

## MATERIAL CHANGE REPORT

**1. Name and Address of Company:**

Inter Pipeline Fund ("**Inter Pipeline**")  
Suite 2600, 237 – 4th Avenue S.W.  
Calgary, Alberta T2P 4K3

**2. Date of Material Change:**

June 1, 2013

**3. News Release:**

A news release disclosing the details discussed in this Material Change Report was issued by Inter Pipeline on June 2, 2013 and disseminated through the facilities of a recognized news wire service.

**4. Summary of Material Change:**

On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its current limited partnership structure to position the business for a planned conversion to a corporate form. Inter Pipeline has indirectly purchased Pipeline Management Inc. ("**PMI**"), its general partner (the "**General Partner**"), for initial consideration valued at \$170 million, plus adjustments, and a future second instalment valued at \$170 million which is partly contingent on the outcome of certain organic growth projects currently under development. These transactions (the "**Internalization Transactions**") have been designed to eliminate all future management, acquisition, divestiture and incentive fees payable to an external manager.

In conjunction with the Internalization Transactions, Inter Pipeline has announced a distribution increase of \$0.03 per unit on an annualized basis. Unitholders of record as of June 21, 2013 will be eligible for Inter Pipeline's new, higher level of cash distributions with initial payment on or about July 15, 2013.

**5. Full Description of Material Change:**

**5.1 Full Description of Material Change:**

On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its current limited partnership structure to position the business for a planned conversion to a corporate form. Inter Pipeline has indirectly purchased PMI, its General Partner, for initial consideration valued at \$170 million, plus adjustments, and a future second instalment valued at \$170 million which is partly contingent on the outcome of certain organic growth projects currently under development. These Internalization Transactions have been designed to eliminate all future management, acquisition, divestiture and incentive fees payable to an external manager.

In conjunction with the Internalization Transactions, Inter Pipeline has announced a distribution increase of \$0.03 per unit on an annualized basis. Unitholders of record as of June 21, 2013 will be eligible for Inter Pipeline's new, higher level of cash distributions with initial payment on or about July 15, 2013. This increase will result in annual distribution payments of \$1.14 per unit.

***Background***

Inter Pipeline is structured as a publicly-traded limited partnership. The business is managed by its General Partner, which is paid certain fees based on operating cash flow results, acquisition and divestiture activity and incentive fees. The Internalization Transactions have been designed to eliminate all fees payable to an external manager. In 2012, the General Partner was paid combined fees of \$18.4 million.

Incentive fees are based on a sliding scale that increasingly rewards PMI for cash distributions paid above certain thresholds. For example, PMI is entitled to 15% of incremental distributions above \$1.01 per unit, 25% of incremental distributions above \$1.10 per unit and 35% of incremental distributions above \$1.19 per unit.

In making its decision to complete the Internalization Transactions, the board of directors of PMI carefully considered Inter Pipeline's organic growth projects under development, the probability of future distribution increases and the magnitude of incentive fees that would become payable to PMI. Based on Inter Pipeline's anticipated growth profile, base management and incentive fees payable to PMI could reasonably be expected to exceed \$50 million annually within the next 5 years.

### ***Strong Organic Growth Profile***

Inter Pipeline is currently advancing over \$2.7 billion in large-scale organic development projects within its oil sands transportation business segment. These projects involve major capacity expansions and facility enhancements on both the Cold Lake and Polaris pipeline systems, all of which have been publicly announced and commercially secured.

As new construction projects are completed over the next 5 years, they are expected to generate over \$335 million in incremental annual long-term EBITDA. For perspective, Inter Pipeline generated total EBITDA of \$573 million in 2012. The oil sands expansion projects under active development will significantly increase cash available for distribution, resulting in expected annual accretion of approximately \$0.41 per unit.

### ***Payment Structure***

Pursuant to agreements signed June 1, 2013, Inter Pipeline has indirectly purchased all outstanding shares of Pipeline Assets Corp. ("**PAC**"), the owner of Inter Pipeline's General Partner, PMI. The initial consideration is valued at \$170 million, plus adjustments of approximately \$8.6 million to reflect the market value of the 279,469 Class B limited partnership units held by PMI, fees earned by PMI prior to closing and working capital adjustments.

A second instalment valued at \$170 million will be made once Inter Pipeline becomes entitled to receive revenue from both the FCCL Foster Creek and FCCL Christina Lake expansion projects which are currently under construction. These large scale expansion projects involve the integration of transportation services on the Cold Lake and Polaris pipeline systems at an estimated capital cost of \$2.35 billion. New diluent delivery services to the Foster Creek and Christina Lake projects are expected to be operational in mid 2014 and new bitumen blend facilities in support of the Foster Creek project are expected to be in service in early 2015. The FCCL Partnership is a business venture between Cenovus Energy and ConocoPhillips.

In the event that the Foster Creek and Christina Lake projects are not both generating revenue by January 1, 2017, the value of the second instalment will be reduced to \$70 million.

PAC's shareholders have agreed to accept all consideration in the form of preferred shares rather than cash. These shares, issued by a new corporation established for the purpose of the Internalization Transactions, will carry a value that parallels the market price of Inter Pipeline's Class A limited partnership units. It is anticipated that the preferred shares issued in relation to the initial payment will be exchanged for common shares of Inter Pipeline's successor upon unitholder approval of a corporate conversion later in 2013. Similarly, it is anticipated that the preferred shares issued in relation to the second instalment will ultimately be converted into common shares of Inter Pipeline's corporate successor upon the earlier of revenue commencement from the two identified oil sands expansion projects or January 1, 2017.

Furthermore, PAC shareholders are prevented from selling any of their equity holdings related to the initial payment within 6 months of exchange into common shares of Inter Pipeline's corporate successor.

### ***Accretion & Fairness Opinion***

The elimination of external management fees in exchange for the negotiated payment structure results in an immediately accretive transaction. Splitting the internalization purchase price into two instalment payments, the latter tied to the revenue commencement dates of certain projects under construction, will help ensure long-term accretion. Inter Pipeline expects the Internalization Transactions to generate annual long-term accretion of \$0.06 per unit relative to cash available for distribution. Inter Pipeline's board decision to increase distributions by \$0.03 per unit is fully supported by the stand-alone economics of the Internalization Transactions.

A special committee (the "**Special Committee**") of the PMI board, chaired by Inter Pipeline's lead independent director and comprised solely of independent directors, reviewed and negotiated the transaction on behalf of Inter Pipeline. The Special Committee determined that the internalization payment is reasonable in lieu of the future fees that will no longer be payable to an external manager under the existing limited partnership agreement.

TD Securities Inc., as financial advisor to the Special Committee, delivered an opinion which confirmed that the consideration paid to acquire PMI is fair to Inter Pipeline's unitholders from a financial point of view. CIBC World Markets acted as financial advisor to PAC.

### ***Improved Corporate Governance***

The Internalization Transactions have been designed to allow Inter Pipeline to move forward with a more transparent and investor-friendly form of corporate governance. Effective immediately, the composition of the PMI board has changed through the elimination of two board seats formerly held by non-independent directors. The board is now comprised of the five independent directors, Messrs. Shaw, Brown, Keinick, Robertson, and Sangster, as well as Mr. Fesyk, Inter Pipeline's President and Chief Executive Officer, and Mr. Driscoll, PMI's Chairman. In addition, Inter Pipeline intends to appoint a new chairman of the board upon the retirement of John F. Driscoll expected by year-end 2013.

No immediate changes to Inter Pipeline's management team are contemplated as a result of the Internalization Transactions. Under the terms of his employment agreement, David Fesyk, Inter Pipeline's Chief Executive Officer, has the right to terminate his employment within six months of the completion of the Internalization Transaction and receive the payments described in Inter Pipeline's Annual Information Form dated February 21, 2013. Mr. Fesyk has advised the board of PMI that he currently does not intend to exercise that right. Bill van Yzerloo, Inter Pipeline's Chief Financial Officer, has advised the PMI board of his intention to retire in the first quarter of 2014, following the release of Inter Pipeline's 2013 financial results.

Upon unitholder approval of a conversion to a corporate form, Inter Pipeline will begin holding Annual General Meetings during which directors will be elected by shareholders.

### ***Planned Corporate Conversion***

Inter Pipeline intends to seek unitholder approval for its planned conversion to a corporation within the next four months. In addition to unitholder approval, the conversion will be subject to receipt of all required regulatory, stock exchange and Court of Queen's Bench of Alberta approvals.

Upon conversion, Inter Pipeline will have access to a much larger investor base. As a limited partnership, all of Inter Pipeline's equity investors must currently be Canadian residents for income tax purposes. This restriction limits Inter Pipeline's access to foreign sources of capital. Converting to a Canadian corporation will help support Inter Pipeline's growth plans by gaining access to a larger and more competitively priced pool of capital.

Pursuant to the conversion, unitholders will exchange their limited partnership units, on a one-for-one basis, for common shares of Inter Pipeline's successor corporation. The exchange is expected to occur on a tax-deferred basis for Canadian income tax purposes.

### ***Supplemental Website Information***

Additional information related to the Internalization Transactions is available on Inter Pipeline's website at [www.interpipelinefund.com](http://www.interpipelinefund.com) under the icon titled "General Partner Internalization". Supplemental materials include background information on PMI, historical and projected management fees, transaction benefits, preferred share characteristics and accounting treatments.

### ***MI 61-101 Disclosure***

The following disclosure is provided pursuant to Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"), as the Internalization Transactions involve certain transactions that are "related party transactions" for purposes of MI 61-101 for Inter Pipeline.

(a) *Description of the transaction and its material terms*

See also "Payment Structure" above.

*Share Purchase Agreement and Preferred Shares*

The Internalization Transactions were effected through the acquisition of all of the issued and outstanding shares of PAC, the sole shareholder of PMI, Inter Pipeline's General Partner, by Inter Pipeline GP Corp. (the "**Purchaser**") pursuant to a share purchase agreement (the "**SPA**") dated as of June 1, 2013, among the shareholders of PAC (the "**Vendors**"), the Purchaser and Inter Pipeline, a copy of which will be filed on SEDAR. Pursuant to the SPA, the Purchaser issued an aggregate of 7,411,683 Class A Preferred Shares, series 1 through 8, and 7,055,406 Class B Preferred Shares, series 1 through 8, (collectively, the "**Preferred Shares**") to the Vendors as consideration for all of the issued and outstanding shares of PAC. Under the SPA, the Vendors provided customary representations, warranties and indemnities for a transaction of this kind and each Vendor has agreed to pledge the Class B Preferred Shares received by the Vendor in favour of the Purchaser to secure its obligations under such indemnities.

Following the acquisition of PAC, the Purchaser and PAC were amalgamated and continued as "Inter Pipeline GP Corp." ("**GP Holdco**") and the Preferred Shares issued to the Vendors by the Purchaser became Preferred Shares of GP Holdco.

The following is a summary of the material provisions of the Preferred Shares:

- Subject to applicable law, the holders of the Preferred Shares are entitled to receive on the payment date for any distribution declared on the Class A limited partnership units (the "**Class A Units**") of Inter Pipeline, cash dividends equal to the cash distributions declared and paid on each Class A Unit (or in the case of distributions paid in Class A Units an amount in cash based upon the "current market price" of the Class A Units or in the case of distributions paid in property other than cash or Class A Units a cash amount equal to the "fair market value" of such property, as determined by the GP Holdco board of directors).
- The expectation of Inter Pipeline and the Vendors is that the Preferred Shares will be exchanged for common shares and convertible shares of Inter Pipeline Ltd. ("**New Inter Pipeline**") (the convertible shares being convertible into common shares of New Inter Pipeline as described below) as part of the planned corporate conversion referred to above. However, the provisions governing the Preferred Shares are designed to permit

the holders to retract those shares for a corresponding cash price if that exchange does not happen. Specifically, subject to applicable law, the holders of the Class A Preferred Shares are entitled to require GP Holdco to redeem any or all of the Class A Preferred Shares for an amount equal to the Current Market Price (as defined in the Preferred Share Provisions) of one Class A Unit plus, without duplication, the full amount of all dividends or distributions declared, payable or unpaid, on such Preferred Shares or the Class A Units (the "**Retraction Price**") on the earlier of: (i) the Conversion or Conversion Exchange (as such terms are defined below) not proceeding; (ii) a material breach by GP Holdco, New Inter Pipeline or Inter Pipeline of its obligations under the Support Agreement (as defined below) or the rights, privileges, restrictions and conditions attaching to the Preferred Shares (the "**Preferred Share Provisions**"); (iii) an Acquisition Proposal (as defined in the Preferred Share Provisions) in respect of Inter Pipeline, (v) a Specified Reorganization or Change of Control (as such terms are defined in the Preferred Share Provisions) in respect of Inter Pipeline, GP Holdco, PMI or New Inter Pipeline, or (vi) June 1, 2014 and subject to applicable law, the holders of the Class B Preferred Shares are entitled to require GP Holdco to redeem any or all of the Class B Preferred Shares for the Retraction Price on the earlier of: (i) an Acquisition Proposal; (ii) a material breach by GP Holdco, New Inter Pipeline or Inter Pipeline of its obligations under the Support Agreement or the Preferred Share Provisions; (iii) a Specified Reorganization or Change of Control in respect of Inter Pipeline, GP Holdco, PMI or New Inter Pipeline, (iv) the occurrence of the Trigger Date (as defined below) and (v) January 1, 2017 (in each case, the "**Retraction Availability Date**"). If, however, the Retraction Availability Date in respect of the Class B Preferred Shares occurs by reason of the occurrence of January 1, 2017 (the "**Outside Date**"), then the Retraction Price in respect of the Class B Shares will be reduced by multiplying the Retraction Price as otherwise determined by 70/170. For these purposes, "**Trigger Date**" means in effect the earliest date on which the Foster Creek and Christina Lake projects described above are generating revenue.

- Subject to the terms and conditions of the Support Agreement (as defined below), the holders of the Preferred Shares have the right (the "**Put Right**"), exercisable at any time on or after the applicable Retraction Availability Date, to require Putco (as defined below) to purchase all or any part of the Preferred Shares of the holder for the "fair market value" of the Preferred Shares.
- Subject to applicable law and the right of the holders of Preferred Shares to exercise the Put Right, GP Holdco has the right to redeem all (and not less than all) of the then outstanding Class A or Class B Preferred Shares for an amount per share equal to the applicable Retraction Price on and after June 1, 2038, or earlier if the number of Preferred Shares of the relevant class outstanding (excluding Preferred Shares beneficially owned by New Inter Pipeline, Putco, Inter Pipeline or any of their respective subsidiaries), is fewer than 370,584 or if a Change of Control (as defined in the Preferred Share Provisions) in respect of Inter Pipeline occurs.
- The holders of the Class A Preferred Shares and the Class B Preferred Shares are entitled to receive notice of and to attend any meeting of the shareholders of GP Holdco and to vote in respect of each Class A Preferred Share and each Class B Preferred Share held at any such meeting. However, in aggregate, the votes attaching to the Class A Preferred Shares and the Class B Preferred Shares will never exceed 32% of the votes attaching to the issued and outstanding shares of GP Holdco.
- The Class A and Class B Preferred Shares rank on parity with each other and are entitled to a preference over the voting common shares and the non-voting common shares and any other class of shares of GP Holdco with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or

winding-up of GP Holdco or any other distribution of the assets of GP Holdco for the purpose of winding-up its affairs.

*New Entities Created in Connection with the Internalization Transactions*

The Purchaser was a newly incorporated corporation, incorporated to participate in the Internalization Transactions, all of the Class A Voting Common Shares of which were owned by Inter Pipeline GP Holding Trust (the "**Trust**"), a newly formed trust, and all of the Class B Non-Voting Common Shares of which were owned by Inter Pipeline. On the amalgamation of the Purchaser and PAC to form GP Holdco, all of the issued and outstanding shares in the capital of the Purchaser continued as shares in the capital of GP Holdco with the result that the Trust owns all of the Class A Voting Common Shares of GP Holdco, representing a controlling 68% voting interest in GP Holdco, Inter Pipeline owns all of the Class B Non-Voting Common Shares of GP Holdco, representing a 99.999% equity interest in GP Holdco, and the Vendors own all of the issued and outstanding Preferred Shares of GP Holdco, representing an aggregate 32% voting interest in GP Holdco.

Lorne Brown, Duane Keinick, William Robertson, Brant Sangster and Richard Shaw, the independent directors of PMI (the "**Independent Directors**"), are the directors of GP Holdco and the officers of PMI are the officers of GP Holdco.

The Independent Directors are also the trustees (the "**Trustees**") of the Trust. The sole beneficiary of the Trust is a registered charity. The Trust was settled for the purposes of facilitating the completion of the transactions contemplated by the SPA and holding the voting common shares of the Purchaser (now GP Holdco), New Inter Pipeline and Putco until the completion of the Conversion. Pursuant to the Declaration of Trust governing the Trust, the Trustees are entitled to exercise the voting rights attaching to the shares in respect of the election of directors of the GP Holdco, New Inter Pipeline and Putco to cause (i) those who are directors of New Inter Pipeline as of June 1, 2013 (being the Trustees, John Driscoll and David Fesyk) to be elected or appointed as the sole directors of New Inter Pipeline and (ii) the Trustees to be elected or appointed as the sole directors of GP Holdco and Putco. In all other matters respecting the voting of the shares or otherwise respecting the ownership of the shares, the Trustees are entitled, except as otherwise specifically provided in the Declaration of Trust to vote or otherwise deal with the Shares as the Trustees see fit in their discretion. The Trust will automatically terminate without any further action on the part of the Trustees upon the Trustees ceasing to hold any of the shares of GP Holdco, New Inter Pipeline and Putco.

In addition commencing in 2014 and for so long as PMI is the General Partner of Inter Pipeline, PMI has agreed that it will annually call a general meeting of Unitholders at which the Unitholders will be asked to recommend individuals for election as directors of the General Partner which are presently William Robertson, Richard Shaw, Lorne Brown, Brant Sangster, Duane Keinick, John Driscoll and David Fesyk. GP Holdco will exercise the voting rights attaching to the voting shares in respect of the election of directors of the General Partner having regard to the persons recommended by the Unitholders, together with such other factors as GP Holdco shall in its discretion consider relevant and in the best interests of the Unitholders. If the Unitholders do not meet to recommend such directors or do not provide a recommendation to GP Holdco within fifteen (15) months after the last preceding general meeting of the Unitholders, GP Holdco will exercise the voting rights attaching to the voting shares in respect of the election of directors of the General Partner having regard to such factors as GP Holdco in its discretion considers relevant and in the best interests of the Unitholders.

In connection with the Internalization Transactions and in anticipation of the Conversion, New Inter Pipeline has been incorporated as a wholly owned subsidiary [of?]the Trust to participate in the Conversion and be the corporate successor of Inter Pipeline. The current directors of New Inter Pipeline are the Independent Directors as well as John Driscoll and David Fesyk and the officers of PMI are the officers of New Inter Pipeline.

In addition, 1740974 Alberta Ltd. ("**Putco**") has been incorporated for the purpose of facilitating certain "put right" obligations granted to the Vendors in respect of the Preferred Shares as described below. The directors of Putco are the Independent Directors and the officers of PMI are the officers of Putco. The Trust and New Inter Pipeline each own 50% of the voting common shares of Putco.

#### *Related Agreements*

In connection with the SPA, New Inter Pipeline, the Purchaser (now GP Holdco), Putco, Inter Pipeline and the Vendors entered into a put option and support agreement dated as of June 1, 2013 (the "**Support Agreement**"). Pursuant to the Support Agreement, Inter Pipeline and New Inter Pipeline have undertaken to call a meeting of the holders of Class A Units of Inter Pipeline to consider and, if thought advisable, approve a plan of arrangement intended to effect a "corporate conversion" in respect of Inter Pipeline (the "**Conversion**") pursuant to which, among other things, (i) all holders of Class A Units will transfer such units to New Inter Pipeline in exchange for the same number of common shares ("**New Inter Pipeline Common Shares**") of New Inter Pipeline, (ii) New Inter Pipeline will acquire all of the issued and outstanding shares of GP Holdco not held by the Vendors or Inter Pipeline and (iii) Inter Pipeline will be wound up, dissolved or otherwise cease to exist.

In addition, as part of the Conversion, New Inter Pipeline and Inter Pipeline intend to propose that (i) each Class A Preferred Share be acquired by New Inter Pipeline in exchange for (i) one New Inter Pipeline Common Share, and (ii) each Class B Preferred Share be acquired by New Inter Pipeline in exchange for one convertible share ("**New Inter Pipeline Convertible Share**") in the capital of New Inter Pipeline (collectively, the "**Conversion Exchange**").

In addition, under the Support Agreement, Putco has granted each Vendor the Put Right to require Putco to purchase all or any part of the Class A or Class B Preferred Shares held by such Vendor at any time on or after the Retraction Availability Date at a price per Preferred Share equal to the "fair market value" of such Preferred Shares. The Support Agreement also provides that the Put Right will be automatically exercised in the event of a Specified Reorganization unless a Vendor elects to not to have the automatic Put Right apply to its Class A or Class B Preferred Shares.

These Put Rights will cease to apply if the Conversion occurs and includes the Conversion Exchange.

Each Vendor receiving New Inter Pipeline Common Shares in exchange for Class A Preferred Shares pursuant to the Conversion Exchange has agreed that in the six month period immediately following the day on which the Conversion Exchange becomes effective, it will not, without the prior written consent of New Inter Pipeline, sell, offer to sell, grant any option or warrant for the sale of, or otherwise lend, transfer or dispose of (including without limitation making any short sale, engaging in any hedging transaction or entering into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of New Inter Pipeline Common Shares) any of the New Inter Pipeline Common Shares received by such Vendor pursuant to the Conversion Exchange.

The following is a summary of the material provisions of the New Inter Pipeline Convertible Shares:

- Holders of New Inter Pipeline Convertible Shares will not be entitled to receive dividends.
- On the Conversion Date (as defined below), all of the New Inter Pipeline Convertible Shares then outstanding will be converted automatically into New Inter Pipeline Common Shares on the basis of one New Inter Pipeline Common Share for each Convertible Share (the "**Conversion Rate**"), subject to customary anti-dilution provisions; provided that if the Conversion Date occurs by reason of the occurrence of the Outside Date, then the Conversion Rate will be reduced by multiplying the amount as otherwise determined above by 70/170. The "**Conversion Date**" is the earliest to occur of (i) an Acquisition Proposal, (ii) the Trigger Date, and (iii) the Outside Date.
- Holders of New Inter Pipeline Convertible Shares are not entitled to receive notice of or to attend or vote at any meeting of the shareholders of New Inter Pipeline except: (a) as required by applicable law; and (b) in connection with the approval of amendments to the New Inter Pipeline Convertible Shares.
- Subject to the rights, privileges, restrictions and conditions attaching to any shares ranking senior to the New Inter Pipeline Convertible Shares in respect of priority in the distribution of assets upon liquidation, dissolution or winding-up of New Inter Pipeline or any other distribution of the assets of New Inter Pipeline among its shareholders for the purpose of winding-up its affairs, in the event of a liquidation, dissolution or winding-up of New Inter Pipeline or any other distribution of the assets of New Inter Pipeline among its shareholders for the purpose of winding-up its affairs, all the property and assets of New Inter Pipeline available for distribution to the holders of New Inter Pipeline Common Shares and New Inter Pipeline Convertible Shares shall be paid or distributed equally, share for share, between the holders of Common Shares and New Inter Pipeline Convertible Shares; provided that for these purposes each holder of New Inter Pipeline Convertible Shares is deemed to hold that number of New Inter Pipeline Convertible Shares equal to the product obtained by multiplying the number of New Inter Pipeline Convertible Shares held by such holder by the then applicable Conversion Rate.

Pursuant to the Support Agreement, Inter Pipeline has unconditionally guaranteed (a) the performance by Putco, GP Holdco and New Inter Pipeline of their respective obligations under the Support Agreement, and (b) the performance by GP Holdco of its obligations under the Preferred Share Provisions.

In addition, to provide GP Holdco with sufficient funds to satisfy its obligations to declare and pay dividends on and to redeem the Preferred Shares in certain circumstances, GP Holdco and Inter Pipeline have entered into a subscription agreement dated as of June 1, 2013 (the "**Subscription Agreement**") to provide for the subscription by Inter Pipeline for additional non-voting common shares ("**Non-Voting Common Shares**") of GP Holdco. Pursuant to the Subscription Agreement, GP Holdco has agreed that to the extent that it does not have sufficient funds to lawfully declare and pay a dividend on the outstanding Preferred Shares or to pay the Retraction Price in respect of any Preferred Shares called for retraction ("**Retracted Shares**") in accordance with the Preferred Share Provisions, it will issue a demand to Inter Pipeline to subscribe for additional Non-Voting Common Shares in an amount sufficient to enable GP Holdco to make such payment on or in respect of the Retracted Shares and Inter Pipeline has agreed to subscribe for such additional Non-Voting Common Shares and pay such amount.

As further support for the obligations of GP Holdco in respect of the Preferred Shares, Inter Pipeline, the Trust, the Vendors and GP Holdco have entered into an unanimous shareholder agreement dated as of June 1, 2013 (the "**GP Holdco USA**") in respect of GP Holdco pursuant to which, among other things, GP Holdco has agreed to fully comply in a timely manner with all of its obligations under the Subscription Agreement including whenever required pursuant to the



Subscription Agreement, to deliver a demand ("**Demand**") to Inter Pipeline in accordance with the Subscription Agreement, and accept and approve all subscriptions for Non-Voting Common Shares contemplated under the Subscription Agreement. Further, except with prior approval of shareholders who collectively represent not less than 95% of the outstanding voting shares of GP Holdco, GP Holdco may not, and the shareholders of GP Holdco may not authorize or permit GP Holdco or the directors of GP Holdco to: (a) make any changes to, waive any rights under or otherwise alter or amend the Subscription Agreement or any subscription for Non-Voting Common Shares made pursuant to the Subscription Agreement; (b) refuse to accept, approve or honour, or delay or interfere with, or take or participate in any action which has or may have the effect of not complying in full in a timely manner with, any subscription for Non-Voting Common Shares made pursuant to the Subscription Agreement; or (c) fail to take all reasonable steps to enforce the Subscription Agreement against Inter Pipeline in accordance with its terms.

(b) *The purpose and business reasons for the transaction*

See "Accretion & Fairness Opinion" and "Improved Corporate Governance" above.

(c) *The anticipated effect of the transaction on the issuer's business and affairs*

See (a) and (b) above.

(d) *A description of:*

(i) *The interest in the transaction of every interested party and of the related parties and associated entities of the interested parties*

John Driscoll, the Chairman of the Board of PMI, Jeffery Errico, a director of PMI, David Fesyk, a director and the President and Chief Executive Officer of PMI, Jeff Marchant, the Vice President, Transportation of PMI, and Chris Bayle, the Chief Operating Officer of PMI (collectively, the "**Interested Parties**") are interested parties in the Internalization Transactions as they were directly or indirectly shareholders of PAC and received, directly or indirectly, Preferred Shares and related contractual rights and benefits in consideration for their shares of PAC. See (a) above and the other disclosure contained in this Section 5.1.

The Preferred Share entitlement of each Interested Party is set forth in the table below.

	<u>Class A Preferred Share Entitlement<sup>(1)</sup></u>	<u>% of Outstanding Class A Preferred Shares</u>	<u>Class B Preferred Share Entitlement<sup>(1)</sup></u>	<u>% of Outstanding Class B Preferred Shares</u>
Petro Assets Inc.	5,114,060	69	4,868,231	69
Jeffery Errico	370,584	5	352,770	5
David Fesyk	667,051	9	634,987	9
Jeff Marchant	222,351	3	211,662	3
Christian Bayle	222,351	3	211,662	3

*Note:*

(1) Number of shares held directly or indirectly by interested party. Petro Assets Inc. is owned by John Driscoll and a family trust of John Driscoll.

(ii) *The anticipated effect of the transaction on the percentage of securities of the issuer, or of an affiliated entity of the issuer, beneficially owned or controlled by each person referred to in subparagraph (i) for which there would be a material change in that percentage*

Not applicable.

- (e) *A discussion of the review and approval process adopted by the board of directors and the special committee, if any, of the issuer for the transaction, including a discussion of any materially contrary view or abstention by a director and any material disagreement between the board and the special committee*

See (b) above.

- (f) *A summary, in accordance with section 6.5 of MI 61-101, of the formal valuation, if any, obtained for the transaction, unless the formal valuation is included in its entirety in the material change report or will be included in its entirety in another disclosure document for the transaction*

Not applicable. See Section (i) below.

- (g) *Disclosure, in accordance with section 6.8 of MI 61-101, of every prior valuation in respect of the issuer that relates to the subject matter or is otherwise to the transaction:*

(i) *That has been made in the 24 months before the date of the material change report, and*

(ii) *The existence of which is known, after reasonable inquiry, to the issuer or to any director or senior officer of the issuer*

Not applicable.

- (h) *The general nature and material terms of any agreement entered into by the issuer, or a related party of the issuer, with an interested party or a joint actor with an interested party, in connection with the transaction*

See (a) above.

- (i) *Disclosure of the formal valuation and minority approval exemptions, if any, on which the issuer is relying under sections 5.5 and 5.7, respectively, of MI 61-101, and the facts supporting reliance on the exemptions*

The Internalization Transactions constitute a "related party transaction" for Inter Pipeline under MI 61-101.

No formal valuation or minority approval on the part of Inter Pipeline is required under MI 61-101 in respect of the Internalization Transactions as they are exempt, pursuant to Section 5.5(a) and Section 5.7(1)(a) of MI 61-101, from the valuation and minority approval requirement, respectively, as at the time the Internalization Transactions were agreed to, neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the Internalization Transactions, insofar as it involved interested parties, exceed 25 percent of Inter Pipeline's market capitalization.

Because the Internalization Transactions were not subject to any unitholder, regulatory or third party consent or approval requirements, there was no commercial reason not to complete the Internalization Transactions as soon as the agreements giving effect to the transaction were completed, approved and executed. Accordingly, this material change report is being filed less than 21 days before the closing of the Internalization Transactions.

***Disclaimer***

*Certain information contained herein may constitute forward-looking statements that involve risks and uncertainties. Forward-looking statements in this material change report include, but are not limited to, anticipated benefits derived from the Internalization Transactions, timing for proposed corporate conversion and anticipated benefits derived therefrom, timing and cost schedules of expansion capital projects, and forward EBITDA, accretion and cash available for distribution estimates. Readers are cautioned not to place undue reliance on forward-looking statements. Such information, although considered reasonable by the General Partner of Inter Pipeline at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the statements made. For this purpose, any statements that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expects" and similar expressions. Such risks and uncertainties include, but are not limited to, risks associated with operations, such as loss of markets, regulatory matters, environmental risks, industry competition, potential delays and cost overruns of construction projects, the ability to access sufficient capital from internal and external sources and the ability to complete the conversion to a corporation in the manner and timeframe expected. You can find a discussion of those risks and uncertainties in Inter Pipeline's securities filings at [www.sedar.com](http://www.sedar.com). The forward-looking statements contained in this material change report are made as of the date of this document, and, except to the extent 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 are expressly qualified by this cautionary note. This material change report, in particular the information in respect of anticipated incremental EBITDA and accretion in cash available for distribution, may contain Future Oriented Financial Information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of Inter Pipeline's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions contained herein. The actual results of operations of Inter Pipeline and the resulting financial results may vary from the amounts set forth herein, and such variation may be material. Inter Pipeline and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.*

### **Non-GAAP Financial Measures**

*All dollar values are expressed in Canadian dollars unless otherwise noted.*

*Certain financial measures referred to in this material change report, namely, "EBITDA", "cash flow" and "cash available for distribution" are not measures recognized by Canadian generally accepted accounting principles ("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 these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP. The non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.*

#### **5.2 Disclosure for Restructuring Transactions:**

Not applicable.

#### **6. Reliance on subsection 7.1(2) of National Instrument 51-102:**

Not applicable.

#### **7. Omitted Information:**

Not applicable.

**8. Executive Officer:**

The name and business numbers of the executive officer of the general partner of Inter Pipeline who is knowledgeable of the material change and this report is:

William van Yzerloo, Chief Financial Officer

Telephone: (403) 290-6046

Facsimile: (403) 290-6090

**9. Date of Report:**

June 2, 2013