periods in 2017. Mid-Saskatchewan pipeline system volumes increased by 1,000 b/d and 2,600 b/d in the three and six month periods ended June 30, 2018, respectively, compared to the same periods in 2017. The increase is due to higher light oil production from the Viking formation. Volumes on the Bow River pipeline system decreased by 9,900 b/d in the second quarter and 6,500 b/d year to date, over the comparable periods in 2017, largely due to third party refinery turnarounds impacting Hardisty southbound transmission volumes. Average Central Alberta pipeline system volumes remained relatively consistent for the three and six months ended June 30, 2018, decreasing by 200 b/d and 900 b/d, respectively, compared to the same periods in 2017.

Revenue

The conventional oil pipelines business earns revenue for the transportation of petroleum products in accordance with Inter Pipeline's tariffs under a number of fee-based and cost-of-service contracts, while its midstream marketing activities generate revenue under a number of marketing services and product margin contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

Revenue from conventional oil pipelines increased $63.1 million and $125.0 million in the three and six months ended June 30, 2018, over the comparable periods in 2017, largely due to higher midstream marketing revenue from increases in blending activity, product marketing services and commodity prices.

Cost of Sales

Cost of sales in the conventional oil pipelines business primarily consists of purchases of petroleum products used for transportation, blending, and marketing activities. Cost of sales increased in the three and six months ended June 30, 2018 by $60.5 million and $123.7 million, respectively, compared to the same periods in 2017. Costs increased due to higher

product volumes purchased for incremental product marketing services and blending activity, as well as from higher commodity pricing.

Operating Expenses

Operating expenses in the conventional oil pipelines business increased in the three and six months ended June 30, 2018 by $10.4 million and $12.8 million, respectively, largely due to higher repair and remediation costs, integrity related costs, and increased fuel and power costs, as compared to the same period in 2017.

Capital Expenditures

In the current quarter, the conventional oil pipelines business incurred growth capital expenditures* of $5.1 million, primarily related to pipeline and facility upgrades and modifications on the Central Alberta pipeline system, as well as an increase in decommissioning obligations.

Bulk Liquid Storage Business Segment

	Three Months Ended June 30			Six Months Ended June 30		
	2018	2017	*% change*	**2018**	2017	*% change*
Utilization	**84%**	98%	*(14.3)*	**83%**	98%	*(15.3)*
(millions)						
Revenue	**$ 50.7**	$ 56.5	*(10.3)*	**$ 101.9**	$ 112.0	*(9.0)*
Operating expenses	**$ 24.6**	$ 23.2	*6.0*	**$ 49.9**	$ 45.8	*9.0*
Funds from operations	**$ 17.4**	$ 25.3	*(31.2)*	**$ 36.1**	$ 51.5	*(29.9)*
Capital expenditures						
Growth(1)	**$ 10.4**	$ 14.0		**$ 13.6**	$ 29.2	
Sustaining(1)	**3.3**	4.5		**5.0**	6.1	
	$ 13.7	$ 18.5		**$ 18.6**	$ 35.3	

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

Utilization

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

Average utilization in the bulk liquid storage business decreased in the current quarter from 98% in 2017 to 84% in 2018 and year to date from 98% to 83%. The decrease reflects current unfavourable market conditions, particularly in Denmark where average utilization in the three and six month periods ended June 30, 2018 was 70% and 69%, respectively, compared to 100% during the same periods in 2017. Utilization continues to be impacted by a backwardated pricing environment for certain petroleum products which negatively impacted storage demand.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Revenue

The bulk liquid storage business earns revenue for bulk liquid storage and handling services that are underpinned by a range of long-term and short-term fee-based and cost-of-service contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

Revenue from the bulk liquid storage business decreased $5.8 million and $10.1 million in the three and six months ended June 30, 2018, compared to the same periods in 2017. The decline in revenue is primarily attributed to lower demand arising from challenging market conditions which unfavourably impacted utilization and storage rates, most significantly in Denmark. Foreign currency translation adjustments favourably impacted revenue by $1.1 million in the current quarter and $5.4 million year to date, compared to the same periods in 2017.

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

Foreign Exchange Rates

	Three Months Ended June 30			Six Months Ended June 30		
(dollars)	**2018**	2017	*% change*	**2018**	2017	*% change*
Euro/CAD	**$ 1.5387**	$ 1.4810	*3.9*	**$ 1.5464**	$ 1.4458	*7.0*
Pound Sterling/CAD	**$ 1.7563**	$ 1.7211	*2.0*	**$ 1.7582**	$ 1.6805	*4.6*

Operating Expenses

Bulk liquid storage operating expenses increased $1.4 million and $4.1 million in the three and six months ended June 30, 2018, respectively, over the comparable periods in 2017. The increase is largely due to higher costs related to fuel and power, utilities, and repairs and maintenance, primarily in the UK. Additionally, foreign exchange unfavorably impacted operating expenses by $0.3 million in the current quarter and $2.0 million year to date in 2018, compared to the same periods in 2017.

Capital Expenditures

In the second quarter of 2018, the bulk liquid storage business incurred total growth capital expenditures[*] of $10.4 million, primarily relating to tank integrity and enhancement projects.

The bulk liquid storage business incurred sustaining capital expenditures* of $3.3 million in the current quarter, including improvements to mooring and pier renovations in Denmark, as well as terminal infrastructure, safety improvement projects and environmental enhancement initiatives.

Other Expenses

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	**2018**	2017	**2018**	2017
Depreciation and amortization	**$ 69.7**	$ 63.0	**$ 138.5**	$ 125.7
Income tax expense	**49.2**	35.4	**99.8**	83.6
Financing charges	**42.7**	42.2	**85.5**	83.7
General and administrative	**37.7**	31.9	**71.4**	65.3
Loss on disposal of assets	**0.2**	0.5	**1.5**	4.6

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

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets in the three and six months ended June 30, 2018, increased $6.7 million and $12.8 million, respectively, over the same periods in 2017. The increase is primarily the result of depreciating new assets now in service which were not depreciated in 2017.

Income Tax Expense

Consolidated income tax expense increased $13.8 million in the current quarter and $16.2 million year to date in 2018, compared to the same periods in 2017. Consolidated income tax expense is the sum of current income tax expense and deferred income tax expense.

Current income tax expense increased $3.0 million in the current quarter, compared to the same period in 2017, largely due to a one-time current income tax adjustment of $2.8 million recognized in the second quarter of 2017. Current income tax for the year to date period in 2018 increased $0.2 million, compared to the same period in 2018, due to other tax adjustments.

Deferred income tax expense increased $10.8 million in the current quarter and $16.0 million year to date, due to the utilization of tax assets to lower current income tax expense, compared to the same periods in 2017.

Financing Charges

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	**2018**	2017	**2018**	2017
Interest on credit facilities	**$ 9.8**	$ 8.0	**$ 19.5**	$ 17.3
Interest on Corridor debentures	**1.8**	1.8	**3.6**	3.6
Interest on medium-term notes	**31.9**	32.1	**63.7**	61.9
Total interest	**43.5**	41.9	**86.8**	82.8
Capitalized interest	**(3.1)**	(1.9)	**(6.0)**	(3.5)
Amortization of transaction costs on financial debt	**1.0**	1.0	**2.0**	2.1
Accretion of provisions and pension plan funding charges	**1.3**	1.2	**2.7**	2.3
Financing charges	**$ 42.7**	$ 42.2	**$ 85.5**	$ 83.7

In the three and six months ended June 30, 2018, total financing charges increased $0.5 million and $1.8 million, respectively, over the comparable periods in 2017.

Interest on medium-term notes has remained consistent in the current quarter, compared to the same period in 2017. Year to date, interest on medium-term notes increased by $1.8 million, compared to the same period in 2017, largely due to the issuance of Series 10 medium-term notes April 18, 2017.

Interest on credit facilities increased $1.8 million in the current quarter and $2.2 million year to date in 2018, compared to the same periods in 2017, due to higher short-term interest rates partially offset by lower weighted average credit facility debt outstanding.

Capitalized interest increased by $1.2 million and $2.5 million in the three and six months ended June 30, 2018, respectively, over the same periods in 2017, which is largely a result of the development of the Heartland Petrochemical Complex.

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

General and Administrative

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	**2018**	2017	**2018**	2017
Canada	**$ 29.9**	$ 24.6	**$ 57.1**	$ 51.6
Europe	**7.8**	7.3	**14.3**	13.7
	$ 37.7	$ 31.9	**$ 71.4**	$ 65.3

In the three and six months ended June 30, 2018, Canadian general and administrative expenses increased $5.3 million and $5.5 million, respectively, from the same periods in 2017, due to increased employee costs, largely due to the inclusion of additional employees to support operational requirements and higher long-term incentive plan expense.

European general and administrative costs increased in the three and six months ended June 30, 2018, by $0.5 million and $0.6 million, respectively, over the same periods in 2017, largely due to higher professional fees, consulting fees and foreign currency translation adjustments.

Loss on Disposal of Assets

Inter Pipeline incurred loss on disposal of assets of $0.2 million in the current quarter and $1.5 million year to date in 2018, largely due to the disposal and de-recognition of certain non-core assets in the bulk liquid storage business.

SUMMARY OF QUARTERLY RESULTS

	2016		2017				2018	
(millions, except volume, per share and % amounts)	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**First Quarter**	**Second Quarter**
Pipeline volumes *(000s b/d)* [(1)]								
Oil sands transportation	1,093.3	1,172.5	1,251.4	1,121.1	1,147.1	1,211.8	**1,279.0**	**1,181.3**
Conventional oil pipelines	192.8	200.3	209.9	205.5	212.0	204.5	**209.4**	**196.4**
Total pipeline volumes	1,286.1	1,372.8	1,461.3	1,326.6	1,359.1	1,416.3	**1,488.4**	**1,377.7**
NGL processing volumes *(000s b/d)* [(1)(2)]								
Natural gas processing - Ethane	58.0	69.9	61.1	44.1	48.2	53.3	**64.2**	**43.9**
Natural gas processing - Propane-plus	42.5	43.8	42.9	31.4	35.6	40.4	**46.3**	**41.3**
Redwater Olefinic Fractionator sales volume [(2)]	-	29.9	31.6	20.6	31.9	34.0	**33.0**	**27.8**
Total NGL processing volumes	100.5	143.6	135.6	96.1	115.7	127.7	**143.5**	**113.0**
Utilization								
Bulk liquid storage	98%	99%	99%	98%	95%	91%	**82%**	**84%**
Revenue								
Oil sands transportation	$ 192.9	$ 200.8	$ 191.1	$ 199.0	$ 203.5	$ 208.6	**$ 200.1**	**$ 200.3**
NGL processing	93.7	191.1	213.4	138.9	171.5	196.2	**214.1**	**195.3**
Conventional oil pipelines	86.9	111.0	118.7	121.6	117.8	159.2	**180.6**	**184.7**
Bulk liquid storage	61.0	57.8	55.5	56.5	54.8	54.3	**51.2**	**50.7**
Total Revenue	$ 434.5	$ 560.7	$ 578.7	$ 516.0	$ 547.6	$ 618.3	**$ 646.0**	**$ 631.0**
Funds from operations								
Oil sands transportation	$ 148.7	$ 155.5	$ 148.4	$ 149.6	$ 155.4	$ 154.5	**$ 148.9**	**$ 150.0**
NGL processing	28.7	65.0	81.9	28.4	78.1	91.2	**98.6**	**101.3**
Conventional oil pipelines	49.1	52.4	53.4	52.7	54.5	53.7	**50.7**	**48.2**
Bulk liquid storage	30.2	28.9	26.2	25.3	25.2	20.9	**18.7**	**17.4**
Corporate costs	(45.3)	(47.1)	(63.0)	(49.0)	(44.3)	(52.5)	**(62.7)**	**(55.4)**
Total funds from operations	$ 211.4	$ 254.7	$ 246.9	$ 207.0	$ 268.9	$ 267.8	**$ 254.2**	**$ 261.5**
Per share [(3)]	$ 0.62	$ 0.71	$ 0.67	$ 0.56	$ 0.72	$ 0.71	**$ 0.67**	**$ 0.68**
Net income [(4)]	$ 113.7	$ 125.8	$ 140.0	$ 102.3	$ 142.5	$ 141.9	**$ 142.7**	**$ 136.1**
Per share – basic and diluted	$ 0.34	$ 0.35	$ 0.38	$ 0.27	$ 0.38	$ 0.37	**$ 0.37**	**$ 0.35**
Dividends to shareholders [(5)]	$ 131.4	$ 145.1	$ 149.7	$ 150.9	$ 152.1	$ 157.2	**$ 160.4**	**$ 162.0**
Per share [(5)]	$ 0.390	$ 0.400	$ 0.405	$ 0.405	$ 0.405	$ 0.415	**$ 0.420**	**$ 0.420**
Shares outstanding (basic)								
Weighted average	338.7	361.2	369.2	372.1	375.1	378.3	**381.4**	**384.9**
End of period	359.5	367.9	370.7	373.5	376.6	379.8	**383.2**	**386.7**
Capital expenditures [(6)]								
Growth [(3)]	$ 40.8	$ 49.9	$ 52.7	$ 94.5	$ 72.6	$ 113.2	**$ 146.1**	**$ 185.5**
Sustaining [(3)]	8.1	22.3	10.3	17.3	18.7	21.2	**6.1**	**14.8**
Total capital expenditures	$ 48.9	$ 72.2	$ 63.0	$ 111.8	$ 91.3	$ 134.4	**$ 152.2**	**$ 200.3**
Payout ratio [(3)]	64.8%	57.8%	60.6%	72.9%	56.6%	58.7%	**63.1%**	**61.9%**
Total assets	$ 10,141.0	$ 10,151.6	$ 10,134.9	$ 10,204.1	$ 10,229.2	$ 10,361.7	**$ 10,496.3**	**$ 10,570.3**
Total debt [(7)]	$ 5,596.6	$ 5,828.6	$ 5,732.5	$ 5,664.1	$ 5,590.0	$ 5,457.2	**$ 5,396.1**	**$ 5,387.2**
Total equity	$ 3,269.9	$ 3,187.9	$ 3,261.4	$ 3,320.4	$ 3,381.0	$ 3,463.8	**$ 3,576.0**	**$ 3,592.4**
Enterprise value [(3)]	$ 15,555.0	$ 16,732.5	$ 16,122.5	$ 15,151.3	$ 15,328.8	$ 15,342.5	**$ 13,963.6**	**$ 14,915.4**
Consolidated Net Debt to Total Capitalization [(3)]	54.5%	57.2%	56.2%	55.5%	54.7%	53.5%	**52.5%**	**52.5%**

(1) Cold Lake volumes and Empress V NGL production reported on a 100% basis. Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

(2) Average quarterly throughput volumes from the offgas processing acquisition in September 2016 have not been included for the third quarter of 2016 in the table above. Only eight days of operations from the closing date of the acquisition are included in Inter Pipeline's September 30, 2016 results and therefore does not contain any meaningful information.

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

(4) For periods up to November 1, 2016, when the remaining 15% ownership interest in the Cold Lake pipeline system was acquired, amounts reported for net income represent the value attributable to the shareholders of Inter Pipeline.

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

(6) Amounts reported on a 100% basis that includes non-controlling interest. Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

(7) 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.

Inter Pipeline's capital under management includes financial debt and shareholders' equity. 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 cash dividends paid to shareholders, issue new common or preferred shares, issue new senior or subordinated debt, renegotiate existing 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, 2018, Inter Pipeline had access to committed credit facilities totaling $3.05 billion, of which $1.34 billion remained unutilized, and demand facilities totaling $134.7 million of which $126.3 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline. Subsequent to quarter end, on July 30, 2018, $200 million of Series 2 medium-term notes matured and were repaid with funds available under Inter Pipeline's revolving credit facility.

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, 2018, approximately $80.6 million and $159.4 million, respectively, of equity was issued through the dividend reinvestment plan.

On January 18, 2018, Inter Pipeline filed a new current short form base shelf prospectus with Canadian regulatory authorities. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities; (iv) subscription receipts; (v) warrants; (vi) share purchase contracts; and (vii) units (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. No Securities have been issued under the January 2018 base shelf prospectus.

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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

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.

Credit Facilities and Debt Outstanding

			June 30	December 31
(millions)	Recourse	Non-recourse	**2018**	2017
Credit facilities available				
Corridor syndicated credit facility	$ -	$ 1,550.0	**$ 1,550.0**	$ 1,550.0
Inter Pipeline syndicated credit facility	1,500.0	-	**1,500.0**	1,500.0
	1,500.0	1,550.0	**3,050.0**	3,050.0
Demand facilities [1]	109.7	25.0	**134.7**	133.9
	$ 1,609.7	$ 1,575.0	**$ 3,184.7**	$ 3,183.9
Total debt outstanding				
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility			**$ 438.0**	$ 487.0
Medium-term notes			**3,525.0**	3,525.0
Inter Terminals demand facility [1]			**5.7**	4.2
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility			**1,268.5**	1,291.0
Corridor debentures			**150.0**	150.0
Total debt outstanding [2][3]			**$ 5,387.2**	$ 5,457.2

(1) Demand facilities consist of: Inter Pipeline's $75 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 converted at a Pound Sterling/CAD rate of 1.7357 at June 30, 2018.

(2) At June 30, 2018, outstanding Inter Pipeline letters of credit of approximately $2.7 million were not included in total debt outstanding.

(3) Financial debt reported in the June 30, 2018 interim consolidated financial statements of $5,367.3 million, includes long-term debt, short-term debt and commercial paper outstanding of $5,387.2 million less discounts and debt transaction costs of $19.9 million.

Inter Pipeline's debt outstanding at June 30, 2018, matures at various dates up to May 2044 as follows:

(millions)	Amount	Rate	Maturity date
Inter Pipeline Ltd.			
Inter Pipeline syndicated credit facility	$ 438.0	Variable	December 5, 2022
Medium-term notes			
Series 1	325.0	4.967%	February 2, 2021
Series 2 [1]	200.0	3.839%	July 30, 2018
Series 3	400.0	3.776%	May 30, 2022
Series 4	500.0	3.448%	July 20, 2020
Series 5	500.0	4.637%	May 30, 2044
Series 7	300.0	3.173%	March 24, 2025
Series 8	350.0	2.608%	September 13, 2023
Series 9	450.0	3.484%	December 16, 2026
Series 10	500.0	2.734%	April 18, 2024
Inter Pipeline (Corridor) Inc.			
Corridor syndicated credit facility	1,268.5	Variable	December 14, 2020
Corridor debentures	150.0	4.897%	February 3, 2020
Inter Terminals Limited and Inter Terminals EOT ApS			
Pound Sterling 20 million demand facility	5.7	Variable	On Demand

(1) On July 30, 2018, Inter Pipeline's $200 million senior unsecured medium-term notes Series 2 matured and were repaid.

Financial Covenants

Inter Pipeline was in compliance with all financial covenants under its credit facilities and note indentures as at June 30, 2018.

The following table provides a listing of the key financial covenants as at June 30, 2018:

	Maximum Ratio	June 30 2018
Inter Pipeline Ltd.		
Inter Pipeline syndicated credit facility		
Consolidated Net Debt to Total Capitalization (1)(2)(3)(4)	65%	52.5%
Medium-term notes		
Funded Debt to Total Capitalization (2)(5)(6)	70%	51.4%
Inter Pipeline (Corridor) Inc.		
Corridor syndicated credit facility		
Corridor debentures		
Rate Base Debt to Rate Base (7)(8)	75%	73.3%

(1) "Consolidated Net Debt" includes the aggregate amount of all debt of the borrower and its restricted subsidiaries, but excludes debt of any unrestricted subsidiary which is not guaranteed by the borrower or any restricted subsidiary, subordinated debt, non-recourse debt, and hybrid debt securities, less cash and cash equivalents owned by the borrower and its restricted subsidiaries, but excluding any such cash or cash equivalents owned by an unrestricted, provided that the use or application of such cash and cash equivalents is not encumbered or restricted by contract or regulatory requirements.

(2) Inter Pipeline (Corridor) Inc. is not considered a restricted subsidiary under Inter Pipeline's syndicated credit facility or medium-term note indenture and, as a result, its debt and assets are excluded from all financial covenant calculations under those agreements.

(3) "Total Capitalization" for Inter Pipeline's syndicated credit facility covenant is the sum of debt including hybrid debt securities, but excluding non-recourse debt, debt attributable to unrestricted subsidiaries, plus convertible debentures, plus consolidated shareholders' equity of the borrower, but excluding any shareholders' equity from or attributable to non-recourse assets, unrestricted subsidiaries, plus a $243.8 million adjustment related to Canadian SIFT legislation.

(4) Please refer to the NON-GAAP FINANCIAL MEASURES section.

(5) "Funded Debt" includes long-term debt of the issuer and its restricted subsidiaries, but excluding non-recourse debt, subordinated debt and any obligations of the issuer to a restricted subsidiary or of a restricted subsidiary to the issuer or another restricted subsidiary.

(6) "Total Capitalization" for Inter Pipeline's medium-term notes covenant is the sum of Funded Debt plus subordinated debt, plus consolidated equity, plus a $243.8 million adjustment related to Canadian SIFT legislation.

(7) "Rate Base Debt" includes all Corridor debt excluding debt incurred in connection with financing additions to the rate base prior to the time those additions form part of the rate base, debt incurred to fund recoverable expenditures under the Corridor Firm Service Agreement (FSA) and subordinated debt.

(8) "Rate Base" includes the invested capital to bring the asset to service pursuant to the Corridor FSA.

The Corridor pipeline system is operated under the Corridor FSA, which is a long-term cost-of-service contract that provides for the 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, Corridor's FFO is not impacted by throughput volumes or commodity price fluctuations. Inter Pipeline actively manages Corridor's debt level to ensure the actual rate base debt to rate base ratio is very close to the benchmark criteria (i.e. not more than 75%) to optimize its defined capital structure.

Fixed versus Variable Interest Rate

	June 30, 2018					
($ millions)	Recourse	%	Non-Recourse	%	Total	%
Variable	$ 443.7	11.2%	$ 1,268.5	89.4%	$ 1,712.2	31.8%
Fixed	3,525.0	88.8%	150.0	10.6%	3,675.0	68.2%
	$ 3,968.7	100%	$ 1,418.5	100%	$ 5,387.2	100%

All interest costs associated with non-recourse Corridor debt is directly recoverable through the terms of the Corridor FSA.

The following interest coverage* ratio is calculated on a consolidated basis for the twelve month periods ended June 30, 2018 and December 31, 2017.

	Twelve Months Ended	
	June 30	December 31
(times)	**2018**	2017
Interest coverage[1][2]	**5.2**	5.0

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

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

Credit Ratings

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

	Credit Rating	Trend/Outlook
Inter Pipeline Ltd.[1]		
S&P	BBB+	Negative
DBRS	BBB	Stable
Inter Pipeline (Corridor) Inc.		
S&P	A-	Stable
DBRS	A (low)	Stable

(1) In July 2018, DBRS revised Inter Pipeline's credit rating from BBB (high) (under review with negative implications) to BBB (stable trend).

* Please refer to the NON-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, 2018. 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.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects[1]	$ 3,492.5	$ 631.8	$ 2,860.7	$ -
Total debt[2][3]				
Corridor syndicated credit facility[3]	1,268.5	1,268.5	-	-
Inter Pipeline syndicated credit facility	438.0	-	438.0	-
Corridor debentures	150.0	-	150.0	-
Medium-term notes	3,525.0	200.0	1,225.0	2,100.0
Inter Terminals demand facility	5.7	5.7	-	-
	5,387.2	1,474.2	1,813.0	2,100.0
Other obligations				
Operating leases	284.9	12.9	97.1	174.9
Purchase obligations	249.0	75.3	91.5	82.2
Long-term portion of incentive plan	6.8	-	6.8	-
Adjusted working capital deficit[4]	202.6	202.6	-	-
	$ 9,623.0	$ 2,396.8	$ 4,869.1	$ 2,357.1

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2018.

(2) At June 30, 2018, outstanding Inter Pipeline letters of credit of approximately $2.7 million were not included in total debt outstanding. Financial debt reported in the June 30, 2018 interim consolidated financial statements of $5,367.3 million, includes long-term debt, short-term debt and commercial paper of $5,387.2 million less discounts and debt transaction costs of $19.9 million.

(3) Principal obligations are related to commercial paper. This amount is fully supported and management expects that it will continue to be supported by Corridor's fully committed syndicated credit facility that has no repayment requirements until December 2020.

(4) Please refer to the NON-GAAP FINANCIAL MEASURES section

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) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2094.

(ii) Working capital deficiencies* arise primarily from capital expenditures outstanding in accounts payable and accrued liabilities at the end of a period.

(iii) Inter Pipeline has obligations of $37.4 million under its employee long-term incentive plan, of which $30.6 million is included in the working capital deficit*.

(iv) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL processing facilities and leased bulk liquid storage sites and remediation of known environmental liabilities is $189.8 million at June 30, 2018. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended June 30		Six Months Ended June 30	
(millions, except per share and % amounts)	**2018**	2017	**2018**	2017
Cash provided by operating activities	**$ 279.5**	$ 232.2	**$ 544.4**	$ 475.6
Net change in non-cash operating working capital	**(18.0)**	(25.2)	**(28.7)**	(21.7)
Funds from operations	**$ 261.5**	$ 207.0	**$ 515.7**	$ 453.9
Dividends to shareholders	**$ 162.0**	$ 150.9	**$ 322.4**	$ 300.6
Dividends per share[1]	**$ 0.420**	$ 0.405	**$ 0.840**	$ 0.810
Payout ratio[2]	**61.9%**	72.9%	**62.5%**	66.2%

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

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

Inter Pipeline's objective is to provide shareholders with stable dividends over changing economic and industry cycles. As a result, not all FFO 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 a 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 as cash provided by operating activities less net changes in non-cash working capital. 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 recognised 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.

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.

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	**2018**	2017	**2018**	2017
Cash provided by operating activities	**$ 279.5**	$ 232.2	**$ 544.4**	$ 475.6
Dividends to shareholders	**(162.0)**	(150.9)	**(322.4)**	(300.6)
Excess	**$ 117.5**	$ 81.3	**$ 222.0**	$ 175.0

(millions)	Three Months Ended June 30 2018	2017	Six Months Ended June 30 2018	2017
Net income	$ 136.1	$ 102.3	$ 278.8	$ 242.3
Dividends to shareholders	(162.0)	(150.9)	(322.4)	(300.6)
Shortfall	$ (25.9)	$ (48.6)	$ (43.6)	$ (58.3)

Cash provided by operating activities was greater than dividends to shareholders. Dividends to shareholders were greater than net income, as net income also includes certain non-cash expenses such as depreciation and amortization, and deferred income taxes.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at June 30, 2018 are as follows:

(millions)	Total
Common shares outstanding	386.7

At August 7, 2018, Inter Pipeline had $387.8 million common shares outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Market Risk Management

Inter Pipeline may utilize derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign exchange 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 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.

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 recognised 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 long-term debt, short-term debt and commercial paper outstanding at June 30, 2018. 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.

FRAC-SPREAD RISK MANAGEMENT

Inter Pipeline is exposed to frac-spread risk being the difference between the selling prices for certain NGL products and the input cost of the natural gas required to produce the respective products, including shrinkage gas. Various frac-spreads are as defined in the **Frac-spread** section of the **NGL Processing Business Segment**. Inter Pipeline may enter into natural

gas liquids, AECO natural gas and foreign exchange swap contracts to manage frac-spread risk exposure in the NGL processing business. As at June 30, 2018, there were no frac-spread hedges outstanding.

POWER PRICE RISK MANAGEMENT

Inter Pipeline may use derivative financial instruments to manage power price risk in its NGL processing 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, 2018, there were no electricity price swap or heat rate price swap agreements outstanding.

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, 2018, there were no foreign currency exchange hedges outstanding.

Corporate

INTEREST RATE RISK MANAGEMENT

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations. 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 may enter into interest rate or cross-currency swap agreements to manage its interest rate price risk exposure. As at June 30, 2018, there were no interest rate or cross-currency swap agreements outstanding.

Based on the variable rate obligations outstanding at June 30, 2018, a 1% change in interest rates at this date would have changed interest expense for the three and six months ended June 30, 2018, by approximately $4.3 million and $8.5 million, respectively, assuming all other variables remain constant. Of this amount, $3.2 million and $6.3 million for the three and six months ended June 30, 2018, respectively, relates to Corridor's syndicated credit facility and is recoverable through the terms of the Corridor FSA. The after-tax income impact for the three and six months ended June 30, 2018 would be $0.8 million and $1.6 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, and prepaid expenses and other deposits. Credit risk is managed through Inter Pipeline's credit management policy, which establishes guidelines for defining and measuring credit risk, determining credit risk thresholds and monitoring credit risk exposures to counterparties and vendors. 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, letters of credit, prepayments 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 rely on indemnification provisions, a 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 processing business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At June 30, 2018, accounts receivable associated with these two business segments were $133.9 million or 60.2% 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, and derivative financial instruments, Inter Pipeline believes the risk of non-performance of counterparties is minimal as cash is predominantly held with major financial institutions.

Inter Pipeline assesses lifetime expected credit losses for accounts receivable using historical default rates, aged accounts receivable analysis, and forward looking information to determine the appropriate expected credit losses. At June 30, 2018, lifetime expected credit losses for accounts receivable outstanding were insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three and six months ended June 30, 2018 or 2017.

CONTROLS AND PROCEDURES

There have been no significant changes in Inter Pipeline's internal control over financial reporting (ICFR) during the period December 31, 2017 to June 30, 2018 that have materially affected, or are reasonably likely to materially affect, Inter Pipeline's ICFR.

CRITICAL ACCOUNTING ESTIMATES

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, 2017 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

The amounts recorded for business combinations, 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, 2018 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, 2017.

ACCOUNTING POLICIES ADOPTED IN 2018

Inter Pipeline has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

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

IFRS 15 replaces IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. 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. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when, or as, the entity satisfies a performance obligation.

Inter Pipeline adopted the standard using the full retrospective approach. The adoption of IFRS 15 did not materially affect the timing or amount of revenue previously recognized; therefore, prior periods presented have not been restated.

IFRS 15 requires revenue to be disaggregated into categories that depict how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors. To meet this requirement, Inter Pipeline has categorized its revenue into the following contract types: (i) cost-of-service contracts generally are not impacted by throughput volumes or commodity price fluctuations. This includes take-or-pay contracts with dedicated volume or revenue commitments, modified cost-of-service contracts that may have throughput volume exposure in certain circumstances, as well as contracts which generally provide for a return on invested capital and recovery of substantially all operating costs; (ii) fee-based contracts are generally subject to fluctuations in throughput volume but not commodity prices; (iii) commodity-based contracts are generally subject to throughput volume and commodity price fluctuations; and (iv) product margin contracts, which relate to midstream marketing activities on Inter Pipeline's conventional oil pipeline assets.

IFRS 9 *Financial Instruments* (IFRS 9)

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 requires all financial assets to be classified and measured at amortized cost or fair value, based on how Inter Pipeline manages its financial instruments and their contractual cash flow characteristics. Requirements for the classification and measurement of financial liabilities are largely unchanged from IAS 39. IFRS 9 also establishes a forward-looking expected credit loss impairment model to be applied to certain financial assets.

The retrospective adoption of IFRS 9 did not affect Inter Pipeline's consolidated financial statements on the date of initial adoption or comparative periods. All financial assets and liabilities recorded at January 1, 2018 continue to be classified and measured at amortized cost, consistent with previous measurement under IAS 39.

FUTURE ACCOUNTING PRONOUNCEMENT

IFRS 16 *Leases* (IFRS 16)

IFRS 16 replaces IAS 17 *Leases* and related interpretations and will be applied to annual periods beginning on January 1, 2019. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a

lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lessors will continue with a dual lease classification model. Classification as a finance or operating lease will determine how and when a lessor will recognize lease revenue, and the type of assets to be recorded.

Inter Pipeline has identified all contracts that are within the scope of IFRS 16 and anticipates that the adoption of IFRS 16 will have a material impact on the consolidated balance sheets due to material operating lease commitments. Inter Pipeline will adopt IFRS 16 using the modified retrospective approach which does not require the restatement of prior period financial information. The cumulative financial effect of the adoption is recognized as an adjustment to opening retained earnings, with the standard applied prospectively. As further analysis is completed, Inter Pipeline will make changes to processes and systems, collect new data requirements, and quantify the impact on its financial statements. Therefore, it is not possible to make a reliable estimate of the impact of the new standard at this time.

RISK FACTORS

During the second quarter of 2018, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors discussed in its 2017 annual MD&A.

NON-GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "EBITDA", "adjusted EBITDA", "adjusted EBITDA by contract type", "Consolidated Net Debt to Total Capitalization", "enterprise value", "funds from operations per share", "growth capital expenditures", "sustaining capital expenditures", "interest coverage", and "payout ratio" are not measures recognised by GAAP. These non-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 financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

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 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.

(millions)	June 30 **2018**	December 31 2017
Current assets		
Cash and cash equivalents	**$ 24.3**	$ 26.9
Accounts receivable	**222.3**	245.7
Prepaid expenses and other deposits	**33.2**	22.4
Inventory	**10.5**	12.6
Current liabilities		
Dividends payable	**(54.1)**	(53.2)
Accounts payable, accrued liabilities and provisions	**(362.9)**	(334.0)
Current income taxes payable	**(0.9)**	(3.1)
Deferred revenue	**(75.0)**	(52.1)
Adjusted working capital deficiency	**$ (202.6)**	$ (134.8)

EBITDA and 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), and non-cash financing charges. 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.

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	**2018**	2017	**2018**	2017
Net income	**$ 136.1**	$ 102.3	**$ 278.8**	$ 242.3
Financing charges	**42.7**	42.2	**85.5**	83.7
Current income tax expense (recovery)	**0.7**	(2.3)	**1.3**	1.1
Deferred income tax expense	**48.5**	37.7	**98.5**	82.5
Depreciation and amortization	**69.7**	63.0	**138.5**	125.7
EBITDA	**$ 297.7**	$ 242.9	**$ 602.6**	$ 535.3
Loss on disposal of assets	**0.2**	0.5	**1.5**	4.6
Non-cash financing charges	**(2.3)**	(2.1)	**(4.7)**	(4.3)
Non-cash expense (recovery)	**7.0**	3.5	**(1.6)**	(1.2)
Adjusted EBITDA	**$ 302.6**	$ 244.8	**$ 597.8**	$ 534.4

	Three Months Ended June 30		Six Months Ended June 30	
(millions)	**2018**	2017	**2018**	2017
Funds from operations	**$ 261.5**	$ 207.0	**$ 515.7**	$ 453.9
Total interest less capitalized interest	**40.4**	40.1	**80.8**	79.4
Current income tax expense (recovery)	**0.7**	(2.3)	**1.3**	1.1
Adjusted EBITDA	**$ 302.6**	$ 244.8	**$ 597.8**	$ 534.4

Adjusted EBITDA by contract type is a percentage of adjusted EBITDA, reconciled in the table above, based on the type of contract: (i) cost-of-service contracts generally are not impacted by throughput volumes or commodity price fluctuations. This includes take-or-pay contracts with dedicated volume or revenue commitments, modified cost-of-service contracts that may have throughput volume exposure in certain circumstances, as well as contracts which generally provide for a return on invested capital and recovery of substantially all operating costs; (ii) fee-based contracts are generally subject to

fluctuations in throughput volume but not commodity prices; (iii) commodity-based contracts are generally subject to throughput volume and commodity price fluctuations; and (iv) product margin contracts, which relate to midstream marketing activities on Inter Pipeline's conventional oil pipeline assets. This measure, in combination with other measures, is used by the investment community to assess the overall stability and predictability of the business.

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	**2018**	2017
Adjusted EBITDA by contract type				
Cost-of-service	**57%**	73%	**57%**	67%
Fee-based	**12%**	17%	**13%**	15%
Commodity-based	**27%**	6%	**26%**	14%
Product margin	**4%**	4%	**4%**	4%

Consolidated Net Debt to Total Capitalization is disclosed and discussed in the Financial Covenant table of the **LIQUIDITY AND CAPITAL RESOURCES** section of this report. This measure in combination with other measures, is used by the investment community to assess the financial strength of the business.

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

(millions, except per share amounts)	June 30 **2018**	December 31 2017
Closing share price	**$ 24.64**	$ 26.03
Total closing number of common shares	**386.7**	379.8
	9,528.2	9,885.3
Total debt	**5,387.2**	5,457.2
Enterprise value	**$ 14,915.4**	$ 15,342.5

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

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

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

	Three Months Ended June 30			
			2018	2017
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 10.9**	**$ 0.1**	**$ 11.0**	$ 13.4
NGL processing	**159.1**	**4.8**	**163.9**	69.4
Conventional oil pipelines	**5.1**	**2.2**	**7.3**	4.9
Bulk liquid storage	**10.4**	**3.3**	**13.7**	18.5
Corporate[1]	**-**	**4.4**	**4.4**	5.6
Capital expenditures	**$ 185.5**	**$ 14.8**	**$ 200.3**	$ 111.8

	Six Months Ended June 30			
			2018	2017
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 18.9**	**$ 0.1**	**$ 19.0**	$ 18.2
NGL processing	**290.9**	**6.6**	**297.5**	103.0
Conventional oil pipelines	**8.2**	**3.5**	**11.7**	10.3
Bulk liquid storage	**13.6**	**5.0**	**18.6**	35.3
Corporate[1]	**-**	**5.7**	**5.7**	8.0
Capital expenditures	**$ 331.6**	**$ 20.9**	**$ 352.5**	$ 174.8

(1) Corporate sustaining capital, in 2018, primarily relates to upgrades to Inter Pipeline's financial systems.

Interest coverage is calculated as net income 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 for the period as a percentage of FFO. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current dividends.

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 9th day of August, 2018