inter pipeline

Management's Discussion and Analysis

For the year ended December 31, 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 month period and year ended December 31, 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 2016 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 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 month period and year ended December 31, 2015

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

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

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

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

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2015 HIGHLIGHTS

- Generated record funds from operations* (FFO) of $774 million, a 37 percent increase over 2014 results
- Net income increased 33 percent to a record $463 million for the year
- Declared cash dividends of $497 million, or $1.49 per share
- Attractive annual payout ratio* of 68 percent
- Announced a six percent increase to monthly cash dividends, the 13th consecutive increase for Inter Pipeline shareholders
- Annual throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems averaged a record 1,257,800 barrels per day (b/d)
- Commissioned $1.6 billion of new oil sands pipeline and facilities on its Cold Lake and Polaris pipeline systems
- Completed a $112 million expansion of Mid-Saskatchewan conventional pipeline system
- Acquired four petroleum and petrochemical storage terminals in Sweden for $131 million, increasing European storage capacity by approximately 40 percent
- Bulk liquid storage capacity utilization averaged 94 percent for the year, up from an average 79 percent in 2014

FOURTH QUARTER HIGHLIGHTS

- Record quarterly FFO* of $211 million, a 32 percent increase over fourth quarter 2014
- Net income increased to a new quarterly record of $138 million
- Average throughput volumes on Inter Pipeline's oil sands and conventional oil pipeline systems were 1,326,600 b/d in the quarter

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

PERFORMANCE OVERVIEW

	Three Months Ended December 31		Years Ended December 31		
(millions, except per share and % amounts)	**2015**	2014	**2015**	2014	2013
Revenues					
Oil sands transportation	**$ 213.4**	$ 140.5	**$ 768.7**	$ 476.7	$ 388.5
Conventional oil pipelines	**89.0**	87.1	**322.4**	363.9	302.2
Bulk liquid storage	**64.8**	39.5	**214.4**	167.1	151.3
NGL extraction	**88.5**	123.0	**370.8**	548.6	520.7
	$ 455.7	$ 390.1	**$ 1,676.3**	$ 1,556.3	$ 1,362.7
Funds from operations[(1)(2)]					
Oil sands transportation[(2)]	**$ 157.8**	$ 97.2	**$ 569.1**	$ 306.1	$ 219.7
Conventional oil pipelines	**51.5**	46.8	**194.6**	191.1	174.9
Bulk liquid storage	**28.2**	15.8	**98.3**	75.4	73.2
NGL extraction	**25.2**	24.7	**100.8**	142.3	170.7
Corporate costs	**(51.3)**	(24.8)	**(188.7)**	(150.9)	(165.9)
	$ 211.4	$ 159.7	**$ 774.1**	$ 564.0	$ 472.6
Per share[(1)]	**$ 0.63**	$ 0.49	**$ 2.31**	$ 1.76	$ 1.65
Net income[(3)]	**$ 138.0**	$ 79.6	**$ 463.0**	$ 349.5	$ (47.0)
Net income attributable to shareholders[(3)]	**$ 129.7**	$ 75.6	**$ 427.4**	$ 334.8	$ (58.1)
Per share – basic	**$ 0.39**	$ 0.24	**$ 1.28**	$ 1.05	$ (0.20)
Per share – diluted	**$ 0.39**	$ 0.23	**$ 1.28**	$ 1.02	$ (0.20)
Dividends to shareholders	**$ 128.7**	$ 114.9	**$ 497.1**	$ 423.1	$ 338.2
Per share[(4)]	**$ 0.3825**	$ 0.3525	**$ 1.4850**	$ 1.3200	$ 1.1775
Shares outstanding (basic)					
Weighted average	**336.3**	325.8	**334.6**	320.2	285.9
End of period	**336.4**	326.2	**336.4**	326.2	306.8
Capital expenditures[(5)]					
Growth[(1)]	**$ 52.6**	$ 150.3	**$ 296.3**	$ 1,195.7	$ 1,918.9
Sustaining[(1)]	**27.8**	12.7	**59.6**	40.5	30.1
	$ 80.4	$ 163.0	**$ 355.9**	$ 1,236.2	$ 1,949.0
Payout ratio[(1)]	**63.8%**	74.0%	**67.8%**	77.3%	73.6%

	As at December 31		
(millions, except % amounts)	**2015**	2014	2013
Total assets	**$ 9,029.4**	$ 8,647.2	$ 7,657.7
Total debt[(6)]	**$ 4,851.7**	$ 4,590.7	$ 3,960.8
Total shareholders' equity	**$ 2,821.1**	$ 2,548.1	$ 2,100.3
Enterprise value[(1)]	**$ 12,323.7**	$ 16,314.8	$ 11,885.4
Consolidated Net Debt to Total Capitalization[(1)]	**52.8%**	52.2%	50.1%

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

(2) Funds from operations[(1)] include non-controlling interest amounts of $9.8 million and $41.0 million for the three month period and year ended December 31, 2015, respectively ($4.4 million and $16.8 million for the three month period and year ended December 31, 2014, respectively).

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

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

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

(6) Total debt reported in the December 31, 2015 consolidated financial statements of $4,832.7 million, includes long-term debt, short-term debt and commercial paper of $4,851.7 million less discounts and debt transaction costs of $19.0 million.

Year Ended December 31, 2015

Inter Pipeline generated record financial results in 2015 as FFO* increased $210.1 million or 37.3%, from $564.0 million in 2014 to $774.1 million in 2015. The increase was largely driven by record financial results in the oil sands transportation business where FFO* increased $263.0 million or 85.9%, from $306.1 million in 2014 to $569.1 million in 2015. These increases are primarily due to expanded transportation services on the Cold Lake and Polaris pipeline systems. Record FFO* was also generated in the bulk liquid storage business, which increased $22.9 million to $98.3 million in 2015, due to the acquisition of Inter Terminals Sweden in June 2015 and higher utilization rates. Operating results in the conventional oil pipelines business increased $3.5 million, over 2014, to a new annual record of $194.6 million in 2015, largely due to higher volumes on the Mid-Saskatchewan pipeline system. FFO* from the NGL extraction business was $100.8 million, a decrease of $41.5 million from 2014, largely due to lower frac-spread pricing on propane-plus sales at the Cochrane straddle plant. Corporate costs increased $37.8 million to $188.7 million in 2015, primarily due to higher financing costs and current income taxes, but were partially offset by reduced general and administrative costs.

For the year ended December 31, 2015, Inter Pipeline's net income reached a new record of $463.0 million, an increase of $113.5 million or 32.5%, from $349.5 million in 2014. The increase is primarily due to higher FFO* as discussed above, partially offset by increased deferred income tax, depreciation and amortization, and a loss on disposal of assets.

Total dividends to shareholders increased $74.0 million or 17.5% from $423.1 million in 2014 to $497.1 million in 2015, due to higher monthly dividend rates and incremental common shares outstanding. Inter Pipeline announced dividend rate increases of $0.18 and $0.09 per common share on an annualized basis in November 2014 and November 2015, respectively. The overall number of common shares outstanding increased due to the conversion of convertible shares in January 2015 and shareholder participation in Inter Pipeline's dividend reinvestment plan. For the year ended December 31, 2015, Inter Pipeline's payout ratio* was 67.8%, down from 77.3% for 2014.

Inter Pipeline's total debt outstanding, which includes $1,536.2 million of non-recourse debt held at Inter Pipeline (Corridor) Inc., increased $261.0 million from $4,590.7 million at December 31, 2014 to $4,851.7 million at December 31, 2015. Inter Pipeline invested $347.6 million (Inter Pipeline's share) on capital projects in 2015, and funded the $131 million acquisition of Inter Terminals Sweden.

Three Months Ended December 31, 2015

Inter Pipeline also generated record quarterly financial results as FFO* increased $51.7 million or 32.4%, from $159.7 million in the fourth quarter of 2014 to $211.4 million in the fourth quarter of 2015. This increase is largely due to the same reasons discussed above, with the exception of slightly higher operating results from the NGL extraction business due to lower operating, fuel and power costs, and the conventional oil pipelines business due to higher midstream marketing blend margins.

Inter Pipeline's fourth quarter net income increased $58.4 million from $79.6 million in 2014 to a quarterly record of $138.0 million in 2015. The increase is due to higher FFO* as discussed above and lower deferred income tax, offset in part by higher depreciation and amortization expense.

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

Total dividends to shareholders in the fourth quarter increased 12.0% to $128.7 million, over the same period in 2014, for the same reasons indicated above. Inter Pipeline's payout ratio* was 63.8% for the three months ended December 31, 2015, compared to 74.0% for the fourth quarter of 2014.

Inter Pipeline's total debt outstanding decreased $24.5 million from $4,876.2 million at September 30, 2015 to $4,851.7 million at December 31, 2015. Total debt in each period includes non-recourse debt held at Inter Pipeline (Corridor) Inc. of $1,549.2 million and $1,536.2 million, respectively.

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 2015, Inter Pipeline placed into service the majority of its multi-billion dollar pipeline expansion program and acquired an immediately accretive petroleum and petrochemical storage terminal company in Sweden, culminating in a year of record financial and operational results. In 2016, our focus remains on leveraging value from our strategically located and diversified asset base, controlling our costs and capturing additional growth opportunities.

Inter Pipeline's $260 million capital program in 2016 will focus primarily on our conventional oil gathering and oil sands transportation businesses. As a result of the increased mainline capacity provided by recent expansion projects, Inter Pipeline is well positioned to pursue future growth projects in a capital-efficient manner. Organic growth projects are expected to account for approximately $200 million, with an additional $60 million invested in sustaining capital* projects across Inter Pipeline's four business segments and corporate requirements.

Our oil sands transportation pipeline systems are anchored by long-term commercial arrangements with creditworthy counterparties and benefitted from record average daily throughput volumes in 2015. Inter Pipeline has over 2.5 million b/d of installed pipeline capacity on its three major pipeline systems. This includes approximately 1.2 million b/d of bitumen blend capacity on the Cold Lake system, 865,000 b/d of diluent capacity on the Polaris system and 465,000 b/d of bitumen blend capacity on the Corridor pipeline system. Ultimate throughput capacities of 1.9 million b/d, 1.3 million b/d and 1.4 million b/d on the Cold Lake, Polaris and Corridor systems, respectively, can be achieved through the addition of pump stations and associated infrastructure. Approximately $55 million will be invested in this business segment in 2016 and will focus primarily on the construction of new diluent receipt and bitumen blend delivery connections. Inter Pipeline will also continue to aggressively pursue opportunities to utilize available excess capacity.

In the conventional oil pipelines segment, the outlook remains positive, despite recent crude oil price volatility. Inter Pipeline expects to invest approximately $100 million in growth capital* in this business segment in 2016. Demand for transportation services in low cost basins continues to attract new pipeline connection and storage opportunities. In July 2015, Inter Pipeline commissioned a $112 million expansion of our Mid-Saskatchewan pipeline system that will continue to benefit from increased regional production in the Viking light oil play arising from horizontal drilling and multi-stage hydraulic fracturing completion technologies. To further capture increasing volumes, Inter Pipeline commenced

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

construction of a 400,000 barrel crude oil storage expansion project at the Kerrobert terminal. This $65 million 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. Additional growth capital* in 2016 will be spent on the construction of new oil battery connections and expand storage capacity for our Bow River, Central Alberta and Mid-Saskatchewan pipeline systems.

Inter Pipeline's European bulk liquid storage business segment diversifies our portfolio by both geography and market. It also provides Inter Pipeline with stable fee-based cash flow, access to long-life infrastructure assets and an established regulatory environment. In Europe, there continues to be increased demand for strategic chemical and commodity based storage services. In order to accommodate part of this demand, Inter Pipeline expects to invest approximately $40 million of growth capital* in 2016 constructing new tanks and associated facilities.

In 2015, Inter Pipeline acquired four coastal and petrochemical storage terminals in Sweden for $131 million to increase our European bulk liquid storage capacity by 40% to approximately 27 million barrels. This acquisition along with stronger contango pricing relationships for certain petroleum products drove overall utilization rates higher, averaging 94% in 2015, compared to 79% in 2014.

Inter Pipeline's NGL extraction business is comprised of three straddle plants that are among the largest in North America. The Cochrane and Empress plants are strategically located on Alberta's major natural gas export pipeline systems and processed 2.7 billion cubic feet per day of natural gas in 2015. In 2016, Inter Pipeline expects to invest approximately $5 million to improve efficiency and reliability at our straddle plants.

Inter Pipeline continues to maintain a strong balance sheet with significant liquidity available on our $1.25 billion committed credit facility. Financial flexibility is important to maintain in turbulent economic conditions in order to facilitate the funding of our growth capital expenditure* program and other future initiatives. As at December 31, 2015, Inter Pipeline had $586 million of available capacity on its revolving credit facility. Inter Pipeline also ended the year with a consolidated net debt to total capitalization ratio* of 52.8%, which is within management's targeted level of 50% to 55%.

As a result of our strong financial position and the stable nature of our business, Inter Pipeline remains committed to maintaining our 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 largely 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 operations and project management capabilities, Inter Pipeline is well positioned to continue to generate long-term positive results for our shareholders.

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

RESULTS OF OPERATIONS

Oil Sands Transportation Business Segment

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	**2015**	2014	*% change*	**2015**	2014	*% change*
Cold Lake (100% basis)	**565.4**	546.0	*3.6*	**561.4**	504.1	*11.4*
Corridor	**378.8**	360.8	*5.0*	**346.0**	348.3	*(0.7)*
Polaris	**167.6**	117.1	*43.1*	**138.7**	60.5	*129.3*
	1,111.8	1,023.9	*8.6*	**1,046.1**	912.9	*14.6*
(millions)						
Revenue[1]	**$ 213.4**	$ 140.5	*51.9*	**$ 768.7**	$ 476.7	*61.3*
Operating expenses[1]	**$ 35.3**	$ 28.2	*25.2*	**$ 132.1**	$ 117.0	*12.9*
Funds from operations[1][2]	**$ 157.8**	$ 97.2	*62.3*	**$ 569.1**	$ 306.1	*85.9*
Capital expenditures[1]						
Growth[2]	**$ 19.6**	$ 123.0		**$ 146.4**	$ 1,128.3	
Sustaining[2]	**0.3**	0.2		**1.1**	0.2	
	$ 19.9	$ 123.2		**$ 147.5**	$ 1,128.5	

(1) For the three month period and year ended December 31, 2015, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - $12.8 million and $51.5 million ($6.3 million and $25.6 million in 2014), respectively; operating expenses - $2.8 million and $9.8 million ($1.9 million and $8.8 million in 2014), respectively; FFO[2] - $9.8 million and $41.0 million ($4.4 million and $16.8 million in 2014), respectively; and capital expenditures - $1.0 million and $8.3 million ($3.4 million and $52.6 million in 2014), respectively.

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

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

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in the Hardisty and Edmonton areas. Inter Pipeline owns an 85% interest in the Cold Lake pipeline system.

The Corridor pipeline system is comprised of a bitumen blend pipeline, a diluent delivery pipeline, a feedstock pipeline and two products pipelines. It transports diluted bitumen produced from the Muskeg River and Jackpine Mines near Fort McMurray, Alberta to the Scotford upgrader located northeast of Edmonton, Alberta as well as feedstock and upgraded products between the Scotford upgrader and certain pipeline terminals in Edmonton, Alberta. Corridor is the sole transporter of diluted bitumen produced by the Athabasca Oil Sands Project.

The Polaris pipeline system is comprised of a 12-inch diameter diluent pipeline that commenced commercial operations in August 2012 and a newly constructed 30-inch diameter diluent pipeline that commenced commercial operations in July 2014. The Polaris pipeline system currently provides diluent transportation service from a diluent receipt point in the area north east of Edmonton to Imperial's Kearl, Husky's Sunrise, Suncor's oil sands, Canadian Natural Resources (CNR) Kirby South, Athabasca Oil Corporation's (AOC) Hangingstone and FCCL Partnership's (FCCL), a business venture between Cenovus Energy and ConocoPhillips, Foster Creek and Christina Lake oil sands projects.

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

Volumes

Oil sands transportation volumes averaged 1,111,800 b/d in the fourth quarter, an increase of 8.6% or 87,900 b/d and averaged 1,046,100 b/d for the full year in 2015, an increase of 14.6% or 133,200 b/d, over the comparable periods in 2014.

Cold Lake pipeline system volumes increased 19,400 b/d or 3.6% in the current quarter and 57,300 b/d or 11.4% for the full year in 2015, over the same periods in 2014. The volume increase stemmed from incremental production at CNR's Kirby South and Wolf Lake facilities, and Imperial's Cold Lake oil sands development; volumes also increased on an annual basis from FCCL's Foster Creek expansion which began shipments in September 2014. Volumes on the Cold Lake pipeline system typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes; however volume growth is anticipated over the long-term, which is consistent with shippers' published forecasts.

Fourth quarter volumes on the Corridor pipeline system increased 18,000 b/d in 2015, over 2014, primarily due to higher shipments from the Muskeg River mine. Annual volumes on the Corridor pipeline system decreased 2,300 b/d in 2015, over 2014, as a result of maintenance activities at the Scotford upgrader in the second quarter of 2015.

Polaris pipeline system volumes increased 50,500 b/d in the fourth quarter of 2015, compared to the same period in 2014, largely due to increased diluent deliveries for Imperial's Kearl expansion beginning in the third quarter of 2015, as well as incremental deliveries to CNR's Kirby South, Husky's Sunrise and Suncor's oil sands facilities. Annual volumes on the Polaris pipeline system increased 78,200 b/d in 2015, over 2014, for the same reasons mentioned above, as well as incremental diluent deliveries to FCCL's Foster Creek and Christina Lake facilities.

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.

In the three months and year ended December 31, 2015, revenue from the oil sands transportation business increased 51.9% or $72.9 million to $213.4 million and 61.3% or $292.0 million to $768.7 million, respectively, over the same periods in 2014. This includes approximately $21 million and $11 million for the three months and year ended 2015, respectively, of one-time revenue adjustments primarily related to capital fee payments on the Polaris and Cold Lake pipeline systems and a change in accounting policy.

Revenue in the three month period and year ended December 31, 2015 from the Cold Lake pipeline system increased $42.9 million and $172.5 million, respectively, over the comparable periods in 2014. These increases are primarily due to FCCL capital fee revenue for blend transportation service on the Cold Lake mainline expansion, which entered into commercial service in January of 2015, as well as higher operating cost recoveries.

In the three months and year ended December 31, 2015, revenue from the Corridor pipeline system decreased $2.9 million and $9.6 million, respectively, compared to the same periods in 2014. Revenue was impacted by a lower return on debt from a decline in interest rates, a lower return on equity due to a decrease in the long-term Government of Canada (GOC) benchmark bond interest rate, the declining nature of Corridor's rate base and lower operating cost recoveries.

Revenue from the Polaris pipeline system increased $32.9 million in the current quarter and $129.1 million in the full year of 2015, over the same periods in 2014. The increase is largely due to FCCL capital fee revenue for diluent transportation service on the Polaris pipeline expansion entering commercial service in stages in the third quarter of 2014 and the first quarter of 2015. Revenue also increased due to incremental revenue from Imperial's Kearl expansion service beginning in June 2015, higher capital fee revenue from Husky's Sunrise and Suncor's oil sands projects, and from AOC Hangingstone which began in May 2015, as well as higher operating recoveries.

Operating Expenses

Operating expenses in the oil sands transportation business segment typically have a limited impact on Inter Pipeline's FFO*, as substantially all operating expenditures are recovered from the shippers on the Cold Lake, Corridor and Polaris pipeline systems. Operating expenses from the oil sands transportation business increased in the fourth quarter and full year of 2015 by $7.1 million and $15.1 million, respectively, over the comparable periods in 2014.

Cold Lake pipeline operating expenses increased $3.9 million in the fourth quarter and $2.8 million in the full year of 2015, compared to the same periods in 2014. These increases are largely due to incremental general operating costs, insurance, property tax, and fuel and power costs associated with the Cold Lake mainline expansion.

On the Corridor pipeline system operating costs increased $0.1 million in the current quarter largely due to higher integrity and general operating costs, substantially offset by lower remediation costs, compared to the same period in 2014. Operating costs for the full year in 2015 increased $0.9 million over 2014, primarily due to higher integrity related costs.

Operating costs on the Polaris pipeline system increased $3.1 million and $11.4 million in the three months and year ended December 31, 2015, respectively, over the same periods in 2014. Higher operating costs are largely attributable to the pipeline system expansion resulting in incremental property taxes, fuel and power, employee and general operating costs.

Capital Expenditures

In 2015, the oil sands transportation business incurred total growth capital expenditures* of $146.4 million.

Total growth capital expenditures* in 2015 on the Cold Lake pipeline system were $55.5 million, of which approximately $42 million relates to Cold Lake pipeline's estimated $1.7 billion ($1.5 billion - Inter Pipeline's share) oil sands development program for transportation services to existing FCCL projects, for a total of approximately $1.5 billion spent to date. In January 2015, the Cold Lake mainline expansion portion of the project was completed and placed into commercial service at a cost of approximately $1.3 billion (Inter Pipeline's share). The remaining expenditures for the Cold Lake pipeline expansion are associated with the future construction of a bitumen blend connection to FCCL's Narrows Lake oil sands project.

The remaining growth capital expenditures* on the Cold Lake pipeline system of approximately $14 million relate to various other development initiatives, system upgrades and system enhancements.

In 2015, the Polaris pipeline system incurred total growth capital expenditures* of $89.2 million, of which approximately $36 million relates to its $1.5 billion expansion program, for a total of approximately $1.4 billion spent to date. A second portion of the Polaris pipeline system expansion was completed and placed into commercial service in the first quarter of 2015, representing approximately $300 million of the Polaris pipeline system's $1.5 billion estimated total expansion cost. The remaining expenditures for the Polaris pipeline expansion are associated with the future construction of a diluent connection to FCCL's Narrows Lake oil sands project.

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

Polaris pipeline system growth capital expenditures* in 2015 also include approximately $19 million relating to the construction of a new delivery connection to AOC's Hangingstone project, for a total project spend of approximately $31 million. The AOC connection was placed into commercial service in April 2015.

Furthermore, approximately $19 million of the Polaris growth capital expenditures* in 2015 relate 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 $21 million. The total estimated cost of this project is $25 million.

In addition, approximately $5 million of growth capital expenditures* incurred on the Polaris pipeline system in 2015 relate to the capacity expansion work in support of the second phase of Imperial's Kearl oil sands project. This project was completed in June 2015 at a cost of approximately $45 million.

The remaining growth capital expenditures* on the Polaris pipeline system of approximately $10 million relate to various other development initiatives.

Conventional Oil Pipelines Business Segment

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	**2015**	2014	*% change*	**2015**	2014	*% change*
Bow River	**96.3**	103.7	*(7.1)*	**99.5**	100.9	*(1.4)*
Central Alberta	**33.8**	36.2	*(6.6)*	**34.1**	36.7	*(7.1)*
Mid-Saskatchewan	**84.7**	73.3	*15.6*	**78.1**	67.6	*15.5*
	214.8	213.2	*0.8*	**211.7**	205.2	*3.2*

(millions, except per barrel amount)	**2015**	2014	*% change*	**2015**	2014	*% change*
Revenue	**$ 89.0**	$ 87.1	*2.2*	**$ 322.4**	$ 363.9	*(11.4)*
Midstream product purchases	**$ 20.6**	$ 22.7	*(9.3)*	**$ 62.6**	$ 107.7	*(41.9)*
Operating expenses	**$ 17.0**	$ 18.7	*(9.1)*	**$ 65.2**	$ 65.5	*(0.5)*
Funds from operations(1)	**$ 51.5**	$ 46.8	*10.0*	**$ 194.6**	$ 191.1	*1.8*
Revenue per barrel(2)	**$ 2.90**	$ 2.93	*(1.0)*	**$ 2.94**	$ 2.94	-
Capital expenditures						
Growth(1)	**$ 22.1**	$ 21.1		**$ 123.4**	$ 48.4	
Sustaining(1)	**3.1**	0.9		**7.1**	4.3	
	$ 25.2	$ 22.0		**$ 130.5**	$ 52.7	

(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.

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

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

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

Volumes

Average conventional oil pipeline volumes increased 1,600 b/d in the current quarter and 6,500 b/d, for the full year of 2015, compared to the same periods in 2014. Mid-Saskatchewan pipeline system volumes increased 11,400 b/d or 15.6% and 10,500 b/d or 15.5% in the three months and year ended December 31, 2015, respectively, over the same periods in 2014. The volume increase on the Mid-Saskatchewan light oil system was driven by significant increases in regional production from the Viking light oil play stemming from horizontal drilling and multi-stage hydraulic fracturing completion technologies, and the completion of several expansion projects in mid-2015. However, Mid-Saskatchewan light oil system volumes were unfavourably impacted in the third and fourth quarter of 2015 by downstream third party pipeline issues. Bow River pipeline system volumes decreased 7,400 b/d in the fourth quarter and 1,400 b/d for the full year in 2015, due to natural production declines and a reduction in producer activity levels as a result of lower commodity prices, compared to the same periods in 2014. Average volumes on the Central Alberta pipeline system decreased 2,400 b/d and 2,600 b/d in the three months and year ended December 31, 2015, respectively, compared to the same periods in 2014, as a result of lower volumes at third party truck terminals.

Revenue

The conventional oil pipelines 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 increased $1.9 million in the current quarter and decreased $41.5 million for the year ended December 31, 2015, compared to the same periods in 2014. Midstream marketing revenue increased $2.3 million in the fourth quarter due to higher activity, offset in part by a decline in West Texas Intermediate (WTI) pricing; and decreased $49.9 million for the full year in 2015 due to a decline in WTI pricing, compared to the same periods in 2014. The blend margin from midstream marketing activities improved in the fourth quarter due to the increase in revenue and the cost reduction in midstream product purchases as discussed below, while the blend margin for the full year of 2015 decreased as lower revenue exceeded the cost reduction in midstream product purchases as discussed below. Transportation revenue decreased $0.4 million in the current quarter largely due to lower volumes on the Bow River and Central Alberta pipeline systems. Transportation revenue increased $8.4 million in the full year of 2015 primarily due to higher volumes shipped on the Mid-Saskatchewan pipeline system, over the same period in 2014.

Midstream Product Purchases

In the three months and year ended December 31, 2015, midstream product purchases decreased by $2.1 million and $45.1 million, respectively, compared to the same periods in 2014, primarily as a result of lower product pricing.

Operating Expenses

In the current quarter, operating expenses in the conventional oil pipelines business decreased $1.7 million largely due to lower remediation costs and various cost optimization initiatives. 2015 annual operating costs decreased $0.3 million largely due to lower fuel and power costs and cost optimization initiatives, compared to the same period in 2014.

Capital Expenditures

In 2015, the conventional oil pipelines business incurred total growth capital expenditures* of $123.4 million. Approximately $77 million relates to the $112 million expansion of the Mid-Saskatchewan pipeline system involving the construction of over 50 km of new mainline pipe, 40 km of new pipeline laterals and associated pumping and metering facilities, which was completed in July 2015. Also included in growth capital expenditures* in 2015 are approximately $20 million related to the 400,000 barrel crude oil storage expansion project at the Kerrobert Terminal on the Mid-Saskatchewan pipeline system, with a total estimated cost of the project of $65 million. The remaining growth capital expenditures* of approximately $26 million relate to other third party connections, as well as various system enhancements.

Bulk Liquid Storage Business Segment

	Three Months Ended December 31			Years Ended December 31		
	2015	2014	*% change*	**2015**	2014	*% change*
Utilization	**97%**	84%	*15.5*	**94%**	79%	*19.0*
(millions)						
Revenue	**$ 64.8**	$ 39.5	*64.1*	**$ 214.4**	$ 167.1	*28.3*
Operating expenses	**$ 31.8**	$ 21.5	*47.9*	**$ 97.2**	$ 76.0	*27.9*
Funds from operations(1)	**$ 28.2**	$ 15.8	*78.5*	**$ 98.3**	$ 75.4	*30.4*
Capital expenditures						
Growth(1)	**$ 10.0**	$ 4.9		**$ 25.0**	$ 12.7	
Sustaining(1)	**5.4**	5.4		**15.3**	21.2	
	$ 15.4	$ 10.3		**$ 40.3**	$ 33.9	

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

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.

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

Utilization

Average utilization rates increased in the fourth quarter from 84% in 2014 to 97% in 2015 and annually from 79% in 2014 to 94% in 2015. Higher utilization rates stemmed from stronger contango pricing relationships in certain petroleum product futures markets, particularly at the Gulfhavn terminal in Denmark. Average utilization rates increased at the Denmark terminals from 81% to 99% in the fourth quarter of 2014 to 2015 and from 71% to 95% in the full year of 2014 to 2015, respectively.

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

Revenue

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

Bulk liquid storage revenue increased $25.3 million and $47.3 million in the three months and year ended December 31, 2015, respectively, over the same periods in 2014. The increase is largely due to the acquisition of Inter Terminals Sweden in June 2015, contributing revenue of $15.8 million in the fourth quarter and $30.6 million in the full year of 2015. Revenue also increased as a result of higher utilization and activity levels at the Gulfhavn, Stigsnaes and Ensted terminals in Denmark. Foreign currency translation adjustments favourably impacted revenue by $3.3 million in the fourth quarter and $4.9 million for the full year in 2015, compared to the same periods in 2014. Revenue for full year of 2015 was also impacted by lower business interruption proceeds relating to flooding at the Immingham and Riverside terminals, lower non-recurring contract termination fees, and a decrease in heating and storage revenue mainly at the UK terminals. 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

	Three Months Ended December 31			Years Ended December 31		
(dollars)	**2015**	2014	*% change*	**2015**	2014	*% change*
Euro/CAD	**$ 1.4609**	$ 1.4186	*3.0*	**$ 1.4185**	$ 1.4671	*(3.3)*
Pound Sterling/CAD	**$ 2.0253**	$ 1.7974	*12.7*	**$ 1.9542**	$ 1.8190	*7.4*

Operating Expenses

Operating costs in the bulk liquid storage business increased $10.3 million and $21.2 million in the three months and year ended December 31, 2015, respectively, over the comparable periods in 2014. The inclusion of operating costs from Inter Terminals Sweden was the primary driver for the increases, which was partially offset by lower flood related costs at the Immingham and Riverside terminals. Foreign currency translation adjustments increased operating expenses by $2.1 million in the fourth quarter and $2.9 million in 2015, compared to the same periods in 2014.

Capital Expenditures

The bulk liquid storage business incurred $25.0 million of growth capital expenditures[*] in 2015, largely related to a number of tank life extensions and tank modification projects. Approximately $6 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.

In 2015, the bulk liquid storage business also incurred $15.3 million in sustaining capital expenditures[*] which include, environmental performance enhancement initiatives, terminal infrastructure and safety improvement projects, and flood related expenditures at the Riverside terminal.

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

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 $30.6 million and $5.4 million to revenue and net income, respectively, from the date of acquisition to December 31, 2015. If the acquisition had taken place on January 1, 2015, for the year ended December 31, 2015, management estimates that Inter Terminals Sweden would have contributed $50.8 million to revenue and $6.7 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. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the carrying amounts assigned. Inter Pipeline has provisionally allocated the consideration transferred, subject to changes in estimates, as follows:

Cash	$	0.6
Property, plant and equipment		150.4
Non-cash working capital		(2.5)
Decommissioning obligation		(7.9)
Deferred income tax liability		(12.3)
	$	128.3

NGL Extraction Business Segment

	Three Months Ended December 31							
	2015				2014			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**1,853**	**38.4**	**30.0**	**68.4**	1,667	40.6	25.1	65.7
Empress V (100% basis)	**837**	**20.7**	**11.3**	**32.0**	989	26.0	11.7	37.7
Empress II	**-**	**-**	**-**	**-**	-	-	-	-
	2,690	**59.1**	**41.3**	**100.4**	2,656	66.6	36.8	103.4

	Years Ended December 31							
	2015				2014			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Facility	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**1,799**	**39.8**	**28.4**	**68.2**	1,526	40.3	23.8	64.1
Empress V (100% basis)	**878**	**22.3**	**11.2**	**33.5**	926	22.6	10.9	33.5
Empress II	**-**	**-**	**-**	**-**	-	-	-	-
	2,677	**62.1**	**39.6**	**101.7**	2,452	62.9	34.7	97.6

	Three Months Ended December 31			Years Ended December 31		
(millions)	**2015**	2014	*% change*	**2015**	2014	*% change*
Revenue[1]	**$ 88.5**	$ 123.0	*(28.0)*	**$ 370.8**	$ 548.6	*(32.4)*
Shrinkage gas[1]	**$ 43.4**	$ 71.3	*(39.1)*	**$ 183.1**	$ 297.0	*(38.4)*
Operating expenses[1]	**$ 19.9**	$ 26.9	*(26.0)*	**$ 86.8**	$ 109.4	*(20.7)*
Funds from operations[1][2]	**$ 25.2**	$ 24.7	*2.0*	**$ 100.8**	$ 142.3	*(29.2)*
Capital expenditures[1]						
Growth[2]	**$ 0.9**	$ 1.3		**$ 1.5**	$ 6.3	
Sustaining[2]	**0.4**	2.5		**6.2**	5.6	
	$ 1.3	$ 3.8		**$ 7.7**	$ 11.9	

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

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

Inter Pipeline's NGL extraction business consists of a 100% ownership interest in the Cochrane and Empress II straddle plants and a 50% ownership interest in the Empress V straddle plant. The Empress and Cochrane plants are located on the eastern and western legs, respectively, of the TransCanada Alberta System near export points from Alberta.

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

Volumes

Average natural gas throughput volumes processed at Inter Pipeline's NGL straddle plants increased 34 million cubic feet per day (mmcf/d) in the fourth quarter to 2,690 mmcf/d and increased 225 mmcf/d for the full year in 2015 to 2,677 mmcf/d, over the comparable periods in 2014.

At the Cochrane plant average throughput volumes increased 186 mmcf/d in the fourth quarter and 273 mmcf/d for the full year in 2015, over the same periods in 2014. Throughput volumes at the Cochrane plant 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 were impacted by third party downstream facility issues which resulted in the partial reinjection of certain ethane volumes in 2015 and to a lesser extent in 2014.

Throughput volumes at the Empress V plant decreased 152 mmcf/d and 48 mmcf/d in the three months and year ended December 31, 2015, respectively, compared to the same periods in 2014. No throughput volumes were processed at the Empress II plant in 2015 or 2014 which does not impact operating results due to cost-of-service commercial arrangements in place at this plant. At the Empress plants natural gas throughput volumes are dependent on the level of natural gas exported from Alberta's eastern border and are reliant on successfully attracting border gas flows to the straddle plants. Empress V throughput volumes in 2015 were also impacted by planned maintenance outages for 20 days in the second quarter of 2015 and 7 days in the fourth quarter of 2015; while throughput volumes in 2014 were affected by an unplanned 16 day maintenance outage in the third quarter of 2014.

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.

For the three months and year ended December 31, 2015, revenue from the NGL extraction business decreased $34.5 million to $88.5 million and $177.8 million to $370.8 million, respectively, compared to the same periods in 2014. Revenue declined as a result of lower propane-plus and ethane product pricing and a reduction in ethane volumes. Partially offsetting these decreases were higher propane-plus volumes from the Cochrane plant.

Frac-spread

	Three Months Ended December 31			
(dollars)	**2015**		2014	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Market frac-spread	**$ 0.310**	**$ 0.414**	$ 0.529	$ 0.599
Realized frac-spread	**$ 0.317**	**$ 0.423**	$ 0.540	$ 0.612

	Years Ended December 31			
(dollars)	**2015**		2014	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Market frac-spread	**$ 0.327**	**$ 0.417**	$ 0.777	$ 0.856
Realized frac-spread	**$ 0.329**	**$ 0.420**	$ 0.759	$ 0.836

(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.

Realized frac-spreads decreased in the fourth quarter from $0.54 USD/USG in 2014 to $0.32 USD/USG in 2015 and for the full year from $0.76 USD/USG in 2014 to $0.33 USD/USG in 2015. The 5-year and 15-year simple average market frac-spreads at December 31, 2015 were $0.85 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 straddle plants. The price for shrinkage gas is based on a combination of daily and monthly index AECO natural gas prices. Shrinkage gas expense decreased in the three months and year ended December 31, 2015 by $27.9 million and $113.9 million, respectively, compared to the same periods in 2014. The decrease in the current quarter is due to lower AECO natural gas prices and NGL volumes, while the annual decrease is due to lower AECO natural gas prices, offset in part by higher NGL volumes. Weighted average monthly AECO prices* decreased in the fourth quarter from $3.80 per gigajoule (GJ) in 2014 to $2.51/GJ in 2015 and annually from $4.19/GJ in 2014 to $2.62/GJ in 2015.

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

Operating Expenses

Operating expenses in the NGL extraction business decreased $7.0 million and $22.6 million in the three months and year ended December 31, 2015, respectively, compared to the same periods in 2014. These decreases are due to lower fuel and power costs resulting from a decline in power and natural gas pricing and a reduction in general operating and maintenance costs resulting from improved equipment reliability and various cost optimization initiatives. Average Alberta power pool prices decreased in the fourth quarter from $30.47/MWh in 2014 to $21.19/MWh in 2015 and for the full year from $49.42/MWh in 2014 to $33.34/MWh in 2015.

Capital Expenditures

In 2015, the NGL extraction business incurred total growth capital expenditures* of $1.5 million largely related to plant and equipment upgrades at the Cochrane plant. The NGL extraction business also incurred total sustaining capital expenditures* of $6.2 million in 2015, relating to upgraded processing equipment and infrastructure at the Cochrane plant.

Other Expenses

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2015**	2014	**2015**	2014
Provision for income taxes	**$ 43.0**	$ 31.2	**$ 187.4**	$ 115.0
Depreciation and amortization	**52.6**	39.7	**188.4**	142.8
Financing charges	**38.5**	27.5	**142.1**	93.6
General and administrative	**15.1**	19.7	**63.0**	85.9
Loss (gain) on disposal of assets	**0.6**	2.9	**5.6**	(2.1)
Unrealized change in fair value of derivative financial instruments	**(0.1)**	0.3	**(0.2)**	(1.0)

Income Taxes

In the three months and year ended December 31, 2015, consolidated income tax expense increased $11.8 million to $43.0 million and $72.4 million to $187.4 million, respectively, over the same periods in 2014. The increase in the fourth quarter is primarily due to higher consolidated income before income taxes. The increase for 2015 is primarily due to the Alberta tax rate increase that resulted in an increase in deferred tax expense of $35.9 million, as well as higher consolidated income before income taxes.

Depreciation and Amortization

In the three months and year ended December 31, 2015, depreciation and amortization of tangible and intangible assets increased $12.9 million and $45.6 million, respectively, over the comparable periods in 2014. These increases are primarily due to depreciation of new assets now in service, as well as accelerated amortization of certain intangible assets in the NGL extraction business.

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

Financing Charges

(millions)	Three Months Ended December 31 2015	2014	Years Ended December 31 2015	2014
Interest on credit facilities	$ 8.4	$ 10.2	$ 35.0	$ 37.9
Interest on loan payable to private placement noteholders	-	1.3	-	14.5
Interest on Corridor Debentures	1.9	2.6	7.6	10.1
Interest on Medium-Term Notes Series 1 to 7	23.5	21.5	92.3	73.9
Total interest	33.8	35.6	134.9	136.4
Capitalized interest	2.6	(10.1)	0.7	(49.3)
Amortization of transaction costs on long-term debt, short-term debt and commercial paper	0.9	0.9	3.3	3.8
Accretion of provisions and pension plan funding charges	1.2	1.1	3.2	2.7
Total financing charges	$ 38.5	$ 27.5	$ 142.1	$ 93.6

Total financing charges increased $11.0 million in the fourth quarter and $48.5 million in the full year of 2015, compared to the same periods in 2014.

In the three months and year ended December 31, 2015, capitalized interest decreased $12.7 million and $50.0 million, from the same periods in 2014, primarily due to the completion of major components of the Polaris pipeline and Cold Lake pipeline system expansions.

Interest on medium-term notes increased $2.0 million in the fourth quarter and $18.4 million year to date in 2015, over the same periods in 2014, primarily due to the timing of issuance of Series 5 and 6 on May 30, 2014 and Series 7 on March 23, 2015.

Interest on credit facilities decreased $1.8 million and $2.9 million in the fourth quarter and full year of 2015, respectively due to a decline in weighted average short-term interest rates and lower standby fees, offset in part by higher average debt levels, compared to the same periods in 2014.

In the three months and year ended December 31, 2015, interest on the loan payable to private placement noteholders decreased $1.3 million and $14.5 million, respectively, from the comparable periods in 2014, as the loan matured on October 28, 2014 and was repaid.

Interest on Corridor debentures decreased $0.7 million in the current quarter and $2.5 million for the full year of 2015, compared to the same periods in 2014, as Corridor's $150 million Series B debentures matured and was repaid on February 2, 2015.

Amortization of transaction costs on long-term debt, short-term debt and commercial paper was consistent in the fourth quarter of 2015 and 2014 and decreased $0.5 million for the year in 2015, compared to the same period in 2014, due to the timing of debt maturities offset in part by medium-term note issuances discussed above.

In the three months and year ended December 31, 2015, accretion of provisions and pension plan funding charges increased $0.1 million and $0.5 million, respectively, 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

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2015**	2014	**2015**	2014
Canada	**$ 12.8**	$ 16.2	**$ 52.4**	$ 74.5
Europe	**2.3**	3.5	**10.6**	11.4
	$ 15.1	$ 19.7	**$ 63.0**	$ 85.9

Canadian general and administrative expenses decreased $3.4 million and $22.1 million in the three months and year ended December 31, 2015, respectively, compared to the same periods in 2014. The decrease is primarily due to a reduction in employee costs largely resulting from lower long-term incentive plan expense stemming from a decrease in Inter Pipeline's share price. In addition, annual employee costs were also lower due to the inclusion of a one-time key management personnel contract renegotiation in the first quarter of 2014.

European general and administrative costs decreased $1.2 million in the fourth quarter largely due to lower acquisition related costs; and decreased $0.8 million for the full year of 2015, primarily due to lower employee costs offset in part by a foreign currency loss realized in the first quarter of 2015, compared to the same periods in 2014.

Loss on Disposal of Assets

Inter Pipeline recorded a loss on disposal of assets of $0.6 million in the current quarter largely relating to the disposal of various equipment in the bulk liquid storage business. Inter Pipeline's loss on disposal of assets of $5.6 million for the full year of 2015 also includes the sale and 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 increased net income by $0.1 million in the current quarter and by $0.2 million for the full year 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

(millions, except per share and % amounts)	2014 First Quarter	2014 Second Quarter	2014 Third Quarter	2014 Fourth Quarter	2015 First Quarter	2015 Second Quarter	2015 Third Quarter	2015 Fourth Quarter
Revenue								
Oil sands transportation	$ 105.1	$ 102.9	$ 128.2	$ 140.5	$ 177.4	$ 182.7	$ 195.2	$ 213.4
Conventional oil pipelines	91.2	96.0	89.6	87.1	77.8	74.7	80.9	$ 89.0
Bulk liquid storage	46.0	40.0	41.6	39.5	48.1	44.4	57.1	$ 64.8
NGL extraction	168.4	137.0	120.2	123.0	102.5	88.8	91.0	$ 88.5
	$ 410.7	$ 375.9	$ 379.6	$ 390.1	$ 405.8	$ 390.6	$ 424.2	$ 455.7
Funds from operations[1]								
Oil sands transportation	$ 63.4	$ 63.0	$ 82.5	$ 97.2	$ 130.2	$ 135.0	$ 146.1	$ 157.8
Conventional oil pipelines	46.0	49.6	48.7	46.8	46.8	46.5	49.8	$ 51.5
Bulk liquid storage	21.6	18.2	19.8	15.8	20.5	20.6	29.0	$ 28.2
NGL extraction	48.5	34.7	34.4	24.7	28.7	23.3	23.6	$ 25.2
Corporate costs	(47.8)	(33.9)	(44.4)	(24.8)	(49.7)	(44.4)	(43.3)	$ (51.3)
	$ 131.7	$ 131.6	$ 141.0	$ 159.7	$ 176.5	$ 181.0	$ 205.2	$ 211.4
Per share[1]	$ 0.43	$ 0.41	$ 0.43	$ 0.49	$ 0.53	$ 0.54	$ 0.61	$ 0.63
Net income	$ 89.6	$ 85.3	$ 95.0	$ 79.6	$ 122.8	$ 73.8	$ 128.4	$ 138.0
Net income attributable to shareholders	$ 86.1	$ 81.7	$ 91.4	$ 75.6	$ 113.7	$ 65.3	$ 118.7	$ 129.7
Per share – basic	$ 0.28	$ 0.25	$ 0.28	$ 0.24	$ 0.34	$ 0.19	$ 0.35	$ 0.39
Per share – diluted	$ 0.27	$ 0.25	$ 0.28	$ 0.23	$ 0.34	$ 0.19	$ 0.35	$ 0.39
Dividends to shareholders[2]	$ 99.6	$ 103.9	$ 104.7	$ 114.9	$ 121.8	$ 123.1	$ 123.5	$ 128.7
Per share[2]	$ 0.3225	$ 0.3225	$ 0.3225	$ 0.3525	$ 0.3675	$ 0.3675	$ 0.3675	$ 0.3825
Shares outstanding (basic)								
Weighted average	309.0	321.6	324.2	325.8	331.5	334.8	335.8	336.3
End of period	320.3	323.0	325.4	326.2	334.2	335.3	336.2	336.4
Capital expenditures[3]								
Growth[1]	$ 544.8	$ 244.0	$ 256.6	$ 150.3	$ 132.5	$ 67.8	$ 43.4	$ 52.6
Sustaining[1]	6.1	10.0	11.7	12.7	9.5	10.0	12.3	27.8
	$ 550.9	$ 254.0	$ 268.3	$ 163.0	$ 142.0	$ 77.8	$ 55.7	$ 80.4
Payout ratio[1]	78.0%	81.5%	76.6%	74.0%	73.3%	71.9%	63.6%	63.8%
Total assets	$ 8,307.7	$ 8,366.9	$ 8,548.2	$ 8,647.2	$ 8,733.8	$ 8,955.5	$ 9,010.4	$ 9,029.4
Total debt[4]	$ 4,155.8	$ 4,283.8	$ 4,396.3	$ 4,590.7	$ 4,680.7	$ 4,865.1	$ 4,876.2	$ 4,851.7
Total shareholders' equity	$ 2,490.4	$ 2,521.3	$ 2,566.9	$ 2,548.1	$ 2,737.6	$ 2,732.2	$ 2,805.4	$ 2,821.1
Enterprise value[1]	$ 13,504.4	$ 14,981.6	$ 16,223.6	$ 16,314.8	$ 15,590.4	$ 14,487.4	$ 13,153.2	$ 12,323.7
Consolidated Net Debt to Total Capitalization[1]	45.0%	48.6%	50.1%	52.2%	51.4%	52.8%	52.7%	52.8%

(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.

Inter Pipeline's capital under management includes financial debt and shareholders' equity. Management may make adjustments to the capital structure for changes in economic conditions or the risk characteristics of the underlying assets. To maintain or modify the capital structure, Inter Pipeline may adjust the level of cash dividends paid to shareholders, issue new common or preferred shares, issue new debt, renegotiate existing debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund growth capital* and acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and FFO* in excess of dividends to fund capital requirements. At December 31, 2015, Inter Pipeline had access to committed credit facilities totaling $2.8 billion, of which $749.8 million remained unutilized, and demand facilities totaling $105.8 million of which $79.0 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

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.

Inter Pipeline amended its $1.25 billion syndicated credit facility on December 4, 2015, extending the term for one year with a revised maturity date of December 4, 2020, and amended certain financial covenants to increase financial flexibility. For further details please refer to the **Financial Covenants** section below. On December 14, 2015, Corridor extended the maturity date of its $1.55 billion syndicated credit facility to December 13, 2019.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three months and year ended December 31, 2015, approximately $5.6 million and $93.5 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™ and Dividend Reinvestment Plan from 2% to 0%.

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.

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

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Inter Pipeline has a current short form base shelf prospectus with Canadian regulatory authorities that was filed in December 2015. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) subscription receipts (collectively, the "Securities") of up to $3.0 billion aggregate of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. As at December 31, 2015, no Securities have been 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

				December 31
(millions)	Recourse	Non-recourse	**2015**	2014
Credit facilities available				
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(1)(2)	80.8	25.0	**105.8**	65.0
	$ 1,330.8	$ 1,575.0	**$ 2,905.8**	$ 2,865.0
Total debt outstanding(2)				
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility			**$ 664.0**	$ 686.0
Medium-Term Notes Series 1 to 7			**2,625.0**	2,325.0
Inter Terminals demand facility(1)			**26.5**	-
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility			**1,386.2**	1,279.7
Corridor Debentures(4)			**150.0**	300.0
Total debt outstanding(2)(3)			**$ 4,851.7**	$ 4,590.7

(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 2.0407 at December 31, 2015.

(2) At December 31, 2015, outstanding Inter Pipeline letters of credit of approximately $0.3 million were not included in total debt outstanding.

(3) Total debt reported in the December 31, 2015 consolidated financial statements of $4,832.7 million, includes long-term debt, short-term debt and commercial paper outstanding of $4,851.7 million less discounts and debt transaction costs of $19.0 million.

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

Inter Pipeline's debt outstanding at December 31, 2015, matures at various dates up to May 2044 as follows:

(millions)		Amount	Rate	Maturity date
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility	$	664.0	Variable	December 4, 2020
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
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility		1,386.2	Variable	December 13, 2019
Corridor Debentures		150.0	4.897%	February 3, 2020
Inter Terminals Limited and Inter Terminals EOT ApS				
Pound Sterling 20 million demand facility		26.5	Variable	Demand

Financial Covenants

Inter Pipeline was in compliance with all covenants under its credit facilities and medium-term notes as at December 31, 2015.

The following table provides a listing of the key financial covenants as at December 31, 2015:

	Maximum Ratio	December 31 2015
Inter Pipeline Ltd.		
Inter Pipeline syndicated credit facility		
Consolidated Net Debt to Total Capitalization(1)(2)(3)(4)	65%	52.8%
Medium-Term Notes Series 1 to 7		
Funded Debt to Total Capitalization(2)(5)(6)	70%	53.2%
Inter Pipeline (Corridor) Inc.		
Corridor syndicated credit facility		
Corridor Debentures		
Rate Base Debt to Rate Base(7)(8)	75%	73.5%

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

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

(3) "Total Capitalization" for Inter Pipeline's syndicated credit facility covenant 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" for Inter Pipeline's medium-term notes covenant 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 Firm Service Agreement (FSA) and subordinated debt.

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

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

At December 31, 2015, approximately $2,476.7 million or 51.0% of Inter Pipeline's total debt outstanding was exposed to variable interest rates. Of this amount $1,386.2 million or 56.0% 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.

The following interest coverage* ratio is calculated on a consolidated basis for the twelve month periods ended December 31, 2015 and 2014.

	Twelve Months Ended December 31	
(times)	**2015**	2014
Interest coverage[(1)(2)]	**5.4**	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
Inter Pipeline Ltd.		
S&P	BBB+	Stable
DBRS	BBB (high)	Stable
Inter Pipeline (Corridor) Inc.		
S&P	A	Stable
DBRS	A	Stable
Moody's	A2	Stable

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

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at December 31, 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.

(millions)	Total	Less than one year	One to five years	After five years
Capital expenditure projects[(1)(2)]				
Oil sands transportation[(2)]	$ 350.2	$ 56.9	$ 249.5	$ 43.8
Conventional oil pipelines	98.5	98.1	0.4	-
Bulk liquid storage	38.8	38.8	-	-
NGL extraction	6.2	6.2	-	-
Growth capital funded by Inter Pipeline[(2)(3)]	493.7	200.0	249.9	43.8
Sustaining capital funded by Inter Pipeline[(2)(3)]	61.7	61.7	-	-
	555.4	261.7	249.9	43.8
Total debt[(4)(5)(6)]				
Corridor syndicated credit facility[(6)]	1,386.2	1,386.2	-	-
Inter Pipeline syndicated credit facility	664.0	-	664.0	-
Corridor Debentures[(5)]	150.0	-	150.0	-
Medium-Term Notes Series 1 to 7	2,625.0	-	1,100.0	1,525.0
Inter Terminals demand facility	26.5	26.5	-	-
	4,851.7	1,412.7	1,914.0	1,525.0
Other obligations				
Operating leases	339.8	25.5	97.9	216.4
Purchase obligations	185.1	20.5	55.2	109.4
Long-term portion of incentive plan	5.7	-	5.7	-
Adjusted working capital deficit[(3)]	51.2	51.2	-	-
	$ 5,988.9	$ 1,771.6	$ 2,322.7	$ 1,894.6

(1) Capital expenditures classified as "less than one year" represent expected spending in 2016.

(2) Inter Pipeline's expected growth and sustaining capital[(3)] spending profile including the 15% non-controlling interest in Cold Lake is $594.0 million.

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

(4) At December 31, 2015, outstanding Inter Pipeline letters of credit of approximately $0.3 million were not included in total debt outstanding. Total debt reported in the December 31, 2015 consolidated financial statements of $4,832.7 million, includes long-term debt, short-term debt and commercial paper of $4,851.7 million less discounts and debt transaction costs of $19.0 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 2019.

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

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

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

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

(iii) Inter Pipeline has obligations of $18.5 million under its employee long-term incentive plan, of which $12.8 million is included in the working capital deficit[*].

(iv) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL straddle plants and leased bulk liquid storage sites and remediation of known environmental liabilities is $89.6 million at December 31, 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 December 31		Years Ended December 31	
(millions, except per share and % amounts)	**2015**	2014	**2015**	2014
Cash provided by operating activities	**$ 233.9**	$ 166.4	**$ 760.5**	$ 571.7
Net change in non-cash operating working capital	**(22.5)**	(6.7)	**13.6**	(7.7)
Less funds from operations[1] attributable to non-controlling interest	**(9.8)**	(4.4)	**(41.0)**	(16.8)
Funds from operations[1] attributable to shareholders	**$ 201.6**	$ 155.3	**$ 733.1**	$ 547.2
Dividends to shareholders	**$ 128.7**	$ 114.9	**$ 497.1**	$ 423.1
Dividends per share[2]	**$ 0.3825**	$ 0.3525	**$ 1.4850**	$ 1.3200
Payout ratio[1]	**63.8%**	74.0%	**67.8%**	77.3%

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

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

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

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

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

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

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2015**	2014	**2015**	2014
Cash provided by operating activities	**$ 233.9**	$ 166.4	**$ 760.5**	$ 571.7
Less cash provided by operating activities attributable to non-controlling interest	**(10.0)**	(4.4)	**(39.4)**	(25.8)
Dividends to shareholders	**(128.7)**	(114.9)	**(497.1)**	(423.1)
Excess	**$ 95.2**	$ 47.1	**$ 224.0**	$ 122.8

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2015**	2014	**2015**	2014
Net income attributable to shareholders	**$ 129.7**	$ 75.6	**$ 427.4**	$ 334.8
Dividends to shareholders	**(128.7)**	(114.9)	**(497.1)**	(423.1)
Excess (Shortfall)	**$ 1.0**	$ (39.3)	**$ (69.7)**	$ (88.3)

Cash provided by operating activities in all periods was greater than dividends to shareholders plus cash provided by operating activities attributable to non-controlling interest. Dividends were greater than net income attributable to shareholders in all periods except for the fourth quarter of 2015; 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 December 31, 2015 are as follows:

(millions)	Total
Common shares outstanding	336.4

At February 16, 2016, Inter Pipeline had 336.6 million common shares outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Market Risk Management

Inter Pipeline may utilize derivative financial instruments to manage liquidity and market risk exposure to changes in commodity prices, foreign 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 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 long-term debt, short-term debt and commercial paper outstanding at December 31, 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 December 31, 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 December 31, 2015, there are no electricity price swap or heat rate price swap agreements outstanding.

Bulk Liquid Storage Business

FOREIGN EXCHANGE RISK MANAGEMENT

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European bulk liquid storage operations and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at December 31, 2015, there are no foreign currency exchange hedges outstanding.

Corporate

INTEREST RATE RISK MANAGEMENT

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations 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 may enter into interest rate swap agreements to manage its interest rate price risk exposure. As at December 31, 2015, there are no interest rate hedges outstanding.

Based on the variable rate obligations outstanding at December 31, 2015, a 1% change in interest rates at this date would have changed interest expense for the three months and year ended December 31, 2015, by approximately $6.1 million and $24.8 million, respectively, assuming all other variables remain constant. Of these amounts, $3.4 million and $13.9 million for the three months and year ended December 31, 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 months year ended December 31, 2015 would be $2.0 million and $8.1 million, respectively.

Credit Risk

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2015, accounts receivable associated with these two business segments were $130.7 million or 71.4% 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 and deposits 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 December 31, 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 twelve month periods ended December 31, 2015 or 2014.

CONTROLS AND PROCEDURES

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

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

No changes in Inter Pipeline's ICFR occurred during the period beginning on January 1, 2015 and ended on December 31, 2015 that has materially affected, or is reasonably likely to materially affect, Inter Pipeline's ICFR.

Management has limited the scope of their design of 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 June 30 and September 30, 2015 and the audited consolidated financial statements at December 31, 2015.

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.

At December 31, 2015, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting excluding Inter Terminals Sweden were effective as of December 31, 2015.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material. Information about critical judgments, estimates and assumptions in applying accounting policies for these areas is included in the relevant sections of the notes to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Readers should refer to note 3 Summary of Significant Accounting Policies of the December 31, 2015 annual consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

Financial Instruments

Inter Pipeline may utilize derivative financial instruments to manage its exposure to market risk relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a risk management policy that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (power, crude oil, natural gas, and NGL's) as well as changes within the financial market relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's risk management policy prohibits the use of derivative financial instruments for speculative purposes. Inter Pipeline also reviews all significant agreements acquired, substantially modified or entered into for embedded derivatives.

Inter Pipeline has classified its financial instruments as follows: Cash and cash equivalents and the majority of accounts receivable are classified as cash, loans and receivables; dividends payable, the majority of accounts payable, accrued liabilities and provisions, and long-term debt, short-term debt and commercial paper are classified as other financial liabilities.

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

Intangible Assets

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

The Cold Lake Transportation Service Agreement (TSA) intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. The term of the Cold Lake TSA extends until Cold Lake LP gives notice that it forecasts it will earn less than $1.0 million of capital fees in the year. This intangible asset is being amortized on a straight-line basis over 30 years. The remaining amortization period of the Cold Lake TSA is approximately 17 years.

In the bulk liquid storage business, Inter Terminals UK's intangible assets consist of a customer contract for the storage and handling of bulk liquid products. This asset is being amortized on a straight-line basis over 30 years. Should the likelihood of the renewal of the customer contract change, the amortization of the remaining balance would change accordingly. The remaining amortization period of the customer contract is approximately 20 years.

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus and a patented operational process utilized in one of the straddle plants. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. On November 1, 2015, Inter Pipeline revised the estimated useful life of the NGL extraction business' customer contract intangible assets from 30 years to a useful life that matches the term of the existing customer contracts. The revised estimate is more reflective of the evolving industry and economic environment. The value of these contracts is realized over the term of the agreement, which is the period over which amortization is being charged using the straight-line method. Should the useful life of a customer contract change, the amortization of the remaining balance would change accordingly. The average remaining amortization period of the customer contracts is approximately 8 years. The patent is being amortized on a straight-line basis over the 14 years from the acquisition of the NGL extraction business on July 28, 2004. The remaining amortization period of the patent is approximately three years.

Business Combinations

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

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

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

Goodwill

Inter Pipeline has goodwill in four of its cash generating units (CGU's): the Corridor and Polaris pipeline systems in the oil sands transportation business; Inter Terminals UK, Germany and Ireland; and Inter Terminals Denmark in the bulk liquid storage business. Assets are grouped in CGU's which are the lowest levels for which there are separately identifiable cash inflows. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the Corridor; Polaris; Inter Terminals UK, Germany and Ireland; and Inter Terminals Denmark CGU's. After initial recognition, goodwill is carried at cost less any write downs for impairment. During each fiscal year and as economic events dictate, management conducts an impairment test taking into consideration any events or circumstances which might have impaired the recoverable amount. Inter Pipeline assesses the recoverable amount of the goodwill for impairment on a fair value less costs of disposal basis by discounting projected future cash flows generated by these assets at a weighted average cost of capital that reflects the relative risk of the asset. If it is determined that the recoverable amount of the future cash flows is less than the carrying amount of the assets at the time of assessment, an impairment loss would be determined by deducting the fair value less costs of disposal on a discounted cash flow basis from the carrying amount. The recoverable amount of the underlying assets and liabilities were assessed and it was determined that there was no impairment of goodwill in 2015. Projected future cash flows used in the goodwill assessment represented management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

Property, Plant and Equipment

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

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

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

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

The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from four to 100 years.

Property, plant and equipment of the NGL extraction business are comprised primarily of three straddle plants and associated equipment. Expenditures on plant expansions, major repairs and maintenance, or betterments are capitalized, while routine maintenance and repair costs are expensed as incurred. Depreciation of the straddle plants and additions thereto is charged once the assets are ready for their intended use, and is calculated on a straight-line basis over the 30 year estimated useful life of the assets.

Provisions

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

Decommissioning obligations and environmental liabilities are calculated based on current price estimates using current technologies in accordance with current legal or constructive requirements and are adjusted for inflation to when the decommissioning or remediation activity is anticipated. Where a range of estimates exists, the possible outcomes are weighted to determine a probable settlement value or the midpoint is used where all outcomes are equally likely. Inter Pipeline's decommissioning obligations are expected to occur when the assets are no longer economically viable. The economic lives of these assets are estimated based on future expectations involving the supply of petroleum, chemical and other products and demand for certain services and therefore the timing of decommissioning may change significantly in the future. Actual costs and cash outflows may differ from these estimates due to changes in laws or regulations, timing of projects, costs and technology. As a result, there could be material adjustments to the provisions established. If the effect of the time value of money is material, provisions are discounted to their present value using a pre-tax risk-free rate. The provision will accrete to its full value over time through charges to income, or until Inter Pipeline settles the obligation. Recoveries from third parties which are virtually certain to be realized are recorded separately and are not offset against the related provision.

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

Property, plant and equipment related to the oil sands transportation and conventional oil pipelines businesses consist primarily of underground pipelines and above ground equipment and facilities. The potential cost of future decommissioning activities is a function of several factors, including regulatory requirements at the time of pipeline abandonment, the diameter and length of the pipeline and the pipeline's location. Decommissioning requirements can vary considerably, ranging from purging product from the pipeline, refilling with inert gas and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Under current regulations, the estimated cost for the decommissioning obligation include: such activities as purging product from the pipeline, refilling with inert gas and capping all open ends; and removal of surface facilities and reclamation of the surface facility sites. Decommissioning obligations for the oil sands transportation and conventional oil pipelines business assets are being accreted over a period of 40 to 290 years at a rate of 3.1% per annum, based on an estimated discounted value at December 31, 2015 of $13.9 million.

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL straddle plants and sixteen bulk liquid storage facilities, respectively. Inter Pipeline's decommissioning obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the NGL straddle plants and leased bulk liquid storage sites. The estimated costs for decommissioning obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the sites. Decommissioning obligations for the NGL extraction business assets are being accreted over a period of 40 years at rates of 3.1% per annum based on the estimated discount value of $9.6 million at December 31, 2015. The decommissioning obligation for the bulk liquid storage business assets are being accreted over a range of 30 to 40 years at rates of 3.0% to 3.7% per annum based on the estimated discounted value at December 31, 2015 of $45.8 million.

Inter Pipeline's environmental remediation obligation relates to a number of projects which have been identified that Inter Pipeline is obligated to remediate in future periods. Based on management's current knowledge of regulations, technology and current plans to remediate these sites, an estimated discounted liability of $20.3 million has been recognized at December 31, 2015. Environmental obligations for the conventional oil pipelines and bulk liquid storage businesses are being accreted over a period of five to ten years at rates of 1.6% to 2.5% and 0.6% to 1.85% per annum, respectively.

Obligations Relating to Employee Pension Plans

Inter Pipeline provides retirement benefits for its UK, German and Irish employees under three separate defined benefit pension plans. These plans provide benefits based primarily on a combination of years of service and an estimate of final pensionable salary. Inter Pipeline's policy is to fund the amount of benefit as required by governing legislation. Independent actuaries perform the required calculations to determine the pension expense in accordance with GAAP. The most recent actuarial valuations of both the UK and Ireland plans were carried out in 2013, while the German plan was carried out in 2015.

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

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

Long-Term Incentive Plans

Awards are paid in cash under Inter Pipeline's Restricted Share Unit Plan (RSUP) and Performance Share Unit Plan (PSUP). The fair value basis of accounting is used for both plans whereby changes in the liability are recorded in each period based on the number of awards outstanding and the current market price of Inter Pipeline's shares plus an amount equivalent to cash dividends declared to date. Additionally, the valuation of the Performance Share Units (PSUs) incorporates the use of a performance multiplier, which is determined based on the achievement of two equally weighted, pre-determined, Board approved performance criteria. The expense is recognized over the vesting periods of the respective awards. Compensation expense and the long-term incentive liability are adjusted to reflect the use of actual historical forfeiture rates as well as estimated future forfeiture rates. The market-based value of the award approximates the intrinsic value as the awards have no exercise price.

Income Taxes

Current Income Taxes

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

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

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

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

Deferred Income Taxes

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

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

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

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

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

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

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

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

Revenue Recognition

Revenue is recorded when services have been performed, the amount of revenue and associated costs can be reliably measured and when it is probable that consideration will be collected.

The Cold Lake and Polaris pipeline systems revenue is determined by the nature of the contract and is either recognized ratably over the term of fixed fee arrangements, or as volumes are transported and services are provided to each shipper. Where transportation agreements involve separately identifiable services, consideration is allocated amongst the services based on their relative estimated stand-alone selling prices. Long term ship-or-pay agreements, under which shippers are obligated to pay fixed amounts ratably over the life of the agreement regardless of volumes shipped, may contain make-up rights. Make-up rights are earned by the shippers when minimum volume commitments are not utilized during the period but under certain circumstances can be used to offset excess volumes in future periods, subject to expiry periods. Inter Pipeline recognizes revenues associated with make-up rights at the earlier of when the make-up volume is shipped, the make-up right expires, or when it is determined that the likelihood that the shipper will utilize the make-up rights is remote.

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

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

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

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

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

Borrowing costs

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

Consolidation of Non-Controlling Interest

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

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

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

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

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

In accordance with IFRS 10, Inter Pipeline determined that it had control over Cold Lake upon the acquisition of the additional 70% interest in 2003. Inter Pipeline, as 85% owner of the Cold Lake pipeline system, has the ability to unilaterally approve all Relevant Activities, which require minimal approval pursuant to the USA. The most significant Relevant Activities include the identification of expansion and other transportation service opportunities, performance of due diligence, undertaking economic feasibility studies and managing decisions to undergo non-Cold Lake TSA capital projects, where a feasibility study has been undertaken. Management believes the ability to exclusively decide to proceed with such capital projects, including the $1.5 billion (Inter Pipeline's share) capital program to construct a bitumen blend pipeline and associated facilities in support of the Foster Creek project, will significantly affect Cold Lake's returns, which is a key determination of control under IFRS 10. Such project returns are commercially negotiated by Inter Pipeline separately from the fixed returns contained within the Cold Lake TSA.

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

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

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.

IFRS 16 *Leases* (IFRS 16)

IFRS 16 replaces IAS 17 *Leases* and shall be applied to annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Inter Pipeline is currently assessing the impact of IFRS 16; however, the extent of the impact has not yet been determined.

RISK FACTORS

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

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

Throughput and Demand Risks

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

Supply Risks and Commodity Prices

Future throughput on the pipelines and replacement of petroleum reserves in the pipelines’ service areas are dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for, developing and acquiring additional reserves. Reserve bases necessary to maintain long-term supply cannot be assured, and petroleum price declines, without corresponding reductions in costs of production, may reduce or eliminate the profitability of production and therefore the supply of petroleum for the pipelines. While reserve additions and increased recovery rates can offset natural declines in petroleum production in the areas serviced by the pipelines, reserve additions tend to not be sufficient to offset natural declines in produced volumes in certain service areas over the long term, which reduces the likelihood that reserve additions and increased recovery rates will offset natural declines in petroleum production in the future. Sustained low petroleum prices could lead to a decline in drilling or mining activity and production levels or the shutting-in or abandonment of wells or oil sands operations. Drilling and mining activity, production levels and shut-in or abandonment decisions may also be affected by the availability of capital to producers for drilling, allocation by producers of available capital to produce oil as compared to natural gas, current or projected petroleum price volatility, overall supply and demand expectations and light crude oil to heavy crude oil price differentials. The pipelines are dependent on producers' continuing petroleum exploration and development activity and on technological improvements leading to increased recovery rates in order to offset natural declines in petroleum production in the areas serviced by the pipelines. Absent the continuation of such activities and improvements, the volumes of petroleum transported on the pipelines will decline over time as reserves are depleted.

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

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

Competition and Contracts

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

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

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers (including the Cold Lake pipeline system’s founding shippers) who have committed to utilizing the Cold Lake pipeline system and who pay for such usage over the term of the contract. Pursuant to the Cold Lake TSA, the capital fee paid by the Cold Lake pipeline system’s founding shippers is not subject to a minimum ship-or-pay threshold. Although volumes that are shipped by the Cold Lake pipeline system’s founding shippers from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline system, the Cold Lake founding shippers may utilize alternative transportation methods (if certain minimum volume levels are maintained) subject to Cold Lake LP's right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake founding shippers will be sustained. The new bitumen blend pipeline system that Cold Lake LP constructed pursuant to contracts with FCCL Partnership commenced operations in January, 2015, and the FCCL Partnership is obligated to transport bitumen blend under a long-term ship-or-pay agreement that has an initial term of 20 years, with options to extend up to an additional 30 years. However, there is no assurance that FCCL Partnership will be able to perform its obligations under the contract with Cold Lake LP, or that revenues received from FCCL Partnership following the expiry of the term of the contract will be sustained.

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

The Polaris pipeline system is operated pursuant to long-term ship-or-pay contracts with various counterparties that are contractually obligated to utilize the Polaris pipeline system. However, there is no assurance that these counterparties will be able to perform their obligations under the contracts with Inter Pipeline, or that revenues received from the counterparties following the expiry of the term of each contract will be sustained.

Corridor, Cold Lake LP and Inter Pipeline Polaris Inc. can supplement revenues by marketing excess capacity on all three oil sands pipeline systems, including the excess capacity installed as part of the Cold Lake and Polaris pipeline system expansions for the FCCL Partnership, to third parties, but there can be no assurance that they will be successful in doing so. Furthermore, any potential third party capacity rights on the Corridor pipeline system are also subject to the approval of the current Corridor shippers.

Operational Factors

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

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

Rights-of-Way and Access

Successful development of the pipelines through construction of new pipelines or extensions to existing pipelines depends in part on securing leases, easements, rights-of-way, permits and/or licenses from landowners or governmental authorities allowing access for such purposes. In general, the process of securing rights-of-way or similar access is becoming more complex, particularly in more densely populated, environmentally sensitive and other areas. The Cold Lake, Corridor, Polaris and Central Alberta pipeline systems have portions of their operations in the Edmonton area, with the Cold Lake pipeline system also having operations in the Hardisty area and within the Cold Lake air weapons range. Although pipelines have been constructed in these areas in recent years, these are three of the more difficult areas in which to secure pipeline rights-of-way in the Province of Alberta.

Regulatory Factors

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

The Bow River, Central Alberta, Cold Lake, Corridor and Polaris pipeline systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the *Pipeline Act* (Alberta) and *Pipeline Regulation* (Alberta), and by the AER. The Mid-Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the *Pipelines Act* (Saskatchewan) and the *Pipelines Regulation* (Saskatchewan) and by the Ministry of the Economy in Saskatchewan. None of the pipelines are subject to regulation by the National Energy Board (NEB).

Oil pipelines in Alberta may be subject to rate regulation pursuant to the *Public Utilities Act* (Alberta). In Saskatchewan, oil pipelines may similarly be subject to rate regulation under the *Pipelines Act* (Saskatchewan).

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

Risks Associated with the Bulk Liquid Storage Business

Demand for Bulk Liquid Storage

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

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

The Inter Terminals Immingham terminals are highly integrated with two local refineries, the Phillips66 Humber refinery and the Total Lindsey refinery. The closure of one or both refineries, or amalgamation under ownership by a single party, could significantly reduce revenue from the Inter Terminals business. Inter Terminal's Asnaes terminal handles some fuel oil exports from the adjacent Statoil refinery. Any closure of this refinery would reduce revenue from the Inter Terminals business. Furthermore, if this Statoil refinery were to subsequently be converted into a competing storage facility, revenues from the Inter Terminals business could be significantly reduced. The Inter Terminals Sweden business is linked to three local refineries operated by Preem, ST1 and Nynas. Closure of either the Preem or ST1 refineries could significantly reduce revenues from the Inter Terminals Sweden business.

Customs and Excise Warehouses

The Inter Terminals business operates approved customs warehouses and approved excise warehouses, thereby permitting their respective customers to store products on a duty-suspended basis. Failure to comply with legal and regulatory requirements governing the operation of such warehouses could lead to liability for customs and excise duties, value added tax and penalties, including the withdrawal of the related authorizations, which in turn could result in a reduction in commercial activity at the facilities. Authorizations granted for both customs warehouses and excise warehouses gives rise to a risk that the Inter Terminals business could become jointly and severally liable with the product owner to any duties or taxes on products irrespective of compliance with legal and regulatory requirements by the Inter Terminals business.

The Inter Terminal business stores alcohol products at many warehouse locations. Failure to comply with regulatory measures to counteract fraudulent activity within the alcohol sector could result in the Inter Terminals business being held liable for duties or taxes in cases where it is evident that controls have not been sufficient to mitigate the risks.

Operational Factors

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

Defined Benefit Pension Plan

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

Competition

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

Land Lease Renewals

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

Foreign Exchange Risk

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

Risks Associated with the NGL Extraction Business

Natural Gas Availability and Composition

The volumes of natural gas processed by the NGL extraction business depend on the throughput of the TransCanada Alberta System from which the NGL extraction facilities source their natural gas supply. Without reserve additions or other new sources of gas supply, throughputs will decline over time as reserves are depleted in the areas these pipeline systems service. Natural gas producers in these service areas may not be successful in exploring for and developing additional reserves or commodity prices may not remain at a level that encourages gas producers to explore for and develop additional reserves or to produce existing marginally economic reserves. Also, to continue to have the right to reprocess natural gas for the purpose of NGL extraction from gas being transported on the TransCanada Alberta System, Inter Pipeline will be required to continue to negotiate extraction agreements with the various natural gas shippers and there is no assurance that Inter Pipeline will be able to renew contracts related to the NGL extraction business to extract NGL on terms favourable to Inter Pipeline.

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

Operational Factors

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

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

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

Competition

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

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

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

Similarly, there is no assurance that new sources of natural gas supply that may be developed in areas such as Montney and Duvernay in Northwest Alberta and Northeast British Columbia will be transported via the natural gas transmission systems connected to the NGL straddle plants or that new extraction plants will not be constructed upstream of or in parallel to the NGL straddle plants to process that natural gas.

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

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

Commodity Price; Frac-spread

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

Extraction Premiums

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

Reliance on NOVA Chemicals, Dow Chemical, and Plains Midstream

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

Regulatory Factors

Straddle plants in Alberta are not commercially regulated and all such facilities secure extraction rights for the processing of natural gas from shippers on the TransCanada Alberta System under proprietary commercial arrangements known as the "NGL Extraction Convention". If an alternative model for contracting for extraction rights was to be implemented it would require changes to contracting counterparties and commercial arrangements, and potentially business process changes to Inter Pipeline's NGL extraction business segment, which changes could adversely affect the NGL extraction business.

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

Volatility in Commodity Prices

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

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

Execution Risk

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

Reputational Risk

Reputational risk is the potential for negative impacts that could result from the deterioration of Inter Pipeline's reputation with key stakeholders. The potential for harming Inter Pipeline's reputation exists in every business decision and all risks

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

can have an impact on reputation, which in turn can negatively impact Inter Pipeline’s business and the value of common shares. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, operational, insurance, liquidity and regulatory and legal risks must all be managed effectively to safeguard Inter Pipeline’s reputation. Negative impacts from a compromised reputation could include reductions in cash flow and customer base, and decreases in the value of common shares.

Inter Pipeline’s reputation as a reliable and responsible energy services provider with consistent financial performance and long-term financial stability is one of its most valuable assets. The key to effectively building and maintaining Inter Pipeline’s reputation is fostering a culture that promotes integrity and ethical conduct. Ultimate responsibility for Inter Pipeline’s reputation lies with the executive team that examines reputational risk and issues as part of all business decisions. Nonetheless, every employee of Inter Pipeline and other representatives of Inter Pipeline have a responsibility to contribute in a positive way to Inter Pipeline’s reputation. This means ensuring compliance with applicable policies, legislation and regulations, that ethical practices are followed at all times, and that interactions with our stakeholders are positive. Reputational risk is most effectively managed when every individual works continuously to protect and enhance Inter Pipeline’s reputation.

Credit Risk

Inter Pipeline is subject to credit risk arising out of its operations. A majority of Inter Pipeline’s accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Credit risk is managed through Inter Pipeline’s credit management policy which sets out guidelines for defining and measuring credit risk, establishes credit risk thresholds and monitors the credit risk of counterparties and vendors. The credit worthiness assessment takes into account available qualitative and quantitative information about the counterparty, including, but not limited to, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees, letters of credit or some other form of credit enhancement may be requested as security, however, Inter Pipeline cannot be sure that counterparties are able to or will provide such requested security or that the amount of security provided will secure all obligations owing to Inter Pipeline. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may entitle Inter Pipeline to lien or take product in kind and/or allow for suspension or termination of the contract on the occurrence of certain events of default.

Royalty Regimes

Inter Pipeline's pipeline and NGL extraction businesses may be impacted by changes to the oil and gas royalty regime in effect in Alberta and Saskatchewan. Future royalty regime modifications could have adverse impacts on production of oil and gas volumes. Such changes may directly or indirectly impact Inter Pipeline in a materially different manner and/or in a manner that is more adverse to Inter Pipeline than the current royalty regime and regulatory framework.

Operational Factors

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

Insurance of Inter Pipeline's operations is susceptible to appetite for risk within the insurance market. Either general market conditions or a poor claims record could result in significantly increased premiums or the impossibility of obtaining coverage for certain risks. In the event that laws and regulations regarding minimum financial resources thresholds are established in jurisdictions in which Inter Pipeline carries on business, Inter Pipeline may incur increased costs to comply with such requirements.

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

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

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

Regulatory Intervention and Changes in Legislation

Although fees charged to customers of the pipelines and the NGL extraction business have not been set or restricted by any regulatory agency, an application to the Alberta or Saskatchewan regulators for the setting of fees could result in a reduction of fees and revenue for Inter Pipeline.

Income tax laws relating to the oil and natural gas industry or Inter Pipeline, environmental and applicable operating legislation, and the legislation and regulatory framework governing the oil and natural gas industry may be changed in a manner which adversely affects Inter Pipeline.

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

New regulations or legislation introduced may result in a significant increase in operating costs to ensure compliance. Such changes could have a materially negative effect on the level of profit realized by the pipeline business in certain cases where the relevant contracts do not provide for recovery of such costs.

Decommissioning, Abandonment and Reclamation Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the abandonment of its assets at the end of their economic lives and all associated costs, which costs may be substantial. Abandonment costs are a function of regulatory requirements at the time of abandonment, and the characteristics (such as diameter, length and location) of the pipeline or the size and complexity of the NGL extraction or storage facility.

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

Abandonment and reclamation costs for the NGL extraction facilities are regulated by the AER, pursuant to Directive 001 and Directive 024. The NGL extraction facilities are included in the AER's *Large Facilities Liability and Reclamation Regulations* and have defined reclamation requirements and financial tests to ensure that end of life costs can be funded. However, future requirements may be more stringent.

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

Environmental Costs and Liabilities

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

In order to continuously improve environmental performance and address regulatory requirements, Inter Pipeline routinely reviews systems, programs and processes critical to protecting the environment, including integrity programs, leak detection systems, air monitoring systems, contaminated sites program and maintenance standards. Improvement opportunities are implemented as deemed appropriate, with costs budgeted during Inter Pipeline's normal budget cycle in accordance with applicable accounting practices. Operation of certain of the pipelines, bulk liquid storage business assets and NGL extraction facilities has spanned several decades. While the remediation of releases or contamination during such period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and historical contamination may exist for which Inter Pipeline may be liable. Inter Pipeline has completed internal environmental reviews that have identified locations of historical contamination and several locations have been remediated. While Inter Pipeline believes such reviews have identified all locations of historical contamination, others may exist. The remaining identified, but unremediated, sites will be addressed in a prioritized manner, utilizing industry practices, with some locations being subject to multi-year restoration plans.

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

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

Greenhouse Gas Regulations

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

On November 22, 2015, the Government of Alberta announced a Climate Leadership Plan pursuant to which Alberta will enact an economy-wide price on greenhouse gases, expected to be $20/tonne as of January, 2017 and increasing to $30/tonne in January, 2018. The Plan also established an overall oil sands emissions limit of 100 megatonnes. Legislation and regulation have yet to be developed but could have an adverse effect on Inter Pipeline's business, financial condition, results of operations and prospects.

The Paris Climate Conference (COP) in 2015 resulted in the *Paris Agreement*, which expresses the long-term goal of signatories to keep the increase in global average temperature to well below 2°C above pre-industrial levels and the aim to limit the increase to 1.5°C. It also recognizes the need for global emissions to peak as soon as possible and to undertake rapid reductions following such peak. In the event that Canada becomes a signatory to and ratifies the *Paris Agreement*, Inter Pipeline may be required to comply with the regulatory scheme for GHG emissions ultimately adopted by the federal government, which may or may not be consistent with the regulatory scheme for GHG emissions proposed for adoption in Alberta. The future implementation or modification of GHG regulations, whether to meet the limits regulated by the *Paris Agreement* or as otherwise determined, could have an adverse effect on Inter Pipeline's business, financial condition, results of operations and prospects.

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

Dependence on Key Personnel

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

International Operations

A portion of Inter Pipeline's operations are conducted in the UK, Germany, Ireland, Denmark and Sweden. Operations outside of Canada are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; credit conditions; trade barriers; exchange controls; national and regional labour strikes; political risks and risks of increases in duties; taxes and changes in tax laws; and changes in laws and policies governing operations of foreign-based companies.

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions and, as part of its business plan, anticipates making additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks, including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, increased credit risks through the assumption of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

Capital Maintenance Levels

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

Inter Pipeline typically maintains its assets with reasonable levels of sustaining capital* and maintenance expenditures. However, both sustaining capital* and maintenance expenditures may vary considerably from current and forecast amounts as a result of a number of factors, including high equipment failure rates, more stringent government regulations and any additional efforts deemed necessary by Inter Pipeline to improve the reliability of its assets. An increase in capital and/or maintenance expenditures could result in significant additional costs to Inter Pipeline.

Possible Downgrade of Investment Grade Credit Ratings

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

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

Liquidity Risk

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

Refinancing Risk

Inter Pipeline's credit facilities, medium-term notes and other outstanding financing instruments or debt securities each have a maturity date, on which date, absent replacement, extension or renewal, the indebtedness under the respective loan agreement becomes repayable in its entirety. To the extent any of the loan agreements are not replaced or extended on or before their respective maturity dates or are not replaced, extended or renewed for the same or similar amounts or on the same or similar terms, Inter Pipeline's ability to fund ongoing operations and pay dividends could be impaired.

Inter Pipeline’s ability to refinance its indebtedness under its credit facilities, medium-term notes, and other outstanding financing instruments or debt securities will depend upon its future operating performance and FFO*, which are subject to prevailing economic and credit conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control.

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

Litigation or Arbitration

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

Aboriginal Land Claims

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

Crown Duty to Consult First Nations

The federal and provincial governments in Canada have a duty to consult and, where appropriate, accommodate aboriginal people where the interests of the aboriginal peoples may be affected by a Crown action or decision. Accordingly, the Crown's duty may result in regulatory approvals being delayed or not being obtained in relation to Inter Pipeline's Canadian operations.

Weather Conditions

Weather conditions can affect the demand for and price of natural gas and NGL. As a result, changes in weather patterns can affect throughput, as well as Inter Pipeline's NGL extraction and storage activities. For instance, colder winter temperatures generally increase demand for natural gas and NGL used for heating which tends to result in increased throughput volumes at facilities and higher prices in the extraction and storage businesses. In its storage facilities and NGL extraction business, Inter Pipeline attempts to position itself to be able to handle increased volumes of throughput and storage at its facilities to meet changes in seasonal demand; however, at any given time, facility and storage capacity is finite.

Weather conditions may influence Inter Pipeline's ability to complete capital projects or facility turnarounds on time, potentially resulting in delays and increasing costs of such capital projects and turnarounds. Weather may also affect the operations and projects of Inter Pipeline's customers or shippers, thereby influencing the supply of products.

With respect to construction activities, in areas where construction can be conducted in non-winter months, Inter Pipeline attempts to schedule its construction timetables so as to minimize delays due to cold winter weather. While availability of trades and supplies does not always make this possible, Inter Pipeline has been relatively successful in minimizing construction delays due to weather issues.

Labour Relations

Labour unions may from time to time be established in certain Inter Pipeline business segments. Unionized labour disruptions could restrict the ability of Inter Pipeline to carry out its business and therefore affect Inter Pipeline's financial results.

Policies and Procedures

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

Reliance on Information Technology

Inter Pipeline's operations are dependent on the functioning of several information technology systems. Significant interruption or failure of any or all of these systems could result in operational outages, delays, lost profits, lost data, increased costs, and other adverse outcomes. These factors could include a loss of communication links or reliable information, security breaches by computer hackers and cyber terrorists, and the inability to automatically process commercial transactions or engage in similar automated or computerized business activities.

Risks Inherent in the Corporation

Fluctuating Dividends; Dividends Are Not Guaranteed

There is uncertainty with respect to future dividend payments by Inter Pipeline and the level thereof. Funds available for the payment of dividends will be dependent upon, among other things, FFO*, the execution of its growth strategy, financial requirements for Inter Pipeline's operations and limitations under its credit facilities as well as the satisfaction of liquidity and solvency tests imposed by the *Alberta Business Corporations Act* (ABCA) on corporations for the declaration and payment of dividends.

Market Price of the Common Shares

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

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

Conflicts of Interest

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

Capital Resources

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

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

Leverage

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

Debt Restrictive Covenants

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

Issues of Additional Common Shares; Dilution

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

Foreign Exchange Risk on Dividends

Inter Pipeline's cash dividends will be declared and paid in Canadian dollars. As a consequence, non-resident shareholders, and shareholders who calculate their income in currencies other than the Canadian dollar, will be subject to foreign exchange risk. To the extent that the Canadian dollar strengthens with respect to the reporting currency of a shareholder, the amount of the dividend will be reduced when converted to that currency.

NON-GAAP AND ADDITIONAL GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely “adjusted working capital deficiency”, “EBITDA”, “adjusted EBITDA”, “Consolidated Net 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.

	December 31	
(millions)	**2015**	2014
Current assets		
Cash and cash equivalents	**$ 40.3**	$ 61.1
Accounts receivable	**183.1**	156.8
Prepaid expenses and other deposits	**26.9**	27.0
Current income taxes receivable	**-**	11.5
Current liabilities		
Dividends payable	**(43.8)**	(39.9)
Accounts payable, accrued liabilities and provisions	**(220.6)**	(390.2)
Current income taxes payable	**(29.6)**	-
Deferred revenue	**(7.5)**	(18.8)
Adjusted working capital deficiency	**$ (51.2)**	$ (192.5)

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.

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2015**	2014	**2015**	2014
Net income	**$ 138.0**	$ 79.6	**$ 463.0**	$ 349.5
Financing charges	**38.5**	27.5	**142.1**	93.6
Current income tax expense	**25.3**	(2.1)	**70.0**	45.4
Deferred income tax expense	**17.7**	33.3	**117.4**	69.6
Depreciation and amortization	**52.5**	39.7	**188.4**	142.8
EBITDA	**$ 272.0**	$ 178.0	**$ 980.9**	$ 700.9
Loss (gain) on disposal of assets	**0.6**	2.9	**5.6**	(2.1)
Non-cash financing charges	**(2.0)**	(2.1)	**(6.5)**	(6.5)
Non-cash expense (recovery)	**2.7**	3.9	**(0.1)**	5.2
Unrealized change in fair value of derivative financial instruments	**(0.1)**	0.3	**(0.2)**	(1.0)
Adjusted EBITDA	**$ 273.2**	$ 183.0	**$ 979.7**	$ 696.5
Less adjusted EBITDA attributable to non-controlling interest	**(9.8)**	(4.4)	**(41.0)**	(16.8)
Adjusted EBITDA attributable to shareholders	**$ 263.4**	$ 178.6	**$ 938.7**	$ 679.7

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.

	Years Ended December 31	
	2015	2014
Adjusted EBITDA by contract type		
Cost-of-service	**63%**	48%
Fee-based	**30%**	36%
Commodity-based	**7%**	16%

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

Consolidated Net Debt to Total Capitalization is disclosed and discussed in the Financial Covenant table of the **LIQUIDITY AND CAPITAL RESOURCES** section of this report. This measure in combination with other measures, 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:

				December 31
(millions, except per share amounts)		**2015**		2014
Closing share price	**$**	**22.21**	$	35.94
Total closing number of common shares outstanding		**336.4**		326.2
		7,472.0		11,724.1
Total debt		**4,851.7**		4,590.7
Enterprise value	**$**	**12,323.7**	$	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 December 31
						2015		2014
(millions)		Growth		Sustaining		Total		Total
Oil sands transportation	**$**	**19.6**	**$**	**0.3**	**$**	**19.9**	$	123.2
Conventional oil pipelines		**22.1**		**3.1**		**25.2**		22.0
Bulk liquid storage		**10.0**		**5.4**		**15.4**		10.3
NGL extraction		**0.9**		**0.4**		**1.3**		3.8
Corporate		**-**		**18.6**		**18.6**		3.7
Capital expenditures	**$**	**52.6**	**$**	**27.8**	**$**	**80.4**	$	163.0
Capital expenditures funded by Inter Pipeline[(1)]	**$**	**51.6**	**$**	**27.8**	**$**	**79.4**	$	159.6

								Years Ended December 31
						2015		2014
(millions)		Growth		Sustaining		Total		Total
Oil sands transportation	**$**	**146.4**	**$**	**1.1**	**$**	**147.5**	$	1,128.5
Conventional oil pipelines		**123.4**		**7.1**		**130.5**		52.7
Bulk liquid storage		**25.0**		**15.3**		**40.3**		33.9
NGL extraction		**1.5**		**6.2**		**7.7**		11.9
Corporate		**-**		**29.9**		**29.9**		9.2
Capital expenditures	**$**	**296.3**	**$**	**59.6**	**$**	**355.9**	$	1,236.2
Capital expenditures funded by Inter Pipeline[(1)]	**$**	**288.0**	**$**	**59.6**	**$**	**347.6**	$	1,183.6

(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.

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2015**	2014	**2015**	2014
Net income	**$ 138.0**	$ 79.6	**$ 463.0**	$ 349.5
Depreciation and amortization	**52.5**	39.7	**188.4**	142.8
Loss (gain) on disposal of assets	**0.6**	2.9	**5.6**	(2.1)
Non-cash expense (recovery)	**2.7**	3.9	**(0.1)**	5.2
Unrealized change in fair value of derivative financial instruments	**(0.1)**	0.3	**(0.2)**	(1.0)
Deferred income tax expense	**17.7**	33.3	**117.4**	69.6
Funds from operations	**$ 211.4**	$ 159.7	**$ 774.1**	$ 564.0
Less funds from operations attributable to non-controlling interest	**(9.8)**	(4.4)	**(41.0)**	(16.8)
Funds from operations attributable to shareholders	**$ 201.6**	$ 155.3	**$ 733.1**	$ 547.2
Funds from operations	**$ 211.4**	$ 159.7	**$ 774.1**	$ 564.0
Total interest less capitalized interest	**36.5**	25.4	**135.6**	87.1
Current income tax expense (recovery)	**25.3**	(2.1)	**70.0**	45.4
Adjusted EBITDA	**$ 273.2**	$ 183.0	**$ 979.7**	$ 696.5
Less adjusted EBITDA attributable to non-controlling interest	**(9.8)**	(4.4)	**(41.0)**	(16.8)
Adjusted EBITDA attributable to shareholders	**$ 263.4**	$ 178.6	**$ 938.7**	$ 679.7

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 18th day of February, 2016