



Management's Discussion and Analysis

For the year ended December 31, 2014

FORWARD-LOOKING INFORMATION

The following **Management's Discussion and Analysis (MD&A)** highlights Inter Pipeline Ltd.'s (Inter Pipeline) significant business results and statistics for the three month period and year ended December 31, 2014, to provide Inter Pipeline's shareholders and potential investors with information about Inter Pipeline and its subsidiaries, including management's assessment of Inter Pipeline's and its subsidiaries' future plans and operations. This information may not be appropriate for other purposes. Effective September 1, 2013, Inter Pipeline completed an arrangement pursuant to which, among other things, the outstanding Class A units of Inter Pipeline Fund were converted into common shares of Inter Pipeline Ltd. This resulted in the conversion to a dividend paying corporation, Inter Pipeline Ltd., which continues as a successor issuer to Inter Pipeline Fund (Corporate Conversion). In this MD&A, any references to Inter Pipeline prior to September 1, 2013 refer to Inter Pipeline Fund and its consolidated subsidiaries, and any references to Inter Pipeline subsequent to September 1, 2013 refer to Inter Pipeline Ltd. and its consolidated subsidiaries. Similarly, any references to common shares, shareholders or dividends used prior to September 1, 2013, refer to Class A units, unitholders and distributions of Inter Pipeline Fund, and any references to common shares, shareholders or dividends used subsequent to September 1, 2013 refer to common shares, shareholders and dividends of Inter Pipeline Ltd. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target" and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements in this MD&A include, but are not limited to, statements regarding: 1) Inter Pipeline's beliefs that it is well positioned to maintain its current level of dividends to its shareholders through 2015 and beyond; 2) the maintenance of Inter Pipeline's dividend level combined with the tax treatment of dividends to its shareholders; 3) Inter Pipeline being well positioned to operate and grow in the future; 4) funds from operations projections; 5) timing for completion of various projects, including the expansion and integration of the Cold Lake and Polaris pipeline systems to provide transportation service to various oil sands projects; 6) timing and cost schedules of Polaris and Cold Lake capital projects, and forward EBITDA (as defined herein) estimates in respect of these projects; and, 7) capital expenditure forecasts.

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

Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled RISK FACTORS for further risk factors. The forward-looking statements contained in this MD&A are made as of the date of this document and, except to the extent expressly required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document and all subsequent forward-looking statements, whether written or oral, attributable to Inter Pipeline or persons acting on Inter Pipeline's behalf are expressly qualified in their entirety by these cautionary statements.

Management's Discussion and Analysis

For the three month period and year ended December 31, 2014

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period and year ended December 31, 2014, as compared to the three month period and year ended December 31, 2013. The MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements (interim financial statements) and MD&A for the quarterly periods ended March 31, June 30 and September 30, 2014, the MD&A and audited consolidated financial statements for the year ended December 31, 2013, the audited consolidated financial statements for the year ended December 31, 2014, the **Annual Information Form**, and other information filed by Inter Pipeline at www.sedar.com.

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

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

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

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2014 HIGHLIGHTS

- Generated record funds from operations* (FFO) of \$564 million, a 19 percent increase over 2013 results
- Declared cash dividends of \$423 million or \$1.32 per share
- Annual payout ratio* of 77 percent
- Announced an \$0.18 annualized dividend increase, the largest single increase in Inter Pipeline's history
- Generated net income of \$350 million for the year, an annual record
- Incurred growth capital expenditures* of \$1.1 billion, primarily related to Inter Pipeline's \$3 billion expansion of the Cold Lake and Polaris pipeline systems
- Total pipeline throughput volumes averaged a record 1,118,100 barrels per day (b/d), including record oil sands transportation volumes of 912,900 b/d
- Announced \$100 million expansion of Mid-Saskatchewan pipeline system
- A 290 kilometre (km) \$1.1 billion mainline expansion on the Polaris pipeline system was completed on schedule and placed into commercial service
- Executed a long-term transportation agreement to provide diluent to the JACOS-Nexen Hangingstone project
- Raised \$1.5 billion of capital through the issuance of new debt and equity

FOURTH QUARTER HIGHLIGHTS

- Record quarterly FFO* of \$160 million, a 19 percent increase over fourth quarter of 2013
- Pipeline transportation volumes averaged 1,237,100 b/d, a quarterly record
- Bulk liquid storage utilization rates increased to 90 percent in December as contango pricing relationships returned to key petroleum markets

SUBSEQUENT EVENTS

- A \$1.3 billion Cold Lake mainline expansion was placed into commercial service in January 2015
- Completed a restructuring of our European storage business, rebranding the entire business segment as Inter Terminals

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

PERFORMANCE OVERVIEW

<i>(millions, except per share and % amounts)</i>	Three Months Ended December 31			Years Ended December 31		
	2014	2013	2014	2013	2012	
Revenues						
Oil sands transportation	\$ 140.5	\$ 107.4	\$ 476.7	\$ 388.5	\$ 319.3	
Conventional oil pipelines	87.1	82.3	363.9	302.2	231.2	
NGL extraction	123.0	146.6	548.6	520.7	499.9	
Bulk liquid storage	39.5	37.9	167.1	151.3	155.6	
	\$ 390.1	\$ 374.2	\$ 1,556.3	\$ 1,362.7	\$ 1,206.0	
Funds from operations⁽¹⁾⁽²⁾						
Oil sands transportation ⁽²⁾	\$ 97.2	\$ 64.2	\$ 306.1	\$ 219.7	\$ 184.1	
Conventional oil pipelines	46.8	44.0	191.1	174.9	153.4	
NGL extraction	24.7	53.4	142.3	170.7	194.6	
Bulk liquid storage	15.8	16.1	75.4	73.2	80.2	
Corporate costs	(24.8)	(43.2)	(150.9)	(165.9)	(178.4)	
	\$ 159.7	\$ 134.5	\$ 564.0	\$ 472.6	\$ 433.9	
Per share ⁽¹⁾	\$ 0.49	\$ 0.44	\$ 1.76	\$ 1.65	\$ 1.61	
Net income (loss) ⁽³⁾	\$ 79.6	\$ 84.6	\$ 349.5	\$ (47.0)	\$ 317.0	
Net income (loss) attributable to shareholders ⁽³⁾	\$ 75.6	\$ 81.3	\$ 334.8	\$ (58.1)	\$ 307.2	
Per share – basic	\$ 0.24	\$ 0.27	\$ 1.05	\$ (0.20)	\$ 1.14	
Per share – diluted	\$ 0.23	\$ 0.26	\$ 1.02	\$ (0.20)	\$ 1.14	
Dividends to shareholders	\$ 114.9	\$ 98.6	\$ 423.1	\$ 338.2	\$ 285.2	
Per share ⁽⁴⁾	\$ 0.3525	\$ 0.3225	\$ 1.3200	\$ 1.1775	\$ 1.0550	
Shares outstanding (basic)						
Weighted average	325.8	304.7	320.2	285.9	269.9	
End of period	326.2	306.8	326.2	306.8	275.2	
Capital expenditures ⁽⁵⁾						
Growth ⁽¹⁾	\$ 149.2	\$ 549.4	\$ 1,194.0	\$ 1,918.9	\$ 345.7	
Sustaining ⁽¹⁾	13.8	11.0	42.2	30.1	40.4	
	\$ 163.0	\$ 560.4	\$ 1,236.2	\$ 1,949.0	\$ 386.1	
Payout ratio ⁽¹⁾	74.0%	75.5%	77.3%	73.6%	67.5%	

<i>(millions, except % amounts)</i>	As at December 31		
	2014	2013	2012
Total assets	\$ 8,647.2	\$ 7,657.7	\$ 5,682.4
Total debt ⁽⁶⁾	\$ 4,590.7	\$ 3,960.8	\$ 3,127.6
Total shareholders' equity	\$ 2,548.1	\$ 2,100.3	\$ 1,659.5
Enterprise value ⁽¹⁾	\$ 16,314.8	\$ 11,885.4	\$ 9,593.8
Total debt to total capitalization ⁽¹⁾	64.3%	65.3%	65.3%
Total recourse debt to capitalization ⁽¹⁾	54.2%	52.8%	47.0%

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

(2) Funds from operations⁽¹⁾ include non-controlling interest amounts of \$4.4 million and \$16.8 million for the three month period and year ended December 31, 2014, respectively (\$3.9 million and \$12.8 million for the three month period and year ended December 31, 2013, respectively).

(3) In June 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for the Corporate Conversion by indirectly purchasing its general partner, for initial consideration of \$170 million, plus closing adjustments of \$8.6 million, and a future second instalment of \$170 million, which was satisfied upon the conversion of the convertible shares in January 2015.

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

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

(6) Total debt reported in the December 31, 2014 consolidated financial statements of \$4,571.5 million, includes long-term debt, short-term debt and commercial paper of \$4,590.7 million less discounts and debt transaction costs of \$19.2 million.

Year Ended December 31, 2014

Inter Pipeline generated record financial results for the year ended December 31, 2014. FFO* increased \$91.4 million or 19.3% from \$472.6 million in 2013 to \$564.0 million in 2014. This strong financial performance was driven by record annual FFO* from the oil sands transportation business increasing \$86.4 million or 39.3% to \$306.1 million in 2014. This considerable increase is largely due to expanded transportation services on the Polaris and Cold Lake pipeline systems. The conventional oil pipelines business also experienced record annual FFO* increasing \$16.2 million or 9.3% to \$191.1 million in 2014, due to higher volumes transported and an incremental contribution from Inter Pipeline's midstream marketing activities. Financial results from the bulk liquid storage business increased \$2.2 million as a result of favourable foreign exchange, offset by lower utilization and storage rates. FFO* from the NGL extraction business decreased \$28.4 million due to lower frac-spread pricing and NGL volumes. FFO* benefitted from lower annual corporate costs of \$15.0 million largely due to lower current income tax expense and the elimination of management fees upon Corporate Conversion in 2013.

Inter Pipeline's net income increased \$47.9 million to \$349.5 million in 2014, as compared to normalized net income* of \$301.6 million in 2013, after excluding the one-time non-cash internalization cost of \$348.6 million. This increase is primarily due to higher FFO* discussed above, partially offset by higher deferred income tax and higher depreciation and amortization expense.

Total annual dividends to shareholders increased \$84.9 million or 25.1% from \$338.2 million in 2013 to \$423.1 million in 2014. The increase is due to higher monthly dividend rates and a greater overall number of shares outstanding. Inter Pipeline announced dividend rate increases in June and September 2013 which totaled \$0.18 per common share on an annualized basis and a November 2014 increase of \$0.18 per common share on an annualized basis. The increase in the overall number of common shares outstanding was largely due to equity offerings in October 2013 and March 2014, and strong shareholder participation in Inter Pipeline's dividend reinvestment plan. Inter Pipeline's payout ratio* was 77.3% for the year ended December 31, 2014.

Total consolidated debt increased \$629.9 million from \$3,960.8 million at December 31, 2013 to \$4,590.7 million at December 31, 2014, while \$1,183.6 million (Inter Pipeline's share) was incurred by Inter Pipeline on capital expenditures. At December 31, 2014, Inter Pipeline's total recourse debt to capitalization* ratio was 54.2%. Inter Pipeline's total debt to total capitalization ratio* at December 31, 2014 was 64.3%, which includes non-recourse debt of \$1,579.7 million held within Inter Pipeline's Corridor corporate entity.

Three Months Ended December 31, 2014

Inter Pipeline generated record fourth quarter financial results, as FFO* increased \$25.2 million or 18.7% from \$134.5 million in 2013 to \$159.7 million in 2014. These strong quarterly results were largely due to increased financial performance in the oil sands transportation and conventional oil pipelines businesses, as well as lower corporate costs, for the same reasons discussed above. Fourth quarter FFO* from the NGL extraction business was also lower in 2014 due to lower frac-spread pricing and NGL volumes, while bulk liquid storage business decreased marginally as favourable foreign exchange was more than offset by higher operating and administrative costs.

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

Net income generated by Inter Pipeline decreased \$5.0 million from \$84.6 million in the fourth quarter of 2013 to \$79.6 million in the fourth quarter of 2014, as the increase in FFO* discussed above was more than offset by higher deferred income tax and higher depreciation and amortization expense.

Total dividends to shareholders in the fourth quarter increased by \$16.3 million or 16.5% from \$98.6 million in 2013 to \$114.9 million in 2014, primarily for the same reasons mentioned above. Inter Pipeline's payout ratio* for the fourth quarter of 2014 was 74.0%.

Inter Pipeline's total consolidated debt increased \$194.4 million from \$4,396.3 million at September 30, 2014 to \$4,590.7 million at December 31, 2014, while Inter Pipeline expended \$159.6 million (Inter Pipeline's share) on capital projects.

OUTLOOK

Inter Pipeline owns and operates world scale energy infrastructure assets located in western Canada and Europe. Our long-term strategy is to acquire and develop these assets to generate stable and predictable cash flow, while delivering strong returns to shareholders. In 2014, this strategy was successfully executed as Inter Pipeline advanced a multi-billion dollar pipeline expansion program on its Polaris and Cold Lake pipeline systems. The capital program, the largest in Inter Pipeline's history, leaves our pipeline business well positioned to capture further growth opportunities.

Inter Pipeline has planned a \$400 million capital expenditure program for 2015 with a primary focus on the expansion of its oil sands transportation and conventional oil pipelines businesses. Growth capital* projects are expected to account for approximately \$340 million, while the remainder will be invested on sustaining capital* projects across Inter Pipeline's four business segments and for corporate requirements.

In 2015, our focus remains on the execution of major expansion programs on both the oil sands and conventional oil pipeline systems. These large scale developments are primarily underpinned by long-term contracts with credit-worthy counterparties that are expected to substantially increase FFO* and support stable and growing returns to shareholders over the long-term. The construction projects are also adding substantial transportation capacity beyond current contractual requirements that will competitively position Inter Pipeline to pursue future accretive growth opportunities in a capital-efficient manner.

Expansion of oil sands transportation infrastructure represents approximately \$200 million of planned 2015 growth capital expenditures*. The expansions are the result of producer demand for increased bitumen blend and diluent throughput capacity between the Cold Lake and Athabasca oil sands producing regions and market hubs in Edmonton and Hardisty, Alberta.

Inter Pipeline's Polaris and Cold Lake system expansions are anchored by long-term cost-of-service agreements with large and stable producers who have contracted for volume commitments totaling approximately 1.1 million b/d. The FCCL Partnership (FCCL), a business venture between Cenovus Energy and ConocoPhillips, has committed to 850,000 b/d of bitumen blend and diluent transportation capacity for its Foster Creek, Christina Lake and Narrows Lake oil sands projects. In support of FCCL's large volume commitment, Inter Pipeline is investing approximately \$3.0 billion (Inter Pipeline's share) to expand and integrate the Cold Lake and Polaris pipeline systems. Construction of the expansions is substantially

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

complete as major components, including new mainline installations on both the Polaris and Cold Lake systems, have entered commercial service. In total, Inter Pipeline will construct 840 km of pipeline and seven mainline pump stations to provide transportation service to FCCL's three oil sands projects.

Total diluent transportation capacity on the Polaris system has increased to approximately 820,000 b/d and Cold Lake system capacity has increased to approximately 1.2 million b/d. Ultimate throughput capacities of 1.2 million b/d and 1.9 million b/d on the Polaris and Cold Lake systems, respectively, can be achieved through the addition of pump stations and associated infrastructure. In 2015, Inter Pipeline will continue to aggressively pursue opportunities to utilize this excess capacity.

In the conventional oil pipelines segment, the business outlook remains positive despite recent oil price instability. In total, Inter Pipeline expects to invest approximately \$115 million in growth capital* in the conventional oil pipelines business in 2015. Strong producer demand for transportation services is driving a major expansion of the Mid-Saskatchewan pipeline system. New connections and pipeline twinning projects are being constructed as strong drilling activity and increased recoveries from established oil fields in the Kindersley-Kerrobert areas of Saskatchewan continue to increase volumes. The Mid-Saskatchewan system expansion will involve the construction of 50 km of new mainline pipe, 40 km of new pipeline laterals, and all associated facilities.

In the NGL extraction business segment, Inter Pipeline expects 2015 growth capital expenditures* to be approximately \$10 million. Investments will be directed toward several projects to further improve the recovery efficiency of ethane and propane-plus products extracted at the Cochrane and Empress plants.

Inter Pipeline expects to spend approximately \$20 million on growth capital* projects in its European bulk liquid storage business segment in 2015. In the United Kingdom (UK), approximately \$12 million will be directed towards asset life extension projects and containment related site work. In Germany, approximately \$7 million will be spent on the construction of six new tanks with total capacity of 57,000 barrels in response to strong demand for specialty chemical storage service from various customers including the adjacent BASF Ludwigshafen plant, one of the largest chemical production complexes in the world. Utilization rates in the bulk liquid storage business are expected to improve in 2015 as certain terminals in Denmark are well positioned to capture additional storage opportunities as contango in the middle distillate market returns.

Inter Pipeline raised a record \$1.5 billion in equity and debt capital markets in 2014 in order to finance its large capital expenditure program and maintain a strong balance sheet. In March, \$300 million of equity was issued through a very successful public share offering. An additional \$265 million of equity was raised through the strong participation of shareholders under Inter Pipeline's dividend reinvestment plan. Inter Pipeline also issued \$900 million of term debt through a dual tranche offering of \$500 million 30-year medium-term notes (MTN Series 5) and \$400 million of 3-year floating rate notes (MTN Series 6) at attractive rates. Net proceeds from these offerings were utilized to reduce debt outstanding under Inter Pipeline's revolving credit facility.

As a result of a strong balance sheet and growing cost-of-service based cash flow, Inter Pipeline continues to benefit from investment grade credit ratings from the major ratings institutions. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline

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

(Corridor) Inc. (Corridor) has been assigned investment grade credit ratings of A (stable outlook) from S&P and DBRS and A2 (stable outlook) from Moody's Investors Service (Moody's).

Inter Pipeline's outlook remains positive as we continue to develop and expand our long-life, high quality energy infrastructure asset base and capture new business opportunities. With a strong balance sheet, experienced operating and project development teams and a culture focused on disciplined growth, Inter Pipeline is well positioned to continue to deliver long-term positive returns to our shareholders.

RESULTS OF OPERATIONS

Oil Sands Transportation Business Segment

<i>Volumes (000s b/d)</i>	Three Months Ended December 31			Years Ended December 31		
	2014	2013	% change	2014	2013	% change
Cold Lake (100% basis)	546.0	456.8	19.5	504.1	478.2	5.4
Corridor	360.8	328.5	9.8	348.3	334.8	4.0
Polaris	117.1	37.3	213.9	60.5	15.4	292.9
	1,023.9	822.6	24.5	912.9	828.4	10.2

<i>(millions)</i>						
	2014	2013	% change	2014	2013	% change
Revenue ⁽¹⁾	\$ 140.5	\$ 107.4	30.8	\$ 476.7	\$ 388.5	22.7
Operating expenses ⁽¹⁾	\$ 28.2	\$ 26.6	6.0	\$ 117.0	\$ 112.8	3.7
Funds from operations ⁽¹⁾⁽²⁾	\$ 97.2	\$ 64.2	51.4	\$ 306.1	\$ 219.7	39.3
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 121.9	\$ 534.5		\$ 1,126.6	\$ 1,853.2	
Sustaining ⁽²⁾	1.3	0.8		1.9	2.2	
	\$ 123.2	\$ 535.3		\$ 1,128.5	\$ 1,855.4	

(1) For the three month period and year ended December 31, 2014, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - \$6.3 million and \$25.6 million (\$5.7 million and \$21.0 million in 2013), respectively; operating expenses - \$1.9 million and \$8.8 million (\$1.8 million and \$8.2 million in 2013), respectively; FFO⁽²⁾ - \$4.4 million and \$16.8 million (\$3.9 million and \$12.8 million in 2013), respectively; and capital expenditures - \$3.4 million and \$52.6 million (\$179.3 million and \$185.3 million in 2013), respectively.

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

The oil sands transportation business segment is comprised of the Cold Lake, Corridor and Polaris pipeline systems that transport petroleum products and provide related blending and handling services in northern Alberta.

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 the Hardisty and Edmonton areas. Inter Pipeline owns an 85% interest in the Cold Lake pipeline system and operates the system pursuant to a long-term Transportation Services Agreement (Cold Lake TSA) with the Cold Lake founding shippers. The shippers have committed to utilizing these pipelines and paying for such usage over the term of the Cold Lake TSA which extends indefinitely subject to certain provisions in the agreement. The Cold Lake TSA provides for a structured return on capital invested, including a defined capital fee that is applied to volumes transported through the pipelines and facilities that comprise the Cold Lake pipeline system, and the recovery of substantially all operating costs. Inter Pipeline anticipates continued volume growth on the Cold Lake Pipeline system which is consistent with the shipper's long-term published forecasts. In addition to the Cold Lake TSA, there are

additional agreements between Cold Lake Pipeline Limited Partnership (Cold Lake LP) and both the founding and third party shippers that provide for a return on capital invested and recovery of associated operating costs.

The Corridor pipeline system is comprised of a bitumen blend pipeline, a diluent delivery pipeline, a feedstock pipeline and two products pipelines. It transports diluted bitumen produced from the Muskeg River and Jackpine Mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton, Alberta. Corridor is the sole transporter of diluted bitumen produced by the Athabasca Oil Sands Project. The Corridor pipeline system is operated pursuant to a long-term Firm Service Agreement (Corridor FSA). The Corridor FSA utilizes a rate base cost-of-service approach to establish a revenue requirement which provides for recovery of debt financing costs, substantially all operating costs, rate base depreciation and taxes in addition to providing a return on equity. As a result of this cost-of-service approach, Corridor's FFO^{*} is not impacted by throughput volumes or commodity price fluctuations. The main drivers of any potential variation in Corridor's FFO^{*} are changes to the long-term Government of Canada (GOC) bond rate, upon which the annual return on equity is determined, and changes to Corridor's rate base. The initial term of the Corridor FSA is 25 years, extending through 2028 with options for further extensions.

The Polaris pipeline system is comprised of a 12-inch diameter diluent pipeline that commenced commercial operations in August 2012 and a newly constructed 30-inch diameter diluent pipeline that commenced commercial operations in July 2014. The Polaris pipeline system currently provides diluent transportation service from a diluent receipt point in the area north east of Edmonton to Imperial's Kearl, Husky's Sunrise, Suncor's oil sands, Canadian Natural Resources (CNR) Kirby South and FCCL's Foster Creek and Christina Lake oil sands projects. The Polaris pipeline system generates revenue under various long-term diluent transportation agreements utilizing a cost-of-service approach providing for a return on capital invested and recovery of substantially all operating costs. Throughput volumes below the ship-or-pay commitments or commodity price fluctuations will not impact Polaris' FFO^{*} over the life of the contracts as a result of the cost-of-service approach.

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

Volumes

Average volumes in the oil sands transportation business increased 201,300 b/d or 24.5% in the fourth quarter from 822,600 b/d in 2013 to 1,023,900 b/d in 2014. Volumes also increased 84,500 b/d or 10.2% for the full year from 828,400 b/d in 2013 to 912,900 b/d in 2014.

Cold Lake pipeline system volumes increased 89,200 b/d or 19.5% and 25,900 b/d or 5.4% in the three months and year ended December 31, 2014, respectively, over the same periods in 2013. The increase in volumes is largely due to incremental production from the CNR Kirby South facility and the FCCL Foster Creek expansion which began shipments in December 2013 and September 2014, respectively. In addition, 2013 volumes were unfavourably impacted by certain producers' operational and product quality issues, as well as facility maintenance activities. Cold Lake pipeline system volumes typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes. Volume growth on the Cold Lake pipeline system is anticipated over the long-term, which is consistent with shippers' published forecasts.

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

Average volumes on the Corridor pipeline system increased 32,300 b/d or 9.8% in the fourth quarter and 13,500 b/d or 4.0% year to date in 2014, compared to the same periods in 2013, due to increased production levels from the Muskeg River and Jackpine mines.

On the Polaris pipeline system average volumes increased 79,800 b/d and 45,100 b/d, in the three months and year ended December 31, 2014, respectively, over the same periods in 2013. The increase is largely due to commencement of diluent transportation services as Inter Pipeline completed the majority of its \$1.5 billion pipeline system expansion to the FCCL Foster Creek and Christina Lake facilities. In addition, volumes also increased as a result of increased deliveries to CNR's Kirby South oil sands project and Imperial's Kearn oil sands project located north east of Fort McMurray, Alberta, as these new projects ramped up production.

Revenue

Revenue from the oil sands transportation business increased \$33.1 million to \$140.5 million and \$88.2 million to \$476.7 million in the three months and year ended December 31, 2014, respectively, compared to the same periods in 2013.

Cold Lake pipeline revenue increased \$4.3 million to \$42.4 million in the fourth quarter and \$30.6 million to \$171.6 million for the full year of 2014, over the same periods in 2013. Revenue in both periods increased due to higher mainline and Foster Creek volumes, revenue from the Canexus unit train loading connection which began in July 2014 and higher operating cost recoveries. Annual 2014 revenue also increased substantially due to a full year of capital fee revenue from transportation services for the CNR Kirby South oil sands project, which began in August 2013.

Corridor pipeline revenue decreased \$1.0 million to \$44.0 million and \$0.7 million to \$172.7 million in the three months and year ended December 31, 2014, compared to the same periods in 2013. The decrease in both periods is due to the declining nature of Corridor's rate base and a lower return on equity due to a decrease in the long-term GOC benchmark bond interest rate, which was partially offset by increased operating cost recoveries.

Revenue from the Polaris pipeline system, for the three months and year ended December 31, 2014, increased \$29.8 million to \$54.1 million and \$58.3 million to \$132.4 million, respectively, over the comparable periods in 2013. The increase in both periods is primarily due to capital fee revenue from diluent transportation service for FCCL, which began in the third quarter of 2014. Revenues also increased due to capital fee revenue associated with Husky's Sunrise oil sands project which started in the fourth quarter of 2013 and the Canexus unit train loading connection which began in July of 2014, as well as increased operating cost recoveries. These increases were slightly offset due to annual 2013 revenue including certain recoverable construction related expenditures associated with a project which was completed in late 2013.

Operating Expenses

In the oil sands transportation business segment, operating expenses typically have a limited impact on Inter Pipeline's FFO*. On the Cold Lake, Corridor and Polaris pipeline systems, substantially all operating expenditures are recovered from the shippers. In the three months and year ended December 31, 2014, operating expenses in the oil sands transportation business increased \$1.6 million to \$28.2 million and \$4.2 million to \$117.0 million, respectively, compared to the same periods in 2013.

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

Cold Lake pipeline operating expenses increased \$0.2 million and \$4.2 million in the three months and year ended December 31, 2014, respectively, over the same periods in 2013. Operating expenses increased largely due to higher employee and general operating costs related to the various expansions, partially offset by lower maintenance and power costs. Lower power costs resulted from decreased power pricing which was somewhat offset by higher consumption and transportation costs related to the higher volumes. Full year 2014 operating costs were also higher due to increased property taxes.

Operating expenses on the Corridor pipeline system decreased \$0.1 million in the fourth quarter of 2014 as higher subsidence repairs were more than offset by lower integrity and general operating costs, compared to the same period in 2013. Operating costs for the full year of 2014 increased \$2.3 million over 2013, due to higher subsidence repairs, employee costs and general operating costs, somewhat offset by lower integrity spending.

Operating expenses on the Polaris pipeline system increased \$1.5 million in the fourth quarter and decreased \$2.3 million for the full year of 2014, compared to the same periods in 2013. Operating expenses in both periods increased due to expanded pipeline operations resulting in higher employee costs, general operating costs, property taxes and insurance. Annual 2014 operating expenses decreased from 2013 due to the inclusion in 2013 of certain recoverable construction related expenditures, which more than offset the aforementioned increase.

Capital Expenditures

The oil sands transportation business incurred total growth capital expenditures* of \$1,126.6 million in 2014.

Total growth capital expenditures* on the Cold Lake pipeline system were \$385.2 million in 2014, which primarily relate to Cold Lake pipeline's \$1.5 billion (Inter Pipeline's share) oil sands development program to provide transportation services to existing FCCL projects. These expenditures include engineering, design, procurement and construction activities.

The Cold Lake pipeline system and the Polaris pipeline system incurred additional growth capital expenditures* of \$25.8 million and \$18.9 million in 2014, respectively, related to construction for bitumen blend transportation services to Canexus' unit train rail loading facility near Bruderheim, Alberta. In the third quarter of 2014, Inter Pipeline completed construction of the 13 km, 24-inch diameter pipeline lateral and associated metering facility to transport bitumen blend from Inter Pipeline's Cold Lake system to a Canexus owned pipeline via the Polaris pump station near Lamont, Alberta, for a total cost of approximately \$60 million (Inter Pipeline's share).

The Polaris pipeline system incurred total growth capital expenditures* of \$740.2 million in 2014, of which roughly \$700 million relates to its \$1.5 billion expansion program, for a total of approximately \$1,360 million spent to date. In the third quarter of 2014, Inter Pipeline announced that a major component of the Polaris pipeline system expansion was completed and placed into commercial service. A 290 km 30-inch diameter mainline segment connecting the Lamont pump station to FCCL's Foster Creek and Christina Lake production facilities was completed and entered commercial service in July 2014. The successfully completed segment, representing approximately \$1.1 billion of the Polaris pipeline system's \$1.5 billion estimated total expansion cost, increased throughput capacity by approximately 700,000 b/d. The remaining Polaris pipeline expansion including a diluent connection to the Narrows Lake production site is expected to be completed by mid-2017.

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

Growth capital expenditures* on the Polaris pipeline system for the construction of a new delivery connection to Athabasca Oil Corporation's Hangingstone project were \$10.9 million in 2014, for a total project spend to date of \$11.4 million. The total estimated cost of this project is \$29 million.

The Polaris pipeline system also incurred \$1.4 million in growth capital expenditures* relating to the construction of a new 1.2 km pipeline lateral and associated facilities which will connect the Polaris pipeline system to the JACOS-Nexen Hangingstone project, for a total estimated cost of \$25 million.

The remaining 2014 Polaris pipeline growth capital expenditures* of \$15.1 million relate to various other development initiatives.

Conventional Oil Pipelines Business Segment

Volumes (000s b/d)	Three Months Ended December 31			Years Ended December 31		
	2014	2013	% change	2014	2013	% change
Bow River	103.7	100.6	3.1	100.9	97.7	3.3
Central Alberta	36.2	34.8	4.0	36.7	35.4	3.7
Mid-Saskatchewan	73.3	58.7	24.9	67.6	53.5	26.4
	213.2	194.1	9.8	205.2	186.6	10.0

(millions, except per barrel amount)

Revenue	\$ 87.1	\$ 82.3	5.8	\$ 363.9	\$ 302.2	20.4
Midstream product purchases	\$ 22.4	\$ 23.7	(5.5)	\$ 107.3	\$ 75.8	41.6
Operating expenses	\$ 19.0	\$ 14.4	31.9	\$ 65.9	\$ 51.2	28.7
Funds from operations ⁽¹⁾	\$ 46.8	\$ 44.0	6.4	\$ 191.1	\$ 174.9	9.3
Revenue per barrel ⁽²⁾	\$ 2.93	\$ 2.94	(0.3)	\$ 2.94	\$ 2.92	0.7
Capital expenditures						
Growth ⁽¹⁾	\$ 21.1	\$ 6.5		\$ 48.4	\$ 12.6	
Sustaining ⁽¹⁾	\$ 0.9	\$ 0.8		\$ 4.3	\$ 4.6	
	\$ 22.0	\$ 7.3		\$ 52.7	\$ 17.2	

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

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

The conventional oil pipelines business includes the Bow River, Central Alberta and Mid-Saskatchewan pipeline systems located in Alberta and Saskatchewan. The majority of petroleum volumes on these conventional gathering systems are transported on an open access basis and subject to Inter Pipeline's posted tariffs. Those volumes under short-term contracts have fixed tolling arrangements with specific volume commitments.

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

Volumes

Average volumes on the conventional oil pipelines increased 19,100 b/d or 9.8% and 18,600 b/d or 10.0% for the three month period and year ended December 31, 2014, respectively, over the same periods in 2013. Incremental volumes on the Mid-Saskatchewan pipeline system were the primary driver, increasing 14,600 b/d or 24.9% in the fourth quarter and

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

14,100 b/d or 26.4% for the full year in 2014, compared to the same periods in 2013. Volumes increased as producers continued to utilize horizontal drilling and multi-stage hydraulic fracturing completion technologies in the Viking light oil play yielding a significant increase in regional production. Bow River pipeline system volumes increased 3,100 b/d or 3.1% and 3,200 b/d or 3.3%, in the three months and year ended December 31, 2014, respectively, compared to the same periods in 2013. The increase largely results from stronger truck terminal volumes, as well as a third party refinery turnaround which occurred in the second quarter of 2013 which reduced volumes in that year. Volumes on the Central Alberta pipeline system increased 1,400 b/d or 4.0% in the fourth quarter and 1,300 b/d or 3.7% for the full year of 2014, compared to the same periods in 2013. Central Alberta pipeline volumes increased largely due to increased drilling activity in the area and higher truck terminal volume.

Revenue

Revenue from the conventional oil pipelines business increased \$4.8 million to \$87.1 million and \$61.7 million to \$363.9 million in the three months and year ended December 31, 2014, respectively, over the comparable periods in 2013. Revenue increased primarily due to incremental volumes transported on the conventional oil pipelines systems, leading to higher tolling revenue. The increase in transportation volumes also resulted in higher revenue from Inter Pipeline's midstream marketing business, however in the current quarter this increase was offset by lower crude oil pricing, compared to the same period in 2013.

Midstream Product Purchases

Midstream product purchases decreased \$1.3 million in the fourth quarter of 2014, due to lower product pricing which was partially offset by an increase in volume, over the same period in 2013. For the full year, midstream product purchases increased \$31.5 million in 2014, coinciding with the rise in volume on the conventional oil pipelines system, as well as higher trucking costs, partially offset by lower product pricing, compared to the same period in 2013.

Operating Expenses

Operating expenses in the conventional oil pipelines business for the three months and year ended December 31, 2014 increased \$4.6 million and \$14.7 million, respectively, compared to the same periods in 2013. These increases are largely due to one-time events resulting in higher remediation costs of \$1.4 million and \$3.9 million, and in expenditures of \$1.4 million and \$1.7 million related to the addition of a planned subsidence program for the three months and year ended December 31, 2014, respectively, over the same periods in 2013. Operating expenses were also higher in both periods due to increased variable operating and employee costs associated with the increased volumes. The majority of these increases are a result of Inter Pipeline's proactive approach to maintaining the integrity and reliability of its pipelines. Operating expenses also increased in the three months and year ended December 31, 2014 due to over/short volumes being recorded on a gross basis within both revenues and expenses due to the full internalization of Inter Pipeline's midstream marketing activities, rather than on a net basis within revenues.

Capital Expenditures

Growth capital expenditures^{*} in the conventional oil pipelines business in 2014 were \$48.4 million. These expenditures include \$27.8 million relating to a planned \$100 million expansion of the Mid-Saskatchewan pipeline system, for a total of \$28.7 million spent to date on the project. The expansion involves the construction of over 50 km of new mainline pipe, 40

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

km of new pipeline laterals and associated pumping and metering facilities. The remaining expenditures relate to a number of third party connections, storage tanks and upgrades to certain shipping/receiving facilities and truck terminals.

NGL Extraction Business Segment

Three Months Ended December 31								
2014				2013				
	<i>mmcf/d</i>	<i>(000s b/d)</i>		<i>mmcf/d</i>	<i>(000s b/d)</i>			
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	
Cochrane	1,667	40.6	25.1	65.7	1,917	54.4	26.3	80.7
Empress V (100% basis)	989	26.0	11.7	37.7	946	24.2	10.8	35.0
Empress II	-	-	-	-	-	-	-	-
	2,656	66.6	36.8	103.4	2,863	78.6	37.1	115.7

Years Ended December 31								
2014				2013				
	<i>mmcf/d</i>	<i>(000s b/d)</i>		<i>mmcf/d</i>	<i>(000s b/d)</i>			
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	
Cochrane	1,526	40.3	23.8	64.1	1,692	47.5	23.1	70.6
Empress V (100% basis)	926	22.6	10.9	33.5	893	24.2	10.7	34.9
Empress II	-	-	-	-	134	3.0	1.7	4.7
	2,452	62.9	34.7	97.6	2,719	74.7	35.5	110.2

<i>(millions)</i>	Three Months Ended December 31			Years Ended December 31		
	2014	2013	% change	2014	2013	% change
Revenue ⁽¹⁾	\$ 123.0	\$ 146.6	(16.1)	\$ 548.6	\$ 520.7	5.4
Shrinkage gas ⁽¹⁾	\$ 71.3	\$ 68.1	4.7	\$ 297.0	\$ 235.7	26.0
Operating expenses ⁽¹⁾	\$ 26.9	\$ 25.2	6.7	\$ 109.4	\$ 114.3	(4.3)
Funds from operations ⁽¹⁾⁽²⁾	\$ 24.7	\$ 53.4	(53.7)	\$ 142.3	\$ 170.7	(16.6)
Capital expenditures ⁽¹⁾						
Growth ⁽²⁾	\$ 1.3	\$ 3.4		\$ 6.3	\$ 31.2	
Sustaining ⁽²⁾	\$ 2.5	\$ 1.5		\$ 5.6	\$ 3.9	
	\$ 3.8	\$ 4.9		\$ 11.9	\$ 35.1	

(1) Revenue, shrinkage gas, operating expenses, FFO⁽²⁾ and capital expenditures for the Empress V NGL extraction facility are recorded based on Inter Pipeline's 50% ownership.

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

Inter Pipeline's NGL extraction business consists of a 100% ownership interest in the Cochrane and Empress II extraction facilities and a 50% ownership interest in the Empress V extraction facility. The Empress and Cochrane facilities are located on the eastern and western legs, respectively, of the TransCanada Alberta pipeline system near export points from Alberta. NGL extraction facilities recover propane, butane and pentanes-plus ("propane-plus" collectively) and ethane from natural gas streams.

This business has three types of sales contracts with three primary counterparties: Dow Chemical, NOVA Chemicals and Plains Midstream. Contract types include cost-of-service, fee-based or commodity-based arrangements.

Payments under cost-of-service contracts include a fixed capital charge and provision for recovery of shrinkage gas and all operating costs. This form of contract provides the most stable cash flow of the three contract types, as there is minimal volume risk and no commodity price exposure. This type of contract also provides a structured return on new capital invested using a rate base approach.

Fee-based contracts generate a fixed fee for each barrel of NGL produced, and recovery of shrinkage gas and operating costs. Fee-based contracts are exposed to volume risk but have no commodity price exposure.

Commodity-based contracts provide for a sharing of profit from the sale of NGL products between the NGL extraction business and purchaser. The profit share calculation includes revenue from the sale of NGL products less costs to bring the NGL product to market, including extraction, shrinkage gas, fractionation and marketing costs. Commodity-based contracts are exposed to commodity price, currency and volume risks.

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

Volumes

Inter Pipeline's NGL extraction facilities processed average natural gas throughput volumes of 2,656 million cubic feet per day (mmcf/d) in the fourth quarter and 2,452 mmcf/d for the full year of 2014, compared to 2,863 mmcf/d and 2,719 mmcf/d, respectively, in the same periods of 2013.

Average throughput volumes at the Cochrane facility declined 250 mmcf/d and 166 mmcf/d in the three months and year ended December 31, 2014, respectively, compared to the same periods in 2013. Cochrane throughput volumes are largely impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region. A decrease in ethane deliveries from the Cochrane and Empress V extraction facilities also stemmed from issues at downstream facilities.

At the Empress V facility, throughput volumes increased 43 mmcf/d in the fourth quarter and 33 mmcf/d for the full year in 2014, compared to the same periods in 2013. There were no throughput volumes at the Empress II facility in 2014, and 134 mmcf/d for the full year of 2013. Throughput volumes at the Empress facilities are dependent on the level of natural gas exported from Alberta's eastern border and are reliant on successfully attracting border gas flows to the extraction facilities. Earlier in 2014, throughput volumes at the Empress V facility were also impacted by an unplanned 16 day full plant maintenance outage. Empress II throughput volumes do not impact operating results due to the cost-of-service commercial arrangements at this facility.

Revenue

In the fourth quarter of 2014, revenue from the NGL extraction business decreased \$23.6 million largely due to reduced NGL production as a result of lower natural gas throughput levels at the Cochrane facility and lower ethane and propane-plus product pricing, compared to the same period in 2013.

Revenue increased for the full year of 2014 by \$27.9 million, due to higher propane-plus pricing and volumes at the Cochrane facility and higher ethane pricing at Empress V, which was partially offset by lower ethane volumes at the Cochrane and Empress V facilities. In 2013, volumes were unfavourably impacted by a full plant turnaround at Cochrane and Alberta flood related restrictions.

Frac-spread

Three Months Ended December 31				
(dollars)	2014		2013	
	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾
Market frac-spread	\$ 0.529	\$ 0.599	\$ 1.044	\$ 1.098
Realized frac-spread	\$ 0.540	\$ 0.612	\$ 0.991	\$ 1.042

Years Ended December 31				
(dollars)	2014		2013	
	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾	USD/USG ⁽¹⁾	CAD/USG ⁽¹⁾
Market frac-spread	\$ 0.777	\$ 0.856	\$ 0.961	\$ 0.999
Realized frac-spread	\$ 0.759	\$ 0.836	\$ 0.956	\$ 0.993

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

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

In the three months and year ended December 31, 2014, realized frac-spreads decreased from \$0.99 USD/USG to \$0.54 USD/USG and from \$0.96 USD/USG to \$0.76 USD/USG, respectively, compared to the same periods in 2013. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2014, were \$0.97 USD/USG and \$0.59 USD/USG, respectively.

Shrinkage Gas

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. For the three months and year ended December 31, 2014, shrinkage gas expense increased \$3.2 million and \$61.3 million, respectively, over the same periods in 2013. The increase in both periods was largely due to higher AECO natural gas prices. In the fourth quarter, weighted average monthly AECO prices* increased from \$2.99 per gigajoule (GJ) in 2013 to \$3.80/GJ in 2014 and for the full year from \$3.00/GJ in 2013 to \$4.19/GJ in 2014.

Operating Expenses

Operating expenses in the NGL extraction business increased \$1.7 million in the fourth quarter of 2014 primarily due to higher maintenance and general operating costs at the Cochrane facility, partially offset by lower fuel and power costs. For the full year of 2014, operating costs decreased \$4.9 million largely due to lower fuel and power costs, as well as lower general operating and maintenance costs, which were higher in 2013 due to a full plant maintenance outage at the

* Weighted average price calculated from one-month spot prices at AECO as reported in the *Canadian Gas Price Reporter*.

Cochrane facility. Fuel and power costs were lower in both periods largely due to lower power pricing as average Alberta power pool prices decreased in the fourth quarter from \$48.60/MWh in 2013 to \$30.47/MWh in 2014 and for the full year from \$80.20/MWh in 2013 to \$49.42/MWh in 2014.

Capital Expenditures

In 2014, the NGL extraction business incurred growth capital expenditures* of \$6.3 million, primarily relating to equipment upgrades at the Cochrane facility.

Bulk Liquid Storage Business Segment

<i>(millions)</i>	Three Months Ended December 31			Years Ended December 31		
	2014	2013	% change	2014	2013	% change
Utilization	84%	84%	-	79%	84%	(6.0)
<i>(millions)</i>						
Revenue	\$ 39.5	\$ 37.9	4.2	\$ 167.1	\$ 151.3	10.4
Operating expenses	\$ 21.5	\$ 20.1	7.0	\$ 76.0	\$ 68.4	11.1
Funds from operations ⁽¹⁾	\$ 15.8	\$ 16.1	(1.9)	\$ 75.4	\$ 73.2	3.0
Capital expenditures						
Growth ⁽¹⁾	\$ 4.9	\$ 5.0		\$ 12.7	\$ 21.9	
Sustaining ⁽¹⁾	5.4	5.9		21.2	12.5	
	\$ 10.3	\$ 10.9		\$ 33.9	\$ 34.4	

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

Inter Pipeline operates a bulk liquid storage business which was rebranded Inter Terminals, effective January 1, 2015, bringing together the Simon Storage operations in the UK, Germany and Ireland under the same trading banner as Inter Terminals, Denmark. The combined Inter Terminals business represents one of the largest independent bulk liquid storage businesses in Europe, with a combined storage capacity of approximately 19 million barrels located across 12 terminals. The terminals in the UK, Germany and Ireland provide storage and distribution facilities for a wide range of hazardous and non hazardous liquids, including oils, chemicals, biofuels and waste oils. These terminals are strategically located at the coastal ports of Immingham, Teesside and Tyneside in the UK, on the Shannon estuary, Ireland and on the Rhine River at Mannheim, Germany. In Denmark, Inter Terminals operates four deep draft coastal terminals which provide storage and distribution facilities for distillates and heated oil products. Business activities consist primarily of storage and handling services contracted through a combination of fixed storage rental and capacity reservation fees and variable throughput fees. The business supports a wide range of activities, including refinery support, inland product distribution, cargo blending, bulk building, bulk breaking, and raw material storage for regional manufacturing facilities and has a well-diversified customer base, with key customers including Phillips 66, Gunvor, Statoil, Mabanaft, Greenergy and Harvest Energy.

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

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

Utilization

Average utilization rates were consistent in the fourth quarter of 2013 and 2014, and decreased for the full year from 84% in 2013 to 79% in 2014. Utilization was impacted, particularly at the Gulfhavn terminal in Denmark, by the absence of strong contango in certain petroleum product futures markets which negatively impacted demand for bulk liquid storage. Despite the challenging market in 2014, average utilization rates have continued to improve throughout the third and fourth quarter of 2014 and were over 90% for the month of December.

Revenue

In the three months and year ended December 31, 2014, revenue from the bulk liquid storage business increased \$1.6 million and \$15.8 million, respectively, compared to the same periods in 2013. The increase in revenue was largely due to higher foreign currency translation adjustments of \$1.2 million in the fourth quarter and \$15.7 million year to date in 2014, over the same periods in 2013. Revenue in the fourth quarter of 2014 also increased due to higher occupancy and activity levels at the Gulfhavn and Asnaes terminals, partially offset by lower rates at the Ensted terminal in Denmark. On a year to date basis, revenue in 2014 also benefitted from a contract termination fee at the Immingham terminal and business interruption proceeds from flooding that occurred at the Immingham and Riverside terminals in December 2013. These increases were largely offset by lower revenue from the Denmark terminals for the full year of 2014 as a result of lower occupancy levels and a reduction in average storage rates.

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

Foreign Exchange Rates

<i>(dollars)</i>	Three Months Ended December 31			Years Ended December 31		
	2014	2013	% change	2014	2013	% change
Euro/CAD	\$ 1.4186	\$ 1.4296	(0.8)	\$ 1.4671	\$ 1.3688	7.2
Pound Sterling/CAD	\$ 1.7974	\$ 1.7005	5.7	\$ 1.8190	\$ 1.6119	12.8

Operating Expenses

Operating expenses in the bulk liquid storage business increased \$1.4 million in the fourth quarter and \$7.6 million for the full year of 2014, compared to the same periods in 2013. Foreign currency translation adjustments for the three months and year ended December 31, 2014, increased operating expenses by \$0.7 million and \$7.2 million, respectively, over the same periods in 2013. Operating costs in the current quarter were also impacted by higher fuel and power costs which were partially offset by lower flood related costs from the Immingham and Riverside terminals. For the full year of 2014 operating expenses also increased due to higher flood related costs from the Immingham and Riverside terminals, property taxes and general operating costs, which was partially offset by lower ancillary and repair costs.

Capital Expenditures

In 2014, the bulk liquid storage business incurred \$12.7 million of growth capital expenditures*, largely relating to a number of tank life extensions and tank modification projects at the UK and German terminals. Growth capital expenditures* also included \$0.3 million related to the \$9 million expansion at a terminal located near Mannheim,

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

Germany, where six new tanks with total capacity of 57,000 barrels are being constructed in response to strong demand for specialty chemical storage service.

The bulk liquid storage business also incurred \$21.2 million in sustaining capital expenditures* in 2014, primarily relating to environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects, as well as flood related replacement expenditures at the Immingham and Riverside terminals.

Other Expenses

<i>(millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2014	2013	2014	2013
Depreciation and amortization	\$ 39.7	\$ 32.6	\$ 142.8	\$ 126.7
Financing charges	27.5	21.8	93.6	91.9
Provision for income taxes	31.2	27.9	115.0	86.6
General and administrative	19.7	26.1	85.9	77.1
Management and incentive fees to general partner	-	-	-	8.0
Unrealized change in fair value of derivative financial instruments	0.3	1.3	(1.0)	9.1
Loss (gain) on disposal of assets	2.9	2.0	(2.1)	3.7
General partner internalization	-	-	-	348.6

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased in the three months and year ended December 31, 2014 by \$7.1 million and \$16.1 million, respectively, compared to the same periods in 2013. These increases are primarily due to depreciation of new assets now in service, as well as accelerated amortization of the Simon Storage tradename intangible asset due to the rebranding to Inter Terminals.

Financing Charges

<i>(millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2014	2013	2014	2013
Interest on credit facilities	\$ 10.2	\$ 10.0	\$ 37.9	\$ 38.0
Interest on loan payable to private placement noteholders	1.3	4.4	14.5	17.7
Interest on Corridor Debentures	2.6	2.6	10.1	10.1
Interest on MTN Series 1 to 6	21.5	14.0	73.9	46.6
Total interest	35.6	31.0	136.4	112.4
Capitalized interest	(10.1)	(10.6)	(49.3)	(26.3)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.9	0.9	3.8	3.5
Accretion of provisions and pension plan funding charges	1.1	0.5	2.7	2.3
Total financing charges	\$ 27.5	\$ 21.8	\$ 93.6	\$ 91.9

Total financing charges increased \$5.7 million and \$1.7 million for the three months and year ended December 31, 2014, respectively, compared to the same periods in 2013.

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

In the three months and year ended December 31, 2014, interest on medium-term notes (MTN) increased \$7.5 million and \$27.3 million, respectively, over the comparable periods in 2013, due to the timing of issuance of MTN Series 4 on July 19, 2013 and MTN Series 5 and 6 on May 30, 2014.

Capitalized interest decreased \$0.5 million in the current quarter of 2014, due to the completion of a major component of the Polaris pipeline system expansion in the third quarter of 2014. Capitalized interest for the full year of 2014 increased \$23.0 million due to incremental capitalized interest costs related to the Polaris and Cold Lake pipeline system expansions, over the same period in 2013.

Interest on credit facilities is consistent with the same periods in 2013, increasing \$0.2 million in the fourth quarter and decreasing \$0.1 million for the full year of 2014. The weighted average credit facility debt outstanding decreased \$96.7 million to \$1,838.2 million in the fourth quarter of 2014 and \$42.3 million to \$1,851.3 million year to date in 2014, compared to the same periods in 2013.

Interest on the loan payable to private placement noteholders decreased \$3.1 million and \$3.2 million in the three months and year ended December 31, 2014, respectively, compared to the same periods in 2013, as the loan matured on October 28, 2014 and was repaid.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper in the current quarter is consistent with the same period in 2013, however increased \$0.3 million for the full year of 2014 over 2013, as a result of new issuances.

Accretion of provisions and pension plan funding charges increased \$0.6 million and \$0.4 million for the three months and year ended December 31, 2014, respectively, over the same periods in 2013, largely due to the accelerated timing of certain decommissioning costs at Inter Terminals.

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

Income Taxes

Consolidated income tax expense increased \$3.3 million to \$31.2 million and \$28.4 million to \$115.0 million in the three months and year ended December 31, 2014, respectively, over the same periods in 2013. The increase in the consolidated income tax expense in the fourth quarter is primarily due to higher tax expense from non-deductible capital items, while the increase in consolidated income tax expense for the full year of 2014 is primarily due to higher consolidated income before taxes after adjusting for the one-time non-cash general partner internalization expense.

General and Administrative

<i>(millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2014	2013	2014	2013
Canada	\$ 16.2	\$ 23.9	\$ 74.5	\$ 68.2
Europe	3.5	2.2	11.4	8.9
	\$ 19.7	\$ 26.1	\$ 85.9	\$ 77.1

In the fourth quarter of 2014, Canadian general and administrative expenses decreased \$7.7 million compared to the same period in 2013, due to higher costs in 2013 relating to the internalization of the general partner and Corporate Conversion. Annual general and administrative costs increased \$6.3 million in 2014 over the same period in 2013. The increase is largely due to higher employee costs, which includes increased long-term incentive plan expense primarily resulting from increases in Inter Pipeline's share price, the addition of new employees required to manage Inter Pipeline's business growth and a one-time key management personnel contract renegotiation.

European general and administrative costs increased \$1.3 million and \$2.5 million in the three months and year ended December 31, 2014, respectively, over the comparable periods in 2013. The increase in both periods is largely due to higher project related costs, unfavourable foreign currency translation adjustments, and higher employee and rebranding costs.

Fees to General Partner

In connection with the Corporate Conversion, effective on September 1, 2013, and as a result of the dissolution and termination of Inter Pipeline Fund, Inter Pipeline is no longer obligated to pay management, incentive, acquisition or disposition fees. During the three months and year ended December 31, 2013, the general partner earned management fees from Inter Pipeline of \$nil and \$8.0 million, respectively. No acquisition or disposition fees were earned during the three months and year ended December 31, 2013.

Unrealized Change in Fair Value of Derivative Financial Instruments

The change in fair value of Inter Pipeline's derivative financial instruments reduced net income in the current quarter by \$0.3 million due to the change in fair value of electricity price swaps.

For the full year of 2014, the change in fair value of Inter Pipeline's derivative financial instruments increased net income by \$1.0 million. Net income was favourably impacted by the change in fair value of NGL and foreign exchange swaps by \$1.3 million and \$0.1 million, respectively, while the change in fair value of electricity price and natural gas swaps unfavourably impacted net income by \$0.3 million and \$0.1 million, respectively. At December 31, 2014, there were no NGL, natural gas or foreign exchange swaps outstanding.

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

Loss (Gain) on Disposal of Assets

Inter Pipeline recorded a \$2.9 million loss on disposal of assets in the fourth quarter of 2014, largely related to a turbine exchange at the Cochrane NGL extraction facility. For the full year of 2014, this loss was more than offset by insurance proceeds received for asset damage due to flooding conditions that occurred at Inter Terminals Immingham and Riverside terminals in December 2013, as well as proceeds received from a customer on the settlement of tank damage at Inter Terminals Tyne terminal, which resulted in a gain on disposal of assets of \$2.1 million in 2014.

General Partner Internalization

On June 1, 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion (Internalization Transactions). Inter Pipeline settled the provisions of its management contract by indirectly purchasing its general partner, for initial consideration of \$170 million, plus adjustments of \$8.6 million, and a future second instalment of \$170 million.

In January 2015, as a result of successful completion of transportation infrastructure related to the FCCL Foster Creek and Christina Lake expansion projects, the \$170 million second instalment, recorded as a current liability at December 31, 2014, and consisting of 7,055,406 convertible shares, was satisfied when the convertible shares were converted on a one-for-one basis into common shares of Inter Pipeline.

SUMMARY OF QUARTERLY RESULTS

(millions, except per share and % amounts)	2013				2014			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue								
Oil sands transportation	\$ 91.6	\$ 93.3	\$ 96.2	\$ 107.4	\$ 105.1	\$ 102.9	\$ 128.2	\$ 140.5
Conventional oil pipelines	67.3	71.5	81.1	82.3	91.2	96.0	89.6	87.1
NGL extraction	129.4	117.5	127.2	146.6	168.4	137.0	120.2	123.0
Bulk liquid storage	39.4	38.0	36.0	37.9	46.0	40.0	41.6	39.5
	\$ 327.7	\$ 320.3	\$ 340.5	\$ 374.2	\$ 410.7	\$ 375.9	\$ 379.6	\$ 390.1
Funds from operations⁽¹⁾								
Oil sands transportation	\$ 50.8	\$ 49.0	\$ 55.7	\$ 64.2	\$ 63.4	\$ 63.0	\$ 82.5	\$ 97.2
Conventional oil pipelines	40.4	43.5	47.0	44.0	46.0	49.6	48.7	46.8
NGL extraction	43.0	31.1	43.2	53.4	48.5	34.7	34.4	24.7
Bulk liquid storage	20.4	19.5	17.2	16.1	21.6	18.2	19.8	15.8
Corporate costs	(45.2)	(37.7)	(39.8)	(43.2)	(47.8)	(33.9)	(44.4)	(24.8)
	\$ 109.4	\$ 105.4	\$ 123.3	\$ 134.5	\$ 131.7	\$ 131.6	\$ 141.0	\$ 159.7
Per share ⁽¹⁾	\$ 0.40	\$ 0.37	\$ 0.44	\$ 0.44	\$ 0.43	\$ 0.41	\$ 0.43	\$ 0.49
Net income (loss) ⁽²⁾	\$ 72.2	\$ (281.6)	\$ 77.8	\$ 84.6	\$ 89.6	\$ 85.3	\$ 95.0	\$ 79.6
Net income (loss) attributable to shareholders ⁽²⁾	\$ 69.7	\$ (283.9)	\$ 74.8	\$ 81.3	\$ 86.1	\$ 81.7	\$ 91.4	\$ 75.6
Per share – basic	\$ 0.25	\$ (1.02)	\$ 0.27	\$ 0.27	\$ 0.28	\$ 0.25	\$ 0.28	\$ 0.24
Per share – diluted	\$ 0.25	\$ (1.02)	\$ 0.26	\$ 0.26	\$ 0.27	\$ 0.25	\$ 0.28	\$ 0.23
Dividends to shareholders ⁽³⁾	\$ 76.8	\$ 78.2	\$ 84.6	\$ 98.6	\$ 99.6	\$ 103.9	\$ 104.7	\$ 114.9
Per share ⁽³⁾	\$ 0.2775	\$ 0.2800	\$ 0.2975	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3525
Shares outstanding (basic)								
Weighted average	276.4	278.8	283.6	304.7	309.0	321.6	324.2	325.8
End of period	277.6	280.0	289.8	306.8	320.3	323.0	325.4	326.2
Capital expenditures ⁽⁴⁾								
Growth ⁽¹⁾	\$ 407.6	\$ 395.8	\$ 566.1	\$ 549.4	\$ 544.7	\$ 243.8	\$ 256.3	\$ 149.2
Sustaining ⁽¹⁾	5.9	5.8	7.4	11.0	6.2	10.2	12.0	13.8
	\$ 413.5	\$ 401.6	\$ 573.5	\$ 560.4	\$ 550.9	\$ 254.0	\$ 268.3	\$ 163.0
Payout ratio ⁽¹⁾	72.2%	76.1%	70.5%	75.5%	78.0%	81.5%	76.6%	74.0%
Total debt ⁽⁵⁾	\$ 3,246.6	\$ 3,578.0	\$ 3,964.5	\$ 3,960.8	\$ 4,155.8	\$ 4,283.8	\$ 4,396.3	\$ 4,590.7
Total shareholders' equity	\$ 1,686.9	\$ 1,414.3	\$ 1,661.9	\$ 2,100.3	\$ 2,490.4	\$ 2,521.3	\$ 2,566.9	\$ 2,548.1
Enterprise value ⁽¹⁾	\$ 9,862.2	\$ 9,646.1	\$ 11,252.0	\$ 11,885.4	\$ 13,504.4	\$ 14,981.6	\$ 16,223.6	\$ 16,314.8
Total debt to total capitalization ⁽¹⁾	65.8%	71.7%	70.5%	65.3%	62.5%	63.0%	63.1%	64.3%
Total recourse debt to capitalization ⁽¹⁾	48.7%	57.8%	58.5%	52.8%	50.7%	51.7%	52.2%	54.2%

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

(2) In June 2013, Inter Pipeline completed several internal transactions related to the restructuring of its limited partnership structure to position the business for Corporate Conversion by indirectly purchasing its general partner, for initial consideration of \$170 million, plus closing adjustments of \$8.6 million, and a future second instalment of \$170 million, which was satisfied upon the conversion of the convertible shares in January 2015.

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund growth capital^{*} and acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and FFO^{*} in excess of dividends to fund capital requirements. At December 31, 2014, Inter Pipeline had access to committed credit facilities totaling \$2.8 billion, of which \$834.3 million remained unused, and demand facilities totaling \$65.0 million of which \$64.4 million remained unused. Certain facilities are available to specific subsidiaries of Inter Pipeline.

On December 5, 2014, Inter Pipeline extended the term of its \$1.25 billion syndicated credit facility for one year with a revised maturity date of December 5, 2019. On December 15, 2014, Corridor extended the maturity date of its \$1.55 billion syndicated credit facility to December 14, 2018.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three month period and year ended December 31, 2014, approximately \$28.2 million and \$264.5 million, respectively, of equity was issued through the dividend reinvestment plan, however, effective September 16, 2014, Inter Pipeline suspended the premium dividend component of the Premium DividendTM and Dividend Reinvestment Plan. Concurrently, the dividend reinvestment discount was reduced from 5% to 2%. On March 26, 2014, Inter Pipeline completed an equity offering of 10,400,000 common shares at \$28.90 per share for gross proceeds of \$300.6 million. Net proceeds from the offering were used to pay down a portion of bank indebtedness that was incurred to fund Inter Pipeline's capital expenditure program.

On May 30, 2014, Inter Pipeline issued \$500 million of senior unsecured MTN Series 5 due May 30, 2044 and \$400 million of senior unsecured MTN Series 6 due May 30, 2017, in the Canadian public debt market. The MTN Series 5 bear interest at a fixed rate of 4.637% per annum, payable semi-annually; while the MTN Series 6 have a floating interest rate of 3-month CDOR plus 49 basis points, payable quarterly. Net proceeds from these issuances were used to repay a portion of Inter Pipeline's bank indebtedness incurred through funding its capital expenditure program.

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

TM Denotes trademark of Canaccord Genuity Corp.

Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2013. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) subscription receipts (collectively, the “Securities”) of up to \$3.0 billion aggregate of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. As a result of the equity and debt offerings in March and May of 2014, respectively, the amount that can be issued under the shelf prospectus and related prospectus supplements has been reduced to approximately \$1.8 billion.

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

Inter Pipeline may utilize derivative financial instruments to minimize exposure to fluctuating commodity prices, foreign exchange and interest rates. Inter Pipeline’s risk management policy defines and specifies the controls and responsibilities to manage market exposure to changing commodity prices (crude oil, natural gas, NGL and power) and changes within financial markets relating to interest rates and foreign exchange exposure. Further details of the risk management program are discussed in the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section.

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

Capital Structure

	December 31			
<i>(millions, except % amounts)</i>	Recourse	Non-recourse	2014	2013
Credit facilities available				
Corridor syndicated facility	\$ -	\$ 1,550.0	\$ 1,550.0	\$ 1,550.0
Inter Pipeline syndicated facility	1,250.0	-	1,250.0	1,250.0
	1,250.0	1,550.0	2,800.0	2,800.0
Demand facilities ⁽¹⁾	40.0	25.0	65.0	65.0
	\$ 1,290.0	\$ 1,575.0	\$ 2,865.0	\$ 2,865.0
Total debt outstanding⁽¹⁾				
Recourse				
Inter Pipeline syndicated facility			\$ 686.0	\$ 635.0
Loan payable to private placement noteholders ⁽²⁾			-	288.6
MTN Series 1 to 6 ⁽³⁾			2,325.0	1,425.0
Non-recourse				
Corridor syndicated facility			1,279.7	1,312.2
Corridor debentures ⁽⁵⁾			300.0	300.0
Total debt ⁽¹⁾⁽⁴⁾			4,590.7	3,960.8
Total shareholders' equity			2,548.1	2,100.3
Total capitalization ⁽⁶⁾			\$ 7,138.8	\$ 6,061.1
Total debt to total capitalization ⁽⁶⁾			64.3%	65.3%
Total recourse debt to capitalization ⁽⁶⁾			54.2%	52.8%

(1) At December 31, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.4 million and \$0.2 million, respectively, were not included in total debt outstanding.

(2) On October 28, 2014, the loan payable to private placement noteholders of \$288.6 million matured and was repaid.

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

(4) Total debt reported in the December 31, 2014 consolidated financial statements of \$4,571.5 million, includes long-term debt, short-term debt and commercial paper outstanding of \$4,590.7 million less discounts and debt transaction costs of \$19.2 million.

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

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

Inter Pipeline's capital under management includes financial debt and shareholders' equity. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants. Management's long-term objectives are to remain below its maximum permitted ratio of 65% recourse debt to capitalization*.

On October 28, 2014, the loan payable to private placement noteholders of \$288.6 million matured and was repaid with funds available under Inter Pipeline's syndicated facility.

At December 31, 2014, Inter Pipeline's total recourse debt to capitalization ratio* was 54.2%. This ratio is higher than normal as a result of charging the one-time, non-cash internalization cost of \$348.6 million to earnings in the second quarter of 2013. This non-cash expense concurrently decreased shareholders' equity which reduced Inter Pipeline's capitalization by \$348.6 million. On September 3, 2013, Inter Pipeline announced its successful Corporate Conversion,

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

resulting in the general partner internalization liability of \$178.6 million being converted to common shares of Inter Pipeline. The remaining general partner internalization liability of \$170 million was settled with convertible shares which will be converted to common shares upon successful completion and revenue commencement of certain organic growth projects under development prior to 2017, and as a result Inter Pipeline's shareholders' equity will correspondingly increase. Subsequent to year end, in January 2015, Inter Pipeline announced the completion and revenue commencement of the organic growth projects, obligating Inter Pipeline to issue additional common shares, on a one-for-one basis, upon conversion of the convertible shares. At this time, the remaining impact to equity of charging the internalization value to earnings will be reversed, and the related negative impact on Inter Pipeline's total recourse debt to capitalization* level will be eliminated. A description of the terms of the convertible shares are contained in Inter Pipeline's Annual Information Form dated February 20, 2014, under the heading "Description of Capital Structure – Description of Convertible Shares". Inter Pipeline's total debt to total capitalization ratio*, which includes non-recourse debt of \$1,579.7 million held within Inter Pipeline's Corridor corporate entity, was 64.3% at December 31, 2014. The table below shows the impact the convertible shares would have on Inter Pipeline's total debt to total capitalization* and total recourse debt to capitalization* ratios at December 31, 2014.

	December 31, 2014	
	Ratio	After convertible shares impact ⁽²⁾
Total debt to total capitalization ⁽¹⁾	64.3%	62.8%
Total recourse debt to capitalization ⁽¹⁾	54.2%	52.6%

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

(2) Includes the impact of Inter Pipeline's convertible shares as if they were converted to common shares of Inter Pipeline at December 31, 2014.

At December 31, 2014, approximately \$2,515.7 million or 54.8% of Inter Pipeline's total consolidated debt was exposed to variable interest rates. Of this amount \$1,429.7 million or 56.8% relates to Corridor debt outstanding and its financing costs are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline may enter into interest rate swap agreements to manage its interest rate risk exposure. Inter Pipeline has an interest rate swap agreement to manage fixed interest rate exposure on Corridor's Series B debentures. Subsequent to year end, on February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid and the interest rate swap was terminated.

	December 31			
	2014		2013	
Maturity date	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)	Fixed Rate Per Annum (excluding applicable margin)	Notional Balance (millions)
Corridor debentures				
- Fixed to floating rate swap Series B - February 2, 2015	5.033%	\$ 150.0	5.033%	\$ 150.0

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

The following interest coverage* ratio is calculated on a consolidated basis for the twelve month periods ended December 31, 2013 and 2014.

<i>(times)</i>	Twelve Months Ended	
	December 31	
	2014	2013
Interest coverage ⁽¹⁾⁽²⁾	3.8	1.0

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

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

Inter Pipeline's interest coverage* ratio for the twelve month period ended December 31, 2013 would have been 4.0 times had it not been impacted by the one-time non-cash general partner internalization expense of \$348.6 million to earnings in the second quarter of 2013. As a result of charging the internalization cost to earnings the interest coverage* ratio decreased to 1.0 times for the twelve month period ended December 31, 2013.

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

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

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

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at December 31, 2014. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and FFO* in excess of dividends. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

<i>(millions)</i>	Total	Less than one year	One to five years	After five years
Capital expenditure projects ⁽¹⁾⁽²⁾				
Oil sands transportation ⁽²⁾	\$ 499.2	\$ 197.5	\$ 301.7	\$ -
Conventional oil pipelines	124.2	116.2	8.0	-
NGL extraction	7.2	7.2	-	-
Bulk liquid storage	22.5	22.5	-	-
Growth capital funded by Inter Pipeline ⁽²⁾⁽³⁾	653.1	343.4	309.7	-
Sustaining capital funded by Inter Pipeline ⁽²⁾⁽³⁾	58.5	58.5	-	-
	711.6	401.9	309.7	-
Total debt ⁽⁴⁾⁽⁵⁾				
Corridor syndicated facility ⁽⁶⁾	1,279.7	1,279.7	-	-
Inter Pipeline syndicated facility	686.0	-	686.0	-
Corridor debentures ⁽⁵⁾	300.0	150.0	-	150.0
MTN Series 1 to 6	2,325.0	-	600.0	1,725.0
	4,590.7	1,429.7	1,286.0	1,875.0
Other obligations				
Operating leases	276.9	11.9	77.1	187.9
Purchase obligations	190.9	22.4	49.7	118.8
Long-term portion of incentive plan	8.5	-	8.5	-
Working capital deficit ⁽³⁾	192.6	192.6	-	-
	\$ 5,971.2	\$ 2,058.5	\$ 1,731.0	\$ 2,181.7

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

(2) Inter Pipeline's expected growth and sustaining capital⁽³⁾ spending profile including the 15% non-controlling interest in Cold Lake is \$760.4 million.

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

(4) At December 31, 2014, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.4 million and \$0.2 million, respectively, were not included in total debt outstanding. Total debt reported in the December 31, 2014 consolidated financial statements of \$4,571.5 million, includes long-term debt, short-term debt and commercial paper of \$4,590.7 million less discounts and debt transaction costs of \$19.2 million.

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

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

(7) Convertible shares recorded as a liability of \$170 million were not settled in cash and therefore not included in the table above.

Inter Pipeline's bulk liquid storage business will incur additional sustaining capital expenditures* in the foreseeable future to comply with UK storage and containment regulations. See the **RISK FACTORS** section for further information regarding the Post Buncefield Regulation.

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

Inter Pipeline's debt outstanding at December 31, 2014, matures at various dates up to May 2044 as follows:

<i>(millions)</i>	Amount	Rate	Maturity date
Inter Pipeline Ltd.⁽¹⁾			
\$1.25 billion syndicated facility	\$ 686.0	Variable	December 5, 2019
MTN Series 1	325.0	4.967%	February 2, 2021
MTN Series 2	200.0	3.839%	July 30, 2018
MTN Series 3	400.0	3.776%	May 30, 2022
MTN Series 4	500.0	3.448%	July 20, 2020
MTN Series 5	500.0	4.637%	May 30, 2044
MTN Series 6	400.0	CDOR plus 49 bps	May 30, 2017
Inter Pipeline (Corridor) Inc.			
\$1.55 billion syndicated facility	1,279.7	Variable	December 14, 2018
Series B debentures ⁽²⁾	150.0	5.033%	February 2, 2015
Series C debentures	150.0	4.897%	February 3, 2020

(1) On October 28, 2014, the loan payable to private placement noteholders of \$288.6 million matured and was repaid.

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

The following future obligations resulting from the normal course of operations will be primarily funded from FFO* in the respective periods that they become due or may be funded through debt:

- (i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2014, based upon the various contractual maturity dates.
- (ii) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2094.
- (iii) Working capital deficiencies* arise primarily from capital expenditures outstanding in accounts payable and accrued liabilities at the end of a period.
- (iv) Inter Pipeline has obligations of \$31.4 million under its employee long-term incentive plan, of which \$22.9 million is included in the working capital deficit*.
- (v) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL extraction plants and leased bulk liquid storage sites and remediation of known environmental liabilities is \$66.7 million at December 31, 2014. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

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

DIVIDENDS TO SHAREHOLDERS

<i>(millions, except per share and % amounts)</i>	Three Months Ended		Years Ended	
	December 31		December 31	
	2014	2013	2014	2013
Cash provided by operating activities	\$ 166.4	\$ 110.5	\$ 571.7	\$ 468.7
Net change in non-cash operating working capital	(6.6)	24.0	(7.6)	3.9
Less funds from operations ⁽¹⁾ attributable to non-controlling interest	(4.4)	(3.9)	(16.8)	(12.8)
Funds from operations ⁽¹⁾ attributable to shareholders	155.4	130.6	547.3	459.8
Dividends to shareholders	\$ 114.9	\$ 98.6	\$ 423.1	\$ 338.2
Dividends per share ⁽²⁾	\$ 0.3525	\$ 0.3225	\$ 1.3200	\$ 1.1775
Payout ratio ⁽¹⁾	74.0%	75.5%	77.3%	73.6%

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

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

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

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

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

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

<i>(millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2014	2013	2014	2013
Cash provided by operating activities	\$ 166.4	\$ 110.5	\$ 571.7	\$ 468.7
Less cash provided by operating activities attributable to non-controlling interest	(4.4)	2.1	(25.8)	(7.8)
Dividends to shareholders	(114.9)	(98.6)	(423.1)	(338.2)
Excess	\$ 47.1	\$ 14.0	\$ 122.8	\$ 122.7

<i>(millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2014	2013	2014	2013
Net income (loss) attributable to shareholders	\$ 75.6	\$ 81.3	\$ 334.8	\$ (58.1)
Dividends to shareholders	(114.9)	(98.6)	(423.1)	(338.2)
Shortfall	\$ (39.3)	\$ (17.3)	\$ (88.3)	\$ (396.3)

Cash provided by operating activities in all periods was greater than dividends to shareholders plus cash provided by operating activities attributable to non-controlling interest. Dividends were greater than net income attributable to shareholders in all periods, as net income (loss) also includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at December 31, 2014 are as follows:

<i>(millions)</i>	Total
Common shares outstanding	326.2

At February 17, 2015, Inter Pipeline had 333.9 million common shares outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Market Risk Management

Inter Pipeline utilizes derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign currencies and interest rates. Risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price, foreign exchange and interest rate risk to assist with stabilizing FFO^{*}. Inter Pipeline endeavours to accomplish this primarily through the use of derivative financial instruments. Inter Pipeline prohibits the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the board of directors through Inter Pipeline's risk management policy.

Inter Pipeline enters into the following types of derivative financial instruments: commodity price swap agreements, foreign currency exchange contracts, power price hedges and heat rate and interest rate swap agreements. The mark-to-market or fair value of these financial instruments is recorded as an asset or liability and any change in the fair value recognized as an unrealized change in fair value of these derivative financial instruments in the calculation of net income. When the financial instrument matures, any realized gain or loss is recorded in net income.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt and commercial paper outstanding at December 31, 2014. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

NGL Extraction Business

FRAC-SPREAD RISK MANAGEMENT

Inter Pipeline is exposed to frac-spread risk which is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Derivative financial instruments may be utilized to manage frac-spread risk. As at December 31, 2014, there are no frac-spread hedges outstanding.

POWER PRICE RISK MANAGEMENT

Inter Pipeline may use derivative financial instruments to manage power price risk in its NGL extraction and conventional oil pipelines business segments. When deemed appropriate, Inter Pipeline enters into financial heat rate swap and power price swap contracts to manage power price risk exposure in these businesses. As at December 31, 2014, there are no heat rate price swap agreements outstanding.

Inter Pipeline has existing electricity price swap agreements in the conventional oil pipelines business. At December 31, 2014, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant would have changed the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk and consequently after-tax income by approximately \$0.1 million.

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

Bulk Liquid Storage Business

FOREIGN EXCHANGE RISK MANAGEMENT

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at December 31, 2014, there are no foreign exchange hedges outstanding.

Corporate

INTEREST RATE RISK MANAGEMENT

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of its floating-to-fixed interest rate swap agreements. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline enters into interest rate swap agreements to manage its interest rate price risk exposure. As at December 31, 2014, Inter Pipeline has a fixed-to-floating interest rate swap agreement on Corridor's Series B debentures. Subsequent to year end, on February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid and the interest rate swap was terminated.

Based on the variable rate obligations outstanding at December 31, 2014, a 1% change in interest rates at this date would have changed interest expense for the three month period and year ended December 31, 2014, by approximately \$6.0 million and \$22.0 million, respectively, assuming all other variables remain constant. Of these amounts, \$3.2 million and \$12.8 million, for the three month period and year ended December 31, 2014, respectively, relate to the \$1.55 billion unsecured revolving credit facility and are recoverable through the terms of the Corridor FSA, therefore the after-tax income impact for the three month period and year ended December 31, 2014 would be \$2.1 million and \$6.9 million, respectively.

Credit Risk

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2014, accounts receivable associated with these two business segments were \$105.5 million or 67.3% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

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

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. At December 31, 2014, accounts receivable outstanding meeting the definition of past due and impaired is insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three month period and year ended December 31, 2014 or 2013.

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.

No changes in Inter Pipeline's ICFR occurred during the period beginning on January 1, 2014 and ending on December 31, 2014 that has materially affected, or is reasonably likely to materially affect, Inter Pipeline's ICFR.

At December 31, 2014, 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 internal control over financial reporting 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 internal control over financial reporting were effective as of December 31, 2014.

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 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, 2014 annual consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

Financial Instruments

Inter Pipeline may utilize derivative financial instruments to manage its exposure to market risk relating to commodity prices, foreign exchange and interest rates. Inter Pipeline also reviews all significant agreements acquired, substantially modified or entered into for embedded derivatives.

Inter Pipeline has classified its financial instruments as follows: certain components of prepaid expenses and other deposits are classified as held-for-trading and measured at carrying value. Cash and cash equivalents and the majority of accounts receivable are classified as cash, loans and receivables. Dividends payable, the majority of accounts payable, accrued liabilities and provisions, certain components of deferred revenue, convertible shares, and long-term debt, short-term debt and commercial paper are classified as other financial liabilities. Derivative financial instruments and the related current and long-term payable/long-term receivable are classified as fair value through profit or loss (FVTPL).

All derivative financial instruments and the long-term payable/long-term receivable are measured at fair value. Estimates of the fair value of derivative contracts outstanding at the end of each financial reporting period are recognized on the consolidated balance sheet and any unrealized changes in these estimates are recognized in the consolidated statements of net income. These amounts are estimates of the fair value at a point in time and the final amount will be determined on the date or interim dates that the derivative contract is settled.

The fair values of derivative financial instruments and the long-term payable/long-term receivable are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding. The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. These forward prices are assessed based on available market information for the time frames for which there are derivative financial instruments in place. These fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. These estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and differences could be significant. A significant change in commodity prices, foreign exchange rates or interest rate assumptions underlying mark-to-market valuations of derivative financial instruments would change the fair value of derivative financial instruments reported in the consolidated balance sheets and unrealized change in fair value of derivative financial instruments in the consolidated statements of net income.

Corridor utilizes an interest rate swap to manage its interest rate risk. Gains or losses arising on the interest rate swap contract are either payable to or recoverable from the shippers, respectively; the current portion is included in accounts receivable or accounts payable and accrued liabilities.

For further discussion on Inter Pipeline's derivative financial instruments, see the **RISK MANAGEMENT AND FINANCIAL RESULTS** section.

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.

The Cold Lake TSA intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the Cold Lake TSA expired on December 31, 2011, the term of the Cold Lake TSA extends until Cold Lake LP gives notice that it forecasts it will earn less than \$1.0 million of capital fees in the year. The Cold Lake founding shippers may contract with a third party to transport their dedicated petroleum after giving Cold Lake LP notice of at least 20 months prior to the effective date and meeting certain conditions. Cold Lake LP has the right to match any new service offer from a third party. This intangible asset is being amortized on a straight-line basis over 30 years. The remaining amortization period of the Cold Lake TSA is approximately 18 years.

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus and a patented operational process utilized in one of the extraction facilities. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method. Should the useful life or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly. The average remaining period of the customer contracts is approximately 20 years. The patent is being amortized on a straight-line basis over the 14 year life of the patent and has a remaining amortization period of approximately four years.

Within the bulk liquid storage business segment, Inter Terminals UK's intangible assets consist of a customer contract for the storage and handling of bulk liquid products. This asset is being amortized on a straight-line basis over 30 years. Should the likelihood of the renewal of the customer contract change, the amortization of the remaining balance would change accordingly. The remaining amortization period of the customer contract is approximately 21 years.

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 of 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 regarding 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.

Goodwill

Inter Pipeline has goodwill in four of its cash generating units (CGU's): the Corridor and Polaris pipeline systems in the oil sands transportation business; Inter Terminals UK, Germany and Ireland; 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 UK, Germany and Ireland; and 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 on a fair value less costs of disposal basis 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 fair value less costs of disposal 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 2014. 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.

Where goodwill forms a part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Property, Plant and Equipment

Calculation of the net book value of property, plant and equipment requires estimates of the useful life 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 a charge to net income recorded in a period with a similar change in the carrying value of the asset on the consolidated balance sheet.

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which is 80 years. The cost of pipelines and facilities includes all expenditures directly attributable to bringing the pipeline to the location and condition necessary for its intended use, including costs incurred for system construction, expansion and betterments until the assets are available for use. Pipeline system costs also include 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.

Pipeline line fill and tank working inventory for the Cold Lake and Corridor pipeline systems represent petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with an appropriate volume of petroleum products to enable a commercial operation of the facilities and pipeline. The majority of pipeline line fill for the Polaris pipeline system is owned by the shippers directly. The cost of line fill includes all direct expenditures for acquiring the petroleum based products. These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system under the terms of the agreement. Cold Lake and Polaris line fill is carried at cost and Corridor line fill is carried at cost less accumulated depreciation. Proceeds from the sale of Cold Lake and Polaris line fill will be fully available to Inter Pipeline, whereas proceeds from the sale of Corridor's line fill will be used to fund the cost of any decommissioning obligations and to the extent Corridor's decommissioning obligations exceed the value of the line fill, Inter Pipeline will be obligated to fund the excess. To the extent the value of the line fill exceeds the decommissioning obligation; the excess funds will be refunded to the Corridor shippers. Depreciation of Corridor line fill is calculated on the same basis as the related property, plant and equipment.

Expenditures on conventional oil pipelines system expansions and betterments are capitalized. Maintenance, pipeline integrity verification and repair costs are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are available for use. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 80 year service life of the Bow River pipeline system assets and 30 year service life of the Central Alberta and Mid-Saskatchewan pipeline system assets. These estimates are connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems. Pipeline line fill and tank working inventory for the conventional oil pipelines system represents petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with an appropriate volume of petroleum products to enable a commercial operation of the facilities and pipelines. The cost of line fill includes all direct expenditures for acquiring the petroleum based products. These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline system and are carried at cost.

Property, plant and equipment of the NGL extraction business are comprised primarily of three extraction facilities and associated equipment. Expenditures on plant expansions, major repairs and maintenance, or betterments are capitalized, while routine maintenance and repair costs are expensed as incurred. Depreciation of the extraction facilities and

additions thereto is charged once the assets are ready for their intended use, and is calculated on a straight-line basis over the 30 year estimated useful life of the assets.

The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Expenditures on expansion, betterments and major inspections or overhauls are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from four to 75 years.

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 with decommissioning tangible long-lived assets at the end of their useful lives and loss contingencies, including environmental remediation costs 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 the conventional oil pipelines and oil sands transportation businesses 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 size 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 include: 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. Decommissioning obligations for the conventional oil

pipelines and oil sands transportation business assets are being accreted over a period of 40 to 290 years at a rate of 3.4% per annum, based on an estimated discounted value at December 31, 2014 of \$6.8 million.

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction plants and twelve bulk liquid storage facilities, respectively. 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 NGL extraction facilities and leased bulk liquid storage sites. 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 facility sites. Decommissioning obligations for the NGL extraction and bulk liquid storage business assets are being accreted over a period of 40 years at rates of 3.4% and 3.2% to 3.95% per annum, respectively, based on their respective estimated discounted values at December 31, 2014 of \$8.6 million and \$32.7 million, respectively.

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 \$18.6 million has been recognized at December 31, 2014. Environmental obligations for the conventional oil pipelines and bulk liquid storage businesses are being accreted over a period of five to ten years at rates of 2.05% to 3.0% and 0.75% to 2.7% per annum, respectively.

Obligations Relating to Employee Pension Plans

Inter Pipeline provides retirement benefits for its UK, Ireland and German employees under three separate defined benefit pension plans. These plans provide benefits based primarily on a combination of years of service and an estimate of final pensionable salary. Inter Pipeline's policy is to fund the amount of benefit as required by governing legislation. Independent actuaries perform the required calculations to determine the pension expense in accordance with GAAP. The most recent actuarial valuations of the UK and Ireland plans were carried out in 2013, while the German plan was carried out in 2014.

The cost of pension benefits earned by certain employees in the UK, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected unit credit method. The determination of benefit expense requires assumptions such as the expected return on assets available to fund pension obligations, the discount rate used to measure obligations, expected mortality and the expected rate of future compensation. There is measurement uncertainty inherent in the actuarial valuation process because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions. Actual results will differ from results which are estimated based on assumptions.

Plan assets are measured at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the vesting period of the employee benefits. The expected return on Inter Pipeline's pension plan assets is calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

Long-Term Incentive Plan

Under Inter Pipeline's long-term incentive plan (LTIP) awards are paid in cash, therefore a fair value basis of accounting is used whereby changes in the liability are recorded in each period based on the number of awards outstanding and current market price of Inter Pipeline's shares plus an amount equivalent to cash dividends declared to date. The expense is recognized over the vesting periods of the respective awards. Compensation expense and the long-term incentive liability are adjusted to reflect the use of actual historical forfeiture rates as well as estimated future forfeiture rates. The market-based value of the award approximates the intrinsic value as the awards have no exercise price.

Income Taxes

Current Income Taxes

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada and Europe.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in countries where Inter Pipeline and its subsidiaries operate and generate taxable income. The actual amount of income tax expense is final only when the tax return is filed and accepted by relevant tax authorities, which occurs subsequent to the issuance of the annual consolidated financial statements.

Management periodically evaluates positions taken in Inter Pipeline's entity tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Provisions are established if appropriate.

Current income tax relating to items recognized directly in shareholders' equity is recognized in equity and not the income statement.

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 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.

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

Deferred tax relating to items recognized outside net income is 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.

Revenue Recognition

Capital fee revenue on the Cold Lake pipeline system is determined by the nature of the contract and is recognized based on either a fixed fee or volumes transported and services provided to each shipper. In addition, an operating fee equivalent to substantially all of Cold Lake LP's operating costs is recovered from the Cold Lake shippers.

Revenue on the Corridor pipeline system is recognized as services are provided in accordance with terms prescribed by the Corridor FSA with the shippers. Under the terms of the Corridor FSA, revenues are determined by an agreed upon annual revenue requirement formula which allows for the recovery of prescribed expenditures and costs associated with the operation of the Corridor pipeline system, including debt financing costs, operating costs, Rate Base (as defined in the Corridor FSA) depreciation and taxes, as well as a rate of return on the equity component of the Rate Base determined with reference to a spread over a long-term bond yield reported by the Bank of Canada.

The Polaris pipeline system recognizes capital fee revenue determined by the nature of the contract and is based on either a fixed fee or volumes transported and services provided to each shipper, with an adjustment, if necessary, to reflect each shipper's minimum "ship-or-pay" revenue commitment. In addition, an operating fee equivalent to substantially all of the pipeline's operating costs is recovered from the Polaris pipeline system's shippers.

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional oil pipelines gathering systems, namely trunk line tariffs and gathering tariffs are recognized as the services are provided. The majority of volumes are transported on the conventional oil pipelines gathering systems under short-term contracts with a fixed tolling arrangement and no volume commitment made by the shipper.

Volumes purchased by Inter Pipeline to be used in the blending process that are then resold at a pre-arranged differential are recognized on a net basis. Sales of additional volumes created through the blending process are recognized on a gross basis with corresponding product purchases of blend components. Revenue is recognized when title is transferred.

Revenue for the NGL extraction facilities is recognized when the earnings process is complete. This is as the service is provided or when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred and pricing is either fixed or determinable. Revenue recognition is based on three methodologies: according to the terms of the profit share agreements which include an annualized adjustment; fee based revenue which is recognized when volumes are produced; and cost of service revenue, which is predominantly based on a fixed monthly fee.

Revenues are derived from the storage and handling of bulk liquid products and provision of complementary services and are recognized as the services are provided. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duties. Revenue received in advance is recognized over the duration of the contract to which it applies.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the related assets, until such time as the assets are substantially ready for their intended productive use. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs include interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are amortized over the estimated service life of the assets to which the borrowings relate.

Consolidation of Non-Controlling Interest

On January 2, 2003 Inter Pipeline acquired an additional 70% interest in Cold Lake which, combined with its initial 15% investment acquired on October 5, 2000, resulted in Inter Pipeline owning an 85% interest in Cold Lake. The remaining 15% is owned by an unrelated third party.

Upon initial adoption of IFRS in 2011, and specifically IAS 27 *Consolidated and Separate Financial Statements* (IAS 27) and IAS 31 *Interests in Joint Ventures* (IAS 31), Inter Pipeline determined that it had joint, rather than sole, control of Cold Lake. Under IAS 27, control was defined as “the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities”. IAS 31 indicated that joint control existed when strategic financial and operating decisions relating to the activity required the unanimous consent of the parties sharing control.

Cold Lake’s Unanimous Shareholder Agreement (USA) establishes the decision-making abilities of Cold Lake’s shareholders in relation to the Cold Lake pipeline system. Cold Lake is administered by a management committee, with each owner represented by two voting members. The USA splits decisions into two categories: those that require minimum approval and those that require special majority approval. Decisions that are subject to minimum approval require an affirmative vote by members of the management committee representing at least 50% of the shareholders. Therefore, Inter Pipeline is the only owner that has the ability to approve items requiring minimum approval unilaterally. Decisions that are subject to special majority approval require the affirmative vote of at least two members representing 75% or more of the shareholders. Therefore, neither Cold Lake owner can unilaterally approve items requiring special majority approval.

Inter Pipeline and the third party owner had joint control given that both owners shared control over financing decisions that required majority approval pursuant to the USA. As a result, Inter Pipeline’s interest in Cold Lake was treated as a joint venture under IAS 31, and its 85% interest was proportionately consolidated.

In 2013, Inter Pipeline adopted IFRS 10 *Consolidated Financial Statements* (IFRS 10), which revised the definition of control from IAS 27. Under IFRS 10, a single control model was established that focused on relevant activities, which are defined as “activities of an investee that significantly affect the investee’s returns” (Relevant Activities), and specifically an investor’s power to direct those activities, exposure to variable returns and the ability to use power to affect the amount of an investor’s returns. Compared with the requirements of IAS 27, IFRS 10 requires management to exercise significant judgment in its assessment of control including, but not limited to, the determination of the investee’s Relevant Activities, the investor’s ability to direct those Relevant Activities, the investor’s exposure to returns of the investee, as well as rights of other parties. IFRS 10 also requires management to continuously assess control over an investee.

In accordance with IFRS 10, Inter Pipeline determined that it had control over Cold Lake upon the acquisition of the additional 70% interest in 2003. Inter Pipeline, as 85% owner of the Cold Lake pipeline system, has the ability to unilaterally approve all Relevant Activities, which require minimal approval pursuant to the USA. The most significant

Relevant Activities include the identification of expansion and other transportation service opportunities, performance of due diligence, undertaking economic feasibility studies and managing decisions to undergo non-Cold Lake TSA capital projects, where a feasibility study has been undertaken. Management believes the ability to exclusively decide to proceed with such capital projects, including the \$1.5 billion (Inter Pipeline's share) capital program to construct a bitumen blend pipeline and associated facilities in support of the Foster Creek project, will significantly affect Cold Lake's returns, which is a key determination of control under IFRS 10. Such project returns are commercially negotiated by Inter Pipeline separately from the fixed returns contained within the Cold Lake TSA.

Financing activities are not considered to be significant Relevant Activities given that Cold Lake does not have any external debt, nor does Cold Lake have any intentions at this time to obtain debt financing in the future.

As a result of the foregoing, Inter Pipeline has the ability to unilaterally impact Cold Lake's returns by proceeding with significant capital projects, on a negotiated basis, without the approval or consent of the other third party owner. Projects that require special majority approval are based on returns prescribed within the Cold Lake TSA and have limited applicability to the determination of control under IFRS 10. Based on these considerations, Inter Pipeline has control over Cold Lake.

ACCOUNTING POLICIES ADOPTED IN 2014

Inter Pipeline's annual consolidated financial statements for December 31, 2014 have been prepared in accordance with IFRS as issued by the IASB.

IFRS Interpretations Committee Interpretation 21 Levies (IFRIC 21)

Inter Pipeline adopted IFRIC 21 on January 1, 2014. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The adoption of IFRIC 21 did not result in any changes to the accounting for levies by Inter Pipeline.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

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

IFRS 9 Financial Instruments (IFRS 9)

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

RISK FACTORS

The risks summarized in the following sections may require Inter Pipeline to invest additional capital, pursue alternative business plans, or could have a material adverse effect on the business, financial condition and/or results of operations of Inter Pipeline and its future ability to make cash dividends to shareholders. Readers are cautioned that this summary of risks may not be exhaustive, as there may be risks that are unknown and other risks that may pose unexpected consequences. Further, many of the risks are beyond Inter Pipeline's control and, in spite of Inter Pipeline's active management of its risk exposure, there is no guarantee that risk management activities will successfully mitigate such exposure.

Risks Associated with the Pipelines – The Oil Sands Transportation and Conventional Oil Pipelines Businesses

Throughput and Demand Risks

Over the long term, Inter Pipeline's business will depend, in part, on the level of demand for petroleum in the geographic areas in which deliveries are made by the pipelines and the ability and willingness of shippers having access or rights to utilize the pipelines to supply such demand. Inter Pipeline cannot predict the impact of future economic conditions, fuel conservation measures, increasing demand for alternative fuel requirements, government regulation (including those resulting from the ratification of greenhouse gas legislation, including the initiatives discussed below) or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for petroleum and major changes may have a material adverse effect on its business, financial condition, results of operations, cash flows and future prospects.

Supply Risks and Commodity Prices

Future throughput on the pipelines and replacement of petroleum reserves in the pipelines' service areas are dependent upon the 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. While reserve additions and increased recovery rates can offset natural declines in petroleum production in the areas serviced by the pipelines, reserve additions tend to not be sufficient to offset natural declines in produced volumes in certain service areas over the long term, which reduces the likelihood that reserve additions and increased recovery rates will offset natural declines in petroleum production in the future. 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 oil as compared to natural gas, current or projected petroleum price volatility, overall supply and demand expectations and light crude oil to heavy crude oil price differentials. The pipelines are dependent on producers' continuing petroleum exploration and development activity and on technological improvements leading to increased recovery rates in order to offset natural declines in petroleum production in the areas serviced by the pipelines. Absent the continuation of such activities and improvements, the volumes of petroleum transported on the pipelines will decline over time as reserves are depleted.

The Cold Lake and Corridor pipeline systems service the Cold Lake and Athabasca oil sands regions of Alberta, respectively, and the Polaris pipeline system services both the Cold Lake and Athabasca oil sands regions of Alberta. Both areas contain substantial oil sands deposits. Bitumen is produced in the Athabasca region using an open-pit mine operation. In addition, in-situ recovery techniques such as cyclic steam stimulation (CSS) and steam-assisted gravity drainage (SAGD) are utilized in both the Cold Lake and Athabasca regions. These techniques require higher levels of capital investment and, as a result, bitumen production in these areas is more sensitive to lower producer netback prices than crude oil production in the conventional oil pipeline business segment. Producer net-back prices are affected by several factors including bitumen prices, natural gas and diluent costs, light crude oil to heavy crude oil price differentials and government royalties. Natural gas is required to either heat water or generate steam in order to extract bitumen from the oil sands deposits. As well, the viscosity of bitumen requires diluent, a light petroleum product, to be blended with the bitumen to allow it to be transported through the pipeline. High natural gas prices or a shortage of diluent supply may increase the overall costs of producing bitumen, which may reduce production and/or delay development of new production in the Cold Lake and Athabasca oil sands regions.

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

Competition and Contracts

The majority of transportation revenue associated with Inter Pipeline's conventional pipeline business has been and will continue to be derived primarily 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. 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 conventional oil pipelines business is, and will continue to be, subject to market competitive factors.

The pipelines are subject to competition for volumes transported by rail, trucking, or by other pipelines near the areas serviced by the pipelines. Competing pipelines could be constructed in areas serviced by the pipelines. Rail has emerged as a transportation option as producers seek to access higher value markets due to capacity constraints on pipelines.

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers (including the Cold Lake pipeline system's founding shippers) who have committed to utilizing the Cold Lake pipeline system and who pay for such usage over the term of the contract. Pursuant to the Cold Lake TSA, the capital fee paid by the Cold Lake pipeline system's founding shippers is not subject to a minimum ship-or-pay threshold. Although volumes that are shipped by the Cold Lake

pipeline system's founding shippers from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline system, the Cold Lake founding shippers may utilize alternative transportation methods (if certain minimum volume levels are maintained) subject to Cold Lake LP's right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake founding shippers will be sustained. The new bitumen blend pipeline system that Cold Lake LP constructed pursuant to contracts with FCCL Partnership commenced operations in January, 2015, and the FCCL Partnership is obligated to transport bitumen blend under a long-term ship-or-pay agreement that has an initial term of 20 years, with options to extend up to an additional 30 years. However, there is no assurance that FCCL Partnership will be able to perform its obligations under the contract with Cold Lake LP, or that revenues received from FCCL Partnership following the expiry of the term of the contract will be sustained.

The Corridor pipeline system is operated pursuant to a long-term ship-or-pay contract with the Corridor shippers, who are contractually obligated to utilize the Corridor pipeline system for the transportation of all bitumen and diluent used or produced from the Athabasca oil sands project. The initial term of the agreement is 26 years, extending through 2028 with options for further extensions. However, there is no assurance that the Corridor shippers will be able to perform their obligations under the contract with Inter Pipeline, or that revenues received from the Corridor shippers following the expiry of the term of the contract will be sustained.

The Polaris pipeline system is operated pursuant to long-term ship-or-pay contracts with various counterparties that are contractually obligated to utilize the Polaris pipeline system. The Polaris pipeline system is being expanded pursuant to long-term ship-or-pay contracts with various counterparties. A portion of such expansion was operational in mid-2014. Once an expansion to the Polaris pipeline system is in service, the counterparties, in accordance with their respective contracts, are obligated to use the expanded Polaris pipeline system. However, there is no assurance that these counterparties will be able to perform their obligations under the contracts with Inter Pipeline, or that revenues received from the counterparties following the expiry of the term of each contract will be sustained.

Corridor, Cold Lake LP and Inter Pipeline Polaris Inc. can supplement revenues by marketing excess capacity on all three oil sands pipeline systems, including the excess capacity installed as part of the Cold Lake and Polaris pipeline system expansions for the FCCL Partnership, to third parties, but there can be no assurance that they 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.

Operational Factors

The pipelines are connected to various third party mainline systems such as the Enbridge system, Express pipeline, Trans Mountain pipeline, and the Milk River pipeline, as well as refineries and third party storage terminals in those areas where deliveries are made by the pipelines. Operational disruptions, apportionment, or changes to operating parameters on third party systems or refineries may prevent the full utilization of the pipelines, and could have an otherwise adverse effect on Inter Pipeline's overall operating results. The pipelines 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 pipeline operations. In addition, a significant increase in the cost of power, fuel or other operating costs in relation to the pipelines could have a materially negative effect on the level of profit realized by the pipeline business in certain cases where the relevant contracts do not provide for recovery of such costs.

In the event of a major pipeline or facility incident resulting in the release of large quantities of product, dependent on the location and applicable insurance coverage, there could be a significant impact to the revenues and continuing operation of the impacted pipeline.

Rights-of-Way and Access

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. In general, the process of securing rights-of-way or similar access is becoming more complex, particularly in more densely populated, environmentally sensitive and other areas. The Cold Lake, Corridor, Polaris and Central Alberta pipeline systems have portions of their operations in the Edmonton area, with the Cold Lake pipeline system also having operations in the Hardisty area and within the Cold Lake air weapons range. Although pipelines have been constructed in these areas in recent years, these are three of the more difficult areas in which to secure pipeline rights-of-way in the Province of Alberta.

Regulatory Factors

The pipelines are subject to intra-provincial and multi-jurisdictional regulation, including regulation by the Alberta Energy Regulator (AER) in Alberta, and the Ministry of the Economy in Saskatchewan. As a result, Inter Pipeline's operations may be affected by changes implemented by such regulatory authorities or in the legislation governing such authorities.

The 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), and by the AER. 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) and by the Ministry of the Economy in Saskatchewan. None of the pipelines are subject to regulation by the National Energy Board (NEB).

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).

Legislation in the Province of Alberta exists to ensure that shippers and producers have fair and reasonable opportunities to produce, transport, process, and market their reserves. Under the *Oil and Gas Conservation Act* (Alberta), the AER may, on application, declare the proprietor of a pipeline to be a common carrier of oil or natural gas such that the proprietor must not discriminate among shippers and producers who seek access to the pipeline. If a pipeline is designated a common carrier and agreement cannot be reached between a proprietor and a shipper as to the tariff to be charged, then either party may apply to the Alberta Utilities Commission. 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. Should an order for access or for the setting of tolls be made, it could result in a toll reduction and decreased revenue for Inter Pipeline.

Risks Associated with the NGL Extraction Business

Natural Gas Availability and Composition

The volumes of natural gas processed by the NGL extraction business depend on the throughput of the Foothills Pipeline and TransCanada Alberta systems from which the NGL extraction facilities source their natural gas supply. Without reserve additions or other new sources of gas supply, throughputs will decline over time as reserves are depleted in the areas

these pipeline systems service. Natural gas producers in these service areas may not be successful in exploring for and developing additional reserves or commodity prices may not remain at a level that encourages gas producers to explore for and develop additional reserves or to produce existing marginally economic reserves. Also, to continue to have the right to reprocess natural gas for the purpose of NGL extraction from gas being transported on the natural gas transmission systems, Inter Pipeline will be required to continue to negotiate extraction agreements with the various natural gas shippers and there is no assurance that Inter Pipeline will be able to renew contracts related to the NGL extraction business to extract NGL on terms favourable to Inter Pipeline.

The production of NGL from the NGL extraction facilities is largely dependent on the quantity and composition of the NGL within the natural gas streams that supply the NGL extraction business. The quantity and composition of NGL may vary over time. Also, marketable natural gas on the Foothills Pipeline and TransCanada Alberta systems contains contaminants such as carbon dioxide and various sulphur compounds that are concentrated in the NGL products through the extraction process. Increased content of these contaminants in the natural gas supply may require incurring additional capital and operating costs at the NGL extraction facilities. Other factors, such as an increased level of NGL recovery conducted at field processing plants upstream of or in parallel to the NGL extraction facilities (including the Harmattan co-stream facility described below), increased intra-Alberta consumption of natural gas or processing completed at any new extraction plants constructed upstream of or in parallel to the NGL extraction facilities, or changes in the quantity and composition of the natural gas produced from the reservoirs that supply the NGL extraction facilities, could have a materially negative effect on NGL production from the NGL extraction business.

Operational Factors

The NGL extraction facilities are connected to various third party systems, including the TransCanada Alberta System, Foothills Pipeline System, Kerrobert Pipeline, Co-Ed Pipeline and the Alberta Ethane Gathering System. Operational disruptions or apportionment on those third party systems and/or disruptions at the other facilities in the Empress area may prevent the full utilization of the NGL extraction facilities.

The NGL extraction 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 NGL extraction operations. In addition, a significant increase in the cost of power, fuel or other operating costs in relation to the NGL extraction facilities could have a materially negative effect on the level of profit realized by the NGL extraction business in certain cases where the relevant contracts do not provide for recovery of such costs.

In the event of a major facility incident, such as a fire or major equipment damage, there could be a significant impact to the revenues and continuing operation of the impacted NGL extraction facility should insurance not cover the incident.

Competition

The NGL extraction facilities are subject to natural gas markets and, as such, are subject to competition for gas supply from all natural gas markets served by the TransCanada Alberta System or the Foothills Pipeline System. The NGL extraction facilities are subject to competition from other extraction plants that are in the general vicinity of the NGL extraction facilities or that may be constructed upstream of or in parallel to the NGL extraction facilities, including the Harmattan co-stream facility, described below. The NGL extraction facilities are also subject to competition from field processing facilities that extract NGL from the natural gas streams before injection into the TransCanada Alberta System or the Foothills Pipeline System.

The Harmattan co-stream project, which became operational in late 2012, consisted of modifications to the Harmattan facility and a new bypass pipeline around the Cochrane plant for the purpose of extracting NGL from up to 490 mmcf/d of natural gas on the Foothills Pipeline and TransCanada Alberta systems directly upstream of and in parallel to the Cochrane plant. This project has caused and has further potential to cause a significant reduction in volumes available for processing at the Cochrane plant. The Harmattan co-stream facility competes directly with the Cochrane plant for the right to reprocess gas volumes on the Foothills Pipeline and TransCanada Alberta systems.

To the extent that (i) other gas market participants are willing to pay for gas supply, (ii) existing or newly constructed extraction or field processing plants are successful in securing natural gas supply currently processed at the NGL extraction facilities or are successful in removing significant amounts of NGL from the gas supply upstream of the NGL extraction facilities or (iii) products derived from the production at the NGL extraction facilities cannot be priced competitively, Inter Pipeline will be adversely affected.

Similarly, there is no assurance that new sources of natural gas supply that may be developed in frontier areas such as Alaska and the Mackenzie Delta in the Northwest Territories will be transported via the natural gas transmission systems connected to the NGL extraction facilities or that new extraction plants will not be constructed upstream of or in parallel to the NGL extraction facilities to process that natural gas.

Volumes of natural gas processed by the NGL extraction business are also dependent on commodity pricing competition between the Western Canadian Sedimentary Basin (WCSB) natural gas and other recently developed natural gas basins such as Marcellus. A growing supply of North American natural gas from such developments will compete with historical supplies and may significantly change traditional natural gas flow patterns. Such natural gas flow patterns may also be impacted by the development of Liquefied Natural Gas (LNG) export facilities competing for volumes, potentially adversely affecting natural gas to the NGL extraction facilities.

The NGL produced at the NGL extraction facilities or derivatives produced at downstream customer facilities must compete with similar products from other facilities on a local, regional or continental scale. The NGL markets in which Inter Pipeline markets its production are exposed to new infrastructure additions, repurposing of existing infrastructure, and significant changes in supply and demand associated with development of shale resources.

Commodity Price; Frac-spread

At the Cochrane plant, Inter Pipeline is exposed to frac-spread risk or the relative price differential between the propane-plus produced and the natural gas used to replace the heat content removed during extraction of the NGL from the natural gas stream. The level of profit obtained from this portion of the NGL extraction business will increase or decrease as the difference between the price of the applicable NGL and the price of natural gas varies. Propane-plus produced at the Cochrane plant is also sold in US currency, exposing Inter Pipeline's frac-spread margin to currency risk.

Extraction Premiums

Further influencing the profitability of the NGL extraction business is the cost of natural gas feedstock in excess of the market price of natural gas. Currently, extraction premiums are paid to export shippers in exchange for the ability to reprocess their natural gas for the purpose of NGL extraction. Historically, these premiums have been moderate relative to the selling price of NGL, but it is possible that they could increase, which would adversely affect the NGL extraction business.

Reliance on NOVA Chemicals, Dow Chemical, and Plains Midstream

NOVA Chemicals, Dow Chemical, and Plains Midstream are the principal customers of the NGL extraction business and represent the majority of the revenue from the NGL extraction business. Plains Midstream also operates the Empress II plant and the Empress V plant. If, for any reason, any of the aforementioned parties were unable to perform their obligations under the various agreements with Inter Pipeline, the financial results of the NGL extraction business or the operations of the Empress II plant and the Empress V plant could be negatively impacted.

Regulatory Factors

The Alberta Energy and Utilities Board (EUB) concluded its inquiry into NGL Extraction Matters (Inquiry) related to the common natural gas streams transported by the pipeline transmission systems in Alberta in 2009. Of significance to Inter Pipeline is the review of business and regulatory practices relating to the acquisition of NGL extraction rights from the common stream, public interest criteria used to determine the need and timing of NGL processing capacity additions and the potential for NGL content dilution of the common stream caused by increases in non-conventional gas production. Currently, straddle plants in Alberta are not commercially regulated and all such facilities operate under similar proprietary commercial arrangements known as the “NGL Extraction Convention”. The EUB recommended that the current extraction convention be replaced by a receipt point contracting extraction convention, specifically, the NGL EXTRACTION model (NEXT model) as then proposed by Nova Gas Transmission Ltd. Subsequent to the conclusion of the Inquiry, TransCanada Pipelines Limited (TCPL), including the Alberta System became federally regulated and submitted an application to the NEB to implement the NEXT model. In May 2012 the NEB set a hearing process for the implementation of the NEXT model thereafter TCPL withdrew the application. If the NEXT model was to be implemented it would require changes to contracting counterparties and commercial arrangements, and potentially business process changes to Inter Pipeline’s NGL extraction business segment. There is a risk that a change in convention, if implemented, could adversely affect the NGL extraction business.

Risks Associated with the Bulk Liquid Storage Business

Demand for Bulk Liquid Storage

The Inter Terminals business in the UK, Ireland and Germany is primarily involved in the storage and handling of liquids for regional petroleum refining and petrochemical businesses. The products stored and handled at these storage terminals are generally either feedstock for petrochemical plants and refineries or are products produced from those facilities. As a result, a sustained slowdown in either the petroleum refining, biofuels or petrochemical sectors serviced by the Inter Terminals business could adversely affect the bulk liquid storage business.

Inter Terminals business in Denmark is primarily involved in the storage and handling of liquids for the petroleum refining and general oil-trading business. Therefore, a sustained slowdown in the petroleum sector could adversely affect the Inter Terminals business. Sustained periods of backwardation in the oil products markets served by Inter Terminals Denmark could also adversely affect the Inter Terminals business.

The Inter Terminals Immingham terminals are highly integrated with two local refineries, the Phillips66 Humber refinery and the Total Lindsey refinery. The closure of one or both refineries, or amalgamation under ownership by a single party, could significantly reduce revenue from the Inter Terminals business. Inter Terminal’s Asnaes terminal handles some fuel oil exports from the adjacent Statoil refinery. Any closure of this refinery would reduce revenue from the Inter Terminals business. Furthermore, if this Statoil refinery were to subsequently be converted into a competing storage facility, revenues from the Inter Terminals business could be significantly reduced.

Customs and Excise Warehouses

Inter Terminals operates approved customs warehouses and approved 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.

Post Buncefield Regulation

Following the Buncefield oil terminal incident in December 2005, the UK's regulatory authorities have been in the process of formulating policies which require additional integrity systems and controls on gasoline tanks and associated infrastructure. A report issued in December 2009 by the Process Safety Leadership Group details all of the required improvements and also contains a list of other hydrocarbon and petrochemical products to which these improvements are required in future years.

The UK's regulatory authorities issued a Containment Policy in respect of the storage of fuels on February 20, 2008 which will require substantially enhanced tank and bund facilities both for new build tankage and for existing facilities at the Inter Terminals' UK terminals. The policy states a 10 to 20 year timeline for improvements to be effected, and a suggested timeline for retrospective improvements of between two and five years for sites categorized by the regulator as higher risk, including the Seal Sands storage terminal. As a consequence, sustaining capital expenditures* are likely to increase in the foreseeable future, although the timing of such increases remains uncertain. However, based upon the policy as currently applied by the regulatory authorities, Inter Terminals has estimated that it will incur between \$5 million and \$7 million on containment costs over the next seven years. The amount of such costs will depend in part on the acceptability to the regulatory authorities of innovative solutions which are being considered by Inter Terminals.

Activity Restrictions

For the three fuel oil terminals at Ensted, Asnaes and Stigsnaes, Inter Terminals Denmark, in late 2014, received approved new conditions for activity levels that support the theoretical maximum activity level for each terminal. However, Guldhavn oil terminal remains limited to 1.5 million tons of transshipment a year.

Operational Factors

In the event of a major facility incident resulting in a major fire or the release of large quantities of product, the location of the bulk liquid storage facilities adjacent to water courses and large bodies of water could significantly impact the revenues and continuing operation of the bulk liquid storage business.

Defined Benefit Pension Plan

A defined benefit pension plan exists for certain employees of Inter Terminals' UK and Irish business. The plan holds interests in various securities invested in equities, fixed income instruments and real estate. Fluctuations in the value of the plan's assets and the factors which are applied to calculate the plan's liabilities could result in a requirement for additional cash to be contributed by Inter Pipeline.

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

Competition

The bulk liquid storage business faces competition from other independent bulk liquid terminals which operate in several of the regions serviced by Inter Terminals. Certain of the bulk liquid storage business' customers also have the option to store products at their own storage facilities or to adopt alternative logistics solutions. As a result, customers could elect in the future to make alternative arrangements for the storage and handling of their products resulting in a decline in the bulk liquid storage business' revenue.

Land Lease Renewals

Certain storage terminals 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 bulk liquid storage business, and could result in related decommissioning costs for Inter Pipeline, pursuant to the terms of such leases or licenses. 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*.

Foreign Exchange Risk

The bulk liquid storage business' earnings and cash flows are subject to foreign exchange rate variability, primarily arising from the denomination of such earnings and cash flows in British Pounds, Euros, Danish Kroner and US dollars.

Risks Common to the Oil Sands Transportation, Conventional Oil Pipelines, NGL Extraction and Bulk Liquid Storage Businesses

Volatility in Commodity Prices

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 and Canada and worldwide, the actions of Organization of the Petroleum Exporting Countries (OPEC), governmental regulation, political stability in the Middle East and elsewhere, weather conditions, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas may have an adverse effect on Inter Pipeline's borrowing capacity, revenues, profitability and FFO* and may have a material adverse effect on Inter Pipeline's business, financial condition, results of operations, cash flows and future prospects. Lower commodity prices may render Inter Pipeline's development and expansion plans uneconomic.

Petroleum prices are expected to remain volatile as a result of market uncertainties over the supply and demand of these commodities that are caused by changing world economies, OPEC actions, credit and liquidity concerns and Middle East political unrest. Volatile commodity prices make it difficult to estimate the value of projects and often cause disruption in the market for oil and gas projects, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisition and development and expansion projects.

Execution Risk

Inter Pipeline's ability to successfully execute the development of its growth projects may be influenced by capital constraints, third party opposition, changes in customer support over time, delays in or changes to government and

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

regulatory approvals, cost escalations, construction delays, shortages and in-service delays. Inter Pipeline's growth plans may strain its resources and may be subject to high cost pressures in the North American and European energy sectors. Early stage project risks include right-of-way procurement, special interest group opposition, Crown consultation, and environmental and regulatory permitting. Cost escalations may impact project economics. Construction delays due to slow delivery of materials, contractor non-performance, weather conditions and shortages may impact project development and timing of related revenue. Labour shortages, inexperience and productivity issues may also affect the successful completion of projects.

Reputational Risk

Reputational risk is the potential for negative impacts that could result from the deterioration of Inter Pipeline's reputation 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 common shares. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity and regulatory and legal risks must all be managed effectively to safeguard Inter Pipeline's reputation. Negative impacts from a compromised reputation could include reductions in cash flow and customer base, and decreases in the value of common shares.

Inter Pipeline's reputation as a reliable 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 and ethical conduct. Ultimate responsibility for Inter Pipeline's reputation lies with the executive team that examines reputational risk and issues as part of all business decisions. Nonetheless, every employee of Inter Pipeline and other representatives of Inter Pipeline have a responsibility to contribute in a positive way to Inter Pipeline's reputation. This means ensuring compliance with applicable policies, legislation and regulations, that ethical practices are followed at all times, and that interactions with our stakeholders are positive. Reputational risk is most effectively managed when every individual works continuously to protect and enhance Inter Pipeline's reputation.

Credit Risk

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 credit approval and monitoring procedures. The credit worthiness assessment takes into account available qualitative and quantitative information about the counterparty, including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees, letters of credit 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. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may entitle Inter Pipeline to lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default.

Royalty Regimes

Inter Pipeline's pipeline and NGL extraction businesses 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 production of oil and gas volumes. Such changes may directly or indirectly impact Inter Pipeline in a materially different manner and/or in a manner that is more adverse to Inter Pipeline than the current royalty regime and regulatory framework.

Operational Factors

Inter Pipeline's operations are subject to the customary hazards of the petroleum transportation, storage, marketing and processing business. Inter Pipeline's operations could be impacted by failures of pipelines (including pipeline leaks), power infrastructure, equipment, information systems, the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation, design errors, or construction or manufacturing defects), failure to maintain an adequate inventory of supplies or spare parts, operator error, labour disputes, disputes with owners of interconnected facilities and carriers, and catastrophic events such as natural disasters, fires, flooding, explosions, chemical releases, fractures, or other events beyond Inter Pipeline's control, including acts of terrorists, eco-terrorists and saboteurs, and other third party damage to Inter Pipeline's assets. Operational errors could cause a process safety incident that additionally results in reputational damage to the business. The occurrence or continuance of any of these events could increase the cost of operating facilities and/or reduce their processing, throughput or storage capacity. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance with respect to some, but not all, casualty occurrences and disruptions. However, such coverage may not be sufficient to compensate for all casualty occurrences.

Insurance of Inter Pipeline's operations is susceptible to appetite for risk within the insurance market. Either general market conditions or a poor claims record could result in significantly increased premiums or the impossibility of obtaining coverage for certain risks.

Inter Pipeline has extensive integrity management programs in all of its business segments. While Inter Pipeline believes its programs are consistent with industry practice, increasingly strict operational regulations or new data on the condition of Inter Pipeline's assets could result in repair or upgrading activities that are more extensive and costly than in the past. Such developments could contribute to higher operating costs for Inter Pipeline or the termination of operations on the affected portion of Inter Pipeline's assets.

A significant operating cost for Inter Pipeline is electrical power. Deregulation of the Alberta electrical power market has contributed to increased volatility in electrical power prices. Factors such as a shortage of electrical power supply or high natural gas prices could contribute to higher electrical power prices, which may result in higher operating costs for Inter Pipeline.

Inter Pipeline continues to build on its business continuity planning, which involves analyzing critical activities, interdependencies and vulnerabilities to assist in prioritizing key functions and planning strategies and to recover or maintain them in the event of a significant business disruption. Critical infrastructure, personnel, supervisory control and data acquisition (SCADA) and information technology systems have redundancy established, which is intended to minimize both the probability and impact of disruptive events, however there is no guarantee that such measures will be effective in the event of a worst case scenario.

Regulatory Intervention and Changes in Legislation

Although fees charged to customers of the pipelines and the NGL extraction 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.

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 in a manner which adversely affects Inter Pipeline.

Failure of Inter Pipeline to comply with applicable regulations could result in sanctions, fines, litigation, or other adverse outcomes.

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 level of profit realized by the pipeline business in certain cases where the relevant contracts do not provide for recovery of such costs.

Decommissioning, Abandonment and Reclamation Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the 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 extraction or storage facility.

Abandonment requirements can vary considerably. For example, in the context of the pipelines, requirements can range from simply emptying the pipeline and capping all open ends, to the removal of the pipeline and reclamation of the related right-of-way. With respect to pipelines, the costs of abandonment have been limited primarily to the costs associated with the removal of petroleum from the lines, refilling with inert gas and capping all open ends, the removal of any associated surface facilities and surface reclamation of the disturbed site. However, future requirements are expected to be more stringent.

Abandonment and reclamation costs for the NGL extraction facilities are regulated by the AER, pursuant to Directive 001 and Directive 024. The NGL extraction facilities 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.

In the future, Inter Pipeline may determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the pipelines, the NGL extraction facilities, or the assets of the bulk liquid storage business, or the establishment of reserves for that purpose, could have a materially negative effect on the level of profit realized by Inter Pipeline.

Environmental Costs and Liabilities

Inter Pipeline's operations are subject to the laws and regulations of the European Union, UK, Germany, Ireland, Denmark, Alberta, Saskatchewan and the Canadian federal government relating to environmental protection and operational safety. Inter Pipeline believes it is in material compliance with all required environmental permits and reporting requirements.

In order to continuously improve environmental performance and address regulatory requirements, Inter Pipeline routinely reviews systems, programs and processes critical to protecting the environment, including integrity programs, leak detection systems, air monitoring systems, contaminated sites program and maintenance standards. Improvement opportunities are implemented as deemed appropriate, with costs budgeted during Inter Pipeline's normal budget cycle in accordance with applicable accounting practices. Operation of certain of the pipelines, bulk liquid storage business assets and NGL extraction facilities has spanned several decades. While the remediation of releases or contamination during such

period may have met then-current environmental standards, such remediation may not meet 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 restoration plans.

It is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from Inter Pipeline's operations and previously undetected locations of historical contamination, could result in substantial costs and liabilities for Inter Pipeline. If, at any time, regulatory authorities deem any one of the NGL extraction facilities, oil sands transportation, conventional oil pipelines or bulk liquid storage business assets unsafe or not in compliance with applicable laws, they may order it shut down. Inter Pipeline could be adversely affected if it was not able to recover such resulting costs through insurance or other means.

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 thereof in respect of certain occurrences unless such seepage or pollution is both sudden and unexpected, and discovered and reported within fixed time periods. 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.

Greenhouse Gas Regulations

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 facilities emitting more than 100,000 tonnes of GHGs a year are subject to compliance with the *Climate Change and Emissions Management Act* (CCEMA) which requires a reduction in emissions intensity over a period of years. The CCEMA and the associated *Specified Gas Emitters Regulation* require certain facilities to reduce their emissions intensity to 88% of their baseline for 2008 and subsequent years, with their baseline being established by the average of the ratio of the total annual emissions to production for the years 2003 to 2005. The Cochrane plant is the only asset of Inter Pipeline that is subject to provincial GHG regulations. Regulated emitters can meet their emissions intensity targets by contributing to the Climate Change and Emissions Management Fund or by purchasing emissions credits.

The Copenhagen Summit on Climate Change (COP) in 2009 resulted in the *Copenhagen Accord*, which expresses the intention for global and national emissions to decline as soon as possible. Under the *Copenhagen Accord*, Canada has announced a non-binding commitment to reduce GHG emissions by 17% of the base year 2005 by 2020. The Government of Canada has also announced its intention to regulate GHG emissions in compliance with the *Copenhagen Accord*. Inter Pipeline may be required to comply with the regulatory scheme for GHG emissions ultimately adopted by the federal government, which is expected to be modified to ensure consistency with the regulatory scheme for GHG emissions to be adopted by the US. The future implementation or modification of GHG regulations, whether to meet the limits regulated by the *Copenhagen Accord* or as otherwise determined, could have an adverse effect on Inter Pipeline's business, financial condition, results of operations and prospects.

The adoption of legislation or other regulatory initiatives designed to reduce GHG and air pollutants from oil and gas producers, refiners and petrochemical producers and electric generators in the geographic areas served by the pipelines,

NGL extraction facilities and bulk liquid storage business could result in, among other things, increased operating and capital expenditures for those operators. This may make certain production of petroleum and 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 petrochemical 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 related federal or provincial legislation, including the *Specified Gas Emitters Regulation*, may also result in higher operating and capital costs for the pipelines and NGL extraction 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 predict the impact on Inter Pipeline and its operations and financial condition.

Dependence on Key Personnel

The success of Inter Pipeline is largely dependent on the skills and expertise of key personnel who manage Inter Pipeline's business. The continued success of Inter Pipeline will be dependent upon its ability to hire and retain such personnel. Inter Pipeline does not have any "key man" insurance.

International Operations

A portion of Inter Pipeline's operations are conducted in the UK, Germany, Ireland, and Denmark. Operations outside of Canada are subject to various risks, including: 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.

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions and, as part of its business plan, anticipates making additional acquisitions in the future. Achieving the benefits of completed and future acquisitions 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 liabilities of the acquired business or assets.

Capital Maintenance Levels

Inter Pipeline maintains and periodically replaces portions of its assets to sustain facility performance, provide a high level of asset integrity and ensure reliable operations. The funds associated with these efforts may be in the form of sustaining capital* or maintenance expenses. Maintenance expenses are a subset of "operating expenses" and are not reported separately.

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

Inter Pipeline typically maintains its assets with reasonable levels of sustaining capital* and maintenance expenditures. However, both sustaining capital* and maintenance expenditures may vary considerably from current and forecast amounts as a result of a number of factors, including 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.

Possible Downgrade of Investment Grade Credit Ratings

Inter Pipeline and its unsecured MTNs have investment grade credit ratings of BBB+ and BBB (high), by S&P and DBRS, respectively. Corridor's debentures have been assigned investment grade credit ratings of A, A2 and A by DBRS, Moody's and S&P, respectively. Should these credit ratings fall below investment grade, Inter Pipeline or Corridor may have to provide security, pay additional interest or pay in advance for goods and services. The perceived creditworthiness of Inter Pipeline and changes in its credit ratings may also affect the value of Inter Pipeline's common shares. There is no assurance that any credit rating assigned to Inter Pipeline or Corridor will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering or withdrawal of such rating may have an adverse effect on the market value of Inter Pipeline's common shares.

Corridor's commercial paper is rated R-1 (low) by DBRS. If Corridor's commercial paper rating falls below this level, Corridor may not be able to issue commercial paper and be required to use higher cost financing to fund its financial obligations.

Liquidity Risk

Liquidity risk is the risk that Inter Pipeline will 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 current base shelf prospectus with Canadian securities regulators, which enables, subject to market conditions, ready access to Canadian public capital markets.

Refinancing Risk

Inter Pipeline's credit facilities, MTNs 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. To the extent any of the loan agreements are not replaced or extended on or before their respective maturity dates or are not replaced, extended or renewed for the same or similar amounts or on the same or similar 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, MTNs, and other outstanding financing instruments or debt securities will depend upon its future operating performance and FFO*, 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.

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

Litigation or Arbitration

Inter Pipeline is not a party to any material litigation or arbitral matters. However, if any legitimate cause of action or arbitral matter arose which was successfully prosecuted against Inter Pipeline, Inter Pipeline's operations or results of operations could be adversely affected.

Aboriginal Land Claims

Aboriginal peoples have claimed aboriginal title and rights to a substantial portion of the lands in western Canada. Such claims, if successful, could have a significant adverse effect on Inter Pipeline's Canadian operations.

Crown Duty to Consult First Nations

The federal and provincial governments in Canada have a duty to consult and, where appropriate, accommodate aboriginal people where the interests of the aboriginal 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.

Weather Conditions

Weather conditions can affect the demand for and price of natural gas and NGL. As a result, changes in weather patterns can affect throughput, as well as Inter Pipeline's NGL extraction and storage activities. For instance, colder winter temperatures generally increase demand for natural gas and NGL used for heating which tends to result in increased throughput volumes at facilities and higher prices in the extraction and storage businesses. In its storage facilities and NGL extraction business, Inter Pipeline attempts to position itself to be able to handle increased volumes 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 may influence Inter Pipeline's ability to complete capital projects or facility turnarounds on time, potentially resulting in delays and increasing costs of such capital projects and turnarounds. Weather may also affect the operations and projects of Inter Pipeline's customers or shippers, thereby influencing the supply of 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 delays due to cold winter weather. While availability of trades and supplies does not always make this possible, Inter Pipeline has been relatively successful in minimizing construction delays due to weather issues.

Labour Relations

Inter Pipeline may from time to time have labour unions. Unionized labour disruptions could restrict the ability of Inter Pipeline to carry out its business and therefore affect Inter Pipeline's financial results.

Policies and Procedures

Inter Pipeline has a number of formal and informal policies and procedures in place to govern certain business processes and the entering into and administration of contracts. Deviations from such policies and procedures, or a lack of policies and procedures, could result in negative impacts, including failure to realize all available revenue from contracts, inefficiencies, potential litigation and decreases in the value of common shares.

Reliance on Information Technology

Inter Pipeline's operations are dependent on the functioning of several information technology systems. Failure of any or all of these systems could result in operational outages, delays, lost profits, lost data, and other adverse outcomes, which could include a loss of communication links or reliable information and the inability to automatically process commercial transactions or engage in similar automated or computerized business activities.

Risks Inherent in the Corporation

Fluctuating Dividends; Dividends Are Not Guaranteed

There is uncertainty with respect to future dividend payments by Inter Pipeline and the level thereof. Funds available for the payment of dividends will be dependent upon, among other things, FFO^{*}, 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 *Alberta Business Corporations Act* (ABCA) on corporations for the declaration and payment of dividends.

Market Price of the Common Shares

The prices at which Inter Pipeline's common shares will trade cannot be predicted. 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.

One of the factors that may influence the market price of Inter Pipeline's common shares is the level of prevailing interest rates relative to the yield achieved by shareholders based on annual dividends on the common shares. Accordingly, an increase in market interest rates may lead purchasers of common shares to expect a higher effective yield, which could adversely affect the market price of the common shares. In addition, the market price for Inter Pipeline's common shares may be affected by changes in general market or economic conditions, legislative changes, fluctuations in the markets for equity securities, interest rates, commodity prices and numerous other factors beyond the control of Inter Pipeline.

Conflicts of Interest

Certain directors of Inter Pipeline are also directors of other entities engaged in the oil and gas business generally. As a result, situations may arise where the interest of such directors conflict with their interests as directors of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

Capital Resources

Future expansions of Inter Pipeline's assets and other capital expenditures will be financed out of FFO^{*}, sales of additional equity or debt securities and borrowings. There can be no assurance that sufficient capital will be available to Inter Pipeline on acceptable terms, or in an amount sufficient, to fund expansion or other required capital expenditures.

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

Leverage

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, and, to the extent interest rates are not fixed, increases the sensitivity of dividends by Inter Pipeline to interest rate variations.

Debt Restrictive Covenants

The credit facilities, MTNs and the Corridor debentures 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 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.

Issues of Additional Common Shares; Dilution

Inter Pipeline may issue additional common shares in the future to finance certain of Inter Pipeline's capital expenditures, including acquisitions. Any issuance of common shares may have a dilutive effect to existing shareholders.

Foreign Exchange Risk on Dividends

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.

NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "EBITDA", "adjusted EBITDA", "enterprise value", "growth capital expenditures", "sustaining capital expenditures", "normalized net income", "interest coverage", "payout ratio" and "total debt to total capitalization" are not measures recognized by GAAP. Certain additional GAAP financial measures presented in the consolidated financial statements and referred to in this MD&A, namely "funds from operations", "funds from operations per share", and "total recourse debt to capitalization" are not measures recognized by GAAP. These non-GAAP and additional GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that non-GAAP and additional GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

Non-GAAP Financial Measures

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

Adjusted working capital deficiency is calculated by subtracting current liabilities from current assets including cash and excluding the fair value of derivative financial instruments, convertible shares, commercial paper and current portion of long-term debt.

<i>(millions)</i>	December 31	
	2014	2013
Current assets		
Cash and cash equivalents	\$ 61.1	\$ 47.2
Accounts receivable	156.8	246.3
Prepaid expenses and other deposits	27.0	41.3
Current income taxes receivable	11.5	-
Current liabilities		
Dividends payable	(40.0)	(33.0)
Accounts payable, accrued liabilities and provisions	(390.2)	(578.7)
Current income taxes payable	-	(31.2)
Deferred revenue	(18.8)	(6.8)
Adjusted working capital deficiency	\$ (192.6)	\$ (314.9)

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

<i>(millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2014	2013	2014	2013
Net income (loss)	\$ 79.6	\$ 84.6	\$ 349.5	\$ (47.0)
Financing charges	27.5	21.8	93.6	91.9
Current income tax expense	(2.1)	14.9	45.4	57.1
Deferred income tax expense	33.3	13.0	69.6	29.5
Depreciation and amortization	39.7	32.6	142.8	126.7
EBITDA	178.0	166.9	700.9	258.2
Loss (gain) on disposal of assets	2.9	2.0	(2.1)	3.7
Non-cash financing charges	(2.1)	(1.5)	(6.6)	(5.8)
Non-cash expense	3.9	1.0	5.2	2.0
Unrealized change in fair value of derivative financial instruments	0.3	1.3	(1.0)	9.1
General partner internalization	-	-	-	348.6
Adjusted EBITDA	\$ 183.0	\$ 169.7	\$ 696.4	\$ 615.8
Less adjusted EBITDA attributable to non-controlling interest	(4.4)	(3.9)	(16.8)	(12.8)
Adjusted EBITDA attributable to shareholders	\$ 178.6	\$ 165.8	\$ 679.6	\$ 603.0

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

<i>(millions, except per share amounts)</i>	December 31	
	2014	2013
Closing share price	\$ 35.94	\$ 25.83
Total closing number of common shares outstanding	326.2	306.8
	11,724.1	7,924.6
Total debt	4,590.7	3,960.8
Enterprise value	\$ 16,314.8	\$ 11,885.4

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

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

<i>(millions)</i>	Three Months Ended December 31			
	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 121.9	\$ 1.3	\$ 123.2	\$ 535.3
Conventional oil pipelines	21.1	0.9	22.0	7.3
NGL extraction	1.3	2.5	3.8	4.9
Bulk liquid storage	4.9	5.4	10.3	10.9
Corporate	-	3.7	3.7	2.0
Capital expenditures	\$ 149.2	\$ 13.8	\$ 163.0	\$ 560.4
Capital expenditures funded by Inter Pipeline ⁽¹⁾	\$ 145.8	\$ 13.8	\$ 159.6	\$ 381.1

<i>(millions)</i>	Years Ended December 31			
	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 1,126.6	\$ 1.9	\$ 1,128.5	\$ 1,855.4
Conventional oil pipelines	48.4	4.3	52.7	17.2
NGL extraction	6.3	5.6	11.9	35.1
Bulk liquid storage	12.7	21.2	33.9	34.4
Corporate	-	9.2	9.2	6.9
Capital expenditures	\$ 1,194.0	\$ 42.2	\$ 1,236.2	\$ 1,949.0
Capital expenditures funded by Inter Pipeline ⁽¹⁾	\$ 1,141.5	\$ 42.1	\$ 1,183.6	\$ 1,763.7

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

Normalized net income is calculated as net income (loss) from the comparative periods in 2013 excluding the one-time non-cash general partner internalization expense of \$348.6 million. This measure is used by the investment community to better gauge the change in net income after excluding the large one-time charge.

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

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

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

Additional GAAP Financial Measures

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

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

<i>(millions)</i>	Three Months Ended December 31		Years Ended December 31	
	2014	2013	2014	2013
Net income (loss)	\$ 79.6	\$ 84.6	\$ 349.5	\$ (47.0)
Depreciation and amortization	39.7	32.6	142.8	126.7
Loss (gain) on disposal of assets	2.9	2.0	(2.1)	3.7
Non-cash expense	3.9	1.0	5.2	2.0
Unrealized change in fair value of derivative financial instruments	0.3	1.3	(1.0)	9.1
Deferred income tax expense	33.3	13.0	69.6	29.5
General partner internalization	-	-	-	348.6
Funds from operations	159.7	134.5	564.0	472.6
Less funds from operations attributable to non-controlling interest	(4.4)	(3.9)	(16.8)	(12.8)
Funds from operations attributable to shareholders	\$ 155.3	\$ 130.6	\$ 547.2	\$ 459.8
Funds from operations	\$ 159.7	\$ 134.5	\$ 564.0	\$ 472.6
Total interest less capitalized interest	25.4	20.3	87.0	86.1
Current income tax expense	(2.1)	14.9	45.4	57.1
Adjusted EBITDA	183.0	169.7	696.4	615.8
Less adjusted EBITDA attributable to non-controlling interest	(4.4)	(3.9)	(16.8)	(12.8)
Adjusted EBITDA attributable to shareholders	\$ 178.6	\$ 165.8	\$ 679.6	\$ 603.0

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

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 19th day of February, 2015.