# Management's Discussion and Analysis

**For the year ended December 31, 2020**

# FORWARD-LOOKING INFORMATION

The following **Management's Discussion and Analysis (MD&A)** highlights Inter Pipeline Ltd. and its subsidiaries' (collectively, Inter Pipeline) operating and financial results for the three month period and year ended December 31, 2020, 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 this 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) the stability of Inter Pipeline's business and current level of dividends to its shareholders; 2) Inter Pipeline being able to transition office-based employees back to the workplace; 3) Inter Pipeline being able to maintain its financial liquidity to fund its ongoing business activities; 4) Inter Pipeline's access to additional financial resources; 5) financial forecasts or anticipated financial performance; 6) timing, estimates, cost and anticipated benefits of capital projects (including the Heartland Petrochemical Complex); 7) the value of the proceeds from the Milk River transaction and the divestiture of European bulk liquids storage business, and the expected timing for the closing of the Milk River transaction and the expected benefits of each transaction; 8) capital expenditure forecasts and financing plans for such expenditures; and 9) the plans and forecasts described under the OUTLOOK section, including the potential of securing a partner to take a material interest in the Heartland Petrochemical Complex, Inter Pipeline's financial resilience being underpinned by the long-term, stable cash flow that is generated by its oil sands transportation business, the expected demand for Inter Pipeline's storage infrastructure assets and the expectations of Inter Pipeline's diversified asset portfolio to produce long-term and predictable cash flows from predominately high-quality customers. Such statements reflect the current views of Inter Pipeline with respect to future events and are subject to certain risks, uncertainties and assumptions that could cause the results of Inter Pipeline to differ materially from those expressed in the forward-looking statements.

Factors that could cause actual results to vary from forward-looking statements or may affect the operations, performance, development and results of Inter Pipeline's businesses include, among other things: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits therefrom, including the further development of its pipeline systems and other facilities or projects including the construction of the Heartland Petrochemical Project; assumptions concerning operational reliability; Inter Pipeline's ability to maintain its investment grade credit ratings; risks and uncertainties associated with Inter Pipeline's ability to maintain its current level of cash dividends to its shareholders; assumptions based upon Inter Pipeline's current guidance including projected future EBITDA levels; the ability to access sufficient capital from internal and external sources including debt and equity capital; risks inherent in Inter Pipeline's Canadian and foreign operations; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; the potential delays of and costs of overruns on construction projects, including, but not limited to Inter Pipeline's current and future projects; risks associated with the failure to finalize formal agreements with counterparties in certain circumstances; Inter Pipeline's ability to make capital investments and the amounts of capital investments; increases in maintenance, operating or financing costs; the realization of the anticipated benefits of transactions; the availability and price of labour, equipment and construction materials; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its affiliates; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, including competition from third parties in the areas in which Inter Pipeline operates or intends to operate, pricing pressures and supply and demand in the natural gas, propane and oil transportation, natural gas liquids extraction and storage industries; fluctuations in currency and interest rates; inflation; risks of war, hostilities, civil insurrection, pandemics (including COVID-19), instability and political and economic conditions in or affecting countries in which Inter Pipeline and its affiliates operate; severe weather conditions and risks related to climate change; terrorist threats; risks associated with technology; 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, legal proceedings and regulatory actions against Inter Pipeline and its affiliates; availability of adequate levels of insurance; difficulty in obtaining necessary regulatory approvals or land access rights and maintenance of support of such approvals and rights; the effects and impacts of the COVID-19 pandemic as further described in this MD&A under the section RISK FACTORS and the supply conflict between the Organization of Petroleum Exporting Countries and other oil producing countries over production restrictions which have also impacted crude oil prices, resulting in increased global supply, the extent and duration of which are uncertain at this time, on Inter Pipeline's business and general economic and business conditions and markets; and such other risks and uncertainties described in this MD&A under the section "Risk Factors" and 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 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. You can find a discussion of those risks and uncertainties in this MD&A under the section "Risk Factors" and in Inter Pipeline's other securities filings at www.sedar.com.

The estimates of future EBITDA in this MD&A may be considered to be "future-oriented financial information" or a "financial outlook" under applicable securities laws and are based on the assumptions and factors set out above. The future-oriented financial information and financial outlook contained in this MD&A have been approved by management as of the date of this MD&A. Readers are cautioned that any such financial outlook and future oriented financial information contained herein should not be used for purposes other than those for which it is disclosed herein.

**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 MD&A 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 MD&A 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.**

# CREDIT RATINGS

This MD&A contains references to credit ratings. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

# Management's Discussion and Analysis

## For the three month period and year ended December 31, 2020

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period and year ended December 31, 2020, as compared to the three month period and year ended December 31, 2019. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 and 2019, the unaudited condensed interim consolidated financial statements (interim financial statements) for the quarterly periods ended March 31, June 30, and September 30, 2020 and the related MD&A for such periods, the **Annual Information Form**, and other information filed by Inter Pipeline on SEDAR at www.sedar.com or on Inter Pipeline's website at www.interpipeline.com.

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

This MD&A reports certain financial measures that are not recognized by Canadian generally accepted accounting principles (GAAP), as outlined in the Chartered Professional Accountant (CPA) Handbook Part I, and used by management to evaluate the performance of Inter Pipeline and its business segments. Since certain non-GAAP 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.

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## 2020 HIGHLIGHTS

- Annual funds from operations (FFO) totalled $792 million
- Oil sands transportation business generated record annual FFO of $616 million
- Net income of $359 million
- Declared cash dividends of $336 million, or $0.79 per share
- Annual payout ratio*of 42 percent
- Completed the divestiture of the majority of our European bulk liquid storage business
- Announced acquisition of Milk River pipeline system in exchange for Empress II and V straddle plants
- Completed $180 million Central Alberta pipeline system expansion, including a 75 kilometer pipeline and 260,000 barrels of additional storage
- Materially advanced the construction and readiness programs of the Heartland Petrochemical Complex
- Closed a new $1 billion committed credit facility and successfully issued $700 million of senior unsecured medium-term notes

## FOURTH QUARTER HIGHLIGHTS

- Quarterly FFO of $204 million
- Total pipeline throughput volume averaged 1,486,700 barrels per day (b/d)
- Bulk liquid storage utilization rates averaged 99 percent for the quarter
- Quarterly payout ratio* of 25 percent
- Declared cash dividends of $52 million, or $0.12 per share

*Please refer to the NON-GAAP FINANCIAL MEASURES section

# RESULTS OVERVIEW

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions, except volume, per share and % amounts)* | **2020** | 2019 | **2020** | 2019 |
| Pipeline volume (000s b/d) | | | | |
| Oil sands transportation | **1,321.5** | 1,324.9 | **1,240.3** | 1,216.7 |
| Conventional oil pipelines | **165.2** | 189.3 | **161.6** | 186.3 |
| Total pipeline volume | **1,486.7** | 1,514.2 | **1,401.9** | 1,403.0 |
| NGL processing volume (000s b/d)[1] | | | | |
| Natural gas processing - Ethane | **50.3** | 59.8 | **63.8** | 63.4 |
| Natural gas processing - Propane-plus | **40.9** | 41.7 | **44.5** | 44.2 |
| Redwater Olefinic Fractionator sales volume | **36.5** | 33.7 | **34.9** | 31.9 |
| Total NGL processing volume | **127.7** | 135.2 | **143.2** | 139.5 |
| Utilization[2] | | | | |
| Bulk liquid storage | **99%** | 93% | **98%** | 87% |
| Revenue | | | | |
| Oil sands transportation | **$ 234.7** | $ 209.6 | **$ 856.6** | $ 813.4 |
| NGL processing | **189.1** | 192.9 | **688.9** | 710.9 |
| Conventional oil pipelines | **143.4** | 165.3 | **551.5** | 716.8 |
| Bulk liquid storage | **57.1** | 76.2 | **303.5** | 294.2 |
| Total revenue | **$ 624.3** | $ 644.0 | **$ 2,400.5** | $ 2,535.3 |
| Funds from operations | | | | |
| Oil sands transportation | **$ 154.0** | $ 153.8 | **$ 615.5** | $ 603.6 |
| NGL processing | **58.5** | 50.3 | **189.7** | 236.6 |
| Conventional oil pipelines | **34.5** | 44.6 | **128.9** | 168.0 |
| Bulk liquid storage | **23.9** | 30.8 | **129.2** | 115.0 |
| Corporate costs | **(66.6)** | (62.7) | **(271.1)** | (250.3) |
| Total funds from operations | **$ 204.3** | $ 216.8 | **$ 792.2** | $ 872.9 |
| Per share[3] | **$ 0.48** | $ 0.52 | **$ 1.85** | $ 2.12 |
| Net income | **$ 168.7** | $ 100.5 | **$ 359.0** | $ 539.0 |
| Per share – basic and diluted | **$ 0.39** | $ 0.24 | **$ 0.84** | $ 1.31 |
| Adjusted EBITDA[3] | **$ 232.3** | $ 263.4 | **$ 961.9** | $ 1,051.2 |
| Dividends to shareholders | **$ 51.6** | $ 179.3 | **$ 335.7** | $ 706.4 |
| Per share[4] | **$ 0.1200** | $ 0.4275 | **$ 0.7875** | $ 1.7100 |
| Shares outstanding (basic) | | | | |
| Weighted average | **429.2** | 418.7 | **427.5** | 412.4 |
| End of period | **429.2** | 420.7 | **429.2** | 420.7 |
| Capital expenditures | | | | |
| Growth[3] | **$ 302.4** | $ 414.8 | **$ 1,095.2** | $ 1,524.0 |
| Sustaining[3] | **20.5** | 25.5 | **50.3** | 69.6 |
| Total capital expenditures | **$ 322.9** | $ 440.3 | **$ 1,145.5** | $ 1,593.6 |
| Payout ratio[3] | **25.2%** | 82.7% | **42.4%** | 80.9% |

| | As at December 31 | |
|---|---|---|
| *(millions, except % amounts)* | **2020** | 2019 |
| Total assets | **$ 13,066.4** | $ 12,951.4 |
| Total debt[5] | **$ 6,828.5** | $ 6,669.5 |
| Total equity | **$ 4,215.8** | $ 4,089.3 |
| Enterprise value[3] | **$ 11,923.1** | $ 16,153.2 |
| Consolidated net debt to total capitalization | **42.2%** | 41.3% |

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

(2) Utilization for the European divestiture group is only included for periods up to November 12, 2020.

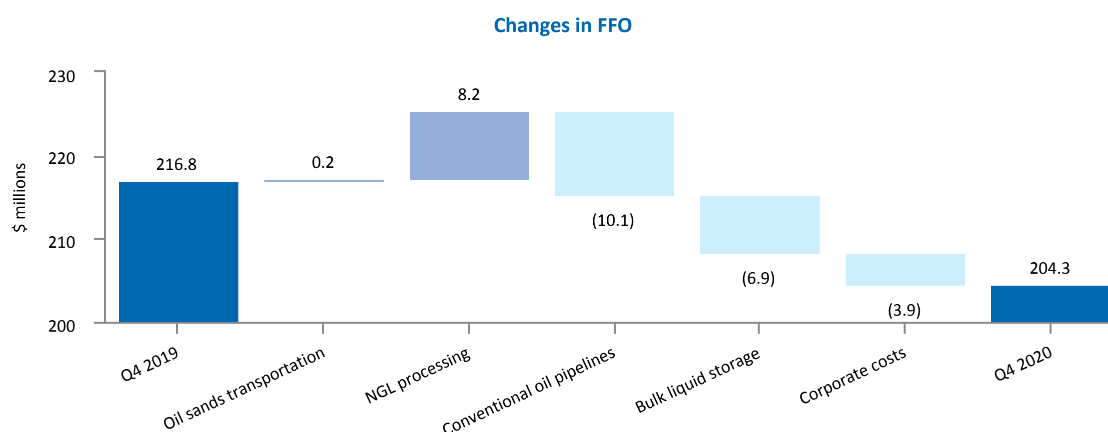
(3) Please refer to the NON-GAAP FINANCIAL MEASURES section.

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

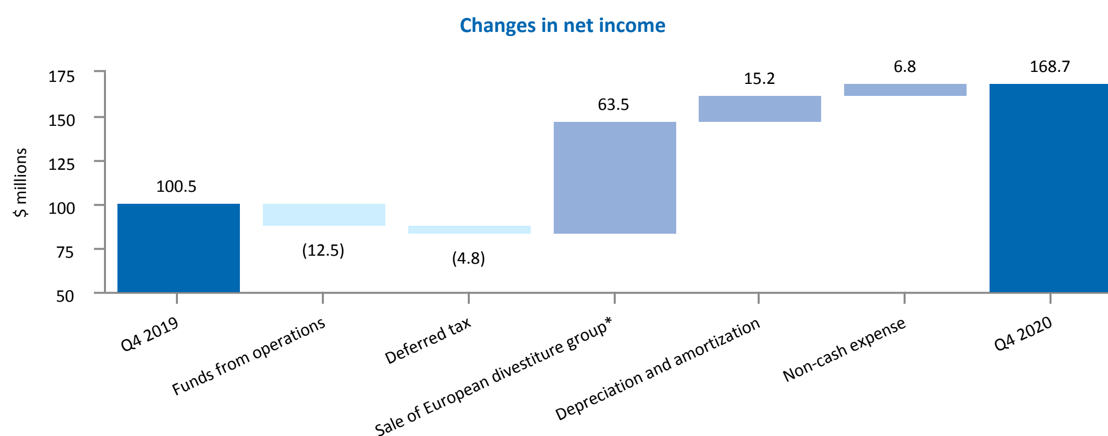
(5) Financial debt reported in the December 31, 2020 consolidated financial statements of $6,794.7 million, includes long-term debt, short-term debt and commercial paper outstanding of $6,828.5 million less discounts and debt transaction costs of $33.8 million.

## Financial performance review

### Three Months Ended December 31, 2020



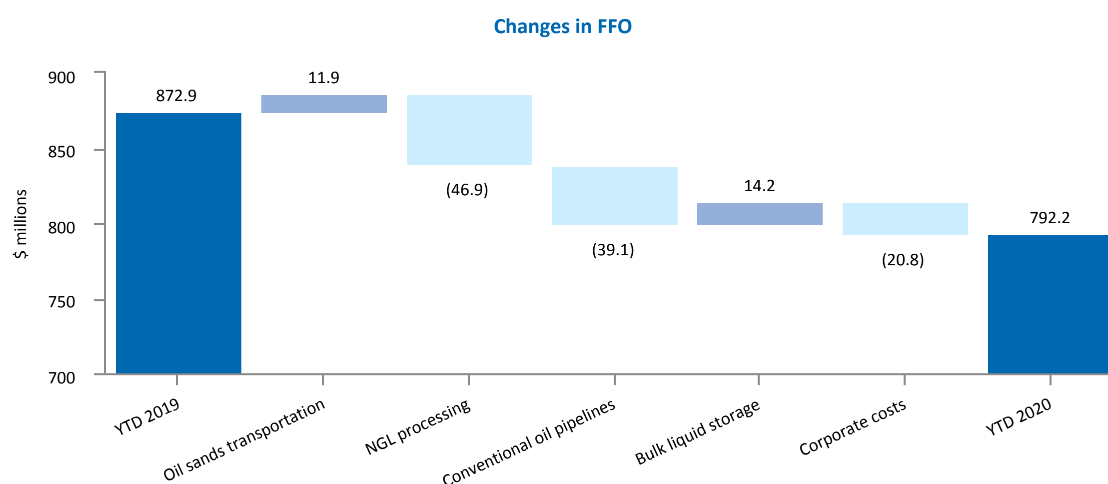

- Inter Pipeline generated FFO of $204.3 million in the current quarter, a 6% decrease from the fourth quarter of 2019.
- The oil sands business FFO remained relatively consistent quarter over quarter due to long-term cost-of-service contracts that are not materially impacted by throughput volume fluctuations.
- NGL processing business FFO increased primarily due to higher paraffinic and propane-plus frac-spread pricing and lower operating costs, partially offset by lower olefinic frac-spread pricing.
- The conventional oil pipelines business FFO continued to be impacted by lower throughput and reduced marketing activity resulting from lower crude oil prices.
- Bulk liquid storage FFO decreased primarily as a result of the sale of a majority of the European storage business (the "European divestiture group") that closed on November 12, 2020.
- Corporate costs increased due to higher external services and HPC readiness costs.



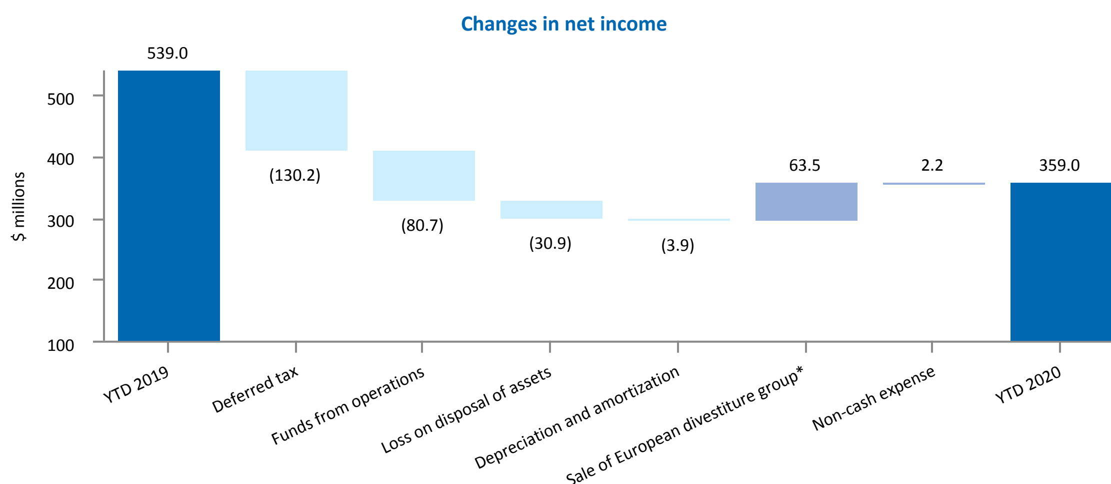

* Includes gain on sale and loss on foreign exchange financial instrument.

- Inter Pipeline's fourth quarter net income increased by $68.2 million to $168.7 million in 2020.
- Net income was favourably impacted by the gain on sale of the European divestiture group and by lower depreciation and amortization expense, somewhat offset by the decrease in FFO, as discussed above.
- Total dividends to shareholders decreased $127.7 million due to the reduced monthly cash dividend from $0.1425 per share to $0.04 per share.
- Inter Pipeline's total debt outstanding decreased $376.3 million to $6,828.5 million in the current quarter from $7,204.8 million as at September 30, 2020, as a portion of the proceeds from the sale of the European divestiture group were used to reduce indebtedness under Inter Pipeline's $1.5 billion revolving credit facility. Total debt includes non-recourse debt held by Inter Pipeline (Corridor) Inc. of $1,309.5 million.

## Year Ended December 31, 2020




- Inter Pipeline generated FFO of $792.2 million year to date 2020, a 9% decrease, compared to the same period in 2019.
- The increased oil sands business FFO was due to higher capital fee revenue on Cold Lake and Polaris.
- The NGL processing business FFO was lower mainly due to lower propane-plus and olefinic frac-spread pricing, partially offset by higher paraffinic frac-spread pricing and lower operating costs.
- The conventional oil pipelines business FFO was impacted by lower throughput and reduced marketing activity resulting from lower crude oil prices.
- Bulk liquid storage FFO increased due to higher demand for oil product storage that resulted in increased utilization, particularly in Denmark, offset in part by 49 fewer days of activity for the European divestiture group sold on November 12, 2020.
- Corporate costs increased primarily due to higher financing costs on the hybrid debt and medium-term notes, higher HPC readiness costs and one-time transaction costs, offset in part by a decrease in employee costs.

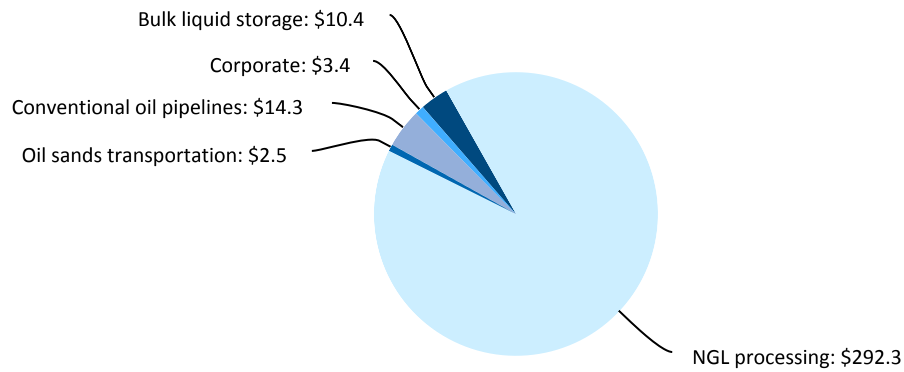



* Includes gain on sale and loss on foreign exchange financial instrument.

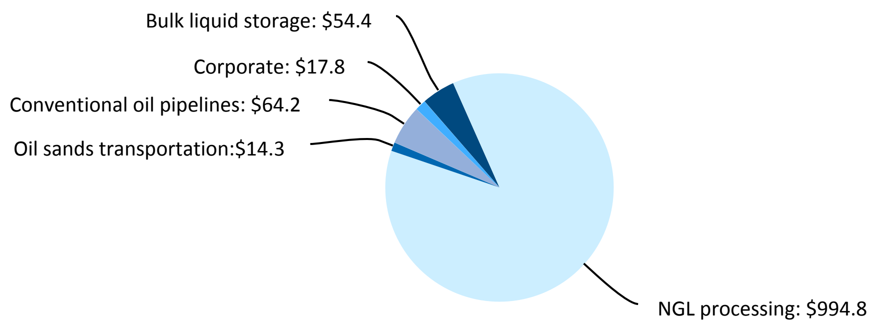
- Inter Pipeline’s net income year to date, decreased $180.0 million to $359.0 million in 2020, compared to $539.0 million in 2019.
- Net income was unfavourably impacted by an increase in deferred income taxes largely due to a one-time $143.6 million recovery in the second quarter of 2019 related to a revaluation of deferred income tax balances resulting from a reduction in the Alberta corporate income tax rate. In addition, the decrease in FFO, as discussed above, and the loss on disposal of assets, offset in part by the gain on the sale of the European divestiture group, contributed to the reduction in net income.
- Total dividends to shareholders decreased $370.7 million due to the reduced monthly cash dividend from $0.1425 per share to $0.04 per share.
- Inter Pipeline's total debt outstanding of $6,828.5 million as at December 31, 2020 increased $159.0 million from $6,669.5 million as at December 31, 2019 largely as a result of funding capital projects in 2020, including the Heartland Petrochemical Complex, offset in part by proceeds from the sale of the European divestiture group that were used to reduced indebtedness under Inter Pipeline's $1.5 billion revolving credit facility.

## Capital expenditures review

**Q4 2020 capital expenditures of $322.9 million by business segment**




**YTD 2020 capital expenditures of $1,145.5 million by business segment**




- For both the three months and year ended December 31, 2020, Inter Pipeline's capital expenditures primarily related to NGL processing, which included construction services and the procurement of materials for the Heartland Petrochemical Complex.

# OUTLOOK

Inter Pipeline owns and operates world-scale energy infrastructure assets in Western Canada and in Europe. Our long-term strategy is to protect, develop and expand high-quality assets to generate stable and predictable cash flows during this protracted and difficult period of weakened energy market conditions. The continuing reality of the novel coronavirus pandemic (COVID-19) has meant the implementation of additional procedures to ensure the safety and well-being of all our workforce. Inter Pipeline continues to align our protective measures with the requirements and recommendations from both the government and public health authorities. When conditions permit, we intend to resume with our phased plan to safely return our office-based employees back to Inter Pipeline workplaces.

## Heartland Petrochemical Complex (HPC)

The Heartland Petrochemical Complex will be North America's first integrated propane dehydrogenation (PDH) and polypropylene (PP) complex and will convert low-cost, locally sourced propane into higher value polypropylene. Intended for completion in early 2022, HPC remains positioned to generate approximately $450 million to $500 million in long-term average annual EBITDA* once in-service. In the fourth quarter of 2020, Inter Pipeline spent approximately $270 million on the HPC, bringing the total capital investment since inception to approximately $3.2 billion. The estimated cost of the HPC is approximately $4 billion. Work completed in the fourth quarter of 2020 includes substantial mechanical installation of internal facility components as overall HPC readiness advances toward commissioning and start-up.

Despite the extraordinary complexities created by the global pandemic, Inter Pipeline safely and successfully concluded HPC's third year of construction with all major milestones met. The project continues to track the revised schedule and cost estimate. The full HPC in-service date remains early 2022, supported by strong business and operations readiness programs.

Our 2021 capital expenditure program will continue to place a significant emphasis on the HPC project as it enters its final full year of construction. Of the $1 billion 2021 program, approximately $800 million will be invested into the HPC project with final installation of equipment and processing systems at the propane dehydrogenation (PDH) and polypropylene (PP) facilities scheduled for completion by year end. Specifically, the PDH facility is expected to be substantially mechanically complete by May 2021 with commissioning and operational readiness work planned for the remainder of the year. The PP plant is expected to be mechanically complete by the end of 2021.

The process to secure a partner to purchase a material interest in the Heartland Petrochemical Complex is ongoing and is expected to conclude in the first half of 2021. It is our view that a partner would benefit from joining a very well-developed, world-scale petrochemical project that has substantial commercial advantages, and would lower our project concentration exposure. While there can be no certainty that a definitive agreement will be reached, the process remains active. In the interim, we continue to execute the completion of HPC on a stand-alone basis.

## Oil Sands Transportation and Conventional Oil Pipelines

Long-term, stable cash flow is a hallmark of Inter Pipeline's oil sands transportation business. Most shippers in this segment are large investment grade entities that support 20+ year cost-of-service contracts, which are not materially impacted by throughput volume or commodity price fluctuations. As our largest business segment, the oil sands transportation business is comprised of 100% ownership of the Corridor, Cold Lake and Polaris pipeline systems. Average throughput volume for these transportation systems for the fourth quarter of 2020 was 1,321,500 b/d.

Our conventional oil pipeline business consists of the Bow River, Central Alberta and Mid Saskatchewan systems, totalling approximately 3,900 kilometers of pipeline. This segment is primarily supported by fee-based contracts, with more than 100

*Please refer to the NON-GAAP FINANCIAL MEASURES section

producers and shippers within our broad service capture areas. While throughput volume was impacted by weaker crude oil prices, reduced production, and producer shut-ins during the first half of the year, volume began to slowly recover in the latter half of the year, with fourth quarter 2020 average throughput of 165,200 b/d.

At the end of the third quarter 2020, Inter Pipeline announced that it has agreed to acquire the Milk River pipeline system from Plains Midstream Canada ULC in exchange for its 100% ownership interest in the Empress II and 50% ownership interest in the Empress V straddle plants. Inter Pipeline will also receive cash proceeds of $35 million. The Milk River pipeline system is comprised of two 16-kilometer pipelines with current throughput volume of approximately 90,000 b/d and links Inter Pipeline's Bow River pipeline system from Milk River, Alberta to the U.S./Canadian border west of Coutts, Alberta. The system has a natural alignment with our Bow River system and this acquisition will improve our access to the Montana refining region, an important delivery market for Inter Pipeline and our customers. Approximately 90% of the volume that flows through the Milk River pipeline today originates from the Bow River system and Inter Pipeline will receive incremental cash flow from both tariff revenue and marketing activities. Closing of this transaction is expected to occur in the first half of 2021, following completion of customary closing conditions and regulatory approvals.

For 2021, approximately $45 million of capital will be invested toward our oil sands and conventional pipeline assets. These funds will support the optimization of the Cold Lake, Polaris, Corridor, and Bow River pipeline systems, and includes additional enhancements on the Viking Connector and Stettler expansion projects.

## NGL Processing

As one of Canada's largest NGL processing businesses, Inter Pipeline owns three major straddle plants, two offgas plants, an offgas liquids pipeline and a fractionator, all located in Alberta. The cash flow from our NGL processing business is generated through a combination of cost-of-service, fee-based and commodity-based contracts. Results for this segment demonstrate that the low pricing environment was a significant factor in 2020, despite relatively strong throughput. In the latter part of 2020, frac-spread pricing started to strengthen, which should benefit this business if higher commodity prices continue. In the fourth quarter of 2020, Inter Pipeline's major straddle facilities processed approximately 2.96 billion cubic feet of natural gas per day and produced 91,200 b/d of natural gas liquids, while our offgas plants processed an average of 169 million cubic feet of natural gas per day and 36,500 b/d NGL sales volume from the Redwater Olefinic Fractionator (ROF).

In 2021, approximately $60 million will be invested to support the development of a number of capital projects for our facilities, including the completion of storage cavern work at the Redwater Olefinic Fractionator and certain control systems upgrades.

## Bulk Liquid Storage

In the fourth quarter of 2020, Inter Pipeline divested a major portion of its European bulk liquid storage business to the CLH Group. The proceeds from this transaction were used to reduce debt, strengthen our balance sheet and assist with financing our capital expenditure programs. Inter Pipeline continues to own and operate eight terminals in Sweden and Denmark, comprising approximately 19 million barrels of aggregate storage capacity.

Demand for storage infrastructure remained strong in Europe throughout 2020 as a result of the severe decline of energy related commodity prices and return of strong contango pricing. Utilization rates averaged 99 percent across this business in the fourth quarter of 2020 compared to 93 percent during the same period in 2019. In 2021, we are planning to invest approximately $10 million on several efficiency projects.

## Financial

The ability to maintain financial flexibility and increased liquidity to fund our ongoing business is imperative, and resulted in Inter Pipeline taking several key measures in the first half of 2020 to enhance both our financial strength and flexibility. These

included changes to our dividend program, our implementation of targeted expense reductions, the scaling back of the 2020 capital program, securing of new credit lines and the completion of additional debt financing activities.

As at December 31, 2020, Inter Pipeline had approximately $2.5 billion of available capacity on its revolving credit facilities and a consolidated net debt to total capitalization ratio of 42.2 percent, significantly below the maximum covenant level of 65 percent.

Inter Pipeline maintains investment grade credit ratings. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline a credit rating of BBB- (negative outlook) and BBB (stable trend), respectively. Inter Pipeline (Corridor) Inc. has investment grade credit ratings of A (low) (stable trend) from DBRS and BBB- (stable outlook) from S&P.

Our diversified asset portfolio is expected to produce long-term and predictable cash flows from predominantly high-quality customers, and we believe we are well-positioned to generate positive returns for investors over the long term. Inter Pipeline is focused on maintaining our disciplined investment framework, while increasing our financial strength and flexibility in the current environment.

# RECENT DEVELOPMENTS

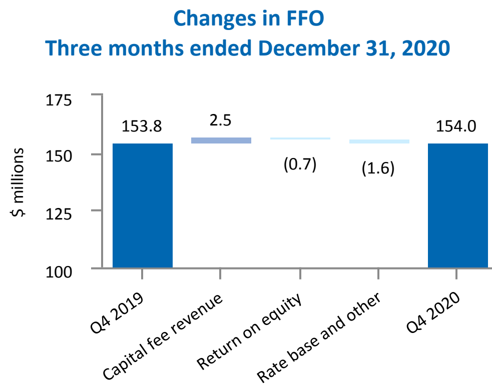
On February 10, 2021, Brookfield Infrastructure Partners L.P., together with its institutional partners (collectively, "Brookfield"), announced its intention to offer to acquire all of the outstanding common shares of Inter Pipeline not already owned by Brookfield.

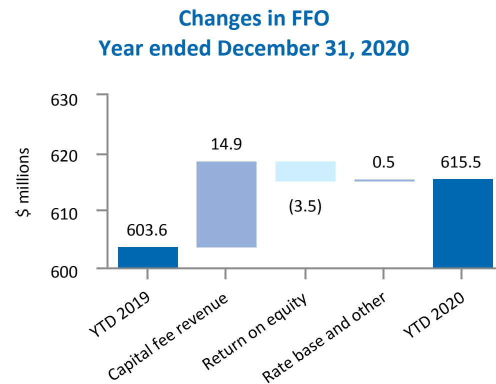
# RESULTS OF OPERATIONS

## Oil Sands Transportation Business Segment

| | Three Months Ended December 31 | | | Years Ended December 31 | | |
|---|---|---|---|---|---|---|
| *Volume (000s b/d)* | **2020** | 2019 | *% Change* | **2020** | 2019 | *% Change* |
| Cold Lake | **621.2** | 629.5 | *(1.3)* | **621.3** | 575.7 | *7.9* |
| Corridor | **422.1** | 436.2 | *(3.2)* | **374.3** | 402.9 | *(7.1)* |
| Polaris | **278.2** | 259.2 | *7.3* | **244.7** | 238.1 | *2.8* |
| | **1,321.5** | 1,324.9 | *(0.3)* | **1,240.3** | 1,216.7 | *1.9* |
| *(millions)* | | | | | | |
| Revenue | **$ 234.7** | $ 209.6 | *12.0* | **$ 856.6** | $ 813.4 | *5.3* |
| Operating expenses | **$ 73.3** | $ 40.4 | *81.4* | **$ 192.4** | $ 148.1 | *29.9* |
| Funds from operations | **$ 154.0** | $ 153.8 | *0.1* | **$ 615.5** | $ 603.6 | *2.0* |
| Capital expenditures | | | | | | |
| Growth[1] | **$ 2.3** | $ 17.6 | | **$ 12.9** | $ 93.0 | |
| Sustaining[1] | **0.2** | 2.8 | | **1.4** | 6.5 | |
| | **$ 2.5** | $ 20.4 | | **$ 14.3** | $ 99.5 | |

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




Inter Pipeline's oil sands transportation business involves the transportation of petroleum products and related blending and handling services in northern Alberta, and is comprised of the 100% owned Cold Lake, Corridor and Polaris pipeline systems.

See the **Description of the Business** section of the **Annual Information Form** for further information about the oil sands transportation business.

## Volume

Oil sands transportation services are generally provided to shippers pursuant to long-term cost-of-service contracts that provide for a defined annual capital fee and the recovery of substantially all operating costs. Generally, FFO within the oil sands transportation business is not impacted by commodity price or throughput volume fluctuations.

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. The Corridor pipeline system transports diluent from the Scotford upgrader located northeast of Edmonton 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. The Polaris pipeline system provides diluent transportation service from the Edmonton area to the Athabasca and Cold Lake areas of Alberta.

Average volume transported in the oil sands transportation business decreased by 3,400 b/d in the current quarter, while the full year of 2020 increased 23,600 b/d, compared to the same periods in 2019. Volume for the three months ended December 31, 2020 was lower mainly due to maintenance work on the Corridor system, somewhat offset by higher diluent volume delivered to Imperial's Kearl project. For the full year of 2020, the increase is primarily due to higher volume from Canadian Natural's Kirby North 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 by $25.1 million and $43.2 million in the three months and year ended December 31, 2020, respectively, compared to the same periods in 2019. For both periods, the increase was largely due to higher cost recoveries and capital fee revenue, partially offset by a lower return on equity, due to a decrease in the long-term Government of Canada bond rate during the periods.

### Operating Expenses

Operating expenses in the oil sands transportation business segment have a limited impact on Inter Pipeline's FFO, as substantially all operating expenditures are recovered from shippers. Operating expenses increased in the three months and year ended December 31, 2020, by $32.9 million and $44.3 million, respectively, compared to the same periods in 2019. For both periods, the increase was largely related to remediation activity in response to a pipeline incident that occurred late in the third quarter of 2020 near Fort McMurray, while the year to date period was somewhat offset by lower general operating and maintenance costs.

### Capital Expenditures

The oil sands transportation business incurred growth capital expenditures* of $12.9 million in 2020, primarily related to the Kirby North project on the Cold Lake pipeline system and system enhancement projects on the Corridor pipeline system. Sustaining capital expenditures* of $1.4 million in 2020 primarily related to maintenance projects on the Cold Lake pipeline system.

## NGL Processing Business Segment

### Natural gas processing

Three Months Ended December 31

| | | | | **2020** | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| | *mmcf/d* | *(000s b/d)* | | | *mmcf/d* | *(000s b/d)* | | |
| Straddle plant | Throughput | Ethane | Propane-plus | Total | Throughput | Ethane | Propane-plus | Total |
| Cochrane | **2,029** | **42.3** | **29.1** | **71.4** | 2,072 | 34.6 | 28.6 | 63.2 |
| Empress V (100% basis) | **910** | **7.7** | **11.6** | **19.3** | 984 | 24.9 | 12.3 | 37.2 |
| Empress II | **18** | **0.3** | **0.2** | **0.5** | 68 | 0.3 | 0.8 | 1.1 |
| | **2,957** | **50.3** | **40.9** | **91.2** | 3,124 | 59.8 | 41.7 | 101.5 |

Years Ended December 31

| | | | | **2020** | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| | *mmcf/d* | *(000s b/d)* | | | *mmcf/d* | *(000s b/d)* | | |
| Straddle plant | Throughput | Ethane | Propane-plus | Total | Throughput | Ethane | Propane-plus | Total |
| Cochrane | **2,174** | **44.9** | **32.7** | **77.6** | 2,195 | 36.7 | 30.0 | 66.7 |
| Empress V (100% basis) | **881** | **18.5** | **11.2** | **29.7** | 1,012 | 24.2 | 12.6 | 36.8 |
| Empress II | **43** | **0.4** | **0.6** | **1.0** | 130 | 2.5 | 1.6 | 4.1 |
| | **3,098** | **63.8** | **44.5** | **108.3** | 3,337 | 63.4 | 44.2 | 107.6 |

*Please refer to the NON-GAAP FINANCIAL MEASURES section

## Offgas processing

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| *(mmcf/d)* | | | | |
| Offgas plants throughput volume | **169** | 148 | **173** | 149 |
| *(000s b/d)* | | | | |
| Offgas plants production volume | **35.6** | 32.0 | **35.4** | 30.9 |
| Redwater Olefinic Fractionator sales volume | **36.5** | 33.7 | **34.9** | 31.9 |
| Redwater Olefinic Fractionator volume composition[1] | | | | |
| Ethane-ethylene | **42%** | 40% | **42%** | 39% |
| Paraffinic NGL | | | | |
| Propane | **30%** | 28% | **30%** | 29% |
| Normal butane | **7%** | 9% | **7%** | 8% |
| Olefinic NGL | | | | |
| Polymer grade propylene | **11%** | 11% | **11%** | 13% |
| Alky feed | **7%** | 8% | **7%** | 7% |
| Olefinic condensate | **3%** | 4% | **3%** | 4% |

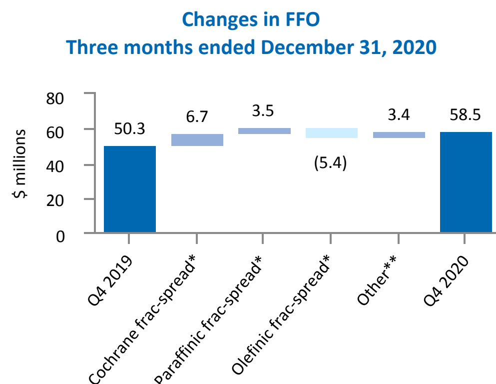
(1) Composition is based on production volume, which may differ from sales volume and is a factor in the indicative frac-spread calculation.

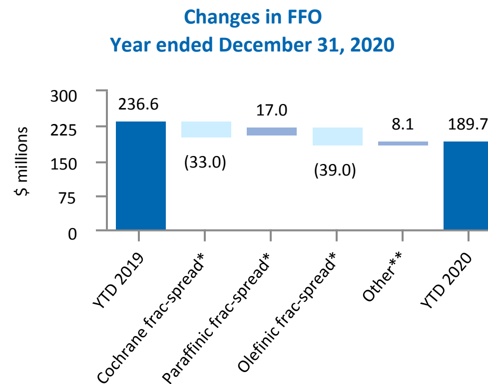
## NGL processing financial results

| | Three Months Ended December 31 | | | Years Ended December 31 | | |
|---|---|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | *% Change* | **2020** | 2019 | *% Change* |
| Revenue[1] | **$ 189.1** | $ 192.9 | *(2.0)* | **$ 688.9** | $ 710.9 | *(3.1)* |
| Cost of sales[1] | **$ 81.2** | $ 86.7 | *(6.3)* | **$ 317.0** | $ 271.9 | *16.6* |
| Operating expenses[1] | **$ 50.2** | $ 55.8 | *(10.0)* | **$ 182.5** | $ 202.4 | *(9.8)* |
| Funds from operations[1] | **$ 58.5** | $ 50.3 | *16.3* | **$ 189.7** | $ 236.6 | *(19.8)* |
| Capital expenditures[1] | | | | | | |
| Growth[2] | **$ 283.9** | $ 326.7 | | **$ 971.8** | $ 1,240.5 | |
| Sustaining[2] | **8.4** | 6.0 | | **23.0** | 31.3 | |
| | **$ 292.3** | $ 332.7 | | **$ 994.8** | $ 1,271.8 | |

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

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




* Includes price and volume.
** Includes ethane product margin, operating and other non-recurring costs.

Inter Pipeline's NGL processing business extracts NGL from natural gas and oil sands upgrader offgas. The natural gas processing facilities consist of a 100% ownership interest in the Cochrane and Empress II straddle plants and a 50% ownership interest in the Empress V straddle plant. The Empress and Cochrane plants are located on the eastern and western legs, respectively, of the TransCanada Alberta System near export points from Alberta. The offgas processing facilities consist of the Pioneer I and Pioneer II offgas plants located near Fort McMurray, Alberta, a fractionator near Redwater, Alberta, and the Boreal pipeline system that connects these facilities.

See the **Description of the Business** section of the **Annual Information Form** for further information about the NGL processing business.

## Volume

Inter Pipeline's straddle plants processed average natural gas volume of 2,957 million cubic feet per day (mmcf/d) in the current quarter and 3,098 mmcf/d for the full year of 2020, a decrease of 167 mmcf/d and 239 mmcf/d, respectively, over the comparable periods in 2019.

Average natural gas throughput volume at the Cochrane straddle plant remained relatively consistent in the current quarter and for the full year of 2020, compared to the same periods in 2019. Throughput volume at the Cochrane straddle plant is impacted by, and fluctuates 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 volume decreased by 74 mmcf/d and 131 mmcf/d in the three months and year ended December 31, 2020, respectively, compared to the same periods in 2019. For both periods, the decrease was due to reduced natural gas exported from Alberta's eastern border. Additionally, the full year of 2020 was also impacted by higher unplanned outages. Average throughput volume at the Empress II straddle plant decreased in the three months and year ended December 31, 2020 by 50 mmcf/d and 87 mmcf/d, respectively, compared to the same periods in 2019. The fluctuations in throughput volume at the Empress II straddle plant do not materially impact the operating results due to the cost-of-service commercial agreements that were in place for the year. Natural gas throughput volume at the Empress straddle plants depend 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 decreased by 10,300 b/d during the current quarter and increased by 700 b/d for the full year of 2020, compared to the same periods in 2019. For both periods, production increased due to higher inlet compositions, resulting in higher ethane and propane-plus processed at Cochrane, however, the current period was more than offset by lower ethane volume at the Empress V straddle plant due to changes in ethane sales arrangements. 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 reinjection of volume.

Inter Pipeline's Pioneer I and Pioneer II offgas plants processed combined average volume of 169 mmcf/d and 173 mmcf/d during the three months and year ended December 31, 2020, respectively. Average ethane-plus volume produced from the offgas plants increased by 3,600 b/d in the current quarter to 35,600 b/d and by 4,500 b/d year to date 2020 to 35,400 b/d. For both periods, the increase in production was due to lower third-party upgrader maintenance activity and unplanned plant shutdowns than in 2019. The full year of 2020 also benefited from lower turnaround activity at Pioneer I and Pioneer II. Throughput volume to, and production volume 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, and various downstream issues.

Average NGL sales volume from the Redwater Olefinic Fractionator in the three months and year ended December 31, 2020, increased by 2,800 b/d and 3,000 b/d, respectively, compared to the same periods in 2019. In the current quarter, sales volume increased due to lower third- party maintenance activity, resulting in higher ethane-ethylene and polymer grade propylene sales as frac rates and composition were higher. For the full year, lower turnaround activity led to higher polymer grade propylene sales volume with higher frac rates and lower recycled product, while higher ethane-ethylene sales volume resulted from higher frac rates and higher composition.

In general, production from the offgas plants and sales volume at the Redwater Olefinic Fractionator can differ due to varying inventory levels associated with cavern storage facilities, operational and commercial matters, and other downstream issues. In addition, sales and production volume composition can vary due to the impact of new contractual arrangements, rail logistical challenges and other factors.

## 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 decreased by $3.8 million and $22.0 million in the three months and year ended December 31, 2020, compared to the same periods in 2019. In the current quarter, revenue decreased primarily due to lower ethane and propane-plus sales volume from the EV straddle plant, somewhat offset by higher propane-plus and paraffinic frac-spread pricing. For the full year of 2020, the decrease was primarily due to lower olefinic and propane-plus frac-spread pricing. In addition, 2019 also benefited from higher ethane and environmental incentives.

## Natural gas processing frac-spread

| | Three Months Ended December 31 | | | |
|---|---|---|---|---|
| *(dollars)* | | **2020** | | 2019 |
| | *USD/USG*[1] | *CAD/USG*[1] | *USD/USG*[1] | *CAD/USG*[1] |
| Cochrane propane-plus market frac-spread | **$ 0.42** | **$ 0.54** | $ 0.42 | $ 0.56 |
| Cochrane propane-plus realized frac-spread | **$ 0.43** | **$ 0.56** | $ 0.41 | $ 0.55 |

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| *(dollars)* | | **2020** | | 2019 |
| | *USD/USG*[1] | *CAD/USG*[1] | *USD/USG*[1] | *CAD/USG*[1] |
| Cochrane propane-plus market frac-spread | **$ 0.35** | **$ 0.46** | $ 0.50 | $ 0.66 |
| Cochrane propane-plus realized frac-spread | **$ 0.35** | **$ 0.46** | $ 0.49 | $ 0.65 |

(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 current quarter from $0.41 USD/USG in 2019 to $0.43 USD/USG in 2020 and decreased year to date from $0.49 USD/USG in 2019 to $0.35 USD/USG in 2020. The realized propane-plus frac-spread for the month of December 2020 was $0.48 USD/USG reflecting the improvement in commodity market pricing from earlier in 2020.

## Offgas processing frac-spread

| | Three Months Ended December 31 | | | |
|---|---|---|---|---|
| *(dollars)* | | **2020** | | 2019 |
| | *USD/USG*(1) | *CAD/USG*(1) | *USD/USG*(1) | *CAD/USG*(1) |
| Offgas olefinic indicative frac-spread | **1.24** | **1.62** | 1.26 | 1.67 |
| Offgas paraffinic indicative frac-spread | **0.45** | **0.58** | 0.51 | 0.67 |
| Offgas olefinic benchmark adjustment | **0.59** | **0.77** | 0.45 | 0.60 |
| Offgas paraffinic benchmark adjustment | **0.15** | **0.20** | 0.25 | 0.33 |

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| *(dollars)* | | **2020** | | 2019 |
| | *USD/USG*(1) | *CAD/USG*(1) | *USD/USG*(1) | *CAD/USG*(1) |
| Offgas olefinic indicative frac-spread | **1.06** | **1.42** | 1.38 | 1.83 |
| Offgas paraffinic indicative frac-spread | **0.37** | **0.50** | 0.53 | 0.70 |
| Offgas olefinic benchmark adjustment | **0.51** | **0.68** | 0.50 | 0.66 |
| Offgas paraffinic benchmark adjustment | **0.16** | **0.22** | 0.37 | 0.50 |

(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.

Offgas processing produces both olefinic and paraffinic NGL which are sold under multiple shorter term, individually negotiated contracts. 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 frac-spread for offgas processing is comprised of two components. The first is the indicative frac-spread that reflects the production composition mix and the related benchmark pricing. The offgas olefinic indicative frac-spread is defined as the difference between the benchmark prices of polymer grade propylene, alky feed and olefinic condensate products and the daily index price of AECO natural gas calculated in USD/USG before the olefinic benchmark adjustment. Polymer grade propylene benchmark pricing is based on a published price by IHS Markit[†], while alky feed and olefinic condensate are currently priced on West Texas Intermediate (WTI) light sweet crude. The offgas paraffinic indicative frac-spread is defined as the difference between the benchmark prices of propane and butane products and the daily index price of AECO natural gas calculated in USD/USG before the paraffinic benchmark adjustment. Propane is based on a Conway posting, while butane is based on WTI light sweet crude. The indicative olefinic and paraffinic frac-spreads may change period over period as a result of fluctuations in benchmark pricing, production composition mix and the Canadian to U.S. dollar foreign exchange rate.

The second component of frac-spread is an aggregate benchmark adjustment that represents product sales composition, differentials, marketing fees, product and natural gas transportation, extraction premiums, seasonality, and other associated costs calculated in USD/USG. The benchmark adjustment may fluctuate period over period, due to varying terms of the contractual arrangements, and the Canadian to U.S. dollar foreign exchange rate. The benchmark adjustment should be subtracted from the indicative frac-spread to derive an olefinic and paraffinic frac-spread.

In the three months and year ended December 31, 2020, olefinic and paraffinic indicative frac-spreads decreased compared to the same periods in 2019 due to weaker product pricing. For both periods, the paraffinic benchmark adjustment decreased due to favourable product differentials for propane and normal butane. The olefinic benchmark adjustment increased in the current quarter largely due to unfavourable product differentials for alky feed but remained relatively consistent for the full year of 2020. The paraffinic and olefinic indicative frac-spreads for the month of December 2020 were $0.50 USD/USG and $1.47 USD/USG, respectively, a notable increase from the low commodity prices in the first half of 2020.

[†] PG Propylene Contract, Benchmark published by IHS Markit, North America Light Olefins.

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. Cost of sales decreased by $5.5 million in the current quarter and increased $45.1 million for the full year of 2020, compared to the same periods in 2019. The decrease in the current quarter was primarily due to lower volume delivered at the EV straddle plant, somewhat offset by higher AECO natural gas prices. The increase for the full year of 2020 was primarily due to higher AECO natural gas prices. Weighted average AECO monthly prices* increased for the three months and year ended December 31, 2020 to $2.62/GJ and $2.12/GJ, respectively, compared to $2.21/GJ and $1.54/GJ in 2019.

## Operating Expenses

Operating expenses in the NGL processing business decreased in the three months and year ended December 31, 2020 by $5.6 million and $19.9 million, respectively, compared to the same periods in 2019. Inter Pipeline's straddle plants' operating expenses decreased $3.5 million and $8.5 million in the current quarter and year to date, respectively, compared to the same periods in 2019. The decrease in both periods was mainly due to lower power costs and higher turnaround activity in 2019. Offgas processing operating expenses decreased by $2.1 million in the current quarter and $11.4 million year to date, compared to the same periods in 2019. For both periods, the decrease was mainly due to lower turnaround activity at the Redwater Olefinic Fractionator, Pioneer I and Pioneer II plants, as well as lower general operating costs. Average Alberta power pool prices decreased in the current quarter from $46.97/MWh in 2019 to $46.13/MWh in 2020 and year to date from $54.88/MWh in 2019 to $46.72/MWh in 2020.

## Capital Expenditures

In 2020, the NGL processing business incurred total growth capital expenditures*of $971.8 million. Net of the Government of Canada's Strategic Innovation grant received in 2020, $913.6 million was incurred on HPC for construction services and procurement of materials. The remaining growth capital expenditures* of $31.7 million related to various equipment and facility upgrades at the Redwater Olefinic Fractionator and Cochrane straddle plant. Total sustaining capital expenditures* of $23.0 million in 2020 primarily related to maintenance projects at the Cochrane straddle plant and the Redwater Olefinic Fractionator.

## Asset Swap

On September 28, 2020, Inter Pipeline announced it had agreed to acquire the Milk River pipeline system from Plains Midstream Canada ULC (“Plains”), in exchange for its 100 percent ownership interest in the Empress II and 50 percent ownership interest in the Empress V straddle plants. Plains will also pay Inter Pipeline cash proceeds of $35.0 million. Closing of this transaction is expected to occur in the first half of 2021 following completion of customary closing conditions and regulatory approvals. This transaction demonstrates Inter Pipeline's continued focus to strengthen its operations within its core asset base and create meaningful operational and commercial efficiencies. The carrying amount of the Empress II and V straddle plants' assets and related liabilities have been reclassified as held for sale in Inter Pipeline's audited consolidated financial statements at December 31, 2020. Readers should refer to note 6 *Assets and liabilities of the Empress divestiture group*

*Please refer to the NON-GAAP FINANCIAL MEASURES section

*held for sale* of the December 31, 2020 audited consolidated financial statements for further details of the assets held for sale classification.

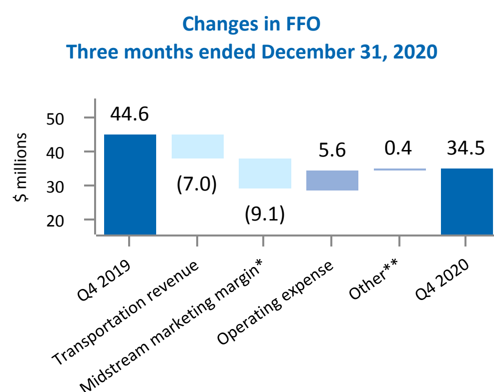
## Conventional Oil Pipelines Business Segment

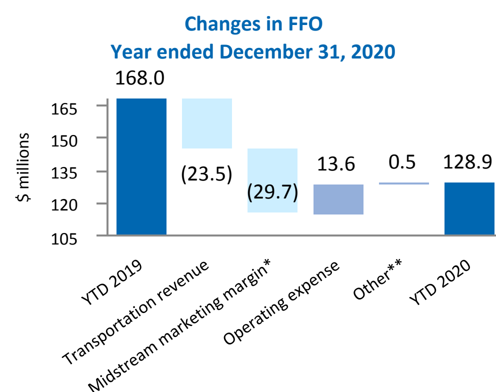
| | Three Months Ended December 31 | | | Years Ended December 31 | | |
|---|---|---|---|---|---|---|
| *Volume (000s b/d)* | **2020** | 2019 | *% change* | **2020** | 2019 | *% change* |
| Bow River | **86.2** | 94.7 | *(9.0)* | **85.3** | 97.6 | *(12.6)* |
| Central Alberta | **31.7** | 34.0 | *(6.8)* | **29.2** | 30.7 | *(4.9)* |
| Mid-Saskatchewan | **47.3** | 60.6 | *(21.9)* | **47.1** | 58.0 | *(18.8)* |
| | **165.2** | 189.3 | *(12.7)* | **161.6** | 186.3 | *(13.3)* |

| *(millions, except per barrel amount)* | | | | | | |
|---|---|---|---|---|---|---|
| Revenue | **$ 143.4** | $ 165.3 | *(13.2)* | **$ 551.5** | $ 716.8 | *(23.1)* |
| Cost of sales | **$ 95.9** | $ 101.7 | *(5.7)* | **$ 359.9** | $ 472.0 | *(23.8)* |
| Operating expenses | **$ 12.6** | $ 18.2 | *(30.8)* | **$ 60.8** | $ 74.4 | *(18.3)* |
| Funds from operations | **$ 34.5** | $ 44.6 | *(22.6)* | **$ 128.9** | $ 168.0 | *(23.3)* |
| Revenue per barrel[1] | **$ 2.95** | $ 3.04 | *(3.0)* | **$ 3.02** | $ 2.99 | *1.0* |
| Capital expenditures | | | | | | |
| Growth[2] | **$ 6.8** | $ 48.0 | | **$ 52.9** | $ 126.1 | |
| Sustaining[2] | **7.5** | 2.7 | | **11.3** | 7.6 | |
| | **$ 14.3** | $ 50.7 | | **$ 64.2** | $ 133.7 | |

(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 volume, divided by actual volume.

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




* Includes Midstream marketing revenue less cost of sales.
** Includes costs associated with decommissioning obligations.

Inter Pipeline's conventional oil pipelines business is comprised of the Bow River, Central Alberta and Mid-Saskatchewan pipeline systems, located in Alberta and Saskatchewan. These pipeline systems provide for the transportation of petroleum products and related blending, handling and marketing activities.

See the **Description of the Business** section of the **Annual Information Form** for further information about the conventional oil pipelines business.

## Volume

In the three months and year ended December 31, 2020, average volume transported on the conventional oil pipeline systems decreased by 24,100 b/d and 24,700 b/d, respectively, compared to the same periods in 2019. The decrease for all systems was primarily related to a reduction in producer activity levels due to lower crude oil prices.

## 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 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 decreased by $21.9 million and $165.3 million in the three months and for the full year of 2020, respectively, compared to the same periods in 2019. Midstream marketing revenue decreased by $14.9 million and $141.8 million in the three months and year ended December 31, 2020, respectively, compared to the same periods in 2019 due to lower crude oil pricing and lower volume. Lower volume on all systems as noted above, contributed to a reduction in transportation revenue, which decreased $7.0 million and $23.5 million in the current quarter and for the full year of 2020, respectively, compared to the same periods in 2019.

## 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 decreased for the three months and year ended December 31, 2020 by $5.8 million and $112.1 million, respectively, compared to the same periods in 2019. For both periods, the decrease was largely due to lower crude oil pricing, as well as lower product purchases required for product marketing services and blending activities.

## Operating Expenses

Conventional oil pipelines operating expenses, including risk mitigating activities, decreased by $5.6 million and $13.6 million in the three months and year ended December 31, 2020, respectively, compared to the same periods in 2019. The decrease for both periods was largely due to lower integrity and general operating and maintenance costs in 2020.

## Capital Expenditures

In 2020, the conventional oil pipelines business incurred growth capital expenditures* of $52.9 million, primarily related to pipeline and facility upgrades and expansions on all conventional pipeline systems, including the Viking Connector and Stettler Crude Oil Terminal expansion. Sustaining capital expenditures* of $11.3 million in 2020 primarily related to inspection activities and various improvement projects on all pipeline systems.

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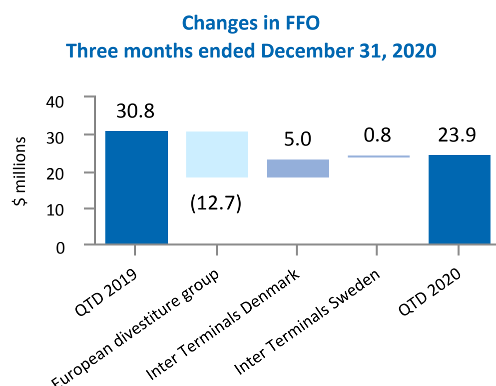
*Please refer to the NON-GAAP FINANCIAL MEASURES section

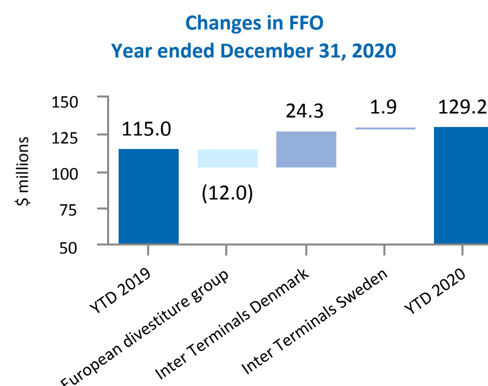
## Bulk Liquid Storage Business Segment

| | Three Months Ended December 31 | | | Years Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | *% Change* | **2020** | 2019 | *% Change* |
| Utilization[(1)] | **99%** | 93% | *6.5* | **98%** | 87% | *12.6* |
| *(millions)* | | | | | | |
| Revenue | **$ 57.1** | $ 76.2 | *(25.1)* | **$ 303.5** | $ 294.2 | *3.2* |
| Operating expenses | **$ 23.6** | $ 36.3 | *(35.0)* | **$ 132.4** | $ 140.2 | *(5.6)* |
| Funds from operations | **$ 23.9** | $ 30.8 | *(22.4)* | **$ 129.2** | $ 115.0 | *12.3* |
| Capital expenditures | | | | | | |
| Growth[(2)] | **$ 6.0** | $ 16.8 | | **$ 39.8** | $ 43.3 | |
| Sustaining[(2)] | **4.4** | 14.0 | | **14.6** | 26.2 | |
| | **$ 10.4** | $ 30.8 | | **$ 54.4** | $ 69.5 | |

(1) Utilization for the European divestiture group is only included for periods up to November 12, 2020.

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




* Includes general and administrative expenses, current taxes and financing charges.

Inter Pipeline operates a bulk liquid storage business branded as Inter Terminals. In 2020, Inter Terminals had operations in the UK, Germany, Ireland, Denmark, Sweden and the Netherlands.

On November 12, 2020, Inter Pipeline successfully divested 15 storage terminals located in the United Kingdom, Ireland, Netherlands and Germany (collectively the "European divestiture group") to the CLH Group for £420 million, or approximately $727 million, before customary closing adjustments. Readers should refer to note 5 *Sale of a portion of the European bulk liquid storage business* of the December 31, 2020 audited consolidated financial statements for further details of the divestiture.

For the periods up to November 12, 2020, Inter Terminals operated terminals across the UK, Germany and Ireland which provided storage and distribution facilities for a wide range of liquids, including oil, chemicals, biofuels and waste oils, with the ability to receive and distribute products by ship, rail, truck or pipeline. Inter Terminals also operated a terminal in the Netherlands, within the Port of Amsterdam, which provided gasoline, gas oil and fuel oil storage, as well as blending services.

Inter Terminals continues to operate eight terminals across Denmark and Sweden (collectively "Inter Terminals Nordics"), which have approximately 19 million barrels of aggregate storage capacity. In Denmark, four deep draft coastal terminals located on the Danish Straits, provide storage and custom blending services for distillates and fuel oil products. The four terminals in

Sweden function as a strategic storage and blending hub for the trans-shipment of refined products, as well as the inland distribution of retail petroleum and petrochemical products.

See the **Description of the Business** section of the **Annual Information Form** for further information about the bulk liquid storage business.

## Utilization

Average utilization in the bulk liquid storage business increased in the current quarter from 93% in 2019 to 99% in 2020, and year to date from 87% in 2019 to 98% in 2020. The increase for both periods reflects higher demand for oil product storage, resulting in higher utilization rates, particularly in Denmark. Average utilization for Denmark and Sweden increased to 99% in the three months ended December 31, 2020 from 94% in same period of 2019.

## 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.

In the three months ended December 31, 2020, revenue from the bulk liquid storage business decreased by $19.1 million, and increased $9.3 million for the full year of 2020, compared to the same periods in 2019. The sale of the European divestiture group on November 12, 2020 decreased revenue for both the current quarter and the full year of 2020. However, for the year ended December 31, 2020, revenue increased overall due to higher demand, which led to higher utilization and activity, particularly in Denmark. Foreign currency translation adjustments favourably impacted revenue by $0.5 million in the current quarter and $4.2 million year to date 2020, compared to the same periods in 2019.

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

## Foreign Exchange Rates

| | Three Months Ended December 31 | | | Years Ended December 31 | | |
|---|---|---|---|---|---|---|
| *(dollars)* | **2020** | 2019 | *% Change* | **2020** | 2019 | *% Change* |
| Euro/CAD | **1.5537** | 1.4615 | *6.3* | **1.5298** | 1.4856 | *3.0* |
| Pound Sterling/CAD | **1.7206** | 1.6994 | *1.2* | **1.7199** | 1.6945 | *1.5* |

## Operating Expenses

Bulk liquid storage operating expenses decreased by $12.7 million in the current quarter and $7.8 million for the full year of 2020, compared to the same periods in 2019. For both periods, the decrease was primarily attributable to the sale of the European divestiture group on November 12, 2020, however the full year of 2020 was offset in part by higher activity levels in Denmark. Additionally, foreign exchange unfavourably impacted operating expenses by $0.2 million in the current quarter and $2.0 million year to date 2020, compared to the same periods in 2019.

## Capital Expenditures

In 2020, the bulk liquid storage business incurred total growth capital expenditures*of $39.8 million, primarily related to tank life extension and enhancements. Total sustaining capital expenditures* in 2020 of $14.6 million, primarily related to infrastructure renovations, safety improvement projects, and financial system upgrade projects.

*Please refer to the NON-GAAP FINANCIAL MEASURES section

## Other Expenses

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | **2020** | 2019 |
| Depreciation and amortization | **$ 68.4** | $ 83.6 | **$ 360.3** | $ 356.4 |
| Income tax expense (recovery) | **$ 34.4** | $ 28.3 | **$ 113.2** | $ (21.7) |
| Financing charges | **$ 43.6** | $ 48.4 | **$ 189.6** | $ 185.8 |
| General and administrative | **$ 47.4** | $ 41.3 | **$ 187.4** | $ 173.9 |
| Gain on sale of European divestiture group | **$ (77.8)** | $ — | **$ (77.8)** | $ — |
| Loss (gain) on disposal of assets | **$ 2.8** | $ 2.8 | **$ 23.8** | $ (7.1) |

### Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets decreased by $15.2 million for the three months ended December 31, 2020, and increased by $3.9 million for the full year of 2020, compared to the same periods in 2019. Depreciation and amortization was lower in both periods due to the sale of the European divestiture group, and the cessation of depreciation and amortization on the Empress assets upon classification as held for sale. However, the full year of 2020 was more than offset by new assets now in service and the slightly accelerated depreciation of certain assets in the oil sands transportation business.

During the third quarter of 2020, prior to the divestiture of the European divestiture group on November 12, 2020, Inter Pipeline conducted a review of the recoverable amounts related to the assets of the European divestiture group and recorded a non-cash impairment charge of $30.0 million on goodwill associated with these assets. The recoverable amount was determined based on the assets' fair value less costs of disposal, which was based on the expected consideration. The resulting non-cash impairment charge of $30.0 million during 2020 was less than the $40.0 million non-cash impairment charge recognized in the third quarter of 2019, which was on goodwill associated with storage operations in Denmark.

### Income Tax Expense

In the three months and year ended December 31, 2020, consolidated income tax expense increased by $6.1 million and $134.9 million, respectively, compared to the same periods in 2019. Consolidated income tax is the sum of current income tax and deferred income tax.

Current income tax increased by $1.3 million in the current quarter and by $4.7 million for the full year of 2020. The increase for both periods is due to higher taxable income from the European business.

In the three months and year ended December 31, 2020, deferred income tax increased by $4.8 million and by $130.2 million, respectively, compared to the same periods in 2019. For the current quarter, the increase is due to the utilization of tax assets to lower current income tax expense, compared to the same period in 2019. For the full year of 2020, the increase is primarily due to the Government of Alberta substantively enacted legislation on June 28, 2019, which reduced the provincial corporate income tax rate, that resulted in a one-time deferred tax recovery of $143.6 million during the second quarter of 2019. The increase for both periods was partially offset by the impact of a lower corporate tax rate, compared to the same periods in 2019.

## Financing Charges

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | **2020** | 2019 |
| Interest expense on: | | | | |
| Credit facilities | **$ 11.8** | $ 12.6 | **$ 47.4** | $ 53.0 |
| Corridor debentures | **—** | 1.9 | **0.6** | 7.4 |
| Medium-term notes | **33.1** | 30.0 | **129.5** | 119.7 |
| Subordinated hybrid notes | **24.5** | 18.3 | **98.0** | 44.9 |
| Lease liabilities | **1.7** | 2.1 | **7.9** | 8.6 |
| Total Interest | **71.1** | 64.9 | **283.4** | 233.6 |
| Capitalized interest | **(30.5)** | (18.7) | **(106.1)** | (57.3) |
| Amortization of transaction costs on financial debt | **2.1** | 1.0 | **7.1** | 3.9 |
| Accretion of provisions and pension plan funding charges | **0.9** | 1.2 | **5.2** | 5.6 |
| Financing charges | **$ 43.6** | $ 48.4 | **$ 189.6** | $ 185.8 |

In the three months ended December 31, 2020, total financing charges decreased $4.8 million, and increased $3.8 million for the full year of 2020, compared to the same periods in 2019.

Interest on credit facilities decreased by $0.8 million in the current quarter and by $5.6 million year to date 2020, compared to the same periods in 2019. For both periods, the decrease was largely due to lower weighted average syndicated credit facility debt outstanding.

Interest charges on the Corridor debentures decreased in the current quarter and year to date 2020, compared to the same periods in 2019, as the $150 million 4.897% debentures matured and were repaid on February 3, 2020.

Interest charges on the medium-term notes increased $3.1 million in the current quarter and $9.8 million year to date, compared to the same periods in 2019. For both periods, the increase was due to interest on the $700 million senior unsecured Series 11 medium-term notes issued on June 1, 2020, partially offset by interest on the $500 million senior unsecured Series 4 medium-term notes, which matured and were repaid on July 20, 2020.

Interest on the subordinated hybrid notes increased by $6.2 million and $53.1 million for the three months and full year of 2020, respectively, compared to the same periods in 2019. The increase for both periods is due to the hybrid note issuance of $750 million on March 26, 2019 and $700 million on November 19, 2019.

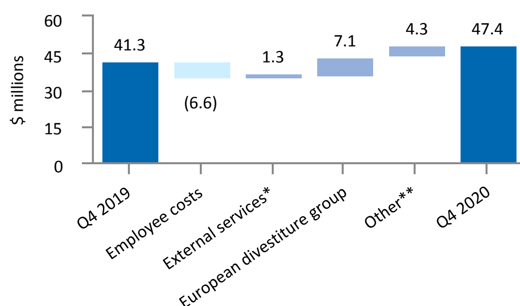
Capitalized interest increased by $11.8 million in the current quarter and $48.8 million year to date 2020, compared to the same periods in 2019, largely as a result of increased spending on the HPC.

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

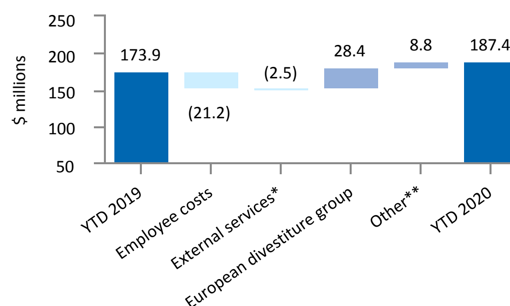
## General and Administrative

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | **2020** | 2019 |
| Canada | **$ 39.2** | $ 33.3 | **$ 153.4** | $ 139.8 |
| Europe | **8.2** | 8.0 | **34.0** | 34.1 |
| | **$ 47.4** | $ 41.3 | **$ 187.4** | $ 173.9 |

**Changes in general and administrative expense**
**Three months ended December 31, 2020**




**Changes in general and administrative expense**
**Year ended December 31, 2020**




* Includes professional and consulting fees.
**Includes foreign exchange (gains) losses, rent, information technology and other general and administrative costs that support ongoing operations.

In the three months and year ended December 31, 2020, Canadian general and administrative expenses increased by $5.9 million and $13.6 million, respectively, compared to the same periods in 2019. For both periods, the increase was largely due to costs associated with the sale of the European divestiture group, including a $14.3 million realized loss on a foreign exchange financial instrument that was entered into to manage foreign exchange exposure relating to the expected proceeds, and one-time transaction costs. These increases were partially offset by lower employee costs, including costs for the long-term incentive plan due to the decrease in Inter Pipeline's share price, and the receipt of proceeds from the Canadian Emergency Wage Subsidy program. Readers should refer to note 26 *Government Grants* of the December 31, 2020 audited consolidated financial statements for further details of this government program. For the three months and year ended December 31, 2020, approximately $9.0 million and $32.0 million, respectively, of HPC readiness costs, associated with systems and processes that will be required to support the HPC business, were included within general and administrative expenses.

European general and administrative costs in the three months and year ended December 31, 2020 remained relatively consistent, compared to the same periods in 2019.

## Loss on Disposal of Assets

Inter Pipeline incurred a loss on disposal of assets of $2.8 million in the current quarter of 2020 and $23.8 million year to date 2020. For both periods, the loss on disposal was largely due to the de-recognition of certain non-core assets in the NGL processing and conventional oil pipeline businesses, the disposal of line fill on Inter Pipeline's Central Alberta pipeline system, and of non-core assets in Denmark and UK during the year.

## Gain on sale of the European divestiture group

The divestiture of the European divestiture group on November 12, 2020, resulted in a gain on sale of $77.8 million in the fourth quarter of 2020. See the Bulk Liquid Storage Business Segment in the **RESULTS OF OPERATIONS** section of this report for further information regarding the sale.

# SUMMARY OF QUARTERLY RESULTS

| *(millions, except volume, per share and % amounts)* | 2019 First Quarter | 2019 Second Quarter | 2019 Third Quarter | 2019 Fourth Quarter | **2020 First Quarter** | **2020 Second Quarter** | **2020 Third Quarter** | **2020 Fourth Quarter** |
|---|---|---|---|---|---|---|---|---|
| **Pipeline volume (000s b/d)** | | | | | | | | |
| Oil sands transportation | 1,199.5 | 1,158.1 | 1,183.5 | 1,324.9 | **1,345.9** | **1,232.9** | **1,062.0** | **1,321.5** |
| Conventional oil pipelines | 187.1 | 184.9 | 183.9 | 189.3 | **181.9** | **139.7** | **159.8** | **165.2** |
| Total pipeline volume | 1,386.6 | 1,343.0 | 1,367.4 | 1,514.2 | **1,527.8** | **1,372.6** | **1,221.8** | **1,486.7** |
| **NGL processing volume (000s b/d)**[1] | | | | | | | | |
| Natural gas processing - Ethane | 72.2 | 59.5 | 62.2 | 59.8 | **70.5** | **71.6** | **63.0** | **50.3** |
| Natural gas processing - Propane-plus | 49.5 | 41.8 | 43.7 | 41.7 | **46.1** | **48.6** | **42.5** | **40.9** |
| Redwater Olefinic Fractionator sales volume | 35.5 | 32.6 | 25.9 | 33.7 | **36.6** | **34.7** | **31.7** | **36.5** |
| Total NGL processing volume | 157.2 | 133.9 | 131.8 | 135.2 | **153.2** | **154.9** | **137.2** | **127.7** |
| **Utilization**[2] | | | | | | | | |
| Bulk liquid storage | 78% | 83% | 92% | 93% | **95%** | **98%** | **99%** | **99%** |
| **Revenue** | | | | | | | | |
| Oil sands transportation | $ 200.7 | $ 200.4 | $ 202.7 | $ 209.6 | **$ 204.6** | **$ 200.4** | **$ 216.9** | **$ 234.7** |
| NGL processing | 208.8 | 171.0 | 138.2 | 192.9 | **171.5** | **155.7** | **172.6** | **189.1** |
| Conventional oil pipelines | 176.3 | 199.8 | 175.4 | 165.3 | **146.7** | **102.6** | **158.8** | **143.4** |
| Bulk liquid storage | 73.1 | 70.4 | 74.5 | 76.2 | **81.0** | **80.8** | **84.6** | **57.1** |
| Total revenue | $ 658.9 | $ 641.6 | $ 590.8 | $ 644.0 | **$ 603.8** | **$ 539.5** | **$ 632.9** | **$ 624.3** |
| **Funds from operations** | | | | | | | | |
| Oil sands transportation | $ 147.6 | $ 149.7 | $ 152.5 | $ 153.8 | **$ 154.5** | **$ 151.8** | **$ 155.2** | **$ 154.0** |
| NGL processing | 68.0 | 72.1 | 46.2 | 50.3 | **43.2** | **37.1** | **50.9** | **58.5** |
| Conventional oil pipelines | 34.1 | 49.6 | 39.7 | 44.6 | **36.6** | **26.3** | **31.5** | **34.5** |
| Bulk liquid storage | 26.8 | 26.9 | 30.5 | 30.8 | **34.8** | **34.2** | **36.3** | **23.9** |
| Corporate costs | (65.0) | (58.1) | (64.5) | (62.7) | **(61.6)** | **(65.0)** | **(77.9)** | **(66.6)** |
| Total funds from operations | $ 211.5 | $ 240.2 | $ 204.4 | $ 216.8 | **$ 207.5** | **$ 184.4** | **$ 196.0** | **$ 204.3** |
| Per share[4] | $ 0.52 | $ 0.59 | $ 0.49 | $ 0.52 | **$ 0.49** | **$ 0.43** | **$ 0.46** | **$ 0.48** |
| Net income | $ 98.3 | $ 260.3 | $ 79.9 | $ 100.5 | **$ 89.1** | **$ 62.5** | **$ 38.7** | **$ 168.7** |
| Per share – basic and diluted | $ 0.24 | $ 0.63 | $ 0.19 | $ 0.24 | **$ 0.21** | **$ 0.15** | **$ 0.09** | **$ 0.39** |
| Dividends to shareholders | $ 173.9 | $ 175.7 | $ 177.5 | $ 179.3 | **$ 181.1** | **$ 51.5** | **$ 51.5** | **$ 51.6** |
| Per share[4] | $ 0.428 | $ 0.428 | $ 0.428 | $ 0.428 | **$ 0.428** | **$ 0.120** | **$ 0.120** | **$ 0.120** |
| Adjusted EBITDA[3] | $ 253.1 | $ 285.1 | $ 249.6 | $ 263.4 | **$ 255.2** | **$ 232.5** | **$ 241.9** | **$ 232.3** |
| Shares outstanding (basic) | | | | | | | | |
| Weighted average | 406.0 | 410.3 | 414.6 | 418.7 | **422.9** | **428.6** | **429.2** | **429.2** |
| End of period | 408.2 | 412.4 | 416.6 | 420.7 | **425.4** | **429.2** | **429.2** | **429.2** |
| Capital expenditures | | | | | | | | |
| Growth[3] | $ 316.7 | $ 363.7 | $ 428.8 | $ 414.8 | **$ 311.6** | **$ 275.7** | **$ 205.5** | **$ 302.4** |
| Sustaining[3] | 11.9 | 18.8 | 13.4 | 25.5 | **4.9** | **7.6** | **17.3** | **20.5** |
| Total capital expenditures | $ 328.6 | $ 382.5 | $ 442.2 | $ 440.3 | **$ 316.5** | **$ 283.3** | **$ 222.8** | **$ 322.9** |
| Payout ratio[3] | 82.2% | 73.1% | 86.8% | 82.7% | **87.3%** | **27.9%** | **26.3%** | **25.2%** |
| Total assets | $11,882.6 | $12,162.8 | $12,441.1 | $12,951.4 | **$13,240.0** | **$13,674.1** | **$13,654.8** | **$13,066.4** |
| Total debt[5] | $ 5,858.2 | $ 6,056.5 | $ 6,252.3 | $ 6,669.5 | **$ 6,843.0** | **$ 7,319.3** | **$ 7,204.8** | **$ 6,828.5** |
| Total equity | $ 3,940.5 | $ 4,080.4 | $ 4,040.1 | $ 4,089.3 | **$ 4,147.4** | **$ 4,162.7** | **$ 4,176.1** | **$ 4,215.8** |
| Enterprise value[3] | $14,883.2 | $14,457.7 | $15,939.0 | $16,153.2 | **$10,425.2** | **$12,744.6** | **$12,814.7** | **$11,923.1** |
| Consolidated net debt to total capitalization | 44.2% | 45.0% | 46.5% | 41.3% | **42.3%** | **42.5%** | **44.5%** | **42.2%** |

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

(2) Utilization for the European divestiture group is only included for periods up to November 12, 2020.

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

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

(5) 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 adjust 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 December 31, 2020, Inter Pipeline had access to committed credit facilities totalling $4.6 billion, of which $2.7 billion remained unutilized, and demand facilities totalling $126.1 million of which $115.4 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline. Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the year ended December 31, 2020, $125.7 million of equity was issued through the dividend reinvestment plan that was suspended in March 2020.

On February 3, 2020, Corridor's $150 million debentures matured and were repaid, and on July 20, 2020, Inter Pipeline's $500 million senior unsecured Series 4 medium-term notes matured and were repaid. On October 21, 2020, Inter Terminals amended its demand facility by decreasing the total facility amount from £40 million to £15 million. Subsequent to the year, on February 2, 2021, Inter Pipeline's $325 million senior unsecured Series 1 medium-term notes matured and were repaid.

In the current challenging market environment, driven by an unprecedented decline in global energy prices in the first quarter of 2020 and the COVID-19 pandemic, Inter Pipeline has remained focused on maintaining its financial flexibility to fund our ongoing business activities. The following measures have allowed Inter Pipeline to enhance its financial liquidity position in order to refinance any near-term debt obligations in the event of prolonged capital market disruption:

- On March 30, 2020, Inter Pipeline announced a reduction of its monthly dividend by 72% to $0.04 per share and suspended the Premium Dividend™ and Dividend Reinvestment Plan indefinitely, all effective for the April 22, 2020 record date. This reduction results in annualized cash savings of approximately $525 million.
- On April 24, 2020, Inter Pipeline closed a $1.0 billion unsecured, revolving credit facility with an initial term of 16 months maturing August 13, 2021. This new facility provides Inter Pipeline with increased financial liquidity and access to additional financial resources should it be required. Subsequent to the year, on February 11, 2021, Inter Pipeline amended the agreement by reducing the pricing margin and extending the maturity date to December 5, 2022.
- On April 24, 2020, Inter Pipeline amended its $500 million term loan facility by extending the maturity date to August 13, 2022. Subsequent to the year, on January 27, 2021, Inter Pipeline amended the agreement by reducing the pricing margin.
- On June 1, 2020, Inter Pipeline issued $700 million of senior unsecured medium-term notes in the Canadian public debt market. The $700 million, due June 1, 2027, bears a fixed interest rate of 4.232% per annum, payable semi-annually in equal instalments in arrears. Net proceeds were used to reduce indebtedness under Inter Pipeline's $1.5 billion syndicated credit facility and to repay $500 million of senior unsecured medium-term notes that matured July 20, 2020.

*Please refer to the NON-GAAP FINANCIAL MEASURES section

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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, butane, condensate, power, natural gas, NGLs and olefins) and changes within financial markets relating to interest rates and foreign exchange exposure. Further details of the risk management program are discussed in the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section.

## Credit Facilities and Debt Outstanding

The following table summarizes Inter Pipeline's credit facilities and debt outstanding as at December 31, 2020:

| *(millions)* | Maturity Date | Rate | Total amount | Amount drawn |
|---|---|---|---|---|
| Recourse debt | | | | |
| Inter Pipeline syndicated credit facilities | | | | |
| $1.5 billion syndicated credit facility | December 5, 2024 | Variable | 1,500.0 | **$ 44.0** |
| $1.0 billion syndicated credit facility[1] | August 13, 2021 | Variable | 1,000.0 | **—** |
| Inter Pipeline term credit facility | August 13, 2022 | Variable | 500.0 | **500.0** |
| Demand facilities | | | | |
| Inter Terminals (Pound Sterling 15 million) [2] | Demand | Variable | 26.1 | **—** |
| Inter Pipeline | Demand | Variable | 75.0 | **—** |
| Medium-term notes | | | | |
| Series 1[3] | February 2, 2021 | 4.967% | 325.0 | **325.0** |
| Series 3 | May 30, 2022 | 3.776% | 400.0 | **400.0** |
| Series 5 | May 30, 2044 | 4.637% | 500.0 | **500.0** |
| Series 7 | March 24, 2025 | 3.173% | 300.0 | **300.0** |
| Series 8 | September 13, 2023 | 2.608% | 350.0 | **350.0** |
| Series 9 | December 16, 2026 | 3.484% | 450.0 | **450.0** |
| Series 10 | April 18, 2024 | 2.734% | 500.0 | **500.0** |
| Series 11 | June 1, 2027 | 4.232% | 700.0 | **700.0** |
| Subordinated hybrid notes | | | | |
| Series 2019-A[4] | March 26, 2079 | Fixed | 750.0 | **750.0** |
| Series 2019-B[5] | November 19, 2079 | Fixed | 700.0 | **700.0** |
| Non-recourse debt [6] | | | | |
| Corridor syndicated credit facility | December 14, 2023 | Variable | 1,550.0 | **1,309.5** |
| Corridor demand facility | Demand | Variable | 25.0 | **—** |
| Total debt outstanding[7][8] | | | | **$ 6,828.5** |

(1) On February 11, 2021, Inter Pipeline extended the maturity date of the facility to December 5, 2022.

(2) Inter Terminals Pound Sterling 15 million demand facility which is converted at a Pound Sterling/CAD rate of 1.7381 at December 31, 2020.

(3) On February 2, 2021, Inter Pipeline's $325 million senior unsecured Series 1 medium-term notes matured and were repaid.

(4) For the initial 10 years, the subordinated hybrid notes carry a fixed interest rate of 6.875%. Subsequently, the interest rate will be set to equal the three-month banker's acceptance rate plus a margin of 5.01% from years 10 to 30, and margin of 5.76% from years 30 to 60.

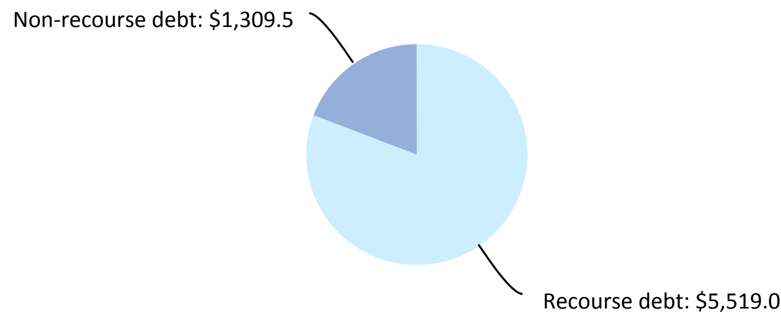
(5) For the initial 10 years, the subordinated hybrid notes carry a fixed interest rate of 6.625%. Subsequently, the interest rate will be set to equal the three-month banker's acceptance rate plus a margin of 4.90% from years 10 to 30, and margin of 5.65% from years 30 to 60.

(6) All interest costs associated with non-recourse Corridor debt are directly recoverable through the terms of the Corridor FSA.

(7) At December 31, 2020, outstanding Inter Pipeline letters of credit of approximately $10.7 million were not included in total debt outstanding.

(8) Financial debt reported in the December 31, 2020 consolidated financial statements of $6,794.7 million, includes long-term debt, short-term debt and commercial paper outstanding of $6,828.5 million less discounts and debt transaction costs of $33.8 million.

**Total debt of $6,828.5 million - December 31, 2020**




## Financial Covenants

Inter Pipeline was in compliance with all financial covenants under its credit facilities and note indentures as at December 31, 2020.

The following table provides a listing of the key financial covenants as at December 31, 2020:

| | Ratio | December 31, 2020 |
|---|---|---|
| **Inter Pipeline Ltd.** | | |
| Inter Pipeline syndicated credit facilities | | |
| Consolidated net debt to total capitalization(1)(2)(3) | Maximum 65% | 42.2% |
| EBITDA to senior interest coverage | Minimum 2.5:1.0 | 5.9 |
| Medium-term notes | | |
| Funded debt to total capitalization(2)(4)(5) | Maximum 70% | 40.5% |
| **Inter Pipeline (Corridor) Inc.** | | |
| Corridor syndicated credit facility | | |
| Rate base debt to rate base(6)(7) | Maximum 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, debt attributable to any non-controlling interest 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 subsidiary or attributable to any non-controlling interest, 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 and term credit facilities covenant is the sum of debt including hybrid debt securities, but excluding non-recourse debt, debt attributable to unrestricted subsidiaries or any non-controlling interest, 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) "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.

(5) "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 specified investment flow-through legislation.

(6) 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.

(7) 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 volume 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.

The following earnings coverage* ratio is calculated on a consolidated basis:

| *(times)* | December 31, 2020 |
|---|---|
| Earnings coverage[(1)(2)] | **2.3** |

(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.** | | |
| S&P | BBB- | Negative |
| DBRS | BBB | Stable |
| **Inter Pipeline (Corridor) Inc.** | | |
| S&P | BBB- | Stable |
| DBRS | A (low) | Stable |

*Please refer to the NON-GAAP FINANCIAL MEASURES section

## Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's undiscounted contractual obligations, commitments and guarantees as at December 31, 2020:

| *(millions)* | | Total | Less than one year | One to five years | After five years |
|---|---|---|---|---|---|
| Total debt[1][2] | | | | | |
| Corridor syndicated credit facility[2] | $ | 1,309.5 | $ 1,309.5 | $ — | $ — |
| Inter Pipeline syndicated credit facilities | | 44.0 | — | 44.0 | — |
| Inter Pipeline term credit facility | | 500.0 | — | 500.0 | — |
| Medium-term notes | | 3,525.0 | 325.0 | 1,550.0 | 1,650.0 |
| Subordinated hybrid notes | | 1,450.0 | — | — | 1,450.0 |
| | | 6,828.5 | 1,634.5 | 2,094.0 | 3,100.0 |
| Other obligations | | | | | |
| Capital expenditure commitments[3] | | 290.7 | 289.5 | 1.2 | — |
| Lease liabilities | | 190.3 | 19.2 | 73.1 | 98.0 |
| Purchase obligations[4] | | 3,084.2 | 70.8 | 403.2 | 2,610.2 |
| Adjusted working capital deficiency[5] | | 53.8 | 53.8 | — | — |
| Long-term portion of incentive plan | | 8.3 | — | 8.3 | — |
| | $ | 10,455.8 | $ 2,067.8 | $ 2,579.8 | $ 5,808.2 |

(1) At December 31, 2020, outstanding Inter Pipeline letters of credit of approximately $10.7 million were not included in total debt outstanding. Financial debt reported in the December 31, 2020 consolidated financial statements of $6,794.7 million, includes long-term debt, short-term debt and commercial paper outstanding of $6,828.5 million less discounts and debt transaction costs of $33.8 million.

(2) Principal obligations are related to commercial paper and bankers' acceptances. The commercial paper 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 2023.

(3) Capital expenditure commitments represent future minimum contractual purchase obligations.

(4) Includes: 1) service agreements for the purchase of core utilities ranging from one to 40 years; 2) contracts ranging from one to 20 years for the purchase of power from electrical service providers; 3) transportation agreements ranging from one to 25 years to support HPC, which include future commitments for leases that have not yet commenced; and 4) condensate and butane purchase agreements to support midstream marketing activities.

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

ii Inter Pipeline has obligations of $33.3 million under its employee long-term incentive plan, of which $25.0 million is included in the adjusted working capital deficit*.

iii 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 $375.3 million at December 31, 2020. 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 December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions, except per share and % amounts)* | **2020** | 2019 | **2020** | 2019 |
| Cash provided by operating activities | **$ 112.0** | $ 212.1 | **$ 711.8** | $ 841.1 |
| Net change in non-cash operating working capital | **92.3** | 4.7 | **80.4** | 31.8 |
| Funds from operations | **$ 204.3** | $ 216.8 | **$ 792.2** | $ 872.9 |
| Dividends to shareholders | **$ 51.6** | $ 179.3 | **$ 335.7** | $ 706.4 |
| Dividends per share[(1)] | **$ 0.1200** | $ 0.4275 | **$ 0.7875** | $ 1.7100 |
| Payout ratio[(2)] | **25.2%** | 82.7% | **42.4%** | 80.9% |

(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.

Dividends are determined at the discretion of Inter Pipeline’s Board of Directors, subject to certain legal and debt agreement 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 recognized and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of FFO to mitigate its quarterly impact. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, but to focus the results on cash that is generated in any reporting period.

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 December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | **2020** | 2019 |
| Cash provided by operating activities | **$ 112.0** | $ 212.1 | **$ 711.8** | $ 841.1 |
| Dividends to shareholders | **(51.6)** | (179.3) | **(335.7)** | (706.4) |
| Excess | **$ 60.4** | $ 32.8 | **$ 376.1** | $ 134.7 |

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | **2020** | 2019 |
| Net income | **$ 168.7** | $ 100.5 | **$ 359.0** | $ 539.0 |
| Dividends to shareholders | **(51.6)** | (179.3) | **(335.7)** | (706.4) |
| Excess (shortfall) | **$ 117.1** | $ (78.8) | **$ 23.3** | $ (167.4) |

Cash provided by operating activities was greater than dividends to shareholders in all periods. Shortfalls of dividends to shareholders over net income fluctuates period over period due to certain non-cash expenses such as depreciation and amortization, and deferred income taxes, which have no immediate impact on dividend sustainability. The fluctuation in dividends is related to the reduction in Inter Pipeline's monthly dividend by 72% to $0.04 per share, which was effective for the April 22, 2020 record date.

# OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at December 31, 2020 are as follows:

| *(millions)* | Total |
| --- | --- |
| Common shares outstanding | 429.2 |

At February 16, 2021, Inter Pipeline had 429.2 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.

The mark-to-market or fair value of financial instruments is recorded as an asset or liability, and any change in the fair value recognized as an unrealized change in fair value of the derivative financial instruments is in the calculation of net income. When the financial instrument matures, any realized gain or loss is recorded in net income.

### COMMODITY PRICE RISK MANAGEMENT

Inter Pipeline is exposed to commodity price risk arising from purchases and sales of crude oil, natural gas, NGLs, power, carbon credits and petrochemicals. Inter Pipeline manages its commodity risk exposures by utilizing commodity swaps. As at December 31, 2020, there were no material commodity swaps outstanding. Subsequent to December 31, 2020, Inter Pipeline entered into material commodity swaps for propane, polymer grade propylene, butane and condensate with terms of between one and twelve months, as part of its strategy to manage exposure to commodity prices.

### FOREIGN EXCHANGE RISK MANAGEMENT

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its United States and European based subsidiaries 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.

On September 22, 2020, Inter Pipeline entered into a £400 million variable date foreign exchange derivative contract to manage foreign exchange rate volatility for the expected proceeds from the sale of the European divestiture group. For the year ended December 31, 2020, the realized risk management loss on this derivative contract was $14.3 million. As at December 31, 2020, there were no foreign exchange hedges outstanding.

## Corporate

### INTEREST RATE RISK MANAGEMENT

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations. 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 swaps to manage its interest rate price risk exposure. As at December 31, 2020, there were no interest rate or cross-currency swaps outstanding.

The following sensitivity analysis is presented to provide an indication of the amount that an isolated change in one variable may have on net income and is based on long-term debt, short-term debt and commercial paper outstanding at December 31, 2020. The analysis is 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.

Based on the variable rate obligations outstanding at December 31, 2020, a 1% change in interest rates at this date would have changed interest expense for the three months and year ended December 31, 2020, by approximately $4.7 million and $18.5 million, respectively, assuming all other variables remain constant. Of this amount, $3.3 million and $13.1 million for the three months and year ended December 31, 2020, 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 months and year ended December 31, 2020 would be $1.0 million and $4.1 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. With the uncertainty surrounding COVID-19 and recent market volatility, Inter Pipeline has increased the scrutiny and diligence applied to credit monitoring procedures.

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 December 31, 2020, accounts receivable associated with these two business segments were $253.5 million or 77.0% 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 and derivatives are 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 December 31, 2020, lifetime expected credit losses for accounts receivable outstanding were insignificant.

## TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three months and years ended December 31, 2020 or 2019.

# CONTROLS AND PROCEDURES

Disclosure controls and procedures (DC&P) are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal controls over financial reporting (ICFR) are a process designed to provide reasonable assurance regarding the reliability of financial reporting and compliance with GAAP in Inter Pipeline's consolidated financial statements.

There have been no significant changes in Inter Pipeline's ICFR during the period covered by this MD&A that have materially affected, or are reasonably likely to materially affect, Inter Pipeline's ICFR.

At December 31, 2020, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures and ICFR as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Inter Pipeline's disclosure controls and procedures and ICFR were effective as of December 31, 2020.

# CRITICAL ACCOUNTING ESTIMATES

The preparation of the annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates and judgments in future years could be material. Information about critical judgments, estimates and assumptions in applying accounting policies for these areas is included in the relevant sections of the notes to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Readers should refer to note 3, Summary of Significant Accounting Policies, of the December 31, 2020 annual consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of coronavirus (COVID-19). The outbreak and the measures intended to limit the pandemic contributed to retracement and volatility in financial markets, which have adversely impacted global commercial activity and significantly increased economic uncertainty. This uncertainty has created volatility in commodity prices, foreign exchange rates, and a decline in long-term interest rates. Due to the depressed commodity prices, Inter Pipeline's share price and market capitalization decreased significantly in 2020.

Although economies are beginning to re-open, the full extent of the impact of COVID-19 on Inter Pipeline's operations and future financial performance is currently unknown as the duration, severity, and spread of COVID-19 and its variants are uncertain and unpredictable. These uncertainties, which may persist beyond when it is determined how to contain the virus and reduce its impact, may increase the complexity of estimates and assumptions used to prepare the financial statements, and changes to these assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

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.

## Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting at the date control of a business is obtained. The cost of an acquisition is measured as the aggregate of the fair values of the assets given or equity instruments issued, net of liabilities incurred or assumed. Costs directly associated with the acquisition are expensed. The consideration transferred for an acquired business is allocated to the identifiable assets acquired and liabilities assumed at their estimated fair values on the acquisition date. The excess of the consideration transferred over the amount allocated to net assets is recorded as goodwill. All available information is used to estimate fair values. External consultants are typically engaged to assist in the fair value determination of identifiable intangible assets and other significant assets or liabilities. The preliminary allocation of consideration transferred may be adjusted, as necessary, up to one year after the acquisition closing date due to additional information impacting asset valuation and liabilities assumed.

The allocation process of the consideration transferred involves uncertainty as management is required to make assumptions and apply judgment to estimates of the fair value of the acquired assets and liabilities, including highest and best use of assets. Quoted market prices and widely accepted valuation techniques, including discounted cash flows and market multiple analyses are used to estimate the fair market value of the assets and liabilities, and depreciated replacement costs are used for the valuation of tangible assets. These estimates include assumptions on inputs within the discounted cash flow calculations related to forecasted revenues, cash flows, contract renewals, asset lives, industry economic factors and business strategies.

In certain circumstances Inter Pipeline may also be required to consider the differences between the acquisition of a business and the purchase of assets depending on the terms of an acquisition contract. Certain judgments can be made in this determination which could impact the valuation and recognition of assets acquired and liabilities assumed. When an asset acquisition occurs, the identifiable assets acquired and liabilities assumed are allocated based on the cost of the acquisition and no goodwill or gain on a bargain purchase is recognized.

## Intangible Assets

Inter Pipeline’s intangible assets are amortized using an amortization method and term based on estimates of the useful lives of these assets. The carrying values of Inter Pipeline’s intangible assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. This review requires an estimate of future cash flows to be derived from the utilization of these assets based on assumptions about future events which may be subject to change depending on future economic or technical developments. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a charge against net income.

Inter Pipeline's intangible assets consist of customer contracts that are amortized on a straight-line basis over the life of the respective contract. Should the expected term of the contracts change, the amortization of the remaining balance would change prospectively.

## Goodwill

Inter Pipeline has goodwill in three of its cash generating units (CGUs): The Corridor and Polaris pipeline systems in the oil sands transportation business and Inter Terminals Denmark in the bulk liquid storage business. Assets are grouped in CGU’s which are the lowest levels for which there are separately identifiable cash inflows. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the Corridor, Polaris, Inter Terminals Denmark CGU’s. After initial recognition, goodwill is carried at cost less any write downs for impairment. During each fiscal year and as economic events dictate, management conducts an impairment test taking into consideration any events or circumstances which might have

impaired the recoverable amount. Inter Pipeline assesses the recoverable amount of the goodwill for impairment by discounting projected future cash flows generated by these assets at a weighted average cost of capital that reflects the relative risk of the asset. If it is determined that the recoverable amount of the future cash flows is less than the carrying amount of the assets at the time of assessment, an impairment loss would be determined by deducting the recoverable value on a discounted cash flow basis from the carrying amount. The recoverable amount of the underlying assets and liabilities were assessed and it was determined that there was no impairment of goodwill in 2020. Projected future cash flows used in the goodwill assessment represented management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

## Property, Plant and Equipment

Calculation of the net book value of property, plant and equipment requires Inter Pipeline to make estimates of the useful lives of the assets, residual value at the end of the asset's useful life, method of depreciation and whether impairment in value has occurred. A change in any of the estimates would result in a change in the amount of depreciation and, as a result, a charge to net income recorded in a period in which the change occurs, with a similar change in the carrying value of the asset on the consolidated balance sheets.

Inter Pipeline's property, plant and equipment consists of pipelines and related facilities, extraction, fractionation, and offgas plants, storage facilities and associated equipment, and HPC, which is currently under construction. The cost of property, plant and equipment includes all expenditures directly attributable to bringing the asset to the location and condition necessary for its intended use, including costs incurred for construction, an allocation of directly attributable overhead costs, and capitalized borrowing costs. Capitalization of borrowing costs ceases when the related property, plant and equipment is substantially complete and ready for its intended productive use. Expenditures on new construction, facility expansions, major repairs and maintenance, or betterments are capitalized, while maintenance, pipeline integrity verification, and repair costs are expensed as incurred. Depreciation of the property, plant and equipment and additions thereto is charged once the assets are ready for their intended use, and is calculated on a straight-line basis over the estimated service life of the assets, which ranges from three to 80 years for pipelines, storage, and related facilities, and three to 40 years for extraction, fractionation, and offgas plants.

## Provisions

A provision is recognized when it is determined that an obligation has arisen as a result of a past event, the obligation can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Inter Pipeline's provisions represent legal or constructive obligations associated, decommissioning tangible long-lived assets at the end of their useful lives, environmental remediation costs, and loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources.

Decommissioning obligations and environmental liabilities are calculated based on current price estimates using current technologies in accordance with current legal or constructive requirements and are adjusted for inflation to when the decommissioning or remediation activity is anticipated. Where a range of estimates exists, the possible outcomes are weighted to determine a probable settlement value or the midpoint is used where all outcomes are equally likely. Inter Pipeline's decommissioning obligations are expected to occur when the assets are no longer economically viable. The economic lives of these assets are estimated based on future expectations involving the supply of petroleum, chemical and other products and demand for certain services and therefore the timing of decommissioning may change significantly in the future. Actual costs and cash outflows may differ from these estimates due to changes in laws or regulations, timing of projects, costs and technology. As a result, there could be material adjustments to the provisions established. If the effect of the time value of

money is material, provisions are discounted to their present value using a pre-tax risk-free rate. The provision will accrete to its full value over time through charges to income, or until Inter Pipeline settles the obligation. Recoveries from third parties which are virtually certain to be realized are recorded separately and are not offset against the related provision.

On initial recognition of a decommissioning obligation, an amount equal to the estimated present value of the obligation is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's estimated useful life. Any subsequent changes to the decommissioning cost estimate or discount rate will result in a similar adjustment to the cost of the related long-lived asset.

Property, plant and equipment related to pipeline systems consist primarily of underground pipelines and above ground equipment and facilities. The potential cost of future decommissioning activities is a function of several factors, including regulatory requirements at the time of pipeline abandonment, the diameter and length of the pipeline and the pipeline's location. Decommissioning requirements can vary considerably, ranging from purging product from the pipeline, refilling with inert gas and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Under current regulations, the estimated cost for the decommissioning obligation includes such activities as: purging product from the pipeline, refilling with inert gas and capping all open ends and removal of surface facilities and reclamation of the surface facility sites.

Property, plant and equipment related to processing plants and storage facilities consist primarily of three straddle plants, two offgas plants, one olefinic fractionator, the Heartland Petrochemical Complex (HPC) and eight bulk liquid storage facilities. Inter Pipeline's decommissioning obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the aforementioned assets. The estimated costs for decommissioning obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the sites.

Inter Pipeline's decommissioning obligations are being accreted over a period of 25 to 190 years at rates of 1.1% to 1.9% per annum, based on an estimated discounted value at December 31, 2020 of $354.2 million.

Inter Pipeline's environmental remediation obligation relates to a number of projects which have been identified that Inter Pipeline is obligated to remediate in future periods. Based on management's current knowledge of regulations, technology and current plans to remediate these sites, an estimated discounted liability of $21.1 million has been recognized at December 31, 2020. Environmental obligations for the conventional oil pipelines are being accreted over a period of five to ten years at rates of 1.1% to 1.5% per annum.

## Deferred Income Taxes

Inter Pipeline uses the liability method where deferred income taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities recorded for financial reporting purposes and their tax bases.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carried forward tax losses can be utilized. Assessing the recoverability of deferred taxes requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast FFO and the application of existing tax laws.

The carrying amount of deferred tax assets is reviewed each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income taxes contain uncertainties because of the assumptions made about when deferred tax assets are likely to reverse, and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain.

Deferred tax assets and liabilities are measured using the tax rates that have been enacted or substantively enacted at the reporting date. The tax rates are those that are expected to apply in the year the asset is to be realized or the liability is to be settled. Future changes in tax laws affecting existing tax rates could limit the ability of Inter Pipeline to obtain tax deductions in future periods.

Deferred tax relating to items recognized outside net income is also recognized outside net income. Deferred tax items are recognized in correlation to the underlying transaction either in comprehensive income or directly in shareholders' equity.

Deferred tax assets and liabilities have been offset if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes are related to the same taxable entity and the same taxation authority.

# FUTURE ACCOUNTING PRONOUNCEMENT

Certain new standards, interpretations and amendments to existing standards issued by the IASB are mandatory for accounting periods beginning on or after January 1, 2021 or later periods with early adoption permitted. The standard impacted is as follows:

### IAS 16 Property, Plant and Equipment (IAS 16)

In May 2020 the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use* which made amendments to IAS 16. The amendments prohibit an entity from deducting from the cost of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity shall recognize such sales proceeds and related cost in net income. These amendments are mandatory for annual accounting periods beginning on or after January 1, 2022, with early adoption permitted.

Inter Pipeline has elected to early adopt these amendments effective January 1, 2021. The retrospective adoption of these amendments had no impact to Inter Pipeline's consolidated financial statements on the date of initial application or comparative periods.

# RISK FACTORS

In carrying out its business and operations, Inter Pipeline faces a number of risks. Generally, Inter Pipeline's risks fall into three main categories: (i) risks inherent in Inter Pipeline's business; (ii) risks relating to Inter Pipeline generally; and (iii) risks relating to the securities of Inter Pipeline. These categories are outlined below along with summaries of the specific risk factors within each general category. In some instances, risks may fall into each category. In such cases, Inter Pipeline has classified risks based on the primary category in terms of how they affect Inter Pipeline. To the extent Inter Pipeline's business or operations are affected by these risks, there could be an adverse effect on Inter Pipeline's financial performance and cash flow. The risks set out below are not an exhaustive description of all the risks associated with Inter Pipeline's business and operations. This MD&A includes forward-looking statements regarding, among other things, Inter Pipeline's plans, strategies, prospects and projections, both business and financial. Readers should not place undue reliance on any such statements included in this MD&A or any other materials. See "*Forward-Looking Information*".

## Risks Inherent in Inter Pipeline's Business

### Reserve Replacement, Throughput and Product Demand Risks

Future throughput on Inter Pipeline's pipelines and replacement of petroleum reserves in the pipelines' service areas are dependent upon the continuing petroleum exploration and development activity by, and success of, producers operating in those areas in exploiting their existing reserve bases and exploring for, developing and acquiring additional reserves. Reserve bases necessary to maintain long-term supply cannot be assured, and petroleum price declines, without corresponding reductions in costs of production, may reduce or eliminate the profitability of production and therefore the supply of petroleum for the pipelines. The pipelines are also impacted by technological improvements that could lead to increased recovery rates or partially offset natural declines in petroleum production in the areas serviced by the pipelines. Public opinion and opposition to crude oil development, production, and transportation may have an adverse impact on the approval of new oil production and infrastructure by both producers and regulators. Without reserve additions and increased recovery rates, production will decline over time as reserves are depleted.

Inter Pipeline's business will depend, in part, on the level of demand for petroleum products in the geographic areas in which deliveries are made by the pipelines and the ability and willingness of shippers to utilize the pipelines to supply such demand. Inter Pipeline cannot predict the impact of future economic conditions, fuel conservation measures, emission standards, increasing demand for alternative fuels and energy, government regulation (including greenhouse gas legislation and other de-carbonization or social policies), reduced consumer demand or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for petroleum products, and major changes may have a material adverse effect on its business, financial condition, results of operations and future prospects.

Inter Pipeline tries to mitigate these risks through a number of strategies, including: maintaining formal inspection, monitoring and maintenance programs for its equipment and pipelines to assist in maximizing facility availability and operational efficiency; working cooperatively with customers to provide them with comprehensive and competitive service options; pursuing business development initiatives to attract additional volume; expanding or modifying functional units at certain facilities if conditions warrant and/or there is sufficient demand; working with customers to manage inlet volume; and pursuing projects to improve efficiencies and remove bottlenecks. In addition to the foregoing, Inter Pipeline maintains a robust environmental, safety, social and governance program, which reflects Inter Pipeline's commitment to corporate responsibility, safety and sustainability. There is no guarantee any of these strategies will be effective.

### Supply and Commodity Price Risks

Sustained low petroleum prices could lead to a decline in drilling or mining activity and production levels or the shutting-in or abandonment of wells or oil sands operations. Drilling and mining activity, production levels and shut-in or abandonment decisions may also be affected by the availability of capital to producers for drilling, allocation by producers of available capital to produce petroleum, current or projected petroleum price volatility, overall supply and demand expectations, light crude oil to heavy crude oil price differentials and recent market events and conditions.

Producer net-back prices are affected by several factors, including bitumen prices, crude oil prices, natural gas and diluent costs, oil price differentials, foreign exchange rates and government royalties. In addition, Inter Pipeline provides bitumen transportation services from the Athabasca and Cold Lake oil sands regions. Production techniques in these regions typically require higher levels of capital investment and, as a result, bitumen production in these areas can be more sensitive to lower producer net-back prices than crude oil production in the conventional oil pipeline business segment. These factors may increase the overall costs of producing bitumen and crude oil, which may reduce production and/or delay development of new production.

The revenue generated from Inter Pipeline's marketing activities relies on the availability and pricing of different crude oil streams and other commodities. The variability of supply, hedging losses or an increase or decrease in the price of such crude oil or other commodities, could reduce the financial results from these activities.

If a sustained slowdown in either petroleum refining, biofuels or chemical sectors serviced by the bulk liquid storage business occurs or if there was a closure to one or more of these refineries, or if a refinery was converted into a competing storage facility, it could adversely affect financial and operating results. A sustained slowdown in the petroleum sector or a sustained period of backwardation in the oil products market, could adversely affect financial and operating results of the bulk liquid storage business, which is primarily involved in the storage and handling of liquids for the petroleum refining and general oil-trading business.

At Inter Pipeline's Cochrane plant (the "Cochrane Plant"), Inter Pipeline is exposed to frac-spread risk which is the relative price differential between the propane-plus produced and the natural gas used to replace the heat content removed during processing of the NGL from the natural gas stream. Financial results obtained from this portion of the NGL processing business will increase or decrease as the difference between the price of the applicable NGL and the price of natural gas varies.

At the Redwater Olefinic Fractionator, Inter Pipeline can be exposed to possible price fluctuations between the time it stores ethane-plus from the Boreal pipeline system in local storage caverns, the time it processes the ethane-plus and the time when it sells the NGL products. This can vary depending on the amount of inventory and price fluctuations. Inter Pipeline is also exposed to frac-spread risk in its offgas business, which is comprised of two components. The first is the indicative frac-spread that reflects the production composition mix and the related benchmark pricing. The offgas olefinic indicative frac-spread is defined as the difference between the benchmark prices of polymer grade propylene, alky feed and olefinic condensate products and the daily index price of AECO natural gas calculated in USD/USG before the olefinic benchmark adjustment. The offgas paraffinic indicative frac-spread is defined as the difference between the benchmark prices of propane and butane products and the daily index price of AECO natural gas calculated in USD/USG before the paraffinic benchmark adjustment. The second component of frac-spread is an aggregate benchmark adjustment that represents product sales composition, differentials, marketing fees, product and natural gas transportation, extraction premiums, seasonality, and other associated costs calculated in USD/USG. As a result, financial results obtained from the offgas processing business may change as a result of fluctuations in benchmark pricing, production composition mix, contractual arrangements and foreign exchange rate.

The cost of natural gas feedstock in excess of the market price of natural gas may have an adverse impact on the financial results of Inter Pipeline's NGL processing business. Currently, extraction premiums for the straddle plants are paid to export shippers in exchange for the ability to process the export shippers' natural gas for NGL processing. These premiums have, in the past, been moderate relative to the selling price of NGL. However, it is possible that the premiums could increase which could have an adverse effect the NGL processing business.

Inter Pipeline minimizes risks relating to extraction rights for the offgas by acquiring such extraction rights pursuant to long-term contracts with the owners of oil sands upgrading facilities, which provide compensation through both fixed premium and profit-sharing arrangements.

## Operational Risks

The pipelines, the straddle plants, the offgas plants, Redwater Olefinic Fractionator, and the Boreal pipeline system and the storage terminals owned by Inter Pipeline and its affiliates (collectively, the "Facilities") are directly or indirectly connected to various third-party mainline and operating systems, as well as refineries and third-party storage terminals. Operational disruptions, apportionment, or changes to operating parameters on third party systems, facilities or refineries may prevent the full utilization of the Facilities and could have an adverse effect on Inter Pipeline's overall operating results. Failure to plan for

maintenance and/or recovery of Facilities and critical business processes during a potential operational disruption, including a lack of availability of critical spares in case of equipment failures, could lead to delays to resume operations and reduced profitability.

The Facilities are reliant on electrical power for their operations. A failure or disruption within the local or regional electrical power supply or distribution or transmission systems could significantly affect ongoing operations. In addition, a significant increase in the cost of utilities, power, fuel or other operating costs in relation to Facilities could have a materially negative effect on the financial results realized by the Facilities in certain cases where the relevant contracts do not provide for recovery of such costs.

In the event of an incident at our Facilities resulting in a major fire or the release of large quantities of product, or as a result of flooding, and dependent on the location and applicable insurance coverage, there could be a significant impact to the financial results and continuing operation of the impacted Facilities. In addition, a major environmental, health and/or safety incident may significantly impact reputation and continuing operation of the Facilities.

Products produced at the Redwater Olefinic Fractionator are transported by railcar or tank truck to end-use customers in Canada and the United States. Any disruption to the operations, including labour disputes, service disruptions (including due to protests and blockades), infrastructure issues, insufficient railcar fleet size, or potential regulatory changes to the rail or trucking industry, could also impact the utilization of the offgas plants, Redwater Olefinic Fractionator and Boreal pipeline system.

In addition, the Redwater Olefinic Fractionator is also dependent on ethane-plus supplied by the Boreal pipeline system, which along with the offgas plants, is dependent on the reliable operation of the pipeline system. Any failure or disruption associated with the pipeline system could prevent the full utilization of the Redwater Olefinic Fractionator and the offgas plants, although this risk is partially mitigated through cavern storage for ethane-plus at the Redwater Olefinic Fractionator. Inter Pipeline is not currently a party to any collective bargaining agreements. However, labour unions may be established in certain Inter Pipeline business segments. Unionized labour disruptions could restrict the ability of Inter Pipeline to carry out its business and therefore affect Inter Pipeline's financial results.

## Risks Relating to Transportation of NGL by Rail

Inter Pipeline’s operations include rail loading, offloading and terminalling facilities. Inter Pipeline relies on railroads and trucks to distribute its products for customers and to transport raw materials to its processing facilities. Costs for environmental damage, damage to property and/or personal injury in the event of a railway incident involving hydrocarbons have the potential to be significant. Under various environmental legislation in Canada and the U.S., Inter Pipeline could be held responsible for environmental damage caused by hydrocarbons loaded at its facilities or being carried on its leased railcars. Inter Pipeline partially mitigates this risk by securing insurance coverage, but such insurance coverage may not be adequate in the event of an incident.

Railway incidents in Canada and the U.S. have prompted regulatory bodies to initiate reviews of transportation rules and publish various directives. Regulators in Canada and the U.S. have begun to phase-in more stringent engineering standards for railcars used to move hydrocarbon products, which require all North American railcars carrying crude oil or ethanol to be retrofitted and all railcars carrying flammable liquids to be compliant in accordance with specified regulatory timelines. While most legislative changes apply directly to railway companies, costs associated with retrofitting locomotives and railcars, implementing safety systems, increased inspection and reporting requirements may be directly or indirectly passed on to Inter Pipeline through increased freight rates and car leasing costs. In addition, regulators in Canada and the U.S. have implemented changes that impose obligations directly on consignors and shippers relating to the certification of product, equipment procedures and emergency response procedures.

In the event Inter Pipeline is held liable for any damages resulting from its activities relating to transporting NGLs by rail, for which insurance is not available, or increased costs or obligations are imposed on Inter Pipeline as a result of any new regulations, this could have a negative impact on Inter Pipeline's business, operations, future prospects and financial results could be negatively impacted.

## Risks Relating to Environmental Compliance and Public Safety Considerations

Inter Pipeline’s operations are subject to the laws and regulations of the jurisdictions in which it operates relating to environmental protection and operational safety. The ownership and operation of Inter Pipeline's business is subject to hazards of gathering, processing and transporting hydrocarbon products, including, without limitation, blowouts, fires, explosions, gaseous leaks, releases and migration of harmful substances, hydrocarbon spills, corrosion, and acts of vandalism and terrorism. Any of these hazards can interrupt operations, impact Inter Pipeline's reputation, cause loss of life or personal injury, result in loss of or damage to equipment, property, information technology systems, related data and control systems, and cause environmental damage that may include polluting water, land or air. Further, such ownership and operations carry the potential for liability related to worker health and safety, including, without limitation, the risk of any or all of government imposed orders to remedy unsafe conditions, potential penalties for contravention of health and safety laws, licences, permits and other approvals, and potential civil liability. Compliance with health and safety laws (and any future changes thereto) and the requirements of licences, permits and other approvals are expected to remain material to Inter Pipeline's business.

Inter Pipeline routinely reviews systems, programs, applicable laws, regulations, environmental standards, and processes critical to protecting the environment to continuously improve environmental performance, address regulatory requirements and monitor corporate sustainability. This includes a review of integrity programs, leak detection systems, air monitoring systems, contaminated sites programs and maintenance standards, preparedness, emergency response plans and corporate sustainability reporting. Improvement opportunities are implemented (as deemed appropriate) with costs budgeted during Inter Pipeline’s normal budget cycle in accordance with applicable accounting practices.

Any past remediation of releases or contamination may have met the established environmental standards. However, such remediation may not meet the current or future environmental standards and historical contamination may exist for which Inter Pipeline may be liable. Inter Pipeline has completed internal environmental reviews that have identified locations of historical contamination and several locations have been remediated. While Inter Pipeline believes such reviews have identified all locations of historical contamination, others may exist. The remaining identified, but unremediated, sites will be addressed in a prioritized manner, utilizing industry practices, with some locations being subject to multi-year reclamation plans.

Inter Pipeline strives to protect the health and safety of people at the locations in which Inter Pipeline operates. Inter Pipeline's preparedness and emergency response plans have been developed based on our analysis of risk scenarios, the estimated consequences of these events and the implementation of strategies to be followed in response to each scenario. An inability to effectively handle an emergency may have a material adverse effect on Inter Pipeline's business, financial condition and results of operations and future prospects.

While Inter Pipeline maintains insurance in respect of damage caused by seepage or pollution in amounts it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability of such insurance. If Inter Pipeline is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

However, no assurances can be given that the occurrence of any of the above listed events or the additional workers' health and safety issues relating thereto will not require unanticipated expenditures, or result in fines, penalties or other consequences (including, without limitation, changes to operations) material to Inter Pipeline's business and operations.

## Risks relating to public health emergencies and infectious diseases

Inter Pipeline is exposed to risks relating to public health emergencies and infectious diseases, including the COVID-19 pandemic, and related government responses, which could have a material and adverse effect on Inter Pipeline's business, financial condition and results of operations. The extent to which COVID-19 and other public health emergencies and infectious diseases may impact Inter Pipeline's business, including its operations and the market for its securities and its financial condition, will depend on future developments, which are uncertain and cannot be fully predicted at this time. These include the duration, severity and scope of the outbreak and the responses or actions taken by applicable governmental entities to address and mitigate COVID-19 or any other infectious diseases. In the event that the prevalence of COVID-19 continues to increase (or fears in respect of COVID-19 continue to increase), governments may increase, extend or reinstate regulations and restrictions regarding travel bans or the flow of labour and/or products. As a result, Inter Pipeline's operations, suppliers, customers, counterparties, shippers or partners, employee health, workforce productivity, insurance premiums and coverage, and ability to advance its existing and future growth projects or carry out its ongoing business plan, could be adversely affected. In particular, should any employees, consultants or other service providers of Inter Pipeline become infected with COVID-19 or similar pathogens, it could have a material negative impact on Inter Pipeline's prospects, business, financial condition, results of operations and advancement of its existing and future growth projects, including the Heartland Petrochemical Complex. In addition, government efforts to curtail the spread of COVID-19 may result in temporary or long-term suspensions, shut-downs or disruptions of Inter Pipeline's facilities or operations, impact Inter Pipeline's suppliers, customers, counterparties, shippers or partners and affect Inter Pipeline's supply chain. Such suspensions, shut-downs or disruptions may have a material and adverse effect on Inter Pipeline's business, financial condition and results of operations.

Inter Pipeline is continually monitoring all recommendations from applicable government agencies and public health authorities to ensure the continued safe operation of its business operations and projects and has implemented steps to ensure the ongoing health of its workforce, including providing the tools necessary for employees to work-at-home across the organization, safely transitioning office-based employees back to Inter Pipeline workplaces in a phased methodical fashion, limited business travel and large group meetings, providing on-going employee support and providing additional measures to critical business processes to ensure business continuity. In particular, Inter Pipeline is taking additional proactive health and safety measures such as the adoption of workforce self-screenings, temperature screenings, on-site COVID-19 testing at the Heartland Petrochemical Complex, isolation guidelines, social gathering restrictions, rigorous sanitation, physical distancing requirements, contact tracing and the use of personal protective equipment (including masks where physical distancing requirements cannot be maintained) at its facilities or projects including the Heartland Petrochemical Complex, all in accordance with the guidelines recommended by the applicable public health authorities. However, such measures and related government mandates may not be effective, and one or more of our employees, consultants or service providers may get sick and may come to work infected, necessitating a short or long-term closure of the affected facilities or projects, disrupting business and/or internal controls. Such measures and mandates may also increase Inter Pipeline's expenses and otherwise impair throughput volume and processing handling levels or cause us to close or significantly reduce the business conducted at Inter Pipeline's facilities. Further, certain businesses in certain markets may close voluntarily or be forced to close by the applicable governments, reducing our ability to conduct operations.

Oil and gas production limitations, curtailments or stoppages, physical distancing measures and other impediments affecting Inter Pipeline's suppliers, customers, counterparties, shippers or partners or its facilities, should they materialize, may make it difficult, more costly, or impossible for Inter Pipeline to conduct portions of its business. Limitations on the function of regulatory authorities as a result of remote work of its employees or redeployment of its resources to addressing the pandemic may delay our communications with the regulatory authorities and delay renewal of permits or the receipt of additional approvals required for our operations, should any such approvals be sought. If macroeconomic conditions continue to worsen

in Canada and around the world, demand for oil and gas and other products may significantly decline and industry participants, including our suppliers, customers, counterparties, shippers or partners may face severe financial hardship. In addition, the increased market volatility resulting from global business and economic disruption related to the pandemic and measures to contain it has made it more difficult for companies to access capital markets. The duration and severity of the COVID-19 pandemic is still unknown, and the pandemic may continue for a significant period of time. Any of the foregoing may adversely affect our business, financial position and results of operations.

## Regulation and Legislation Risks

Inter Pipeline is subject to intra-provincial and multi-jurisdictional regulation, including regulation by the Alberta Energy Regulator ("*AER*") in Alberta and the Ministry of Energy and Resources in Saskatchewan. In particular, the Boreal, Bow River, Central Alberta, Cold Lake, Corridor and Polaris pipeline systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the *Pipeline Act* (Alberta) and Pipeline Regulation (Alberta). The Mid-Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipelines Act* (Saskatchewan) and the Pipelines Regulation (Saskatchewan). Oil pipelines in Alberta may be subject to rate regulation pursuant to the *Public Utilities Act* (Alberta). In Saskatchewan, oil pipelines may similarly be subject to rate regulation under the *Pipelines Act* (Saskatchewan). The straddle plants, the Redwater Olefinic Fractionator and the offgas plants are also subject to regulation under the *Oil and Gas Conservation Act* (Alberta), the *Oil and Gas Conservation Rules* (Alberta), the *Safety Codes Act (Alberta)*, and the *Environmental Protection and Enhancement Act* (Alberta). Inter Pipeline's operations may be affected by changes or orders implemented by such regulatory authorities or in the legislation governing such authorities. Inter Pipeline's operations require it to obtain approvals from various regulatory authorities and there are no guarantees that it will be able to obtain all necessary licenses, permits and other approvals that may be required to conduct its business.

Certain Facilities can be subject to common carrier and common processor applications and to rate setting by regulatory authorities in the event that agreement on fees or tariffs cannot be reached with producers. To the extent that producers believe processing fees or tariffs respecting pipelines and facilities are too high, they may seek rate relief through regulatory means. Inter Pipeline tries to reduce the likelihood of regulatory intervention by taking industry standards and guidelines into account and by working proactively with various external stakeholders, landowners, Indigenous communities and its customers. Transportation service on the pipelines has been made available on an open access, non-discriminatory basis and the pipelines' tolls have not been set or restricted by any regulatory agency. There is no guarantee that Inter Pipeline will be able to avoid challenges to its rates and tariffs. Should an order for access or for the setting of tolls be made, it could result in a toll reduction and adversely affect the financial results of Inter Pipeline. Although fees charged to customers of the pipelines and the NGL processing business have not been set or restricted by any regulatory agency, an application to the Alberta or Saskatchewan regulators for the setting of fees could result in a reduction of fees and revenue for Inter Pipeline and financial results could be negatively impacted.

Inter Pipeline's facilities and other operations and activities emit greenhouse gases ("GHG") and require Inter Pipeline to comply with greenhouse gas emissions legislation in Alberta. Alberta's revamped carbon pricing scheme, called the Technology Innovation and Emissions Reduction ("TIER") system enacted under the *Climate Change and Emissions Management Act* came into force on January 1, 2020. Pursuant to the TIER system, facilities that produce more than 100,000 tonnes of annual direct carbon emissions are expected to reduce emissions by 10% in 2020 and an additional 1% per year thereafter. Currently, Inter Pipeline's Cochrane Plant, Pioneer I and Pioneer II are subject to the provincial TIER system.

In December 2020, the federal government announced a new environmental plan, that, if implemented into law, would increase the carbon tax by $15 per tonne per year starting in 2023, and increasing annually until the tax reaches $170 per tonne

in 2030. At this time, Inter Pipeline has obtained all required registrations and available exemptions from the federal carbon levy.

Current provincial, federal and international legislation and the further adoption of legislation or other regulatory initiatives designed to address climate change concerns, by reducing GHG and air pollutants from oil and gas producers, refiners and chemical producers and electric generators in the geographic areas served by the Facilities could result in, among other things, increased operating and capital expenditures as well as increased regulatory burden for those operators. This may make certain production of petroleum and natural gas by those producers uneconomic, resulting in reduced or delayed production, or reduced scope in planned new development or expansion projects. The operation of certain refineries and chemical plants may also become uneconomic. In addition, the adoption of new regulations concerning climate change and the reduction of GHG emissions and other air pollutants or other applicable laws, may also result in higher operating and capital costs for the Facilities. Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is not possible to fully predict the impact on Inter Pipeline and its operations and financial condition.

Income tax laws relating to the oil and natural gas industry or Inter Pipeline, environmental and applicable operating legislation, and the legislation and regulatory framework governing the oil and natural gas industry may be changed applied or interpreted in a manner which adversely affects Inter Pipeline. Inter Pipeline's tax returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Inter Pipeline's income taxes such reassessment may have an impact on current and future taxes payable.

Inter Pipeline’s business and financial condition may be influenced by federal and foreign legislation, affecting, in particular, foreign investment through legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada), as well as anti-bribery laws, including the *Corruption of Foreign Public Officials Act* (Canada). Given the nature of Inter Pipeline's business and international operations, Inter Pipeline has from time to time regulatory and business interaction with governments and government-owned entities and contact with persons who may be considered foreign officials. Inter Pipeline cannot guarantee that its employees, officers, directors, agents, or business partners have not in the past or will not in the future engage in conduct undetected by Inter Pipeline's processes and procedures and for which Inter Pipeline might be held liable under applicable anti-corruption laws.

Inter Pipeline's Facilities may be impacted by changes to the oil and gas royalty regime in effect in Alberta and Saskatchewan. Future royalty regime modifications could have adverse impacts on the production of oil and gas volume.

In October 2020, the federal government announced its next steps towards its plan to achieve zero plastic waste by 2030 by identifying the single-use plastics that would be banned by the end of 2021. The final list of banned items includes plastic bags, straws, stir sticks, six-pack rings, cutlery and food containers made from hard-to-recycle plastics. Future regulation of plastics products could have adverse impacts on production of polypropylene at Inter Pipeline’s Heartland Petrochemical Complex.

Failure of Inter Pipeline to comply with applicable regulations could result in sanctions, fines, litigation, or other adverse outcomes. Furthermore, new regulations or legislation introduced may result in a significant increase in operating costs to ensure compliance. Such changes could have a materially negative effect on the financial results realized by Inter Pipeline in certain cases where the relevant contracts do not provide for recovery of such costs. The cost to comply with regulatory requirements may be significant and changes to applicable legislation may adversely affect Inter Pipeline’s ability to advance projects which could affect Inter Pipeline’s ability to advance growth opportunities. Regulatory and legislative uncertainty makes it challenging for Inter Pipeline to make investment decisions and forecast compliance obligations.

The bulk liquid storage business operates approved customs and excise warehouses, thereby permitting their respective customers to store products on a duty-suspended basis. Failure to comply with legal and regulatory requirements governing the operation of such warehouses could lead to liability for customs and excise duties, value added tax and penalties, including the

withdrawal of the related authorizations, which in turn could result in a reduction in commercial activity at the facilities. Authorizations granted for both customs and excise warehouses gives rise to a risk that the bulk liquid storage business could become jointly and severally liable with the product owner to any duties or taxes on products irrespective of compliance with legal and regulatory requirements.

The bulk liquid storage business stores alcohol products at some locations. Failure to comply with regulatory measures to counteract fraudulent activity within the alcohol sector could result in the bulk liquid storage business being held liable for duties or taxes in cases where it is deemed that controls have not been sufficient to mitigate the risks.

## Project Development and Execution Risks

Inter Pipeline’s business includes the development, construction and operation of large-scale energy and petrochemical projects, such as the Heartland Petrochemical Complex. Unforeseen conditions or developments could arise during these projects that could delay or prevent completion of, and/or substantially increase the cost of construction and/or affect the current and projected levels of production. Such conditions or developments may include: shortages of equipment, materials or labour; delays in delivery of equipment or materials; significant cost over-runs; customs issues; labour disruptions; poor labour productivity; service disruptions; community protests or blockades; difficulties in obtaining necessary services; delays in obtaining regulatory permits; local government issues; political events; regulatory changes; investigations involving various authorities; adverse weather conditions (including climate change); opposition to projects including those stemming from a climate change/greenhouse gas emissions agenda; unanticipated increases in equipment, material, labour costs, unanticipated increases in utility supply requirements; unfavourable currency fluctuations; access to financing; inadequate third-party contracting or support levels; natural or man-made disasters or accidents; health emergencies and infectious diseases (including COVID-19); and unforeseen engineering, technical and technological design, environmental, infrastructure or engineering issues, a general inability to realize the anticipated benefits of the Heartland Petrochemical Complex, including the inability to produce polypropylene reliably and all the benefits associated with the royalty credits granted by the Province of Alberta pursuant to the Petrochemicals Diversification Program Royalty Credit Regulation. Any such event could delay commissioning and affect production and cost estimates. Further, there can be no assurance that the development or construction activities will proceed in accordance with current expectations or at all. These risks and uncertainties could have an adverse effect on Inter Pipeline's business, results of operations and financial performance. In addition, an inability to complete the Heartland Petrochemical Complex as planned or realize the anticipated benefits of the Heartland Petrochemical Complex could have an adverse effect on the financial results of Inter Pipeline.

## Risks Relating to Capital and Operating Estimates

Capital and operating cost estimates made in respect of Inter Pipeline's operations and projects represent significant components of the cost of providing services and may not prove accurate. Capital and operating costs are estimated based on the cost of previous Inter Pipeline projects, interpretation of third-party data, feasibility studies and other factors. The following events could affect the ultimate accuracy of such estimates: unanticipated changes in products to be processed; incorrect data on which engineering assumptions are made; unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; failure to meet scheduled construction completion dates and production dates due to any of the foregoing events and uncertainties; expenditures in connection with a failure to meet such scheduled dates; unsatisfactory construction quality resulting in failure to meet such scheduled dates; labour negotiations; unanticipated costs related to commencing operations, ramping up and/or sustaining production; changes in government regulation (including regulations regarding climate change, prices, cost of feedstock, royalties, duties, taxes, permitting and restrictions on production quotas or exportation of Inter Pipeline’s products); health emergencies and infectious diseases (including COVID-19); and unanticipated

changes in commodity input costs and quantities. Inter Pipeline’s financial results may be adversely affected if significant increases in capital and operating costs are incurred and not recovered.

Inter Pipeline typically maintains its assets with reasonable levels of sustaining capital and maintenance expenditures and periodically replaces portions of its assets to sustain facility performance and provide a high level of asset integrity and ensure reliable operations. Maintenance capital requirements and maintenance expenses may vary from year to year depending on factors such as high equipment failure rates, more stringent government regulations and any additional efforts deemed necessary by Inter Pipeline to improve the reliability of its assets. An increase in capital and/or maintenance expenditures could result in significant additional costs to Inter Pipeline that could adversely affect Inter Pipeline's financial results.

## Competition Risks

Inter Pipeline is subject to competition from other companies that operate in the same markets as Inter Pipeline. Inter Pipeline’s competitors include other energy infrastructure companies, major integrated oil and gas companies and numerous other independent oil and gas companies, individual producers and operators, some of which are substantially larger than Inter Pipeline, have greater financial resources and control substantially greater storage capacity than Inter Pipeline does. Inter Pipeline also faces competition from other means of transporting, storing and distributing crude oil and petroleum products, including from other pipeline systems, terminal operators and integrated refining and marketing companies that may be able to supply Inter Pipeline’s customers with the same or comparable services on a more competitive basis, and with other industries in supplying energy, fuel and related products to customers. Inter Pipeline’s customers demand delivery of products on tight time schedules and in several geographic markets. If Inter Pipeline’s quality of service declines or it cannot meet the demands of its customers, they may utilize the services of Inter Pipeline’s competitors. Competitive forces may result in a shortage of development opportunities for infrastructure to produce crude oil, natural gas, petroleum products or chemicals and transport such production. It may also result in an oversupply of crude oil, natural gas, petroleum products and chemicals. Each of these factors could have a negative impact on costs and prices and, therefore Inter Pipeline’s financial results. If Inter Pipeline is unable to compete with services offered by other competitors, Inter Pipeline’s cash flow and revenue may be adversely affected.

In addition, the Cold Lake founding shippers may utilize alternative transportation methods (if certain minimum volume levels are maintained) subject to Inter Pipeline's right to match the alternative proposal. Consequently, there is no assurance that the level of volume or revenue received from the Cold Lake founding shippers will be sustained.

## Force Majeure Events

Inter Pipeline's operations and information systems may be vulnerable to substantial loss or damage as a result of certain disruptions, including natural disasters, national emergencies, acts of war, acts of terrorism, technological attacks, domestic and global trade disruptions, infrastructure disruptions, civil disobedience or unrest, and the COVID-19 pandemic or similar events, any of which may have a material adverse effect on Inter Pipeline's reputation, business, financial conditions or operating results.

## Counterparty and Contractual Risks

Inter Pipeline is exposed to counterparty credit risk in its business and operations. In the event that a counterparty fails to meet their commercial, contractual or financial obligations to Inter Pipeline, such failures could adversely affect Inter Pipeline's business and financial condition. Further, poor credit or market conditions may impact a counterparty's ability to fulfill its commercial, contractual or financial obligations with respect to Inter Pipeline's assets, which in turn could result in a reduction of its cash flow. Inter Pipeline’s Credit and Contracts department negotiate the best financial clauses to mitigate against such risk, however, such financial clauses can not always eliminate the risk in its entirety.

The Cold Lake, Corridor and Polaris pipeline systems are operated pursuant to a long-term ship-or-pay contracts with counterparties that are contractually obligated to utilize these pipeline systems. FCCL Partnership, Canadian Natural and Imperial Oil are the principal customers of Inter Pipeline's transportation business and represent the majority of the revenue from this business. However, there is no assurance that these counterparties will be able to perform their obligations under these contracts with Inter Pipeline, or that revenue received from the counterparties following the expiry of the term of the contracts will be sustained. Inter Pipeline supplements its revenues by marketing excess capacity on its oil sands pipeline systems to third parties, but there can be no assurance that it will be successful in doing so. Furthermore, any potential third-party capacity rights on the Corridor pipeline system are also subject to the approval of the current Corridor shippers.

NOVA Chemicals, Dow Chemical, and Plains Midstream are the principal customers of the NGL processing business and represent the majority of the revenue from this business. Plains Midstream also operates the Empress straddle plants. If, for any reason, any of these parties are unable to perform their obligations under the various agreements with Inter Pipeline, the financial results of the NGL processing business or the operations of the straddle plants could be negatively impacted. Inter Pipeline relies on NOVA Chemicals to purchase ethane-ethylene mix produced at the Redwater Olefinic Fractionator which is operated by Pembina NGL Corporation (Pembina). If, for any reason, NOVA Chemicals or Pembina are unable to perform their obligations under the agreements, the revenue and the operations of the offgas plants and Redwater Olefinic Fractionator could be negatively impacted. Various other products produced at the Redwater Olefinic Fractionator are sold under shorter term agreements to a variety of customers. Failure of these customers to accept the products, perform their obligations under the agreements, or the failure of Inter Pipeline to renew these agreements and/or find suitable alternative customers under similar terms and conditions could also negatively impact the financial results and operations of the offgas plants and Redwater Olefinic Fractionator.

Inter Pipeline has contractual relationships with Suncor and Canadian Natural for the delivery of offgas supply. If Suncor and Canadian Natural do not fulfill their contractual obligations, Inter Pipeline may not be able to source offgas supply and may therefore not be able to operate the offgas plants, Redwater Olefinic Fractionator and/or Boreal pipeline system, causing Inter Pipeline to suffer financial losses. Inter Pipeline is subject to re-contracting risk upon the expiry of long-term offgas supply contracts. The ability to re-contract an economic volume of offgas supply will be dependent on the viable production and upgrading of bitumen at the Suncor and Canadian Natural oil sands sites.

A large proportion of the transportation revenue associated with Inter Pipeline's conventional pipeline business has been, and is currently derived, from contracts or arrangements of 30 days duration or less with producers in the geographic areas served by its pipelines. While Inter Pipeline attempts to renew contracts on the same or similar terms and conditions, there can be no assurance that such contracts will continue to be renewed or, if renewed, will be renewed upon terms favourable to Inter Pipeline. Most of Inter Pipeline's transportation contracts with producers in the areas serviced by the conventional oil pipelines business are based on market-based toll structures negotiated from time to time with individual producers, rather than the cost-of-service recovery or fixed rate of return structures applicable to certain other pipelines.

The straddle plants secure extraction rights for the processing of natural gas from shippers on the TransCanada Alberta System under proprietary commercial arrangements known as the "NGL Extraction Convention". If an alternative model for contracting for extraction rights was to be implemented, requiring changes to the contracting counterparties and commercial arrangements, and potentially business process changes to the NGL processing facilities, such changes could adversely affect the NGL processing business.

## Risks Relating to Leases and Rights of Way Access

Inter Pipeline's Facilities and associated infrastructure are located on lands leased or licensed from third parties that must be renewed from time to time. Failure to renew the leases or licenses on terms acceptable to Inter Pipeline could significantly

reduce the operations of the Facilities and could result in related decommissioning costs for Inter Pipeline, pursuant to the terms of such leases or licenses. Successful development of the Pipelines through construction of new pipelines or extensions to existing pipelines depends in part on securing leases, easements, rights-of-way, permits and/or licenses from landowners or governmental authorities allowing access for such purposes. The process of securing rights-of-way or similar access is becoming more complex, particularly in more densely populated, environmentally sensitive and other areas. Inability to secure such rights-of-way or similar access could have an adverse effect on Inter Pipeline's operations and financial results.

## Failure to Realize Anticipated Benefits of Transactions

As part of its business plan, Inter Pipeline regularly evaluates potential acquisitions, dispositions and other business or corporate-level strategic transactions with the objective of positioning Inter Pipeline to maximize shareholder value. Such transactions individually or together could be material. As of the date hereof, Inter Pipeline has not reached a definitive agreement on the price or terms of any potential material transaction. Inter Pipeline cannot predict whether any current or future opportunities will result in one or more material transactions. Inter Pipeline may, in the future, issue securities in connection with transactions or otherwise and complete financings of equity or debt (which may be convertible into equity) for purposes that may include financing of acquisitions, Inter Pipeline's operations and capital expenditures and repayment of indebtedness. Inter Pipeline evaluates the value proposition for expansion projects, new acquisitions, dispositions, strategic partnerships and other transactions on an ongoing basis. Planning and investment analysis is highly dependent on accurate forecasting assumptions and, to the extent that these assumptions do not materialize, Inter Pipeline's financial performance may be lower or more volatile than expected. There is a risk that some or all of the expected benefits of completed acquisitions, dispositions or other transactions may fail to materialize or may not occur within the time periods Inter Pipeline anticipates. Achieving the benefits of completed and future acquisitions or other transactions depends in part on successfully consolidating functions, and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks, including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, increased credit risks through the assumption of additional debt, costs and contingent liabilities and exposure to known or unknown liabilities of the acquired business or assets. Any related liabilities may be greater than the amounts for which Inter Pipeline is indemnified under an acquisition.

## Risks Relating to Natural Gas and NGL Composition

Each of Inter Pipeline's straddle plants is designed to process raw natural gas feedstock within a certain range of composition specifications. The straddle plants may require modification to operate efficiently if the composition of the raw gas being processed changes significantly. The configuration of each of Inter Pipeline's straddle plants may not be optimal for efficient operation in the future if a change in inlet gas composition is outside of a plant's acceptable range of composition specifications.

The quantity and composition of NGL may vary over time. In addition, marketable natural gas on the TC Energy Alberta System contains contaminants such as carbon dioxide and various sulphur compounds can become concentrated in the NGL products through the processing process. Increased content of these contaminants in the natural gas supply may require incurring additional capital and operating costs at the straddle plants. Other factors, such as an increased level of NGL recovery conducted at field processing plants upstream of or in parallel to the straddle plants, increased intra-Alberta consumption of

natural gas or processing completed at any new processing plants constructed upstream of or in parallel to the straddle plants, or changes in the quantity and composition of the natural gas produced from the reservoirs that supply the straddle plants, could have a materially negative effect on NGL production from the straddle plants.

The production of ethane-plus from the offgas plants is largely dependent on the quantity and composition of the offgas supply produced by Canadian Natural and Suncor. The quantity and composition may vary over time as a result of changing bitumen quality, production issues, and/or process changes implemented by by Canadian Natural and Suncor, which could have a materially negative effect on production from the offgas plants and the Redwater Olefinic Fractionator.

## Reputational Risks

Inter Pipeline's reputation as a reliable, safe, sustainable and responsible energy services provider with consistent financial performance and long-term financial stability is one of its most valuable assets. The key to effectively building and maintaining Inter Pipeline's reputation is fostering a culture that promotes integrity, innovation, ethical conduct, diversity and inclusion, safety, sustainability and environmental protection. Ultimate responsibility for Inter Pipeline's reputation lies with Inter Pipeline's board of directors.

Reputational risk is the potential for negative impacts that could result from the deterioration of Inter Pipeline's reputation in the market or with key stakeholders. The potential for harming Inter Pipeline's reputation exists in every business decision and all risks can have an impact on reputation, which in turn can negatively impact Inter Pipeline's business and the value of its securities. In addition, Inter Pipeline's reputation may be affected by the actions and activities of other companies operating in the energy industry and by general public perceptions of the energy industry, over which Inter Pipeline has no control.

## Negative Public Perception Regarding Single Use Plastics

Concerns regarding the use of plastics and their potential impact on health and the environment reflect a growing trend in societal demands for increasing levels of product safety and environmental protection including bans regarding single use plastics. These concerns could also influence public perceptions, the viability or continued sales of products made from polypropylene, Inter Pipeline's reputation and the cost to comply with regulations. Although an independent study found that the polypropylene produced at Inter Pipeline's Heartland Petrochemical Complex will have a GHG emission footprint that is 65 percent lower than the global average and 35 percent lower than the North American average, these concerns could have a negative impact on financial results. We are working to mitigate these concerns, including through a ten year, $10 million-dollar funding commitment with the Northern Alberta Institute of Technology that we recently announced. Through our funding agreement, we have created a research department that has been tasked with facilitating concrete actions to reuse, and recycle plastics in Canada

## Risks Relating to Decommissioning, Abandonment and Reclamation Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the dismantling, decommissioning, environmental, reclamation and remediation activities on abandonment of its assets at the end of their economic lives and all associated costs, which costs may be substantial. Abandonment costs are a function of regulatory requirements at the time of abandonment, and the characteristics (such as diameter, length and location) of the pipeline or the size and complexity of the NGL processing or storage facility. As such, abandonment requirements can vary considerably, and it is not possible to predict these costs with certainty.

Abandonment and reclamation costs for the straddle plants and Redwater Olefinic Fractionator are regulated by the AER, pursuant to Directive 001 and, with respect to the straddle plants, Directive 024. The straddle plants and Redwater Olefinic Fractionator are included in the AER's Large Facilities Liability and Reclamation Regulations and have defined reclamation

requirements and financial tests to ensure that end of life costs can be funded. However, future requirements may be more stringent. For Inter Pipeline's Saskatchewan terminals, Directive PNG025 for Liability Rating and reclamation requirements applies.

Certain European storage terminals and associated infrastructure are located on lands leased or licensed from third parties, which may require renewal. Failure to renew the leases or licenses on terms acceptable to Inter Pipeline could significantly reduce the operations of the bulk liquid storage business and could result in related decommissioning costs. Where there is such a legal obligation, decommissioning costs have been provided in the financial statements in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

In the future, Inter Pipeline may determine it prudent to establish and fund one or more reclamation trusts to address anticipated decommissioning, abandonment and reclamation costs. The payment of the costs of abandonment of the Facilities, or the establishment of cash reserves for that purpose, could have a materially negative effect on the financial results realized by Inter Pipeline. Furthermore, even if such reclamation trusts are established, they may not be sufficient to satisfy the future decommissioning, abandonment and reclamation costs and Inter Pipeline will be responsible for the payment of the balance of any such costs.

## Risks Relating to Weather Conditions

Weather conditions (including those associated with climate change) can affect the demand for and price of natural gas and NGL. As a result, changes in weather patterns may affect Inter Pipeline’s NGL processing business. For instance, colder winter temperatures generally increase demand for natural gas and NGL used for heating which tends to result in increased throughput volume at facilities and higher prices in the processing and storage businesses. In its NGL processing business, Inter Pipeline attempts to position itself to be able to handle an increased volume of throughput and storage at its facilities to meet changes in seasonal demand; however, at any given time, facility and storage capacity is finite.

Weather conditions (including those associated with climate change) may influence Inter Pipeline’s ability to complete capital projects, repairs or facility turnarounds on time, potentially resulting in delays and increasing costs of such capital projects and turnarounds. Weather may also affect access to Inter Pipeline facilities, and operations and projects of Inter Pipeline’s customers or shippers, thereby influencing the supply of transportation services and products. With respect to construction activities, in areas where construction can be conducted in non-winter months, Inter Pipeline attempts to schedule its construction timetables so as to minimize potential delays due to cold winter weather.

## Global Climate Change Risks

Over the past several years, changing weather patterns and climatic conditions, such as global warming, have added to the unpredictability and frequency of natural disasters in certain parts of the world, including the markets in which Inter Pipeline operates and intends to operate, and have created additional uncertainty as to future trends. There is a growing consensus today that climate change increases the frequency and severity of extreme weather events and, in recent years, the frequency of major weather events appears to have increased. Inter Pipeline cannot predict whether or to what extent damage that may be caused by natural events, such as severe storms, hurricanes and tornados, will affect Inter Pipeline's operations or the economies in Inter Pipeline's current or future market areas, but the increased frequency and severity of such weather events could increase the negative impacts to economic conditions in these regions and result in a decline in the value or the destruction of Inter Pipeline's assets. In particular, if one of the regions in which Inter Pipeline's assets are operating is impacted by such a natural catastrophe in the future, it could have a material adverse effect on its business. Further, the economies of such impacted areas may require significant time to recover and there is no assurance that a full recovery will occur. Even the threat of a severe weather event could impact Inter Pipeline's business, financial condition or the price of the common shares.

In addition, Inter Pipeline expects continued and increasing legislative attention to climate change issues and the emission of GHG. Climate change policy is evolving at national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place by governments around the world, including the jurisdictions in which Inter Pipeline is active. Any such regulations could increase the cost of carrying out operations and the cost of consumption, thereby impacting Inter Pipeline's business financial condition or the price of the common shares.

Finally, political and legal opposition to the fossil fuel industry has historically focused on public opinion and the regulatory process. More recently, however, there has been a movement to more directly hold governments and oil and natural gas companies responsible for climate change through climate litigation. Litigants have received mixed success, but it is not possible for Inter Pipeline to predict whether any climate change litigation will have an effect on its business and operations or those of its counterparties. It is also recognized that political, legal and public opposition to the fossil fuel industry may impact Inter Pipeline's customers and ultimately the demand for Inter Pipeline's services and products.

Inter Pipeline mitigates some of these risks by maintaining a strong, investment grade balance sheet, by having significant long term fee-based customer contracts and by owning quality assets with diversification across industry sub sections.

## Risks Relating to the Securities of Inter Pipeline

### Risks Relating to the Market Price of the Common Shares

Inter Pipeline cannot predict the prices at which Inter Pipeline's common shares will trade in the future. The annual yield on the common shares as compared to annual yield on other financial instruments may also influence the price of Inter Pipeline's common shares.

In addition, the market price for Inter Pipeline's common shares may be affected by changes in general market, economic or social conditions, legislative changes, fluctuations in the markets for equity securities, interest rates, commodity prices and numerous other factors to be within and beyond the control of Inter Pipeline. Investors and shareholders should not rely on past trends in the price of the common shares to predict the future price of the common shares.

### Dilution Risks

Inter Pipeline may issue additional common shares in the future to finance capital expenditures, including acquisitions. It is not possible to predict the size of future issuances of common shares or the effect, if any, that future issuances of common shares will have on the market price of the common shares. Any issuance of common shares may have a dilutive effect to existing shareholders.

### Risks Relating to Cash Dividends; Cash Dividends are not Guaranteed

Dividends are not guaranteed and will fluctuate with Inter Pipeline's performance. The board of directors has the discretion to determine the amount of dividends to be declared and paid to shareholders each month. Funds available for the payment of dividends will be dependent upon, among other things, the execution of its growth strategy, financial requirements for Inter Pipeline's operations and limitations under its credit facilities as well as the satisfaction of liquidity and solvency tests imposed by the *Business Corporations Act* (Alberta) ("*ABCA*") on corporations for the declaration and payment of dividends. Dividends may be increased, decreased, suspended or eliminated entirely depending on the performance of Inter Pipeline's business.

If external sources of capital, including borrowings and the issuance of common shares, become limited or unavailable on commercially reasonable terms, Inter Pipeline's ability to sustain its dividends and make the capital investments required to

maintain or expand its operations may be impaired. The extent to which Inter Pipeline is required to use cash flow to finance capital expenditures or acquisitions may reduce the cash flow available to declare and pay dividends.

Inter Pipeline's credit facilities, or certain other financial or debt instruments which Inter Pipeline may enter into from time to time, may prohibit it from paying dividends at any time at which a default or event of default has occurred and is continuing, or if a default or event of default would exist as a result of paying the dividend.

Over time, Inter Pipeline's capital and other cash needs may change significantly from its current needs, which could affect whether it pays dividends and the amount of dividends, if any, it may pay in the future. If Inter Pipeline pays dividends at the level currently anticipated, it may not retain a sufficient amount of cash to finance external growth opportunities, meet any large unanticipated liquidity requirements or fund its activities in the event of a significant business downturn. The board of directors may amend, revoke or suspend Inter Pipeline's dividend at any time. A decline in the market price or liquidity, or both, of the common shares could result if Inter Pipeline reduces or eliminates the payment of dividends, which could result in losses to shareholders.

## Risks Relating to Inter Pipeline Generally

### Additional Financing and Capital Resources Risks

Inter Pipeline may find it necessary in the future to obtain additional debt or equity financing to support Inter Pipeline’s ongoing operations, undertake capital expenditures, finance expansion, develop new projects, respond to competitive pressures, acquire complementary businesses, repay existing or future indebtedness or take advantage of unanticipated opportunities. There can be no assurance that such additional funding, if needed, will be available on terms acceptable to Inter Pipeline, or at all, and any volatility or uncertainty in the credit markets in the future may increase costs associated with issuing debt. Inter Pipeline’s ability to obtain additional capital is dependent on, among other things, investor interest in investments in the energy industry in general and investor interest in its securities. If adequate funds are not available on acceptable terms, Inter Pipeline may be unable to develop or enhance its business, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on its business, financial conditions and operating results. In addition, in the event that Inter Pipeline’s activities are financed partially or wholly with debt, such debt levels may exceed industry standards and the level of Inter Pipeline’s indebtedness from time to time could impair Inter Pipeline’s ability to obtain additional financing in the future on a timely basis.

### Credit Risks

Inter Pipeline is subject to credit risk arising out of its operations. A majority of Inter Pipeline’s accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Credit risk is managed through Inter Pipeline’s credit management policy, which sets out guidelines for defining and measuring credit risk, determining credit risk thresholds and monitoring credit risk exposures of counterparties and vendors. The credit worthiness assessment considers available qualitative and quantitative information about the counterparty, including, 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. However, Inter Pipeline cannot be sure that counterparties are able to or will provide such requested security or that the amount of security provided will secure all obligations owing to Inter Pipeline. 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. While Inter Pipeline takes active steps to monitor and manage its credit risk, it is possible that credit exposure to counterparties (or any one of them), may result in Inter Pipeline suffering losses, in which case its operations and financial results may be adversely affected.

## Risks Relating to Credit Ratings

Rating agencies regularly evaluate Inter Pipeline and base their ratings of its long-term and short-term debt on a number of factors. The credit ratings applied to Inter Pipeline and its securities are an assessment by the relevant ratings agencies of Inter Pipeline’s ability to pay its obligations as of the respective dates the ratings are assigned. The credit ratings may not reflect the potential impact of risks related to structure, market or other factors discussed herein on the value of Inter Pipeline's securities.

Credit ratings affect Inter Pipeline’s financing costs, liquidity and operations over the long term and are intended as an independent measure of the credit quality of long-term debt securities or the issuer. Credit ratings affect Inter Pipeline’s ability to obtain short and long-term financing and Inter Pipeline’s ability to engage in certain business activities in a cost-effective manner. There is no assurance that one or more of Inter Pipeline’s credits will not be downgraded or withdrawn entirely. In addition, real or anticipated changes in credit ratings can affect the cost at which Inter Pipeline can access public or private debt markets.

Should Inter Pipeline's credit ratings fall below investment grade, Inter Pipeline or Inter Pipeline (Corridor) Inc. may have to provide security, may not be able to issue certain types of debt securities or use higher cost financing to fund its financial obligations, pay additional interest or pay in advance for goods and services. The perceived creditworthiness of Inter Pipeline and changes in, or a withdrawal of, its credit ratings may also affect the value of Inter Pipeline’s common shares or debt securities.

## Commodity Price Volatility Risks

Inter Pipeline’s business is exposed to commodity price volatility and a substantial decline in the prices of these commodities could adversely affect its financial results. Petroleum prices are determined by a wide range of political and economic factors external to Inter Pipeline and beyond its control. These factors include economic conditions in the US, Canada and worldwide, the actions of Organization of the Petroleum Exporting Countries, slowing growth in China and emerging economies, market volatility and disruptions in Asia, global excess in petroleum supply, weakening global relationships, isolationist trade policies, increased U.S. shale production, sovereign debt levels, political upheavals in various countries, governmental regulation, political stability in the Middle East and elsewhere, weather conditions (including climate change), opposition to petroleum products, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports, embedded foreign exchange risk and the availability of alternative fuel sources. Any substantial and extended decline in the prices of oil and natural gas liquids may have a material adverse effect on Inter Pipeline's business, borrowing capacity, financial condition, results of operations, financial results and future prospects. Lower commodity prices may render Inter Pipeline's development and expansion plans uneconomic.

## Dependence on Key Personnel and Human Resources Risks

The continued success of Inter Pipeline will be dependent upon its ability to hire and retain key personnel who manage Inter Pipeline's business and operate its Facilities. In particular, Inter Pipeline's success depends on the abilities, experience, engagement, and succession of its management team, board of directors and key operating personnel. The loss of key employees and/or directors through either attrition or retirement could adversely impact Inter Pipeline's future business, financial results and ability to operate its Facilities safely. Inter Pipeline does not have any "key man" insurance. Inter Pipeline also places significant emphasis on employee engagement, leadership training, succession planning, and maintaining a positive corporate culture.

Employee mental health and wellbeing may be affected by social, economic, business and/or global events, including the COVID-19 pandemic, which may negatively impact employee’s ability to execute their roles and/or cause a short-term disability.

Since March 2020, a large percentage of Inter Pipeline's workforce has been working from home for an extended period of time which may exacerbate the mental health and wellbeing of certain Inter Pipeline employees. Inter Pipeline has actively implemented programs to help combat employee mental health issues and improve employee wellbeing, including virtual initiatives like The Working Mind, and employee health and wellness benefits.

## Risks Relating to Indigenous Land Claims and Obligation to Consult

Indigenous peoples have claimed indigenous title and/or rights, whether established pursuant to treaty or otherwise, to a substantial portion of the lands in western Canada. The successful assertion of such claims and rights could have an impact on future access to public lands and thereby adversely affect Inter Pipeline's Canadian operations.

In Canada, the federal and provincial governments (the "**Crown**") have a duty to consult and, where appropriate, accommodate indigenous people where the interests of the indigenous peoples may be affected by a Crown action or decision. Accordingly, the Crown's duty may result in regulatory approvals being delayed or not being obtained in relation to Inter Pipeline's Canadian operations. The Crown may rely on steps taken by a regulatory agency to fulfill its duty to consult and accommodate, in whole or in part. Although the Crown holds ultimate responsibility for ensuring that the consultation process is adequate, this issue is often a major aspect of the regulatory permitting process. If either the Crown or a regulatory body, to which it has delegated consultation, determines that the duty to consult has not been adequately discharged, the issuance of certain regulatory approvals required by Inter Pipeline may be delayed or denied, resulting in a material adverse effect on Inter Pipeline's operations.

## Litigation and Arbitration Risks

In the ordinary course of business, Inter Pipeline and its subsidiaries are subject to various legal proceedings, actions and claims including arbitration, regulatory and tax proceedings, actions and claims related to, among other things, property damage, property tax, land rights, the environment and contract and commercial disputes. The outcome of any outstanding, pending or future proceeding cannot be predicted with certainty and such proceeding may be determined adversely to Inter Pipeline. Although management of Inter Pipeline believes such claims are likely to be without merit, litigation and arbitration is expensive, time consuming and may divert management's attention away from the operation of Inter Pipeline. Due to the inherent uncertainty of the litigation and arbitration processes, the resolution of any particular proceeding, action or claim may have a material adverse effect on the financial position or operational results of Inter Pipeline.

In certain instances, third parties have agreed or will agree to indemnify, defend and hold Inter Pipeline harmless from and against various claims, litigation and liabilities arising in connection with certain transactions or business matters. There is no assurance that third parties will possess sufficient assets, income, access to financing and insurance coverage to enable them to satisfy their indemnification obligations in favour of Inter Pipeline. In addition, Inter Pipeline may not be able to successfully enforce such indemnities and any such indemnities may not be sufficient to fully indemnify Inter Pipeline from third party claims. The inability to recover fully any significant liabilities through an indemnity may have adverse effects on Inter Pipeline's financial position, operations or results of operations.

## Risks Relating to Potential Conflicts of Interest

Shareholders and other security holders of Inter Pipeline rely on senior management and the directors of Inter Pipeline for the governance, administration and management of Inter Pipeline. Certain directors of Inter Pipeline are also directors of other entities engaged in the energy business generally. Inter Pipeline mitigates this risk by requiring directors and officers to disclose the existence of potential conflicts of interest in accordance with Inter Pipeline's Code of Ethics and in accordance with the ABCA.

## Foreign Exchange Risks

Inter Pipeline's cash dividends will be declared and paid in Canadian dollars. As a consequence, non-resident shareholders, and shareholders who calculate their income in currencies other than the Canadian dollar, will be subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to the reporting currency of a shareholder, the amount of the dividend will be reduced when converted to that currency. In addition, the bulk liquid storage business' earnings and FFO are subject to foreign exchange rate variability, primarily arising from the denomination of such earnings and FFO in, Euros, Danish Krone, Swedish Krona and US dollars. Inter Pipeline monitors, assesses, and responds to these foreign currency risks using an active risk management program, which may include the exchange of foreign currency for domestic currency at a fixed rate.

## Risks Relating to Cybersecurity Threats and Reliance on Information Technology, Privacy and Data Protection

Inter Pipeline’s operations are dependent on the functioning of several information technology systems. The reliability and security of these systems is critical. Exposure of Inter Pipeline's information technology systems to external threats poses a risk to the security of these systems. Such cybersecurity threats include unauthorized access to information technology systems due to hacking, viruses, cyber phishing attacks, and other causes that can result in service disruptions, system failures and the disclosure, deliberate or inadvertent, of confidential business information. Significant interruption or failure of the functionality of any or all of these systems could result in operational outages, delays, lost profits, lost data, increased costs, and other adverse outcomes. These factors, including inadequate, unsuitable or ineffective procedures to adapt to changing business needs and a failure to implement new systems on a timely basis or alternatively sub-optimally as a result of not integrating a solution with pre-existing applications, could include a loss of communication links or reliable information, security breaches by computer hackers and cyber terrorists, and the inability to automatically process commercial transactions or engage in similar automated or computerized business activities. Furthermore, as social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that Inter Pipeline may not be able to properly regulate social media use and preserve adequate records of business activities and client communications conducted through the use of social media platforms.

In addition, Inter Pipeline collects and stores sensitive information in the ordinary course of business, including personal information in respect of its employees and proprietary information in respect of its stakeholders, including customers, suppliers, and investors.

Security breaches of Inter Pipeline's information technology infrastructure, including, cyber-attacks and cyber-terrorism, or other failures of Inter Pipeline's information technology infrastructure could result in disruptions to operations or other outages. Such disruptions or outages could affect the ability to operate safely and cause delays or other damage to assets, the environment or to Inter Pipeline's reputation, and could adversely affect its business operations and financial results.

Inter Pipeline's cybersecurity strategy focuses on information technology security risk management which includes, without limitation, continuous monitoring, ongoing cybersecurity communications and training for staff, conducting third-party vulnerability and security tests, threat detection, cybersecurity policies and an incident response protocol. However, there is no assurance that Inter Pipeline will not suffer a cyber-attack or an information technology failure notwithstanding the implementation of this strategy and the measures taken pursuant to that strategy, including, without limitation, as set forth above and the occurrence of any of these cyber events could adversely affect Inter Pipeline's financial condition and results of operations. Inter Pipeline has insurance which may cover losses from a cyber-attack to our facilities as a result of a cybersecurity event, but insurance does not cover all events in all circumstances.

Inter Pipeline's business operations could be targeted by individuals or groups seeking to sabotage or disrupt its information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt Inter Pipeline's operations, including the safety of its operations and the availability of its facilities, or lead to unauthorized release of information or alteration of information in Inter Pipeline's systems. Any such attack or other breach of Inter Pipeline's information technology systems could have a material adverse effect on Inter Pipeline's business and results of operations. Inter Pipeline is subject to laws, directives and regulations relating to the collection, use, retention, disclosure, security and transfer of personal data. These laws, directives, and regulations, and their interpretation and enforcement continue to evolve and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing privacy and data protection requirements may cause Inter Pipeline to incur substantial costs or require it to change its business practices. Noncompliance with Inter Pipeline's legal obligations relating to privacy and data protection could result in penalties, fines, legal proceedings by governmental entities or others, loss of reputation, legal claims by individuals and customers and significant legal and financial exposure and could affect Inter Pipeline's ability to retain and attract counterparties.

Changes in the nature of cyber-threats and/or changes to industry standards and regulations might require Inter Pipeline to adopt additional procedures for monitoring cybersecurity, which could require additional expenses and/or capital expenditures. However, the impact of such regulations is hard to predict at this time.

## Technical Systems and Processes Incidents

Failure of key technical systems and processes to effectively support information requirements and business processes may lead to Inter Pipeline's inability to effectively and efficiently measure, record, access, analyze, and accurately report key data. This could result in increased costs and missed business opportunities.

## Debt Service and Refinancing Risks

The credit facilities, medium-term notes, and subordinated hybrid notes described in **the LIQUIDITY AND CAPITAL RESOURCES** section contain numerous restrictive covenants that limit the discretion of Inter Pipeline’s management with respect to certain business matters. These loan agreements may contain covenants that place restrictions on, among other things, the ability of Inter Pipeline to create liens or other encumbrances, to pay dividends or make certain other payments, loans and guarantees, and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the loan agreements contain various financial covenants that require Inter Pipeline to meet certain financial ratios and financial condition tests. A failure to comply with these obligations could result in a default which, if not cured or waived, could result in a reduction or termination of dividends by Inter Pipeline and permit acceleration of the relevant indebtedness. In the event of certain Inter Pipeline (Corridor) Inc. bankruptcy or insolvency events, Inter Pipeline lenders have certain rights to accelerate Inter Pipeline’s debt. In addition, in some circumstances, it may become necessary to restrict or terminate dividends by Inter Pipeline in order to avoid a default of such obligations.

Borrowings made by Inter Pipeline (including, for clarity, various subsidiaries thereof) introduce leverage into Inter Pipeline’s business which increases the level of financial risk in the operations of Inter Pipeline. To the extent interest rates are not fixed, interest rate variations will increase the sensitivity of interest payments made by Inter Pipeline.

Inter Pipeline may not be able to meet its financial obligations. To manage this risk, Inter Pipeline forecasts its cash requirements to determine whether sufficient funds will be available. Inter Pipeline’s primary sources of liquidity and capital resources are FFO, draws under committed credit facilities and the issuance of new equity capital or debt securities. Inter Pipeline maintains a base shelf prospectus with Canadian securities regulators, which, subject to market conditions, enables it to readily access Canadian public capital markets.

Inter Pipeline's credit facilities, medium-term notes, subordinated hybrid notes and other outstanding financing instruments or debt securities each have a maturity date, on which date, absent replacement, extension or renewal, the indebtedness under the respective loan agreement becomes repayable in its entirety. If Inter Pipeline is unable to refinance debt obligations at the time of maturity or is unable to refinance on equally favourable terms, Inter Pipeline's ability to fund ongoing operations and pay dividends could be impaired. Inter Pipeline's ability to refinance its indebtedness under its credit facilities, medium-term notes, subordinated hybrid notes and other outstanding financing instruments or debt securities will depend upon its future operating performance, all of which are subject to prevailing economic and credit conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control.

## Risks Relating to Political Uncertainty

Inter Pipeline's business may be adversely affected by recent political and social events and decisions made in Canada, the United States, Europe and elsewhere. On November 30, 2018, Canada, the U.S. and Mexico signed the Canada-United States–Mexico Agreement ("CUSMA"). CUSMA included a change to the crude oil and natural gas rules of origin, which should make it easier for Canadian exporters to qualify for duty-free treatment on shipments to the U.S. and Mexico. Canada must, however, notify the U.S. of its intention to enter into free trade talks with any "non-market economies" under CUSMA, which may include China or any other potential importers of Canadian oil and gas exports.

With all three member nations having ratified CUSMA in 2020, CUSMA entered into force on July 1, 2020. The new agreement will serve to reinforce Canada's strong economic ties with the United States and Mexico and preserves key elements of the long-lasting trading relationship between the three countries while also incorporating new and updated provisions that seek to address 21$^{st}$-century trade issues. Inter Pipeline is actively monitoring CUSMA, and its potential impacts to Inter Pipeline's ability to sell and transport petroleum products within North America which could have an adverse impact on Inter Pipeline's results from operations and financial condition.

The United States has a new administration that has signed executive orders which had an immediate impact on Canada's energy industry. Future actions taken by the administration in the United States may have a further negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian companies, including Inter Pipeline.

The citizens of the UK voted to withdraw from the European Union and the Government of the UK officially left the European Union on December 31, 2020. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on Inter Pipeline's ability to market its products internationally, increase costs for goods and services required for Inter Pipeline's operations, reduce access to skilled labour and negatively impact Inter Pipeline's business, operations, financial conditions and the market value of Inter Pipeline's common shares.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the energy industry including the balance between economic development and environmental policy.

## Risks Relating to International Operations

A portion of Inter Pipeline's operations are conducted in Denmark and Sweden. Operations outside of Canada are subject to various discrete risks, including: natural disasters; market downturn or failure; currency exchange rate fluctuations; foreign economic conditions; credit conditions; trade barriers; exchange controls; national and regional labour strikes; political risks and

risks of increases in duties; taxes and changes in tax laws; and changes in laws and policies governing operations of foreign-based companies.

## Non-Governmental Organizations and Eco-Terrorism Risks

Inter Pipeline's business may be subject to action by non-governmental organizations, eco-terrorist attack or public opposition. Any such action could expose Inter Pipeline to the risk of higher costs, delays or project cancellations due to increased pressure on governments and regulators by special interest groups and other nongovernmental organizations. There is no guarantee that Inter Pipeline will be able to satisfy the concerns of the special interest groups and non-governmental organizations and attempting to address such concerns may require Inter Pipeline to incur significant and unanticipated capital and operating expenditures.

## Risks Relating to Breach of Confidentiality

Inter Pipeline regularly enters into confidentiality agreements with third parties prior to the disclosure of any confidential information when discussing potential business relationships or other transactions. Breaches of confidentiality could put Inter Pipeline at competitive risk and may cause significant damage to its business. There is no assurance that, in the event of a breach of confidentiality, Inter Pipeline will be able to obtain equitable remedies from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

## Risks Relating to Records Management

Inter Pipeline maintains a records management practice, linked to document creation and control capabilities, to align with effective corporate governance, privacy regulations and investor protection legislation. Any inability to perform records management practices in a timely manner in accordance with all applicable business, corporate, legal and regulatory requirements, including the proper classification, maintenance, protection, retrieval and disposal of records could have a material effect on Inter Pipeline's business, operations and financial performance.

## Risk Relating to Changing Investor Sentiment in the Oil and Gas Industry

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, concerns of the impact of oil and gas operations on the environment, concerns of environmental damage relating to spills of petroleum products during transportation and concerns of indigenous rights, have affected certain investors' sentiments towards investing in the oil and gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they are no longer willing to fund or invest in oil and gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from Inter Pipeline's board of directors, management and employees. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in Inter Pipeline or not investing in Inter Pipeline at all. Any reduction in the investor base interested or willing to invest in the oil and gas industry and more specifically, Inter Pipeline, may result in limiting Inter Pipeline's access to capital, increasing the cost of capital, and decreasing the price and liquidity of Inter Pipeline's securities even if Inter Pipeline's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of an asset which may result in an impairment charge.

## Risk Relating to Obtaining Adequate Amounts of Insurance

Concerns of the effects of the use of fossil fuels on climate change and the impact of oil and gas operations on the environment are causing insurers to take public positions against insuring certain types of assets. As a result, numerous insurers have announced positions against providing insurance to companies with thermal coal-fired power plants, thermal coal mines, oil sands, and new Arctic energy exploration activities. Additionally, certain insurers are requesting that companies develop and implement more robust social, environmental and governance policies and practices. Failing to implement the policies and practices as required by insurers may result in such insurers not providing insurance to Inter Pipeline. Any reduction in the number of insurers providing insurance to Inter Pipeline may result in Inter Pipeline having to self-insure certain risks.

## Risks Relating to Concentration of Assets in Alberta

The majority of Inter Pipeline's assets are concentrated in Alberta, which leaves the company exposed to the economic conditions of that province. Inter Pipeline mitigates this risk through a diversity of business activities within the province of Alberta and by owning and operating assets in Saskatchewan and Western Europe.

## Significant Shareholders

On February 10, 2021, Brookfield announced that it holds beneficial ownership and control of an aggregate of 41,848,857 Inter Pipeline common shares, representing approximately 9.75% of the issued and outstanding common shares on an undiluted basis, and in addition, a cash-settled total return swap (the "Total Return Swap") that provides Brookfield with economic exposure to an aggregate of 42,492,698 Inter Pipeline common shares. Brookfield stated that the Total Return Swap affords economic exposure comparable to beneficial ownership but does not give Brookfield any right to vote, or direct or influence the voting, acquisition, or disposition of any common shares. These holdings could give Brookfield the ability to influence the outcome of any matters requiring a shareholder vote.

## Shareholder Activism and Other Actions

Inter Pipeline may be subject to legal and business challenges in the operation of its business due to actions instituted by activist shareholders or others including when subject to an unsolicited acquisition proposal or offer. Responding to such actions can be costly and time-consuming, disrupting business operations and diverting the attention of the Board, management and employees. Such investor or other third party actions could result in uncertainty of the direction of Inter Pipeline, substantial costs and diversion of management's attention and resources, which could make it more difficult to attract and retain employees and customers, harm the business, hinder execution of the business strategy and initiatives and create volatility in the market price and trading volume of the common shares.

# SELECTED ANNUAL FINANCIAL INFORMATION

| | Years Ended December 31 | | |
|---|---|---|---|
| *(millions, except per share amounts)* | **2020** | 2019 | 2018 |
| Revenue | **$ 2,400.5** | $ 2,535.3 | $ 2,592.9 |
| Net income | **$ 359.0** | $ 539.0 | $ 592.5 |
| Per share – basic and diluted | **$ 0.84** | $ 1.31 | $ 1.53 |
| Dividends declared per share[(1)] | **$ 0.788** | $ 1.710 | $ 1.685 |
| Total assets | **$ 13,066.4** | $ 12,951.4 | $ 11,461.5 |
| Total debt[(2)] | **$ 6,828.5** | $ 6,669.5 | $ 5,680.1 |

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

(2) Financial debt reported in the December 31, 2020 consolidated financial statements of $6,794.7 million, includes long-term debt, short-term debt and commercial paper outstanding of $6,828.5 million less discounts and debt transaction costs of $33.8 million.

# NON-GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely "adjusted working capital surplus (deficiency)", "EBITDA", "adjusted EBITDA", "adjusted EBITDA by contract type", "enterprise value", "funds from operations per share", "growth capital expenditures", "sustaining capital expenditures", "earnings coverage", and "payout ratio" are not measures recognized 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 surplus (deficiency)** is calculated by subtracting current liabilities from current assets including cash and excluding commercial paper, current portion of long-term debt, assets and liabilities held for sale, and lease liabilities. 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.

| | As at December 31 | |
|---|---|---|
| *(millions)* | **2020** | 2019 |
| Current Assets | | |
| Cash and cash equivalents | **$ 40.1** | $ 32.6 |
| Accounts receivable | **329.2** | 323.2 |
| Prepaid expenses and other assets | **50.1** | 47.9 |
| Inventory | **14.0** | 14.7 |
| Current Liabilities | | |
| Dividends payable | **(17.2)** | (60.0) |
| Accounts payable, accrued liabilities and provisions | **(463.6)** | (638.0) |
| Current income taxes payable | **(3.0)** | (2.2) |
| Deferred revenue | **(3.4)** | (8.5) |
| Adjusted working capital deficiency | **$ (53.8)** | $ (290.3) |

**EBITDA and adjusted EBITDA** are reconciled from the components of net income as noted below. EBITDA is expressed as net income before financing charges, 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 December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | **2020** | 2019 |
| Net income | **$ 168.7** | $ 100.5 | **$ 359.0** | $ 539.0 |
| Financing charges | **43.6** | 48.4 | **189.6** | 185.8 |
| Current income tax expense | **1.7** | 0.4 | **6.7** | 2.0 |
| Deferred income tax expense (recovery) | **32.7** | 27.9 | **106.5** | (23.7) |
| Gain on sale of European divestiture group | **(77.8)** | — | **(77.8)** | — |
| Depreciation and amortization | **68.4** | 83.6 | **360.3** | 356.4 |
| EBITDA | **$ 237.3** | $ 260.8 | **$ 944.3** | $ 1,059.5 |
| Loss (gain) on disposal of assets | **2.8** | 2.8 | **23.8** | (7.1) |
| Non-cash financing charges | **(3.0)** | (2.2) | **(12.3)** | (9.5) |
| Non-cash (recovery) expense | **(4.8)** | 2.0 | **6.1** | 8.3 |
| Adjusted EBITDA | **$ 232.3** | $ 263.4 | **$ 961.9** | $ 1,051.2 |

| | Three Months Ended December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| *(millions)* | **2020** | 2019 | **2020** | 2019 |
| Funds from operations | **$ 204.3** | $ 216.8 | **$ 792.2** | $ 872.9 |
| Total interest less capitalized interest | **40.6** | 46.2 | **177.3** | 176.3 |
| Realized loss on foreign exchange derivative related to sale of European divestiture group | **(14.3)** | — | **(14.3)** | — |
| Current income tax expense | **1.7** | 0.4 | **6.7** | 2.0 |
| Adjusted EBITDA | **$ 232.3** | $ 263.4 | **$ 961.9** | $ 1,051.2 |

**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 volume 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 December 31 | | Years Ended December 31 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Adjusted EBITDA by contract type** | | | | |
| Cost-of-service | **71%** | 69% | **74%** | 67% |
| Fee-based | **14%** | 15% | **15%** | 17% |
| Commodity-based | **15%** | 12% | **10%** | 13% |
| Product margin | **—%** | 4% | **1%** | 3% |

**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)* | As at December 31 **2020** | 2019 |
|---|---|---|
| Closing share price | **$ 11.87** | $ 22.54 |
| Total closing number of common shares | **429.2** | 420.7 |
| | **5,094.6** | 9,483.7 |
| Total debt | **6,828.5** | 6,669.5 |
| Enterprise value | **$ 11,923.1** | $ 16,153.2 |

**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 December 31 | | | |
|---|---|---|---|---|
| | | | **2020** | 2019 |
| *(millions)* | Growth | Sustaining | Total | Total |
| Oil sands transportation | **$ 2.3** | **$ 0.2** | **$ 2.5** | $ 20.4 |
| NGL processing | **283.9** | **8.4** | **292.3** | 332.7 |
| Conventional oil pipelines | **6.8** | **7.5** | **14.3** | 50.7 |
| Bulk liquid storage | **6.0** | **4.4** | **10.4** | 30.8 |
| Corporate | **3.4** | **—** | **3.4** | 5.7 |
| Capital expenditures | **$ 302.4** | **$ 20.5** | **$ 322.9** | $ 440.3 |

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | | | **2020** | 2019 |
| *(millions)* | Growth | Sustaining | Total | Total |
| Oil sands transportation | **$ 12.9** | **$ 1.4** | **$ 14.3** | $ 99.5 |
| NGL processing | **971.8** | **23.0** | **994.8** | 1,271.8 |
| Conventional oil pipelines | **52.9** | **11.3** | **64.2** | 133.7 |
| Bulk liquid storage | **39.8** | **14.6** | **54.4** | 69.5 |
| Corporate | **17.8** | **—** | **17.8** | 19.1 |
| Capital expenditures | **$ 1,095.2** | **$ 50.3** | **$ 1,145.5** | $ 1,593.6 |

**Earnings 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 or on Inter Pipeline's website at www.interpipeline.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 18th day of February, 2021**