



## Management's Discussion and Analysis

For the three and nine months ended September 30, 2015

## FORWARD-LOOKING INFORMATION

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

Readers are cautioned not to place undue reliance on forward-looking statements; as such statements are not guarantees of future performance. Inter Pipeline in no manner represents that actual results, levels of activity and achievements will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by Inter Pipeline may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements. By their nature, forward-looking statements involve a variety of assumptions and are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks and assumptions associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits, including the further development of its oil sands pipeline systems; assumptions concerning operational reliability; the availability and price of labour and construction materials; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its affiliates; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and natural gas liquids (NGL) extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; inflation; the ability to access sufficient capital from internal and external sources; risks and uncertainties associated with Inter Pipeline's ability to maintain its current level of cash dividends to its shareholders; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection, instability and political and economic conditions in or affecting countries in which Inter Pipeline and its affiliates operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; the potential delays of, and costs of overruns on, construction projects in all of Inter Pipeline's business units, including, but not limited to, Inter Pipeline's expansion of its 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 and nine month periods ended September 30, 2015

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and nine month periods ended September 30, 2015, as compared to the three and nine month periods ended September 30, 2014. The MD&A should be read in conjunction with the September 30, 2015 unaudited condensed interim consolidated financial statements (interim financial statements), the unaudited condensed interim consolidated financial statements and MD&A for the quarterly period ended September 30, 2014, the MD&A and audited consolidated financial statements for the year ended December 31, 2014, the **Annual Information Form** dated February 19, 2015, and other information filed by Inter Pipeline at [www.sedar.com](http://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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## THIRD QUARTER HIGHLIGHTS

- Generated record funds from operations\* (FFO) of \$205 million, or \$0.61 per share, a 46 percent increase over the third quarter of 2014
- Record FFO\* in oil sands transportation of \$146 million, up 77 percent compared to third quarter 2014
- Bulk liquid storage FFO\* for the quarter increased by 46 percent, to \$29 million, as a result of strong utilization rates and the Inter Terminals Sweden acquisition
- Declared cash dividends of \$124 million or \$0.3675 per share
- Quarterly payout ratio\* of 64 percent
- Net income rose to a new quarterly record of \$128 million, a gain of \$33 million over third quarter 2014 results
- Record total pipeline throughput volumes averaging 1,329,300 barrels per day (b/d)
- Average European bulk liquid storage utilization rates improved to 93 percent during the quarter from 78 percent in the same period in 2014

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

## PERFORMANCE OVERVIEW

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions, except per share and % amounts)</i>	2015	2014	2015	2014
<b>Revenues</b>				
Oil sands transportation	\$ 195.2	\$ 128.2	\$ 555.3	\$ 336.2
Conventional oil pipelines	80.9	89.6	233.4	276.8
NGL extraction	91.0	120.2	282.3	425.6
Bulk liquid storage	57.1	41.6	149.6	127.6
	\$ 424.2	\$ 379.6	\$ 1,220.6	\$ 1,166.2
<b>Funds from operations<sup>(1)(2)</sup></b>				
Oil sands transportation <sup>(2)</sup>	\$ 146.1	\$ 82.5	\$ 411.3	\$ 208.9
Conventional oil pipelines	49.8	48.7	143.1	144.3
NGL extraction	23.6	34.4	75.6	117.6
Bulk liquid storage	29.0	19.8	70.1	59.6
Corporate costs	(43.3)	(44.4)	(137.4)	(126.1)
	\$ 205.2	\$ 141.0	\$ 562.7	\$ 404.3
Per share <sup>(1)</sup>	\$ 0.61	\$ 0.43	\$ 1.68	\$ 1.27
<b>Net income</b>	\$ 128.4	\$ 95.0	\$ 325.0	\$ 269.9
<b>Net income attributable to shareholders</b>	\$ 118.7	\$ 91.4	\$ 297.7	\$ 259.2
Per share – basic	\$ 0.35	\$ 0.28	\$ 0.89	\$ 0.81
Per share – diluted	\$ 0.35	\$ 0.28	\$ 0.89	\$ 0.80
<b>Dividends to shareholders</b>	\$ 123.5	\$ 104.7	\$ 368.4	\$ 308.2
Per share <sup>(3)</sup>	\$ 0.3675	\$ 0.3225	\$ 1.1025	\$ 0.9675
<b>Shares outstanding (basic)</b>				
Weighted average	335.8	324.2	334.1	318.3
End of period	336.2	325.4	336.2	325.4
<b>Capital expenditures<sup>(4)</sup></b>				
Growth <sup>(1)</sup>	\$ 39.3	\$ 256.6	\$ 239.6	\$ 1,045.4
Sustaining <sup>(1)</sup>	16.4	11.7	35.9	27.8
	\$ 55.7	\$ 268.3	\$ 275.5	\$ 1,073.2
<b>Payout ratio<sup>(1)</sup></b>	63.6%	76.6%	69.3%	78.6%
			As at September 30	As at December 31
<i>(millions, except % amounts)</i>			2015	2014
<b>Total assets</b>			\$ 9,010.4	\$ 8,647.2
<b>Total debt<sup>(5)</sup></b>			\$ 4,876.2	\$ 4,590.7
<b>Total shareholders' equity</b>			\$ 2,805.4	\$ 2,548.1
<b>Enterprise value<sup>(1)</sup></b>			\$ 13,153.2	\$ 16,314.8
<b>Consolidated Debt to Total Capitalization<sup>(1)</sup></b>			53.6%	53.2%

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

(2) Funds from operations<sup>(1)</sup> include non-controlling interest amounts of \$11.2 million and \$31.2 million for the three and nine months ended September 30, 2015, respectively (\$4.3 million and \$12.4 million for the three and nine months ended September 30, 2014, respectively).

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

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

(5) Total debt reported in the September 30, 2015 interim financial statements of \$4,857.4 million, includes long-term debt, short-term debt and commercial paper of \$4,876.2 million less discounts and debt transaction costs of \$18.8 million.

## Three Months Ended September 30, 2015

Inter Pipeline generated record quarterly financial results in the third quarter of 2015, with FFO<sup>\*</sup> of \$205.2 million, an increase of \$64.2 million or 45.5% from \$141.0 million in the third quarter of 2014. The increase is due to record quarterly FFO<sup>\*</sup> from three of Inter Pipeline's four business segments. FFO<sup>\*</sup> in the oil sands transportation business reached a new quarterly record of \$146.1 million, an increase of \$63.6 million or 77.1% from the same period in 2014, largely due to expanded transportation services that entered commercial service on the Cold Lake and Polaris pipeline systems. The bulk liquid storage business also generated record quarterly FFO<sup>\*</sup> of \$29.0 million, an increase of \$9.2 million from the third quarter of 2014, as a result of the June 2015 acquisition of Inter Terminals Sweden and an increase in utilization rates. Record quarterly financial results from the conventional oil pipelines business were \$49.8 million, which increased \$1.1 million over the same period in 2014, primarily due to higher volumes on the Mid-Saskatchewan pipeline system. FFO<sup>\*</sup> also benefitted from lower corporate costs of \$1.1 million, largely due to reductions in employee costs and current income taxes, offset in part by lower capitalized interest costs. FFO<sup>\*</sup> from the NGL extraction business was \$23.6 million, a decrease of \$10.8 million from the third quarter of 2014, largely due to lower frac-spread pricing on propane-plus sales at the Cochrane extraction facility.

In the third quarter of 2015, Inter Pipeline's net income increased to \$128.4 million, an increase of \$33.4 million from \$95.0 million in 2014. This increase is primarily due to higher FFO<sup>\*</sup> as discussed above, offset in part by increased deferred income taxes, depreciation and amortization expense, and a loss on disposal of assets.

Total dividends to shareholders increased \$18.8 million or 18.0% from \$104.7 million in the third quarter of 2014 to \$123.5 million in the third quarter of 2015. The increase is due to higher monthly dividend rates and an incremental overall number of common shares outstanding. Inter Pipeline announced a dividend rate increase of \$0.18 per common share on an annualized basis in November 2014. Common shares outstanding increased largely due to the conversion of the convertible shares in January 2015 and shareholder participation in Inter Pipeline's dividend reinvestment plan. Inter Pipeline's payout ratio<sup>\*</sup> for the three months ended September 30, 2015 was 63.6%.

Inter Pipeline's total debt outstanding, which includes \$1,549.2 million of non-recourse debt held at Inter Pipeline (Corridor) Inc., increased \$11.1 million from \$4,865.1 million at June 30, 2015 to \$4,876.2 million at September 30, 2015. Inter Pipeline invested approximately \$54.9 million (Inter Pipeline's share) in the third quarter of 2015 on capital projects, compared to \$253.4 million (Inter Pipeline's share) in the third quarter of 2014.

## Nine Months Ended September 30, 2015

Inter Pipeline also generated strong financial results in the nine months ended September 30, 2015. FFO<sup>\*</sup> rose from \$404.3 million in 2014 to \$562.7 million in 2015, an increase of 39.2% or \$158.4 million. This increase is largely due to the same reasons discussed above, with the exception of slightly lower operating results from the conventional oil pipelines business on a year to date basis due to a lower contribution from midstream marketing activities.

Inter Pipeline's net income, for nine months ended September 30, 2015, increased \$55.1 million from \$269.9 million in 2014 to \$325.0 million in 2015. The increase is due to higher FFO<sup>\*</sup> as discussed above, offset in part by increased deferred income taxes, depreciation and amortization expense, and a loss on disposal of assets.

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<sup>\*</sup> Please refer to the NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES section

In the nine months ended September 30, 2015, total dividends to shareholders increased \$60.2 million or 19.5% to \$368.4 million, over the same period in 2014, for the same reasons indicated above. Inter Pipeline's payout ratio\* for the nine months ended September 30, 2015 was 69.3%.

Inter Pipeline's total debt outstanding at September 30, 2015 was \$4,876.2 million, an increase of \$285.5 million from \$4,590.7 million at December 31, 2014, while funding the acquisition of Inter Terminals Sweden and incurring \$268.2 million (Inter Pipeline's share) on capital expenditures. At September 30, 2015, total debt includes \$1,549.2 million of non-recourse debt held at Inter Pipeline (Corridor) Inc., compared to \$1,579.7 million at December 31, 2014.

## OUTLOOK

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

In the first nine months of 2015, Inter Pipeline completed a number of major projects under our capital expenditure program, which focused on expanding our oil sands transportation and conventional oil gathering businesses. We successfully placed into service the major elements of an integrated \$3.0 billion (Inter Pipeline's share) expansion on our Cold Lake and Polaris pipeline systems and completed a \$112 million expansion on our Mid-Saskatchewan conventional oil system. We also expanded our bulk liquid storage operations in Europe by acquiring strategic assets in Sweden which increased our overall storage capacity by approximately 40 percent.

Inter Pipeline's oil sands transportation segment is expected to benefit over the longer term as a result of the capacity expansion programs completed in 2014 and 2015. The majority of these projects were underpinned by long-term cost of service contracts with credit-worthy counterparties that substantially increased the amount and stability of Inter Pipeline's FFO\*. This is evidenced by record financial and operational results for the oil sands transportation segment in the third quarter 2015, with FFO\* reaching a new record of \$146 million supported by record throughput volumes of 1,119,900 b/d.

These completed capacity expansion programs have also added substantial transportation capacity beyond what is currently contracted, and positions Inter Pipeline to pursue future accretive growth opportunities in a capital-efficient manner. Total bitumen blend transportation capacity on the Cold Lake system is currently 1.2 million b/d, diluent capacity on the Polaris system is approximately 865,000 b/d, and bitumen blend capacity on the Corridor pipeline system is 465,000 b/d.

In aggregate, Inter Pipeline has over 2.3 million b/d of potential spare capacity on our oil sands transportation systems. Ultimate throughput capacities of 1.9 million b/d, 1.4 million b/d and 1.3 million b/d on the Cold Lake, Corridor and Polaris systems, respectively, can be achieved through the addition of cost effective pump stations and associated infrastructure. Notwithstanding the challenging oil price environment, Inter Pipeline continues to actively engage with potential shippers to utilize available capacity.

The outlook also remains positive for Inter Pipeline's conventional oil pipelines segment, despite the continued volatility in crude oil prices. Inter Pipeline expects volume growth to continue to build on the Mid-Saskatchewan pipeline system as a

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

result of a \$112 million expansion successfully commissioned in July 2015. We continue to advance a \$65 million storage tank expansion at Kerrobert, Saskatchewan which includes the construction of three new tanks totaling approximately 400,000 barrels of storage. This project, which is expected to be ready for service in the latter half of 2016, will support both operational and merchant storage opportunities on the Mid-Saskatchewan pipeline system. These combined expansions will continue to benefit producers in the Kindersley-Kerrobert area of Saskatchewan where horizontal drilling and multi-stage fracturing within the Viking formation has led to significant production growth.

Inter Pipeline's bulk liquid storage business segment, Inter Terminals, continues to experience high demand for storage services. Utilization rates in the third quarter of 2015 were substantially higher, averaging 93% compared to 78% in the third quarter of 2014. Utilization continues to be favourably impacted by stronger contango pricing relationships in certain petroleum futures markets. Following the \$131 million acquisition of Inter Terminals Sweden in June 2015, Inter Pipeline continues to strengthen its position as a leading petroleum and petrochemical storage business in Europe.

Inter Pipeline continues to maintain a strong balance sheet with significant liquidity available on our \$1.25 billion committed credit facility. As at September 30, 2015, Inter Pipeline had \$550 million of available capacity on its revolving credit facility. Inter Pipeline also ended the quarter with a Consolidated Debt to Total Capitalization ratio\* of 53.6%, which is within management's targeted level of 50% to 55%. Inter Pipeline maintains its financial flexibility in order to facilitate the funding of our growth capital expenditure program and other future initiatives.

As a result of our strong financial position and the stable nature of our business, Inter Pipeline maintains investment grade credit ratings. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline credit ratings of BBB+ and BBB (high), respectively, each with a stable trend. Inter Pipeline (Corridor) Inc. has 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, even in a lower commodity price environment. The FFO\* that underpins our monthly dividend is stable, diversified and supported by investment grade counterparties. Our extensive energy infrastructure base is well positioned to compete for future, accretive growth opportunities both locally and internationally. With a strong balance sheet and proven project management and operational success, Inter Pipeline is well positioned to continue to generate long-term positive results for our shareholders.

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

# RESULTS OF OPERATIONS

## Oil Sands Transportation Business Segment

Volumes (000s b/d)	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	% change	2015	2014	% change
Cold Lake (100% basis)	577.8	498.5	15.9	560.0	489.9	14.3
Corridor	409.1	382.6	6.9	335.0	344.1	(2.6)
Polaris	133.0	61.2	117.3	128.9	41.5	210.6
	1,119.9	942.3	18.8	1,023.9	875.5	17.0

<i>(millions)</i>						
	2015	2014	% change	2015	2014	% change
Revenue <sup>(1)</sup>	\$ 195.2	\$ 128.2	52.3	\$ 555.3	\$ 336.2	65.2
Operating expenses <sup>(1)</sup>	\$ 32.6	\$ 31.4	3.8	\$ 96.8	\$ 88.8	9.0
Funds from operations <sup>(1)(2)</sup>	\$ 146.1	\$ 82.5	77.1	\$ 411.3	\$ 208.9	96.9
Capital expenditures <sup>(1)</sup>						
Growth <sup>(2)</sup>	\$ 20.5	\$ 240.1		\$ 126.8	\$ 1,005.3	
Sustaining <sup>(2)</sup>	0.2	-		0.8	-	
	\$ 20.7	\$ 240.1		\$ 127.6	\$ 1,005.3	

(1) For the three and nine month periods ended September 30, 2015, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - \$13.6 million and \$38.7 million (\$6.5 million and \$19.3 million in 2014), respectively; operating expenses - \$2.3 million and \$7.0 million (\$2.2 million and \$6.9 million in 2014), respectively; FFO<sup>(2)</sup> - \$11.2 million and \$31.2 million (\$4.3 million and \$12.4 million in 2014), respectively; and capital expenditures - \$0.8 million and \$7.3 million (\$14.9 million and \$49.2 million in 2014), respectively.

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

## Volumes

Oil sands transportation volumes averaged 1,119,900 b/d in the third quarter, an increase of 177,600 b/d or 18.8%, and 1,023,900 b/d year to date in 2015, an increase of 148,400 b/d or 17.0%, over the comparable periods in 2014.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta. Cold Lake pipeline system volumes increased 79,300 b/d or 15.9% in the current quarter and 70,100 b/d or 14.3% year to date in 2015, over the same periods in 2014. The volume increase was driven by incremental production from Canadian Natural Resources' (CNR) Kirby South facility and Imperial's Cold Lake oil sands development, as well as FCCL Partnership's (FCCL), a business venture between Cenovus Energy and ConocoPhillips, Foster Creek expansion which began shipments in September 2014. Volumes remained strong and continued to increase despite wildfires in the Cold Lake region, in the second quarter of 2015, which impacted various producer volumes serviced by the Cold Lake pipeline system. While volumes on the Cold Lake pipeline system continue to fluctuate with the timing of steam injection cycles associated with certain shippers' production processes, volume growth is anticipated over the long-term, which is consistent with shippers' published forecasts.

The Corridor pipeline system transports diluent and diluted bitumen produced from the Muskeg River and Jackpine mines near Fort McMurray, Alberta to and from the Scotford upgrader located northeast of Edmonton as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton. Corridor pipeline system volumes increased 26,500 b/d in the third quarter and decreased 9,100 b/d year to date in 2015, compared to the same periods in 2014. The volume increase in the current quarter was due to higher volumes from the Muskeg River mine. On a

year to date basis, volumes were unfavourably impacted by maintenance activities at the Scotford upgrader in the first half of 2015.

The Polaris pipeline system is comprised of a 12-inch diameter diluent pipeline that commenced commercial operations in August 2012 and a 30-inch diameter diluent pipeline that commenced commercial operations in July 2014. The Polaris pipeline system provides diluent transportation service from a diluent receipt point in the area north east of Edmonton to Imperial's Kearn, Husky's Sunrise, Suncor's oil sands, CNR's Kirby South, AOC's Hangingstone and FCCL's Foster Creek and Christina Lake oil sands projects. In the three and nine months ended September 30, 2015, Polaris pipeline system volumes increased 71,800 b/d and 87,400 b/d, respectively, over the comparable periods in 2014. The increase is largely due to diluent transportation services to FCCL's Foster Creek and Christina Lake facilities, CNR's Kirby South facility beginning in the third quarter of 2014 and Imperial's Kearn expansion beginning in the third quarter of 2015. The Polaris pipeline system was not directly impacted by wildfires occurring in the second quarter of 2015; however the wildfires did impact diluent transportation volumes to certain customer facilities located in the Cold Lake area serviced by the Polaris pipeline system.

## Revenue

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

The oil sands transportation business generated revenue of \$195.2 million in the third quarter an increase of 52.3% or \$67.0 million and \$555.3 million year to date in 2015 an increase of 65.2% or \$219.1 million, over the same periods in 2014.

Revenue from the Cold Lake pipeline system increased \$47.7 million and \$129.6 million in the three and nine months ended September 30, 2015, respectively, over the comparable periods in 2014. The increase is largely related to capital fee revenue from FCCL for blend transportation service on the Cold Lake mainline expansion, which entered into commercial service in January of 2015, as well as higher operating recoveries.

In the three and nine months ended September 30, 2015, Corridor pipeline revenue decreased \$3.9 million and \$6.7 million, respectively, compared to the same periods in 2014. Revenue was impacted by a lower return on debt due to lower interest rates, a lower return on equity from a decrease in the long-term Government of Canada (GOC) benchmark bond interest, the declining nature of Corridor's rate base and lower operating cost recoveries.

Polaris pipeline system's revenue increased \$23.2 million and \$96.2 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The increase is largely due to capital fee revenue for FCCL diluent transportation service, related to the Polaris pipeline expansion project, which entered commercial service in stages in the third quarter of 2014 and the first quarter of 2015. Higher revenues also resulted from increased capital fees associated with Husky's Sunrise and CNR's Kirby South oil sands projects, incremental revenue from Imperial's Kearn expansion service which began in June 2015, incremental revenue from the Canexus unit train loading connection, capital fee revenue for AOC Hangingstone which began in May 2015, as well as increased operating recoveries.

## Operating Expenses

Operating expenses in the oil sands transportation business segment typically have a limited impact on Inter Pipeline's FFO<sup>\*</sup>, as substantially all operating expenditures are recovered from the shippers on the Cold Lake, Corridor and Polaris pipeline systems. Operating expenses in the oil sands transportation business increased \$1.2 million in the third quarter and \$8.0 million year to date in 2015, over the comparable periods in 2014.

Operating expenses on the Cold Lake pipeline system decreased \$0.8 million and \$1.1 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The decrease was largely due to lower power costs, offset in part by higher general operating costs associated with the expanded system. Average Alberta power pool prices decreased in the third quarter from \$64.34/MWh in 2014 to \$26.09/MWh in 2015 and year to date from \$55.80/MWh in 2014 to \$37.43/MWh in 2015.

Operating costs on the Corridor pipeline system decreased \$1.1 million in the third quarter largely due to timing of certain integrity related costs and increased \$0.8 million year to date in 2015 largely due to higher non-routine maintenance and subsidence repair costs, over the same periods in 2014.

Polaris pipeline system's operating costs increased \$3.1 million and \$8.3 million in the three and nine months ended September 30, 2015, respectively, over the same periods in 2014. The increase is largely attributable to the pipeline expansion resulting in incremental property taxes, employee and general operating costs.

## Capital Expenditures

Growth capital expenditures<sup>\*</sup> of \$20.5 million were incurred in the oil sands transportation business in the third quarter of 2015.

On the Cold Lake pipeline system total growth capital expenditures<sup>\*</sup> of \$5.4 million were incurred in the third quarter of 2015, primarily relating to system enhancements and upgrades.

Total growth capital expenditures<sup>\*</sup> of \$14.6 million were incurred on the Polaris pipeline system in the third quarter of 2015. Of this amount approximately \$7 million relates to the construction of a new pipeline lateral and associated facilities connecting the Polaris pipeline system to the JACOS-Nexen Hangingstone project, for a total project spend to date of approximately \$15 million. The total estimated cost of this project is \$25 million.

In addition, approximately \$5 million of growth capital expenditures<sup>\*</sup> relate to trailing and clean-up costs on the completed portions of the Polaris pipeline \$1.5 billion system expansion.

Polaris pipeline growth capital expenditures<sup>\*</sup> also included approximately \$1 million in the current quarter relating to final trailing and clean-up costs on the delivery connection to AOC's Hangingstone project. The remaining growth capital expenditures<sup>\*</sup> on the Polaris pipeline system of approximately \$2 million relate to various other development initiatives.

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<sup>\*</sup> Please refer to the NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES section

## Conventional Oil Pipelines Business Segment

<i>Volumes (000s b/d)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	% change	2015	2014	% change
Bow River	98.8	99.8	(1.0)	100.6	99.9	0.7
Central Alberta	35.5	36.9	(3.8)	34.2	36.8	(7.1)
Mid-Saskatchewan	75.1	65.9	14.0	75.9	65.7	15.5
	209.4	202.6	3.4	210.7	202.4	4.1

*(millions, except per barrel amount)*

Revenue	\$ 80.9	\$ 89.6	(9.7)	\$ 233.4	\$ 276.8	(15.7)
Midstream product purchases	\$ 15.0	\$ 23.9	(37.2)	\$ 42.0	\$ 85.0	(50.6)
Operating expenses	\$ 16.4	\$ 16.8	(2.4)	\$ 48.2	\$ 46.8	3.0
Funds from operations <sup>(1)</sup>	\$ 49.8	\$ 48.7	2.3	\$ 143.1	\$ 144.3	(0.8)
Revenue per barrel <sup>(2)</sup>	\$ 2.95	\$ 2.97	(0.7)	\$ 2.95	\$ 2.94	0.3
Capital expenditures						
Growth <sup>(1)</sup>	\$ 12.9	\$ 12.7		\$ 97.2	\$ 27.3	
Sustaining <sup>(1)</sup>	5.8	1.9		8.1	3.4	
	\$ 18.7	\$ 14.6		\$ 105.3	\$ 30.7	

(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.

### Volumes

In the three and nine months ended September 30, 2015, average conventional oil pipeline volumes increased 6,800 b/d or 3.4% and 8,300 b/d or 4.1%, respectively, compared to the same periods in 2014. Volumes on the Mid-Saskatchewan pipeline system increased 9,200 b/d or 14.0% in the current quarter and 10,200 b/d or 15.5% year to date in 2015, over the same periods in 2014. The Mid-Saskatchewan light oil system continues to benefit from increased regional production in the Viking light oil play arising from horizontal drilling and multi-stage hydraulic fracturing completion technologies. Despite the increase, Mid-Saskatchewan light oil system volumes were unfavourably impacted in the month of September 2015 due to third party downstream pipeline issues. Average Central Alberta pipeline system volumes decreased 1,400 b/d and 2,600 b/d in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, largely due to lower volumes at third party truck terminals. On the Bow River pipeline system volumes were consistent with the same periods in 2014, decreasing 1,000 b/d in the current quarter and increasing 700 b/d year to date in 2015.

### Revenue

The conventional oil pipeline business earns revenue for the transportation of petroleum products in accordance with a number of long-term and short-term fee-based contracts, while its midstream marketing activities generate revenue under a number of short-term commodity-based contracts. Please refer to the Adjusted EBITDA by contract type disclosure in the **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES** section for further information.

Revenue from the conventional oil pipelines business decreased \$8.7 million and \$43.4 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. Midstream marketing revenue decreased \$10.4 million in the third quarter and \$52.3 million year to date in 2015, compared to the same periods in 2014, largely due to a decline in West Texas Intermediate (WTI) pricing. The reduction in midstream marketing revenue is largely

offset by the cost reduction in midstream marketing product purchases, as discussed below, resulting in positive blend margins. Transportation revenue increased in both periods largely due to incremental volumes shipped on the Mid-Saskatchewan pipeline system and an increase in the effective tolls across the conventional oil pipeline system.

### Midstream Product Purchases

Midstream product purchases were lower in the three and nine months ended September 30, 2015 by \$8.9 million and \$43.0 million, respectively, compared to the same periods in 2014. The reduction in product purchases in the third quarter is due to lower WTI and product pricing, while year to date in 2015 the decrease is due to a combination of lower pricing and reduced blending activity.

### Operating Expenses

In the conventional oil pipelines business operating expenses decreased \$0.4 million in the third quarter and increased \$1.4 million year to date in 2015, compared to the same periods in 2014. The change in operating expenses was largely due to lower employee and outside service costs, which were partially offset in the current quarter and more than offset on a year to date basis by higher planned integrity program and watercourse crossing repair costs.

### Capital Expenditures

The conventional oil pipelines business incurred growth capital expenditures<sup>\*</sup> of \$12.9 million in the current quarter. Of this amount, approximately \$5 million relates to trailing and clean-up costs on the recently completed expansion of the Mid-Saskatchewan pipeline system. Also included are approximately \$4 million in growth capital expenditures<sup>\*</sup> relating to the 400,000 barrel crude oil storage expansion project at the Kerrobert Terminal on the Mid-Saskatchewan pipeline system. The remaining expenditures relate to various other connections and system enhancements.

## NGL Extraction Business Segment

Three Months Ended September 30								
2015					2014			
	<i>mmcf/d</i>		<i>(000s b/d)</i>		<i>mmcf/d</i>		<i>(000s b/d)</i>	
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,743	37.5	27.4	64.9	1,324	34.0	23.3	57.3
Empress V (100% basis)	986	24.5	13.4	37.9	743	14.2	9.7	23.9
Empress II	-	-	-	-	-	-	-	-
	<b>2,729</b>	<b>62.0</b>	<b>40.8</b>	<b>102.8</b>	<b>2,067</b>	<b>48.2</b>	<b>33.0</b>	<b>81.2</b>

  

Nine Months Ended September 30								
2015					2014			
	<i>mmcf/d</i>		<i>(000s b/d)</i>		<i>mmcf/d</i>		<i>(000s b/d)</i>	
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	1,780	40.2	27.9	68.1	1,479	40.2	23.4	63.6
Empress V (100% basis)	892	22.8	11.1	33.9	905	21.4	10.7	32.1
Empress II	-	-	-	-	-	-	-	-
	<b>2,672</b>	<b>63.0</b>	<b>39.0</b>	<b>102.0</b>	<b>2,384</b>	<b>61.6</b>	<b>34.1</b>	<b>95.7</b>

<sup>\*</sup> Please refer to the NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES section

<i>(millions)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	% change	2015	2014	% change
Revenue <sup>(1)</sup>	\$ 91.0	\$ 120.2	(24.3)	\$ 282.3	\$ 425.6	(33.7)
Shrinkage gas <sup>(1)</sup>	\$ 47.9	\$ 59.1	(19.0)	\$ 139.7	\$ 225.7	(38.1)
Operating expenses <sup>(1)</sup>	\$ 19.7	\$ 27.0	(27.0)	\$ 66.9	\$ 82.5	(18.9)
Funds from operations <sup>(1)(2)</sup>	\$ 23.6	\$ 34.4	(31.4)	\$ 75.6	\$ 117.6	(35.7)
Capital expenditures <sup>(1)</sup>						
Growth <sup>(2)</sup>	\$ 0.1	\$ 1.3		\$ 0.6	\$ 5.0	
Sustaining <sup>(2)</sup>	0.8	1.3		5.8	3.1	
	\$ 0.9	\$ 2.6		\$ 6.4	\$ 8.1	

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

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

## Volumes

Inter Pipeline's NGL extraction facilities processed natural gas throughput volumes of 2,729 million cubic feet per day (mmcf/d) in the current quarter and 2,672 mmcf/d year to date in 2015, an increase of 662 mmcf/d and 288 mmcf/d, respectively, over the same periods in 2014.

Average throughput volumes at the Cochrane facility increased 419 mmcf/d in the third quarter and 301 mmcf/d year to date in 2015, compared to the same periods in 2014. Throughput volumes at the Cochrane facility are largely impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region. Ethane deliveries from Cochrane and Empress V facilities were impacted in 2015, and to a lesser extent in 2014, as a result of downstream facility issues, resulting in the partial reinjection of certain ethane volumes.

Throughput volumes at the Empress V facility increased 243 mmcf/d in the current quarter, over the same period in 2014, largely due to an unplanned 16 day full plant maintenance outage which unfavourably impacted throughput volumes in the third quarter of 2014. Throughput volumes on a year to date basis in 2015 were comparable to that in 2014, decreasing 13 mmcf/d. The Empress II facility did not process any throughput volumes in 2015 or 2014, which does not impact operating results due to cost-of-service commercial arrangements at this facility. Throughput volumes at the Empress facilities are dependent on the level of natural gas exported from Alberta's eastern border and are reliant on successfully attracting border gas flows to the extraction facilities.

## Revenue

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

Revenue from the NGL extraction business decreased \$29.2 million to \$91.0 million in the third quarter and \$143.3 million to \$282.3 million year to date in 2015, compared to the same periods in 2014. The reduction in revenue is largely due to lower propane-plus and ethane product pricing, offset in part by higher propane-plus volumes from the Cochrane facility and higher overall ethane volumes.

## Frac-spread

Three Months Ended September 30					
(dollars)	2015				2014
	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>	
Market frac-spread	\$ 0.283	\$ 0.371	\$ 0.799	\$ 0.871	
Realized frac-spread	\$ 0.278	\$ 0.364	\$ 0.800	\$ 0.872	

Nine Months Ended September 30					
(dollars)	2015				2014
	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>	
Market frac-spread	\$ 0.333	\$ 0.418	\$ 0.870	\$ 0.952	
Realized frac-spread	\$ 0.333	\$ 0.419	\$ 0.840	\$ 0.920	

(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 and nine months ended September 30, 2015, realized frac-spreads decreased from \$0.80 USD/USG to \$0.28 USD/USG and from \$0.84 USD/USG to \$0.33 USD/USG, respectively, compared to the same periods in 2014. The 5-year and 15-year simple average market frac-spreads, as at December 31, 2014, were \$0.97 USD/USG and \$0.59 USD/USG, respectively.

## Shrinkage Gas

Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of liquids extracted from natural gas processed at the extraction facilities. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. In the three and nine months ended September 30, 2015, shrinkage gas expense decreased \$11.2 million and \$86.0 million, respectively, compared to the same periods in 2014, largely due to lower AECO natural gas prices, offset in part by higher volumes. The weighted average monthly AECO prices\* decreased in the third quarter from \$4.00 per gigajoule (GJ) in 2014 to \$2.65/GJ in 2015 and year to date from \$4.32/GJ in 2014 to \$2.66/GJ in 2015.

## Operating Expenses

Operating expenses for the three and nine months ended September 30, 2015 in the NGL extraction business decreased \$7.3 million and \$15.6 million, respectively, compared to the same periods in 2014. The decrease in operating costs was primarily due to lower fuel and power costs as a result of favourable power and natural gas pricing, as well as a reduction

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

in general operating and maintenance costs. Average Alberta power pool prices decreased in the third quarter from \$64.34/MWh in 2014 to \$26.09/MWh in 2015 and year to date from \$55.80/MWh in 2014 to \$37.43/MWh in 2015.

## Capital Expenditures

The NGL extraction business incurred growth capital expenditures\* of \$0.1 million, and sustaining capital expenditures\* of \$0.8 million in the current quarter largely relating to facility and equipment upgrades at the Cochrane facility.

## Bulk Liquid Storage Business Segment

	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	% change	2015	2014	% change
Utilization	93%	78%	19.2	93%	77%	20.8
<i>(millions)</i>						
Revenue	\$ 57.1	\$ 41.6	37.3	\$ 149.6	\$ 127.6	17.2
Operating expenses	\$ 25.0	\$ 17.8	40.4	\$ 65.4	\$ 54.5	20.0
Funds from operations <sup>(1)</sup>	\$ 29.0	\$ 19.8	46.5	\$ 70.1	\$ 59.6	17.6
Capital expenditures						
Growth <sup>(1)</sup>	\$ 5.8	\$ 2.5		\$ 15.0	\$ 7.8	
Sustaining <sup>(1)</sup>	4.5	5.9		9.9	15.8	
	\$ 10.3	\$ 8.4		\$ 24.9	\$ 23.6	

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

## Utilization

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

In the third quarter average utilization rates increased from 78% in 2014 to 93% in 2015 and year to date from 77% in 2014 to 93% in 2015. Utilization rates increased, particularly at the Gulfhavn terminal in Denmark, as contango pricing relationships in certain petroleum product futures markets strengthened. Utilization rates at the Denmark terminals rose from 71% to 93% in the third quarter of 2014 to 2015 and from 68% to 93% year to date in 2014 to 2015.

## Revenue

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

Revenue from the bulk liquid storage business increased \$15.5 million and \$22.0 million in the three and nine months ended September 30, 2015, respectively, over the same periods in 2014. This increase was primarily due to the inclusion of

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

revenue from Inter Terminals Sweden which was acquired in June 2015, as well as incremental revenue from the Gulfhavn, Stigsnaes and Ensted terminals in Denmark as a result of higher utilization and activity levels. These increases were partially offset by lower revenue in 2015 from business interruption proceeds relating to flooding at the Immingham and Riverside terminals, as well as lower non-recurring contract termination fees on a year to date basis. Foreign currency translation adjustments favourably impacted revenue in the three and nine months ended September 30, 2015, by \$3.1 million and \$2.0 million, respectively, compared to the same periods in 2014. FFO\* for 2015 was also impacted by a contract termination in the first quarter of 2015 which included the release of long-term deferred revenue, decreasing FFO\* by \$2.9 million.

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

## Foreign Exchange Rates

<i>(dollars)</i>	Three Months Ended September 30			Nine Months Ended September 30		
	2015	2014	% change	2015	2014	% change
Euro/CAD	\$ 1.4565	\$ 1.4422	1.0	\$ 1.4043	\$ 1.4832	(5.3)
Pound Sterling/CAD	\$ 2.0280	\$ 1.8168	11.6	\$ 1.9305	\$ 1.8261	5.7

## Operating Expenses

Bulk liquid storage operating expenses increased \$7.2 million and \$10.9 million in the three and nine months ended September 30, 2015, respectively, over the comparable periods in 2014. The increase is primarily due to the inclusion of operating costs from Inter Terminals Sweden. Foreign currency translation adjustments also increased operating expenses by \$1.4 million in the third quarter and \$1.3 million year to date in 2015, compared to the same periods in 2014.

## Capital Expenditures

Growth capital expenditures\* of \$5.8 million were incurred in the bulk liquid storage business in the third quarter of 2015. These expenditures largely relate to a number of tank life extensions and tank modification projects. Approximately \$2 million of growth capital expenditures\* also relate to the construction of six stainless steel tanks at a German terminal, with a total estimated project cost of \$9 million.

The bulk liquid storage business also incurred \$4.5 million in sustaining capital expenditures\* in the current quarter which include flood related expenditures at the Riverside terminal, environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects.

## Acquisition of Inter Terminals Sweden

On June 10, 2015, Inter Pipeline completed the acquisition of four petroleum and petrochemical storage terminals in Sweden from a subsidiary of Koninklijke Vopak N.V. The acquisition was valued at approximately \$130.9 million, less closing adjustments for working capital and debt, for cash consideration of \$128.3 million and was funded from Inter Pipeline's syndicated credit facility.

Operating results for Inter Terminals Sweden have been included in the consolidated financial statements since June 11, 2015. Inter Terminals Sweden contributed \$14.7 million and \$2.6 million to revenue and net income, respectively, from the date of acquisition to September 30, 2015. If the acquisition had taken place on January 1, 2015, for the nine months

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

ended September 30, 2015, management estimates that Inter Terminals Sweden would have contributed \$35.0 million to revenue and \$3.9 million to net income.

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

Cash	\$ 0.6
Property, plant and equipment	150.6
Non-cash working capital	(2.5)
Decommissioning obligation	(7.7)
Deferred income tax liability	(12.7)
	<b>\$ 128.3</b>

## Other Expenses

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Provision for income taxes	\$ 38.7	\$ 27.8	\$ 144.4	\$ 83.8
Depreciation and amortization	50.0	36.5	135.9	103.1
Financing charges	35.6	27.2	103.6	66.1
General and administrative	12.3	20.2	47.9	66.2
Loss (gain) on disposal of assets	2.5	(3.3)	5.0	(5.0)
Unrealized change in fair value of derivative financial instruments	0.2	-	(0.1)	(1.3)

## Income Taxes

In the three and nine months ended September 30, 2015, consolidated income tax expense increased \$10.9 million to \$38.7 million and \$60.6 million to \$144.4 million, respectively, over the same periods in 2014. The increase in the third quarter is primarily due to higher consolidated income before income taxes; while the increase year to date in 2015 is primarily due to an increase in tax rates that resulted in deferred tax expense of \$35.9 million recognized in the second quarter of 2015, as well as higher consolidated income before income taxes. On June 18, 2015, the Government of Alberta announced legislation which increases its general provincial corporate tax rate from 10% to 12%, effective July 1, 2015.

## Depreciation and Amortization

In the three and nine months ended September 30, 2015, depreciation and amortization of tangible and intangible assets increased \$13.5 million and \$32.8 million, respectively, over the comparable periods in 2014. This increase is primarily due to depreciation of new assets now in service that were not in service or depreciated in the same periods in 2014.

## Financing Charges

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Interest on credit facilities	\$ 8.7	\$ 7.3	\$ 26.6	\$ 27.7
Interest on loan payable to private placement noteholders	-	4.4	-	13.2
Interest on Corridor Debentures	1.9	2.5	5.7	7.5
Interest on Medium-Term Notes Series 1 to 7	23.6	21.6	68.8	52.4
Total interest	34.2	35.8	101.1	100.8
Capitalized interest	(0.1)	(10.2)	(1.9)	(39.2)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.8	1.1	2.4	2.9
Accretion of provisions and pension plan funding charges	0.7	0.5	2.0	1.6
Total financing charges	\$ 35.6	\$ 27.2	\$ 103.6	\$ 66.1

In the three and nine months ended September 30, 2015, total financing charges increased \$8.4 million and \$37.5 million, respectively, over the comparable periods in 2014.

Capitalized interest decreased \$10.1 million and \$37.3 million in the three and nine months ended September 30, 2015, compared to the same periods in 2014, as a result of the completion of major components of the Polaris pipeline and Cold Lake pipeline system expansions.

Medium-term notes interest increased \$2.0 million in the third quarter and \$16.4 million year to date in 2015, over the same periods in 2014, due mainly to the timing of issuance of Series 5 and 6 on May 30, 2014 and Series 7 on March 23, 2015.

In the current quarter, interest on credit facilities increased \$1.4 million due to higher average debt levels, offset in part by a decrease in weighted average short-term interest rates and lower standby fees. Year to date in 2015, interest on credit facilities decreased \$1.1 million as lower weighted average short-term interest rates and decreased standby fees more than offset higher average debt levels.

Interest on the loan payable to private placement noteholders decreased \$4.4 million and \$13.2 million in the three and nine months ended September 30, 2015, respectively, versus the comparable periods in 2014, as the loan matured on October 28, 2014 and was repaid.

In the three and nine months ended September 30, 2015, interest on Corridor debentures decreased \$0.6 million and \$1.8 million, respectively, compared to the same periods in 2014, as Corridor's \$150 million Series B debentures matured and were repaid on February 2, 2015.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper decreased \$0.3 million in the current quarter and \$0.5 million year to date in 2015, compared to the same periods in 2014, due to the timing of debt maturities offset in part by medium-term note issuances discussed above.

Accretion of provisions and pension plan funding charges increased \$0.2 million and \$0.4 million in the three and nine months ended September 30, 2015, over the same periods in 2014, as a result of changes in discount rates for environmental provisions.

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

## General and Administrative

<i>(millions)</i>	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Canada	\$ 9.9	\$ 17.7	\$ 39.6	\$ 58.3
Europe	2.4	2.5	8.3	7.9
	\$ 12.3	\$ 20.2	\$ 47.9	\$ 66.2

In the three and nine months ended September 30, 2015, Canadian general and administrative expenses decreased \$7.8 million and \$18.7 million, respectively, compared to the same periods in 2014. The decrease is largely due to a reduction in employee costs resulting from lower long-term incentive plan expense arising from changes in Inter Pipeline's share price. In addition, employee costs were also lower on a year to date basis due to the inclusion of a one-time key management personnel contract renegotiation in the first quarter of 2014.

In the current quarter, European general and administrative costs were comparable with the same period in 2014. European general and administrative costs increased \$0.4 million year to date in 2015, compared to the same period in 2014, due to acquisition related costs and a foreign currency loss realized in the first quarter of 2015, offset in part by lower employee costs.

## Loss on Disposal of Assets

Inter Pipeline recorded a loss on disposal of assets of \$2.5 million in the current quarter relating to the sale of construction equipment and line fill from the oil sands transportation business. Year to date in 2015, Inter Pipeline's loss on disposal of assets of \$5.0 million also included the disposal of various equipment and line fill from the oil sands transportation and NGL extraction businesses, which was offset in part from proceeds received earlier in 2015 for asset damage due to flooding that occurred at Inter Terminals Riverside terminal in late 2013.

## Unrealized Change in Fair Value of Derivative Financial Instruments

The change in fair value of Inter Pipeline's derivative financial instruments reduced net income by \$0.2 million in the current quarter and increased net income by \$0.1 million year to date in 2015, due to the change in fair value of electricity price swaps.

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

## SUMMARY OF QUARTERLY RESULTS

	2013		2014			2015		
<i>(millions, except per share and % amounts)</i>	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
<b>Revenue</b>								
Oil sands transportation	\$ 107.4	\$ 105.1	\$ 102.9	\$ 128.2	\$ 140.5	\$ 177.4	\$ 182.7	\$ 195.2
Conventional oil pipelines	82.3	91.2	96.0	89.6	87.1	77.8	74.7	80.9
NGL extraction	146.6	168.4	137.0	120.2	123.0	102.5	88.8	91.0
Bulk liquid storage	37.9	46.0	40.0	41.6	39.5	48.1	44.4	57.1
	\$ 374.2	\$ 410.7	\$ 375.9	\$ 379.6	\$ 390.1	\$ 405.8	\$ 390.6	\$ 424.2
<b>Funds from operations<sup>(1)</sup></b>								
Oil sands transportation	\$ 64.2	\$ 63.4	\$ 63.0	\$ 82.5	\$ 97.2	\$ 130.2	\$ 135.0	\$ 146.1
Conventional oil pipelines	44.0	46.0	49.6	48.7	46.8	46.8	46.5	49.8
NGL extraction	53.4	48.5	34.7	34.4	24.7	28.7	23.3	23.6
Bulk liquid storage	16.1	21.6	18.2	19.8	15.8	20.5	20.6	29.0
Corporate costs	(43.2)	(47.8)	(33.9)	(44.4)	(24.8)	(49.7)	(44.4)	(43.3)
	\$ 134.5	\$ 131.7	\$ 131.6	\$ 141.0	\$ 159.7	\$ 176.5	\$ 181.0	\$ 205.2
Per share <sup>(1)</sup>	\$ 0.44	\$ 0.43	\$ 0.41	\$ 0.43	\$ 0.49	\$ 0.53	\$ 0.54	\$ 0.61
Net income	\$ 84.6	\$ 89.6	\$ 85.3	\$ 95.0	\$ 79.6	\$ 122.8	\$ 73.8	\$ 128.4
Net income attributable to shareholders	\$ 81.3	\$ 86.1	\$ 81.7	\$ 91.4	\$ 75.6	\$ 113.7	\$ 65.3	\$ 118.7
Per share – basic	\$ 0.27	\$ 0.28	\$ 0.25	\$ 0.28	\$ 0.24	\$ 0.34	\$ 0.19	\$ 0.35
Per share – diluted	\$ 0.26	\$ 0.27	\$ 0.25	\$ 0.28	\$ 0.23	\$ 0.34	\$ 0.19	\$ 0.35
Dividends to shareholders <sup>(2)</sup>	\$ 98.6	\$ 99.6	\$ 103.9	\$ 104.7	\$ 114.9	\$ 121.8	\$ 123.1	\$ 123.5
Per share <sup>(2)</sup>	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3225	\$ 0.3525	\$ 0.3675	\$ 0.3675	\$ 0.3675
Shares outstanding (basic)								
Weighted average	304.7	309.0	321.6	324.2	325.8	331.5	334.8	335.8
End of period	306.8	320.3	323.0	325.4	326.2	334.2	335.3	336.2
Capital expenditures <sup>(3)</sup>								
Growth <sup>(1)</sup>	\$ 549.4	\$ 544.8	\$ 244.0	\$ 256.6	\$ 150.3	\$ 132.5	\$ 67.8	\$ 39.3
Sustaining <sup>(1)</sup>	11.0	6.1	10.0	11.7	12.7	9.5	10.0	16.4
	\$ 560.4	\$ 550.9	\$ 254.0	\$ 268.3	\$ 163.0	\$ 142.0	\$ 77.8	\$ 55.7
Payout ratio <sup>(1)</sup>	75.5%	78.0%	81.5%	76.6%	74.0%	73.3%	71.9%	63.6%
Total assets	\$ 7,657.7	\$ 8,307.7	\$ 8,366.9	\$ 8,548.2	\$ 8,647.2	\$ 8,733.8	\$ 8,955.5	\$ 9,010.4
Total debt <sup>(4)</sup>	\$ 3,960.8	\$ 4,155.8	\$ 4,283.8	\$ 4,396.3	\$ 4,590.7	\$ 4,680.7	\$ 4,865.1	\$ 4,876.2
Total shareholders' equity	\$ 2,100.3	\$ 2,490.4	\$ 2,521.3	\$ 2,566.9	\$ 2,548.1	\$ 2,737.6	\$ 2,732.2	\$ 2,805.4
Enterprise value <sup>(1)</sup>	\$ 11,885.4	\$ 13,504.4	\$ 14,981.6	\$ 16,223.6	\$ 16,314.8	\$ 15,590.4	\$ 14,487.4	\$ 13,153.2
Consolidated Debt to Total Capitalization <sup>(1)</sup>	51.1%	49.4%	50.5%	51.2%	53.2%	52.4%	53.9%	53.6%

(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.

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

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

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Inter Pipeline maintains flexibility in its capital structure to fund growth capital<sup>\*</sup> 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<sup>\*</sup> in excess of dividends to fund capital requirements. At September 30, 2015, Inter Pipeline had access to committed credit facilities totaling \$2.8 billion, of which \$700.8 million remained unutilized, and demand facilities totaling \$105.4 million of which \$102.9 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three and nine months ended September 30, 2015, approximately \$25.1 million and \$87.9 million, respectively, of equity was issued through the dividend reinvestment plan. Effective August 6, 2015, Inter Pipeline reduced the dividend reinvestment discount of the Premium Dividend<sup>TM</sup> and Dividend Reinvestment Plan from 2% to 0%.

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

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

Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2013. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) subscription receipts (collectively, the "Securities") of up to \$3.0 billion aggregate of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined

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<sup>\*</sup> Please refer to the NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES section

<sup>TM</sup> Denotes trademark of Canaccord Genuity Corp.

based on market conditions at the time of sale and set forth in one or more prospectus supplements. As at September 30, 2015, approximately \$1.5 billion of Securities could be issued under the base shelf prospectus.

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

## Credit Facilities and Debt Outstanding

<i>(millions)</i>			September 30	December 31
	Recourse	Non-recourse	2015	2014
<b>Credit facilities available</b>				
Corridor syndicated credit facility	\$ -	\$ 1,550.0	\$ 1,550.0	\$ 1,550.0
Inter Pipeline syndicated credit facility	1,250.0	-	1,250.0	1,250.0
	1,250.0	1,550.0	2,800.0	2,800.0
Demand facilities <sup>(1)(2)</sup>	80.4	25.0	105.4	65.0
	\$ 1,330.4	\$ 1,575.0	\$ 2,905.4	\$ 2,865.0
<b>Total debt outstanding<sup>(2)</sup></b>				
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility			\$ 700.0	\$ 686.0
Medium-Term Notes Series 1 to 7 <sup>(3)</sup>			2,625.0	2,325.0
Inter Terminals demand facility <sup>(1)</sup>			2.0	-
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility			1,399.2	1,279.7
Corridor Debentures <sup>(5)</sup>			150.0	300.0
<b>Total debt outstanding<sup>(2)(4)</sup></b>			<b>4,876.2</b>	<b>4,590.7</b>

- (1) Demand facilities consist of: Inter Pipeline's \$40 million demand facility; Corridor's \$25 million demand facility; and Inter Terminals Limited and Inter Terminals EOT ApS Pound Sterling 20 million demand facility which was entered into on March 10, 2015 and converted at a Pound Sterling/CAD rate of 2.0187 at September 30, 2015.
- (2) At September 30, 2015, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.3 million and \$0.2 million, respectively, were not included in total debt outstanding.
- (3) Inter Pipeline issued the following medium-term notes: \$325 million Series 1 and \$200 million Series 2 in 2011; \$400 million Series 3 in 2012; \$500 million Series 4 in 2013; \$500 million Series 5 and \$400 million Series 6 in 2014; \$300 million Series 7 in 2015.
- (4) Total debt reported in the September 30, 2015 interim financial statements of \$4,857.4 million, includes long-term debt, short-term debt and commercial paper outstanding of \$4,876.2 million less discounts and debt transaction costs of \$18.8 million.
- (5) On February 2, 2015, Corridor's \$150 million Series B debentures matured and were repaid.

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.

## Financial Covenants

Inter Pipeline was in compliance with all covenants under its credit facilities and medium-term notes as at September 30, 2015.

The following table provides a listing of the key financial covenants as at September 30, 2015:

	Maximum Ratio	September 30 2015
<b>Inter Pipeline Ltd.</b>		
Inter Pipeline syndicated credit facility		
Consolidated Debt to Total Capitalization <sup>(1)(2)(3)(4)</sup>	65%	53.6%
Medium-Term Notes Series 1 to 7		
Funded Debt to Total Capitalization <sup>(2)(5)(6)</sup>	70%	53.5%
<b>Inter Pipeline (Corridor) Inc.</b>		
Corridor syndicated credit facility		
Corridor Debentures		
Rate Base Debt to Rate Base <sup>(7)(8)</sup>	75%	73.6%

- (1) "Consolidated Debt" includes the aggregate amount of all debt of the borrower and its restricted subsidiaries, but excludes debt of any unrestricted subsidiary which is not guaranteed by the borrower or any restricted subsidiary, subordinated debt, non-recourse debt and debt attributable to any non-controlling interest.
- (2) Inter Pipeline (Corridor) Inc. is not considered a restricted subsidiary under Inter Pipeline's syndicated credit facility or medium-term note indenture and, as a result, its debt and assets are excluded from all financial covenant calculations under those agreements.
- (3) "Total Capitalization" is the sum of debt, but excluding non-recourse debt, debt attributable to unrestricted subsidiaries or any non-controlling interest, plus convertible debentures, plus consolidated shareholders' equity of the borrower, but excluding any shareholders' equity from or attributable to non-recourse assets, unrestricted subsidiaries or any non-controlling interest, plus a \$243.8 million adjustment related to Canadian SIFT legislation.
- (4) Please refer to the NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES section.
- (5) "Funded Debt" includes long-term debt of the issuer and its restricted subsidiaries, but excluding non-recourse debt, subordinated debt and any obligations of the issuer to a restricted subsidiary or of a restricted subsidiary to the issuer or another restricted subsidiary.
- (6) "Total Capitalization" is the sum of Funded Debt plus subordinated debt, plus consolidated equity, plus the amount of any minority interests in restricted subsidiaries, plus a \$243.8 million adjustment related to Canadian SIFT legislation.
- (7) "Rate Base Debt" includes all Corridor debt excluding debt incurred in connection with financing additions to the rate base prior to the time those additions form part of the rate base, debt incurred to fund recoverable expenditures under the Corridor FSA and subordinated debt.
- (8) "Rate Base" includes the invested capital to bring the asset to service pursuant to the Corridor FSA.

The Corridor pipeline system is operated under the Corridor FSA, which is a long-term cost-of-service contract that provides for the recovery of debt financing costs, substantially all operating costs, rate base depreciation and taxes, in addition to providing a return on equity. As a result, Corridor's FFO\* is not impacted by throughput volumes or commodity price fluctuations. Inter Pipeline actively manages Corridor's debt level to ensure the actual rate base debt to rate base ratio is very close to the benchmark criteria (i.e., not more than 75%) to optimize its defined capital structure.

At September 30, 2015, approximately \$2,501.2 million or 51.3% of Inter Pipeline's total debt outstanding was exposed to variable interest rates. Of this amount \$1,399.2 million or 55.9% 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.

\* 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 September 30, 2015 and December 31, 2014.

<i>(times)</i>	Twelve Months Ended	
	September 30	December 31
	<b>2015</b>	2014
Interest coverage <sup>(1)(2)</sup>	<b>4.8</b>	3.8

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

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

## Credit Ratings

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

	Credit Rating	Trend/Outlook
<b>Inter Pipeline Ltd.</b>		
S&P	BBB+	Stable
DBRS	BBB (high)	Stable
<b>Inter Pipeline (Corridor) Inc.</b>		
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 September 30, 2015. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and FFO\* in excess of dividends. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

<i>(millions)</i>	Total	Less than one year	One to five years	After five years
Capital expenditure projects <sup>(1)(2)</sup>				
Oil sands transportation <sup>(2)</sup>	\$ 338.1	\$ 27.2	\$ 310.9	\$ -
Conventional oil pipelines	73.5	23.0	50.5	-
NGL extraction	1.1	1.1	-	-
Bulk liquid storage	12.5	12.5	-	-
Growth capital funded by Inter Pipeline <sup>(2)(3)</sup>	425.2	63.8	361.4	-
Sustaining capital funded by Inter Pipeline <sup>(2)(3)</sup>	29.3	29.3	-	-
	454.5	93.1	361.4	-
Total debt <sup>(4)(5)(6)</sup>				
Corridor syndicated credit facility <sup>(6)</sup>	1,399.2	1,399.2	-	-
Inter Pipeline syndicated credit facility	700.0	-	700.0	-
Corridor Debentures <sup>(5)</sup>	150.0	-	150.0	-
Medium-Term Notes Series 1 to 7	2,625.0	-	1,100.0	1,525.0
Inter Terminals demand facility	2.0	2.0	-	-
	4,876.2	1,401.2	1,950.0	1,525.0
Other obligations				
Operating leases	315.6	12.5	86.4	216.7
Purchase obligations	193.5	36.1	48.8	108.6
Long-term portion of incentive plan	5.3	-	5.3	-
Adjusted working capital deficit <sup>(3)</sup>	28.1	28.1	-	-
	\$ 5,873.2	\$ 1,571.0	\$ 2,451.9	\$ 1,850.3

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

(2) Inter Pipeline's expected growth and sustaining capital<sup>(3)</sup> spending profile including the 15% non-controlling interest in Cold Lake is \$502.1 million.

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

(4) At September 30, 2015, outstanding Inter Pipeline and Corridor letters of credit of approximately \$0.3 million and \$0.2 million, respectively, were not included in total debt outstanding. Total debt reported in the September 30, 2015 interim financial statements of \$4,857.4 million, includes long-term debt, short-term debt and commercial paper of \$4,876.2 million less discounts and debt transaction costs of \$18.8 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 credit facility that has no repayment requirements until December 2018.

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

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

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

<i>(millions)</i>	Amount	Rate	Maturity date
<b>Inter Pipeline Ltd.</b>			
Inter Pipeline syndicated credit facility	\$ 700.0	Variable	December 5, 2019
Medium-Term Notes			
Series 1	325.0	4.967%	February 2, 2021
Series 2	200.0	3.839%	July 30, 2018
Series 3	400.0	3.776%	May 30, 2022
Series 4	500.0	3.448%	July 20, 2020
Series 5	500.0	4.637%	May 30, 2044
Series 6	400.0	CDOR plus 49 bps	May 30, 2017
Series 7	300.0	3.173%	March 24, 2025
<b>Inter Pipeline (Corridor) Inc.</b>			
Corridor syndicated credit facility	1,399.2	Variable	December 14, 2018
Corridor Debentures	150.0	4.897%	February 3, 2020
<b>Inter Terminals Limited and Inter Terminals EOT ApS</b>			
Pound Sterling 20 million demand facility	2.0	Variable	Demand

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

- (i) Derivative financial instruments are utilized to manage market risk exposure to changes in commodity prices, foreign currencies and interest rates in future periods. This future obligation is an estimate of the fair value of the liability on an undiscounted basis for financially net settled derivative contracts outstanding at September 30, 2015, based upon the various contractual maturity dates.
- (ii) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2094.
- (iii) Working capital deficiencies\* arise primarily from capital expenditures outstanding in accounts payable and accrued liabilities at the end of a period.
- (iv) Inter Pipeline has obligations of \$31.2 million under its employee long-term incentive plan, of which \$25.9 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 \$84.2 million at September 30, 2015. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

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

## DIVIDENDS TO SHAREHOLDERS

	Three Months Ended September 30		Nine Months Ended September 30	
<i>(millions, except per share and % amounts)</i>	2015	2014	2015	2014
Cash provided by operating activities	\$ 204.7	\$ 123.8	\$ 526.6	\$ 405.3
Net change in non-cash operating working capital	0.5	17.2	36.1	(1.0)
Less funds from operations <sup>(1)</sup> attributable to non-controlling interest	(11.2)	(4.3)	(31.2)	(12.4)
Funds from operations <sup>(1)</sup> attributable to shareholders	194.0	136.7	531.5	391.9
Dividends to shareholders	\$ 123.5	\$ 104.7	\$ 368.4	\$ 308.2
Dividends per share <sup>(2)</sup>	\$ 0.3675	\$ 0.3225	\$ 1.1025	\$ 0.9675
Payout ratio <sup>(1)</sup>	63.6%	76.6%	69.3%	78.6%

(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<sup>\*</sup> 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<sup>\*</sup> 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<sup>\*</sup> attributable to shareholders as cash provided by operating activities less net changes in non-cash working capital and FFO<sup>\*</sup> attributable to non-controlling interest. The impact of net change in non-cash working capital is excluded in the calculation of FFO<sup>\*</sup> 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<sup>\*</sup> 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.

<sup>\*</sup> Please refer to the NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES section

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

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Cash provided by operating activities	\$ 204.7	\$ 123.8	\$ 526.6	\$ 405.3
Less cash provided by operating activities attributable to non-controlling interest	(11.0)	(5.0)	(29.4)	(21.4)
Dividends to shareholders	(123.5)	(104.7)	(368.4)	(308.2)
Excess	\$ 70.2	\$ 14.1	\$ 128.8	\$ 75.7

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Net income attributable to shareholders	\$ 118.7	\$ 91.4	\$ 297.7	\$ 259.2
Dividends to shareholders	(123.5)	(104.7)	(368.4)	(308.2)
Shortfall	\$ (4.8)	\$ (13.3)	\$ (70.7)	\$ (49.0)

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

## OUTSTANDING SHARE DATA

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

<i>(millions)</i>	Total
Common shares outstanding	336.2

At November 3, 2015, Inter Pipeline had 336.3 million common shares outstanding.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### Market Risk Management

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

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

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

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt and commercial paper outstanding at September 30, 2015. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

## **NGL Extraction Business**

### **FRAC-SPREAD RISK MANAGEMENT**

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

### **POWER PRICE RISK MANAGEMENT**

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

Inter Pipeline has an existing electricity price swap agreement in the conventional oil pipelines business. At September 30, 2015, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant would not have changed the mark-to-market valuation of Inter Pipeline's derivative financial instrument used to manage power price risk and consequently would have no significant impact on the after-tax income.

## **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 September 30, 2015, there are no foreign exchange hedges outstanding.

## **Corporate**

### **INTEREST RATE RISK MANAGEMENT**

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair value 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 September 30, 2015, there are no interest rate hedges outstanding.

Based on the variable rate obligations outstanding at September 30, 2015, a 1% change in interest rates at this date would have changed interest expense for the three and nine months ended September 30, 2015, by approximately \$6.3 million and \$18.7 million, respectively, assuming all other variables remain constant. Of these amounts, \$3.5 million and \$10.5 million for the three and nine months ended September 30, 2015, respectively, relate to Corridor's syndicated credit facility and are recoverable through the terms of the Corridor FSA, therefore the after-tax income impact for the three and nine months ended September 30, 2015 would be \$2.1 million and \$6.1 million, respectively.

## Credit Risk

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At September 30, 2015, accounts receivable associated with these two business segments were \$134.1 million or 72.1% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

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

Inter Pipeline actively monitors the risk of non-performance of its customers and financial counterparties. Accounts receivable are deemed past due if they are aged greater than 60 days and are considered to be impaired if one or more events have occurred that would impact the estimated future cash flows of that asset. At September 30, 2015, accounts receivable outstanding meeting the definition of either past due or impaired are insignificant.

## TRANSACTIONS WITH RELATED PARTIES

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

## CONTROLS AND PROCEDURES

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

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

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

## CRITICAL ACCOUNTING ESTIMATES AND BASIS OF PRESENTATION

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

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

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

## FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and shall be applied to annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 establishes a control based revenue recognition model under which revenue is recognized when control of the underlying goods or services for the particular performance obligation is transferred to the customer. Inter Pipeline is currently assessing the impact of IFRS 15; however the extent of the impact has not yet been determined.

## **IFRS 9 Financial Instruments (IFRS 9)**

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

## **RISK FACTORS**

During the third quarter of 2015, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2014 annual MD&A.

## **NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES**

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

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

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

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

<i>(millions)</i>	September 30 2015	December 31 2014
Current assets		
Cash and cash equivalents	\$ 58.9	\$ 61.1
Accounts receivable	186.0	156.8
Prepaid expenses and other deposits	26.0	27.0
Current income taxes receivable	-	11.5
Current liabilities		
Dividends payable	(41.2)	(40.0)
Accounts payable, accrued liabilities and provisions	(230.4)	(390.2)
Current income taxes payable	(8.6)	-
Deferred revenue	(18.8)	(18.8)
Adjusted working capital deficiency	\$ (28.1)	\$ (192.6)

**EBITDA and adjusted EBITDA** are reconciled from the components of net income as noted below. EBITDA is expressed as net income before total interest less capitalized interest, income taxes, depreciation and amortization; adjusted EBITDA also includes additional adjustments for loss (gain) on disposal of assets, non-cash expense (recovery), 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 September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Net income	\$ 128.4	\$ 95.0	\$ 325.0	\$ 269.9
Financing charges	35.6	27.2	103.6	66.1
Current income tax expense	16.4	17.4	44.7	47.5
Deferred income tax expense	22.3	10.4	99.7	36.3
Depreciation and amortization	50.0	36.5	135.9	103.1
EBITDA	252.7	186.5	708.9	522.9
Loss (gain) on disposal of assets	2.5	(3.3)	5.0	(5.0)
Non-cash financing charges	(1.5)	(1.6)	(4.4)	(4.5)
Non-cash expense (recovery)	1.8	2.4	(2.8)	1.3
Unrealized change in fair value of derivative financial instruments	0.2	-	(0.1)	(1.3)
Adjusted EBITDA	\$ 255.7	\$ 184.0	\$ 706.6	\$ 513.4
Less adjusted EBITDA attributable to non-controlling interest	(11.1)	(4.3)	(31.2)	(12.4)
Adjusted EBITDA attributable to shareholders	\$ 244.6	\$ 179.7	\$ 675.4	\$ 501.0

**Adjusted EBITDA by contract type** is a percentage of adjusted EBITDA, reconciled in the table above, based on (i) cost-of-service contracts which generally provide for a return on invested capital and recovery of substantially all operating costs. This includes both cost-of-service contracts (agreements that are not impacted by throughput volume or commodity price

fluctuations) and modified cost-of-service contracts (agreements that may have throughput volume exposure in certain circumstances) collectively referred to as cost-of-service contracts, (ii) fee-based contracts are generally subject to throughput volume and operating cost exposure, but not commodity price fluctuations, and (iii) commodity-based contracts are generally subject to throughput volume, operating cost and commodity price fluctuations. This measure, in combination with other measures, is used by the investment community to assess the overall stability and predictability of the business.

	Nine Months Ended September 30	
	2015	2014
<b>Adjusted EBITDA by contract type</b>		
Cost-of-service	63%	45%
Fee-based	30%	36%
Commodity-based	7%	19%

	Cost-of- service	Fee-based	Commodity- based
<b>Contract type by business segment</b>			
Oil sands transportation	√	-	-
Conventional oil pipelines	-	√	√
NGL extraction	√	√	√
Bulk liquid storage	-	√	-

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

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

	September 30 2015	December 31 2014
<i>(millions, except per share amounts)</i>		
Closing share price	\$ 24.62	\$ 35.94
Total closing number of common shares outstanding	336.2	326.2
Total debt	8,277.0	11,724.1
Enterprise value	\$ 13,153.2	\$ 16,314.8

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

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

					Three Months Ended September 30	
					2015	2014
<i>(millions)</i>	Growth	Sustaining	Total			
Oil sands transportation	\$ 20.5	\$ 0.2	\$ 20.7	\$	240.1	
Conventional oil pipelines	12.9	5.8	18.7		14.6	
NGL extraction	0.1	0.8	0.9		2.6	
Bulk liquid storage	5.8	4.5	10.3		8.4	
Corporate	-	5.1	5.1		2.6	
Capital expenditures	\$ 39.3	\$ 16.4	\$ 55.7	\$	268.3	
Capital expenditures funded by Inter Pipeline <sup>(1)</sup>	\$ 38.5	\$ 16.4	\$ 54.9	\$	253.4	

					Nine Months Ended September 30	
					2015	2014
<i>(millions)</i>	Growth	Sustaining	Total			
Oil sands transportation	\$ 126.8	\$ 0.8	\$ 127.6	\$	1,005.3	
Conventional oil pipelines	97.2	8.1	105.3		30.7	
NGL extraction	0.6	5.8	6.4		8.1	
Bulk liquid storage	15.0	9.9	24.9		23.6	
Corporate	-	11.3	11.3		5.5	
Capital expenditures	\$ 239.6	\$ 35.9	\$ 275.5	\$	1,073.2	
Capital expenditures funded by Inter Pipeline <sup>(1)</sup>	\$ 232.3	\$ 35.9	\$ 268.2	\$	1,024.0	

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

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

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

## Additional GAAP Financial Measures

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

**Funds from operations** are reconciled from the components of net income as noted below. Funds from operations is expressed before changes in non-cash working capital, see the **DIVIDENDS TO SHAREHOLDERS** section of this report for

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

<i>(millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Net income	\$ 128.4	\$ 95.0	\$ 325.0	\$ 269.9
Depreciation and amortization	50.0	36.5	135.9	103.1
Loss (gain) on disposal of assets	2.5	(3.3)	5.0	(5.0)
Non-cash expense (recovery)	1.8	2.4	(2.8)	1.3
Unrealized change in fair value of derivative financial instruments	0.2	-	(0.1)	(1.3)
Deferred income tax expense	22.3	10.4	99.7	36.3
Funds from operations	205.2	141.0	562.7	404.3
Less funds from operations attributable to non-controlling interest	(11.2)	(4.3)	(31.2)	(12.4)
Funds from operations attributable to shareholders	\$ 194.0	\$ 136.7	\$ 531.5	\$ 391.9
Funds from operations	\$ 205.2	\$ 141.0	\$ 562.7	\$ 404.3
Total interest less capitalized interest	34.1	25.6	99.2	61.6
Current income tax expense	16.4	17.4	44.7	47.5
Adjusted EBITDA	255.7	184.0	706.6	513.4
Less adjusted EBITDA attributable to non-controlling interest	(11.1)	(4.3)	(31.2)	(12.4)
Adjusted EBITDA attributable to shareholders	\$ 244.6	\$ 179.7	\$ 675.4	\$ 501.0

## ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's **Annual Information Form** is available on SEDAR at [www.sedar.com](http://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 5th day of November, 2015**