Management's Discussion and Analysis

For the three and nine months ended September 30, 2016

FORWARD-LOOKING INFORMATION

The following **Management's Discussion and Analysis (MD&A)** highlights Inter Pipeline Ltd. and its subsidiaries (together, Inter Pipeline) significant business results and statistics for the three and nine month periods ended September 30, 2016, to provide Inter Pipeline's shareholders and potential investors with information about Inter Pipeline, including management's assessment of its future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. All statements, other than statements of historical fact included in the MD&A, which address activities, events or developments that Inter Pipeline expects or anticipates to occur in the future, are forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", "forecast", "plan", "intend", "target", "outlook", "focus", "could" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A may include, but are not limited to, statements regarding: 1) Inter Pipeline's belief that it is well positioned to maintain its current level of dividends to its shareholders; 2) Inter Pipeline being well positioned to operate and grow in the future including anticipated benefits of acquisitions and growth opportunities associated with acquisitions; 3) financial forecasts or anticipated financial performance; 4) timing and cost of capital projects, and forward EBITDA (as defined herein) estimates in respect of these projects; and, 5) 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. Inter Pipeline applies a variety of factors and assumptions when making forward-looking statements and making forecasts, projections, predictions or estimations, which include, but are not limited to, Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; Inter Pipeline's ability to maintain its investment grade credit ratings; the availability and price of labour, equipment and materials; assumptions concerning operational reliability; the availability and price of energy commodities; the availability of adequate levels of insurance; and general economic and business conditions.

By their nature, forward-looking statements are subject to various known and unknown risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its affiliates; competitive factors, pricing pressures and supply and demand in the oil and gas transportation, natural gas liquids (NGL) extraction and storage industries; fluctuations in currency and interest rates; risks of war, hostilities, civil insurrection, instability and terrorist actions, as well as political and economic conditions, in or affecting countries in which Inter Pipeline and its affiliates operate; public opinion regarding the production, transportation and use of oil and gas; severe weather and environmental conditions; risks associated with technology; Inter Pipeline's ability to access external sources of debt and equity capital; the potential delays of, and costs of overruns on, construction projects in all of Inter Pipeline's business segments; 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 or threatened future lawsuits and regulatory actions against Inter Pipeline and its affiliates; increases in maintenance, operating or financing costs; difficulty in obtaining necessary regulatory approvals or land access rights and maintenance of support of such approvals and rights; the realization of the anticipated benefits of acquisitions; 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 assumptions, risks, uncertainties and factors is not exhaustive. See also the section entitled RISK FACTORS for further risk factors. The forward-looking statements contained in this MD&A are made as of the date of this document and, except to the extent expressly required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document and all subsequent forward-looking statements, whether written or oral, attributable to Inter Pipeline or persons acting on Inter Pipeline's behalf are expressly qualified in their entirety by these cautionary statements.

Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2016

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and nine month periods ended September 30, 2016, as compared to the three and nine month periods ended September 30, 2015. The MD&A should be read in conjunction with the September 30, 2016 unaudited condensed interim consolidated financial statements (interim financial statements), the interim financial statements and MD&A for the quarterly period ended September 30, 2015, the MD&A and 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 financial measures may not have a standardized meaning, securities regulations require that non-GAAP financial measures are clearly defined, qualified and reconciled with their nearest GAAP measure. See the **NON-GAAP FINANCIAL MEASURES** section for further information on the definition, calculation and reconciliation of non-GAAP financial measures. All amounts are in Canadian dollars unless specified otherwise.

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

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THIRD QUARTER HIGHLIGHTS

- Generated funds from operations* (FFO) of $211 million, a 3 percent increase over the third quarter of 2015
- Declared cash dividends of $131 million or $0.39 per share
- Attractive quarterly payout ratio* of 64.8 percent
- Total oil sands and conventional pipeline throughput volumes averaged 1,286,100 barrels per day (b/d)
- Bulk liquid storage utilization rates remain strong, matching a record of 98 percent during the quarter, up from 93 percent in the third quarter of 2015
- Acquired a large scale Canadian natural gas liquids midstream business for $1.35 billion, providing a new platform for future growth
- Completed a highly successful issuance of $600 million of common shares and $350 million of term debt
- Signed two long-term storage contracts for the Seal Sands terminal in the United Kingdom, triggering construction of 175,000 barrels of new storage capacity

SUBSEQUENT EVENTS

- Executed a 10-year take-or-pay agreement with CHS Inc. to transport 32,500 b/d of crude oil on the Bow River pipeline system

* Please refer to the NON-GAAP FINANCIAL MEASURES section

PERFORMANCE OVERVIEW

	Three Months Ended September 30		Nine Months Ended September 30	
(millions, except volumes, per share and % amounts)	**2016**	2015	**2016**	2015
Pipeline volumes *(000s b/d)* (1)				
Oil sands transportation	**1,093.3**	1,119.9	**1,070.1**	1,023.9
Conventional oil pipelines	**192.8**	209.4	**200.8**	210.7
Total pipeline volumes	**1,286.1**	1,329.3	**1,270.9**	1,234.6
NGL processing volumes *(000s b/d)* (1)(2)				
Ethane	**58.0**	62.0	**57.0**	63.0
Propane-plus	**42.5**	40.8	**43.2**	39.0
Total NGL processing volumes	**100.5**	102.8	**100.2**	102.0
Utilization				
Bulk liquid storage	**98%**	93%	**98%**	93%
Revenue				
Oil sands transportation	**$ 192.9**	$ 195.2	**$ 577.8**	$ 555.3
Conventional oil pipelines	**86.9**	80.9	**254.0**	233.4
Bulk liquid storage	**61.0**	57.1	**188.1**	149.6
NGL processing	**93.7**	91.0	**244.0**	282.3
	$ 434.5	$ 424.2	**$ 1,263.9**	$ 1,220.6
Funds from operations(3)(4)				
Oil sands transportation(4)	**$ 142.3**	$ 146.1	**$ 423.1**	$ 411.3
Conventional oil pipelines	**49.1**	49.8	**146.2**	143.1
Bulk liquid storage	**30.2**	29.0	**91.1**	70.1
NGL processing	**28.7**	23.6	**82.8**	75.6
Corporate costs	**(38.9)**	(43.3)	**(149.1)**	(137.4)
	$ 211.4	$ 205.2	**$ 594.1**	$ 562.7
Per share(3)	**$ 0.62**	$ 0.61	**$ 1.76**	$ 1.68
Net income	**$ 121.3**	$ 128.4	**$ 348.8**	$ 325.0
Net income attributable to shareholders	**$ 113.7**	$ 118.7	**$ 323.9**	$ 297.7
Per share – basic	**$ 0.34**	$ 0.35	**$ 0.96**	$ 0.89
Per share – diluted	**$ 0.34**	$ 0.35	**$ 0.96**	$ 0.89
Dividends to shareholders	**$ 131.4**	$ 123.5	**$ 394.1**	$ 368.4
Per share(5)	**$ 0.3900**	$ 0.3675	**$ 1.1700**	$ 1.1025
Shares outstanding (basic)				
Weighted average	**338.7**	335.8	**337.4**	334.1
End of period	**359.5**	336.2	**359.5**	336.2
Capital expenditures(6)				
Growth(3)	**$ 40.8**	$ 43.4	**$ 100.7**	$ 243.7
Sustaining(3)	**8.1**	12.3	**36.1**	31.8
	$ 48.9	$ 55.7	**$ 136.8**	$ 275.5
Payout ratio(3)	**64.8%**	63.6%	**69.7%**	69.3%

	As at September 30	As at December 31
(millions, except % amounts)	**2016**	2015
Total assets	**$ 10,141.0**	$ 9,029.4
Total debt(7)	**$ 5,596.6**	$ 4,851.7
Total shareholders' equity	**$ 3,269.9**	$ 2,821.1
Enterprise value(3)	**$ 15,555.0**	$ 12,323.7
Consolidated Net Debt to Total Capitalization(3)	**54.5%**	52.8%

(1) Cold Lake volumes and Empress V NGL production reported on a 100% basis.

(2) Average quarterly throughput volumes from the recently acquired Williams Canada offgas processing business have not been included in the table above as only eight days of operations from the closing date of the acquisition are included in Inter Pipeline's September 30, 2016 results and therefore would not contain any meaningful information.

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

(4) Funds from operations(2) include non-controlling interest amounts of $8.7 million and $28.5 million for the three and nine months ended September 30, 2016, respectively ($11.2 million and $31.2 million for the three and nine months ended September 30, 2015, respectively).

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

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

(7) Financial debt reported in the September 30, 2016 consolidated financial statements of $5,577.4 million, includes long-term debt, short-term debt and commercial paper of $5,596.6 million less discounts and debt transaction costs of $19.2 million.

Three Months Ended September 30, 2016

Inter Pipeline generated strong financial results in the third quarter, as FFO* increased to $211.4 million in 2016 from $205.2 million in 2015, an increase of $6.2 million or 3.0%. The increase was led by a higher contribution from the NGL processing business, driven by higher realized frac-spreads and propane-plus volumes at the Cochrane straddle plant, as well as the inclusion of Williams Canada's FFO* from the date of acquisition. FFO* from the bulk liquid storage business also increased largely due to higher utilization rates, offset in part by increased operating and general and administrative costs. These increases to FFO* were partially offset by declines in the oil sands transportation business largely due to lower cost recoveries on the Cold Lake pipeline system. FFO* benefitted from lower corporate costs arising from $14.6 million of one-time leasehold inducement proceeds related to the new head office premises, which was partially offset by higher employee costs and rent expense.

In the third quarter, Inter Pipeline's net income decreased $7.1 million from $128.4 million in 2015 to $121.3 million in 2016. Net income was favourably impacted by the increase in FFO* discussed above that included leasehold inducement proceeds of $14.6 million which are not included in net income as they will be taken into net income over the term of the lease. Net income was also impacted by higher depreciation and amortization and lower deferred income taxes.

In the third quarter, total dividends to shareholders increased $7.9 million or 6.4% from $123.5 million in 2015 to $131.4 million in 2016, primarily resulting from an increase in monthly dividend rates. In November 2015, Inter Pipeline announced a dividend rate increase of $0.09 per common share on an annualized basis. Inter Pipeline's third quarter 2016 payout ratio* was 64.8%.

Inter Pipeline's total debt outstanding was $5,596.6 million at September 30, 2016, an increase of $763.9 million from $4,832.7 million at June 30, 2016. During this period, Inter Pipeline funded the acquisition of Williams Canada and invested $48.3 million (Inter Pipeline's share) on capital projects. Total debt includes non-recourse debt of $1,501.6 million at September 30, 2016 held at Inter Pipeline (Corridor) Inc.

Nine Months Ended September 30, 2016

In the nine months ended September 30, 2016, Inter Pipeline also generated strong financial results from all four of its business segments, as FFO* increased $31.4 million or 5.6% from $562.7 million in 2015 to $594.1 million in 2016. FFO* largely increased in the bulk liquid storage business due to the acquisition of Inter Terminals Sweden in June 2015 and increased utilization rates. The oil sands transportation business increase mainly resulted from expanded transportation service on the Polaris pipeline system. Higher realized propane-plus frac-spreads and lower fuel and power costs increased FFO* in the NGL processing business. The conventional oil pipeline business results benefitted from an incremental contribution from midstream marketing activities. FFO* was unfavourably impacted by increased corporate costs due to higher employee costs, rent, income taxes and interest expense, offset in part by leasehold inducement proceeds related to the new head office premises.

Inter Pipeline's year to date net income increased $23.8 million from $325.0 million in 2015 to $348.8 million in 2016. This increase largely results from higher FFO* as discussed above as well as lower deferred income taxes, which is partially offset by an increase in depreciation and amortization expense, a one-time onerous contract adjustment in the first quarter of 2016 and the exclusion of the leasehold inducement proceeds discussed above.

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

Total dividends to shareholders increased for the nine months ended September 30, 2016 by $25.7 million or 7.0% from $368.4 million in 2015 to $394.1 million in 2016, for the same reasons discussed above. Inter Pipeline's payout ratio* was 69.7% for the nine months ended September 30, 2016.

Inter Pipeline's total debt outstanding increased $744.9 million from $4,851.7 million at December 31, 2015 to $5,596.6 million at September 30, 2016, primarily due to funding the acquisition of Williams Canada and incurring $135.8 million (Inter Pipeline's share) in capital projects. Total debt includes non-recourse debt held at Inter Pipeline (Corridor) Inc. of $1,501.6 million at September 30, 2016, compared to $1,536.2 million at December 31, 2015.

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 2016, Inter Pipeline remains focused on leveraging value from our strategically located and diversified asset base, controlling costs and capturing additional growth opportunities across the business.

On September 23, 2016, Inter Pipeline successfully completed the acquisition of the shares of The Williams Companies Inc.'s and Williams Partners L.P.'s Canadian natural gas liquids (NGL) midstream businesses (Williams Canada or the Acquisition) for approximately $1.35 billion, plus closing adjustments. This strategic acquisition includes two NGL and olefinic liquids extraction plants located near Fort McMurray, Alberta (Liquid Extraction Plants), a fractionator near Redwater, Alberta (Redwater Olefinic Fractionator) and a 420 kilometre pipeline system that connects these facilities (Boreal Pipeline). The Acquisition diversifies and strengthens Inter Pipeline's existing NGL business, and positions Inter Pipeline to generate significant cash flow as commodity prices recover.

The Williams Canada acquisition also provides a platform for material future NGL and olefin related growth opportunities including capacity expansion investments, securing additional offgas supply sources and development of integrated petrochemical manufacturing facilities. This includes the potential construction of a $1.85 billion propane dehydrogenation (PDH) facility (PDH Facility) located near the Redwater Olefinic Fractionator. This facility would convert low-cost, locally sourced propane into more valuable polymer grade propylene. Inter Pipeline is also assessing the commercial viability of constructing an additional processing facility, which would convert propylene into polypropylene, a high value, easy to transport solid plastic used in the manufacturing of a wide range of finished products.

Inter Pipeline is currently pursuing long-term, fee based off take agreements with a number of global plastics manufacturing and marketing companies. Subject to securing appropriate commercial contracts, Inter Pipeline anticipates making final investment decisions on the PDH and polypropylene facilities by mid-2017, with both plants operational by mid-2021.

Inter Pipeline's oil sands transportation business segment is anchored by long-term commercial arrangements with creditworthy counterparties that generate stable cost-of-service FFO*. Bitumen blend and diluent volumes averaged approximately 1,093,300 b/d in the third quarter of 2016, demonstrating Inter Pipeline's resiliency in this lower commodity price environment.

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

Inter Pipeline has over 2.5 million b/d of pipeline capacity on its three major oil sands pipeline systems. This includes approximately 1.2 million b/d of bitumen blend capacity on the Cold Lake pipeline system, 865,000 b/d of diluent capacity on the Polaris pipeline 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 pipeline systems, respectively, can be achieved through the addition of pump stations and associated infrastructure. Inter Pipeline continues to pursue opportunities to utilize available excess capacity.

In the conventional oil pipelines segment, transportation volumes declined by approximately eight percent during the quarter compared to the same period last year as a result of reduced drilling and development activity around our pipeline systems. Midstream marketing activities continue to generate additional cash flow for this business segment through increased blending opportunities. In the third quarter, Inter Pipeline completed and commissioned its 400,000 barrel crude oil storage expansion project at the Kerrobert terminal to benefit both operational and merchant storage opportunities on the Mid-Saskatchewan pipeline system. Total capital expenditures for this project to date are $59 million.

Subsequent to the quarter, Inter Pipeline signed a long-term agreement with CHS Inc. (CHS) to transport 32,500 b/d of crude oil on the Bow River pipeline system. The 10-year take-or-pay agreement extends Inter Pipeline’s current relationship with CHS and will help provide a consistent crude supply to the CHS refinery in Laurel, Montana. Crude oil is transported south on the Bow River pipeline system via a segregated stream that was established as part of Inter Pipeline’s Bow River pipeline system expansion in late 2009. The agreement is effective January 1, 2017 and provides long-term revenue certainty for our conventional oil business segment by optimizing the capacity of the Bow River south system, while providing optionality for future expansions.

Inter Pipeline’s European bulk liquid storage business diversifies our asset base by both geography and market. Demand for oil and chemical storage in Europe remains strong with average utilization rates increasing from 93% in the third quarter of 2015 to 98% during the third quarter of 2016. The increase is primarily due to higher demand and stronger contango pricing relationships in certain petroleum product futures markets.

Our NGL processing business is comprised of three straddle plants at Cochrane and Empress, Alberta as well as the recently acquired offgas processing business. Overall, natural gas throughput volumes processed through our Cochrane straddle plant remained strong during the third quarter of 2016 largely due to increased demand for low-cost Canadian natural gas from the United States west-coast region. Realized frac-spread prices, on propane-plus sales at the Cochrane plant, increased over 30% in the quarter compared to the same period a year ago. Since closing the Williams Canada acquisition on September 23, 2016, the offgas business has performed as expected, generating $1.4 million of incremental FFO[*].

Inter Pipeline is committed to maintaining a strong balance sheet and financial flexibility. During the quarter, Inter Pipeline successfully executed the financing plan for the Williams Canada acquisition. This included net proceeds from a $600 million subscription receipt offering at $26.75, completed in August 2016. The subscription receipts were subsequently exchanged into common shares on September 23, 2016 with the closing of the Williams Canada acquisition. In September 2016, Inter Pipeline issued $350 million of 7-year, senior unsecured medium-term notes in the Canadian public debt

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

market at an attractive rate of 2.608%. Additionally, Inter Pipeline increased the size of its senior, unsecured revolving credit facility from $1.25 billion to $1.5 billion. The premium component of our Premium Dividend™ and Dividend Reinvestment Plan was re-instated in October, which is expected to raise additional equity capital on a monthly basis. As at September 30, 2016, Inter Pipeline had $365.5 million of available capacity on its revolving credit facility and ended the quarter with a consolidated net debt to total capitalization ratio* of 54.5%.

As a result of our strong financial position and the stable nature of our business, Inter Pipeline has solid 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).

The FFO* that underpins our monthly dividend is stable, diversified and largely supported by investment grade counterparties. Our extensive energy infrastructure base continues to be well positioned to compete for future, accretive growth opportunities both locally and internationally. With a strong balance sheet and proven operational capabilities, Inter Pipeline is well positioned to continue to generate long-term positive results for our shareholders.

RESULTS OF OPERATIONS

Oil Sands Transportation Business Segment

	Three Months Ended September 30					Nine Months Ended September 30				
Volumes (000s b/d)		**2016**		2015	*% change*		**2016**		2015	*% change*
Cold Lake (100% basis)		**535.3**		577.8	*(7.4)*		**540.6**		560.0	*(3.5)*
Corridor		**423.2**		409.1	*3.4*		**373.7**		335.0	*11.6*
Polaris		**134.8**		133.0	*1.4*		**155.8**		128.9	*20.9*
		1,093.3		1,119.9	*(2.4)*		**1,070.1**		1,023.9	*4.5*
(millions)										
Revenue[1]	**$**	**192.9**	$	195.2	*(1.2)*	**$**	**577.8**	$	555.3	*4.1*
Operating expenses[1]	**$**	**32.7**	$	32.6	*0.3*	**$**	**97.7**	$	96.8	*0.9*
Funds from operations[1][2]	**$**	**142.3**	$	146.1	*(2.6)*	**$**	**423.1**	$	411.3	*2.9*
Capital expenditures[1]										
Growth[2]	**$**	**4.2**	$	20.5		**$**	**11.6**	$	126.8	
Sustaining[2]		**0.5**		0.2			**0.8**		0.8	
	$	**4.7**	$	20.7		**$**	**12.4**	$	127.6	

(1) For the three and nine month periods ended September 30, 2016, Cold Lake pipeline system includes the following amounts relating to non-controlling interest: revenue - $12.8 million and $37.7 million ($13.6 million and $38.7 million in 2015), respectively; operating expenses - $3.9 million and $8.5 million ($2.3 million and $7.0 million in 2015), respectively; FFO[2] - $8.7 million and $28.5 million ($11.2 million and $31.2 million in 2015), respectively; and capital expenditures - $0.6 million and $1.0 million ($0.8 million and $7.3 million in 2015), respectively.

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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

TM denotes trademark of Canaccord Genuity Corp.

Volumes

In the third quarter of 2016, volumes in the oil sands transportation business averaged 1,093,300 b/d, a decrease of 26,600 b/d or 2.4% from the same period in 2015; and averaged 1,070,100 b/d year to date in 2016, an increase of 46,200 b/d or 4.5%, over the comparable period in 2015.

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta. Average volumes on the Cold Lake pipeline system decreased 42,500 b/d in the third quarter and 19,400 b/d year to date in 2016, from the same periods in 2015. The decline largely results from lower volumes at Canadian Natural Resources' (CNR) Wolf Lake facility, which was offset in part by higher volumes from FCCL Partnership's (FCCL), a business venture between Cenovus Energy and ConocoPhillips, Foster Creek and CNR's Kirby South oil sands projects. Volumes from Imperial's Cold Lake oil sands projects were also lower in the current quarter contributing to the volume decline; however increased on a year to date basis. Volumes typically fluctuate on the Cold Lake pipeline system 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.

The Corridor pipeline system transports diluent from the Scotford upgrader located northeast of Edmonton, Alberta to the Muskeg River and Jackpine mines near Fort McMurray, Alberta and diluted bitumen produced from the mines back to the Scotford upgrader. In addition, feedstock and upgraded products are shipped between the Scotford upgrader and certain pipeline terminals in Edmonton. Volumes on the Corridor pipeline system increased 14,100 b/d and 38,700 b/d in the three and nine months ended September 30, 2016, respectively, over the same periods in 2015. The increase is largely due to incremental volumes from the Jackpine mine. Wildfires in the Fort McMurray region in the second quarter of 2016 resulted in a temporary shut down for precautionary measures on a portion of the Corridor pipeline system, and did not materially impact producers' transportation volumes.

The Polaris pipeline system provides diluent transportation service from the Edmonton area to the Athabasca and Cold Lake areas of Alberta. Polaris pipeline system volumes increased 1,800 b/d in the current quarter and 26,900 b/d year to date in 2016, over the same periods in 2015. Incremental diluent deliveries for Imperial's Kearl expansion which began in the third quarter of 2015, as well as higher deliveries to Suncor's oil sands facilities, Husky's Sunrise, CNR's Kirby South and Athabasca Oil Corporation's (AOC) Hangingstone oil sands projects were the primary drivers for the increase. Wildfires in the Fort McMurray region in the second quarter of 2016 caused portions of the Polaris pipeline system to temporarily shut down for precautionary measures and also impacted various producers' demand for diluent volumes.

Revenue

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

Revenue in the oil sands transportation business decreased $2.3 million in the third quarter and increased $22.5 million year to date in 2016, over the same periods in 2015.

In the three and nine months ended September 30, 2016, revenue from the Cold Lake pipeline system decreased $5.6 million and $7.4 million, respectively, from the same periods in 2015. The decline in both periods is primarily due to lower cost recoveries and a reduction in capital fee revenue from lower volumes transported.

Corridor pipeline system revenue decreased $0.7 million and $4.2 million in the three and nine months ended September 30, 2016, respectively, from the comparable periods in 2015. Revenue largely decreased in both periods as a result of a lower return on equity arising from a decrease in the long-term Government of Canada benchmark bond interest rate and the declining nature of Corridor's rate base. The year to date decrease in revenue was also due to lower operating cost recoveries and a lower return on debt from a reduction in interest rates.

Revenue from the Polaris pipeline system increased $4.0 million and $34.1 million in the three and nine months ended September 30, 2016, over the comparable periods in 2015. The increase in revenue was largely due to incremental capital fee revenue from FCCL's Foster Creek, Husky's Sunrise, AOC's Hangingstone and JACOS-Nexen Hangingstone oil sands projects. Year to date revenue also increased from Imperial's Kearl expansion service which began in June 2015 and incremental fees from deliveries to Suncor's oil sands project, as well as higher operating cost 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 shippers on the Cold Lake, Corridor and Polaris pipeline systems. In the three and nine months ended September 30, 2016, operating expenses in the oil sands transportation business increased $0.1 million and $0.9 million, respectively, over the same periods in 2015.

In 2016, operating expenses from the Cold Lake pipeline system increased $0.5 million in the third quarter largely due to higher property taxes, while decreasing $0.1 million on a year to date basis, compared to the same periods in 2015.

Corridor pipeline system's operating expenses were consistent in the third quarter of 2016 and 2015, and decreased $2.0 million year to date largely due to lower remediation and integrity costs, from the comparable period in 2015.

Operating costs on the Polaris pipeline system decreased $0.4 million in the current quarter due to lower general operating costs, and increased $3.0 million year to date in 2016 as a result of higher general operating and power costs related to the increased volumes, compared to the same periods in 2015.

Capital Expenditures

The oil sands transportation business incurred total growth capital expenditures* of $4.2 million in the third quarter of 2016, related to various system and facility upgrades and enhancements.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Conventional Oil Pipelines Business Segment

	Three Months Ended September 30					Nine Months Ended September 30				
Volumes (000s b/d)		**2016**		2015	*% change*		**2016**		2015	*% change*
Bow River		**90.0**		98.8	*(8.9)*		**90.5**		100.6	*(10.0)*
Central Alberta		**28.5**		35.5	*(19.7)*		**29.2**		34.2	*(14.6)*
Mid-Saskatchewan		**74.3**		75.1	*(1.1)*		**81.1**		75.9	*6.9*
		192.8		209.4	*(7.9)*		**200.8**		210.7	*(4.7)*
(millions, except per barrel amount)										
Revenue	**$**	**86.9**	$	80.9	*7.4*	**$**	**254.0**	$	233.4	*8.8*
Midstream product purchases	**$**	**23.4**	$	15.0	*56.0*	**$**	**59.0**	$	42.0	*40.5*
Operating expenses	**$**	**14.8**	$	16.4	*(9.8)*	**$**	**48.6**	$	48.2	*0.8*
Funds from operations[1]	**$**	**49.1**	$	49.8	*(1.4)*	**$**	**146.2**	$	143.1	*2.2*
Revenue per barrel[2]	**$**	**2.98**	$	2.95	*1.0*	**$**	**2.94**	$	2.95	*(0.3)*
Capital expenditures										
Growth[1]	**$**	**14.1**	$	17.0		**$**	**47.5**	$	101.3	
Sustaining[1]		**1.4**		1.7			**3.2**		4.0	
	$	**15.5**	$	18.7		**$**	**50.7**	$	105.3	

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

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

Volumes

Average conventional oil pipeline volumes decreased 16,600 b/d in the third quarter and 9,900 b/d year to date in 2016, compared to the same periods in 2015. Volumes on the Bow River pipeline system decreased 8,800 b/d and 10,100 b/d in the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. The decrease largely stems from a reduction in producer activity levels resulting from low commodity prices, natural production declines and weather related issues, as well as third party refinery issues which impacted first quarter south bound volumes. Central Alberta pipeline system volumes decreased 7,000 b/d and 5,000 b/d in the three and nine months ended September 30, 2016, respectively, from the same periods in 2015, as a result of lower volumes at third party truck terminals and a decline in producer activity. Volumes on the Mid-Saskatchewan pipeline system decreased 800 b/d in the third quarter largely resulting from weather related issues, and increased 5,200 b/d year to date in 2016 due to several expansion projects completed mid-2015 on the light oil system to accommodate increases in regional production from the Viking light oil play, as well as increased terminalling volumes on the heavy oil system.

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 FINANCIAL MEASURES** section for further information.

In the three and nine months ended September 30, 2016, revenue from conventional oil pipelines increased $6.0 million and $20.6 million, respectively, over the same periods in 2015. Revenue from midstream marketing increased $10.1 million and $27.7 million in the three and nine months ended September 30, 2016, respectively, from the same periods in 2015, primarily due to increased blending activity, which was partially offset by lower West Texas Intermediate (WTI) oil prices. Transportation revenue decreased $4.1 million in the current quarter and $7.1 million year to date in 2016, primarily due to a decrease in overall pipeline system volumes.

Midstream Product Purchases

Midstream product purchases increased in the three and nine months ended September 30, 2016 by $8.4 million and $17.0 million, respectively, from the same periods in 2015. The increase is due to higher blending activity, which was offset in part by lower product pricing.

Operating Expenses

In the third quarter of 2016, operating expenses in the conventional oil pipelines business decreased $1.6 million from the same period in 2015, largely due to lower integrity and remediation costs, offset in part by higher employee related costs. Operating expenses increased $0.4 million year to date in 2016, largely due to higher employee related costs.

Capital Expenditures

In the current quarter, total growth capital expenditures* incurred in the conventional oil pipelines business were $14.1 million. Of this amount, approximately $11.2 million relates to the recently completed 400,000 barrel crude oil storage expansion project at the Kerrobert Terminal on the Mid-Saskatchewan pipeline system, for a total project spend to date of approximately $59 million. The remaining growth capital expenditures* of $2.9 million relate to various pipeline system initiatives, enhancements and facility upgrades.

Bulk Liquid Storage Business Segment

	Three Months Ended September 30			Nine Months Ended September 30		
	2016	2015	*% change*	**2016**	2015	*% change*
Utilization	**98%**	93%	*5.4*	**98%**	93%	*5.4*
(millions)						
Revenue	**$ 61.0**	$ 57.1	*6.8*	**$ 188.1**	$ 149.6	*25.7*
Operating expenses	**$ 23.1**	$ 21.3	*8.5*	**$ 73.2**	$ 57.6	*27.1*
Funds from operations(1)	**$ 30.2**	$ 29.0	*4.1*	**$ 91.1**	$ 70.1	*30.0*
Capital expenditures						
Growth(1)	**$ 21.4**	$ 5.8		**$ 39.8**	$ 15.0	
Sustaining(1)	**2.4**	4.5		**6.1**	9.9	
	$ 23.8	$ 10.3		**$ 45.9**	$ 24.9	

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

Utilization

Inter Pipeline operates a bulk liquid storage business branded as Inter Terminals with operations in the United Kingdom (UK), Germany, Ireland, Denmark and Sweden. Inter Terminals is 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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

coastal terminals in Denmark located on the Danish Straits and four coastal terminals in Sweden located along the Baltic Sea and Danish Straits.

Average utilization rates in the bulk liquid storage business for both the third quarter and year to date increased from 93% in 2015 to 98% in 2016. Utilization rates in all countries increased in the three and nine months ended September 30, 2016, over the same periods in 2015, reflecting higher demand across Inter Terminals' business.

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 FINANCIAL MEASURES** section for further information.

In the three and nine months ended September 30, 2016, revenue from the bulk liquid storage business increased $3.9 million and $38.5 million, respectively, over the same periods in 2015. The increase is largely due to incremental revenue from the Denmark terminals as a result of higher utilization, storage rates and activity levels. The inclusion of revenue from Inter Terminals Sweden for the entire period in 2016, as opposed to from the acquisition date of June 10, 2015, also largely attributed to the increase in revenue. Revenue in the UK also increased due to higher utilization rates and activity, but was more than offset on a year to date basis from higher revenue in 2015 from a non-recurring release of deferred revenue on termination of a contract. Foreign currency translation adjustments resulted in lower revenue of $3.4 million in the current quarter and higher revenue of $1.0 million year to date in 2016, compared to the same periods in 2015.

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

Foreign Exchange Rates

	Three Months Ended September 30			Nine Months Ended September 30		
(dollars)	**2016**	2015	*% change*	**2016**	2015	*% change*
Euro/CAD	**$ 1.4564**	$ 1.4565	*(0.0)*	**$ 1.4758**	$ 1.4043	*5.1*
Pound Sterling/CAD	**$ 1.7126**	$ 2.0280	*(15.6)*	**$ 1.8429**	$ 1.9305	*(4.5)*

Operating Expenses

Operating expenses in the bulk liquid storage business for the three and nine months ended September 30, 2016, increased $1.8 million and $15.6 million, respectively, over the same periods in 2015. The increase in operating expenses in the current quarter is due to a $2.3 million custom duty claim in Sweden that originated prior to the acquisition in 2015. Operating expenses year to date in 2016 were further impacted by the inclusion of operating expenses from Inter Terminals Sweden for the full year, due to the timing of acquisition in 2015. Foreign currency translation adjustments resulted in lower operating expenses of $1.4 million and $0.3 million in the three and nine months ended September 30, 2016, compared to the same periods in 2015.

Capital Expenditures

In the third quarter of 2016, the bulk liquid storage business incurred $21.4 million of growth capital expenditures*, mainly relating to a number of tank life extensions and tank modification projects. Also included in this amount was approximately $4.7 million of growth capital expenditures* related to the initial spend on a project to build five new tanks

* Please refer to the NON-GAAP FINANCIAL MEASURES section

with aggregate capacity of 175,000 barrels at Seal Sands terminal in the UK, for a total estimated project cost of $25 million.

Total sustaining capital expenditures* incurred in the bulk liquid storage business for the third quarter of 2016 were $2.4 million. Expenditures primarily relate to environmental performance enhancement initiatives, other terminal infrastructure and safety improvement projects.

NGL Processing Business Segment

Natural gas processing

	Three Months Ended September 30							
	2016				2015			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**1,909**	**34.5**	**29.9**	**64.4**	1,743	37.5	27.4	64.9
Empress V (100% basis)	**1,006**	**23.5**	**12.6**	**36.1**	986	24.5	13.4	37.9
Empress II	**-**	**-**	**-**	**-**	-	-	-	-
	2,915	**58.0**	**42.5**	**100.5**	2,729	62.0	40.8	102.8

	Nine Months Ended September 30							
	2016				2015			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**1,910**	**35.0**	**30.7**	**65.7**	1,780	40.2	27.9	68.1
Empress V (100% basis)	**965**	**22.0**	**12.5**	**34.5**	892	22.8	11.1	33.9
Empress II	**-**	**-**	**-**	**-**	-	-	-	-
	2,875	**57.0**	**43.2**	**100.2**	2,672	63.0	39.0	102.0

Offgas processing

	Eight Days Ended September 30
	2016
	(mmcf/d)
Liquid extraction plants throughput volume	**170**
	(000s b/d)
Liquid extraction plants production volume	**34.8**
Redwater Olefinic Fractionator sales volume	**28.2**
Redwater Olefinic Fractionator volume composition(1)	
Ethane-ethylene	**39%**
Propane	**30%**
Polymer grade propylene	**12%**
Normal butane	**7%**
Alky feed	**8%**
Olefinic condensate	**4%**

(1) Composition is based on production volumes, which may differ from sales volumes.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

NGL processing financial results

(millions)	Three Months Ended September 30 2016	2015	% change	Nine Months Ended September 30 2016	2015	% change
Revenue[1]	**$ 93.7**	$ 91.0	*3.0*	**$ 244.0**	$ 282.3	*(13.6)*
Shrinkage gas[1]	**$ 43.5**	$ 47.9	*(9.2)*	**$ 105.6**	$ 139.7	*(24.4)*
Operating expenses[1]	**$ 21.6**	$ 19.6	*10.2*	**$ 55.6**	$ 66.8	*(16.8)*
Funds from operations[1][2]	**$ 28.7**	$ 23.6	*21.6*	**$ 82.8**	$ 75.6	*9.5*
Capital expenditures[1]						
Growth[2]	**$ 1.1**	$ 0.1		**$ 1.8**	$ 0.6	
Sustaining[2]	**1.2**	0.8		**8.5**	5.8	
	$ 2.3	$ 0.9		**$ 10.3**	$ 6.4	

(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 FINANCIAL MEASURES section.

Volumes

Inter Pipeline's NGL straddle plants processed natural gas throughput volumes of 2,915 million cubic feet per day (mmcf/d) and 2,875 mmcf/d for the three and nine months ended September 30, 2016, respectively, an increase of 186 mmcf/d and 203 mmcf/d, respectively, over the same periods in 2015.

Average throughput volumes at the Cochrane straddle plant increased 166 mmcf/d in the third quarter and 130 mmcf/d year to date in 2016 over the same periods in 2015. Throughput volumes at the Cochrane straddle plant are largely impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region. Ethane deliveries from the Cochrane and Empress V straddle plants are subject to third party downstream facility constraints resulting in partial reinjection of ethane volumes.

In the three and nine months ended September 30, 2016, average throughput volumes at the Empress V straddle plant increased 20 mmcf/d and 73 mmcf/d, respectively, compared to the same periods in 2015. The Empress II straddle plant did not receive throughput volumes in the three and nine months ended September 30, 2016 and 2015, which does not impact operating results due to cost-of-service commercial arrangements in place. Natural gas throughput volumes at the Empress straddle plants 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.

Volumes in the offgas processing business can be impacted by the operations associated with connected third party oil sands upgraders in the Fort McMurray area, and various downstream issues. In the eight days ended September 30, 2016, the liquid extraction plants produced 34,800 b/d of ethane-plus, supplying feedstock to the Redwater Olefinic Fractionator and storage facilities. Average sales volumes from the Redwater Olefinic Fractionator were 28,200 b/d of ethane-ethylene and olefinic and paraffinic propane-plus during this period. Olefins are typically higher value synthetic petrochemicals that do not naturally exist in large quantities and consist of polymer grade propylene, alky feed and olefinic condensate. Paraffins are generally lower value NGLs consisting of propane and normal butane. Oil sands upgrader offgas processed during this eight day period was approximately 5.3 times more liquids rich than the natural gas processed at Inter Pipeline's Cochrane straddle plant.

Revenue

The NGL processing business earns revenue from the recovery of certain higher value hydrocarbon liquids from export-destined natural gas streams and offgas streams from certain oil sands production pursuant to a combination of commodity-based, fee-based and cost-of-service contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

NGL processing revenue increased $2.7 million in the third quarter and decreased $38.3 million year to date in 2016, compared to the same periods in 2015. Revenue was favourably impacted by $5.8 million with the inclusion of Williams Canada offgas processing results from the date of acquisition. Lower revenue from Inter Pipeline's straddle plants resulted from lower product pricing and a reduction in ethane volumes, which was partially offset by higher propane-plus volumes from the Cochrane plant.

Frac-spread

	Three Months Ended September 30			
(dollars)		**2016**		2015
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Cochrane market frac-spread	**$ 0.381**	**$ 0.497**	$ 0.283	$ 0.371
Cochrane realized frac-spread	**$ 0.373**	**$ 0.487**	$ 0.278	$ 0.364

	Nine Months Ended September 30			
(dollars)		**2016**		2015
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Cochrane market frac-spread	**$ 0.378**	**$ 0.498**	$ 0.333	$ 0.418
Cochrane realized frac-spread	**$ 0.376**	**$ 0.495**	$ 0.333	$ 0.419

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

Frac-spread is the difference between the selling prices for NGL and olefin products and the input cost of the natural gas required to produce the respective NGL and olefin products.

The market frac-spread for propane-plus from the Cochrane straddle plant is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in US dollars per US gallon (USD/USG). This price is converted to Canadian dollars per US gallon (CAD/USG) based on the average monthly Bank of Canada CAD/USD noon rate. Cochrane 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.

Cochrane realized frac-spread increased in the third quarter from $0.28 USD/USG in 2015 to $0.37 USD/USG in 2016 and year to date from $0.33 USD/USG in 2015 to $0.38 USD/USG in 2016. The 5-year and 15-year simple average Cochrane market frac-spread at December 31, 2015 were $0.85 USD/USG and $0.59 USD/USG, respectively.

Offgas processing does not have a single frac-spread, instead, it sells its various products under multiple shorter term individually negotiated contracts each with unique pricing benchmarks.

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 and offgas processed at the liquid extraction plants. The price for shrinkage gas is based on a combination of AECO daily spot prices and monthly index natural gas prices. Shrinkage gas expense decreased $4.4 million and $34.1 million in the three and nine months ended September 30, 2016, respectively, from the same periods in 2015. Shrinkage gas expense from natural gas processing decreased largely due to a decline in AECO natural gas prices. This decrease was partially offset by the inclusion of shrinkage gas expense of $2.4 million from offgas processing from the date of acquisition. The weighted average monthly AECO prices* decreased in the third quarter from $2.65 per gigajoule (GJ) in 2015 to $2.08/GJ in 2016 and year to date from $2.66/GJ in 2015 to $1.75/GJ in 2016.

Operating Expenses

Operating expenses in the NGL processing business increased $2.0 million in the third quarter and decreased $11.2 million year to date in 2016, compared to the same periods in 2015. The quarterly increase resulted from the inclusion of $2.0 million in operating expenses from offgas processing from the date of acquisition. Year to date in 2016, operating expenses decreased at Inter Pipeline's straddle plants as a result of lower fuel and power costs due to a decline in natural gas and power pricing, in addition to lower general operating and maintenance costs. Average Alberta power pool prices decreased in the third quarter from $26.09/MWh in 2015 to $17.94/MWh in 2016 and year to date from $37.43/MWh in 2015 to $17.02/MWh in 2016.

Capital Expenditures

Growth capital expenditures† incurred in the NGL processing business of $1.1 million in the third quarter of 2016 largely relate to equipment upgrades at the Cochrane straddle plant. Sustaining capital expenditures† incurred in the current quarter of $1.2 million primarily relate to various processing system upgrades at the Cochrane plant.

Acquisition of Williams Canada

On September 23, 2016, Inter Pipeline acquired the outstanding shares of Williams Energy Canada Development ULC, Williams Horizon Offgas ULC, Williams Canada Employee Services Inc., Williams Canada Propylene ULC and Williams Energy Canada ULC (collectively, the Acquired Entities), from The Williams Companies International Holdings B.V. and Williams Energy Canada LP (together, the Sellers) pursuant to two share purchase agreements (together, the Acquisition Agreement) dated August 8, 2016. The Acquisition was valued at $1.35 billion, plus closing adjustments for working capital, for total cash consideration of $1.38 billion. The Acquisition was funded by the net proceeds of a $600 million subscription receipt equity issuance; $350 million of senior unsecured medium-term notes; and the remaining balance drawn under Inter Pipeline's increased syndicated credit facility.

The Liquid Extraction Plants process offgas from oil sands production into an NGL and olefins mix that is transported through the Boreal Pipeline to the Redwater Olefinic Fractionator where it is further separated into marketable products and sold across North America (collectively, the Acquired Business).

Operating results from Williams Canada have been included in the consolidated financial statements since September 23, 2016, contributing $5.8 million to revenue and a $0.6 million loss to net income, from the date of acquisition to September 30, 2016. If the Acquisition had taken place on January 1, 2016, for the nine months ended September 30, 2016,

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

† Please refer to the NON-GAAP FINANCIAL MEASURES section

management estimates that Williams Canada would have contributed an incremental $128.7 million to pro forma revenue and a $32.9 million loss to pro forma net income. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the Acquisition been effective on the date indicated, or of future results.

The Acquisition was accounted for by the acquisition method as at the closing date of September 23, 2016. Determinations of fair value often require management to make assumptions and estimates about future events. The purchase price allocation is preliminary as Inter Pipeline is working to determine the fair value of assets acquired and liabilities assumed at the acquisition date. Changes in any of the assumptions or estimates used in determining the fair values of the acquired assets and liabilities, including closing adjustments and detailed valuation procedures, could positively or negatively impact the carrying amounts assigned. The following table presents the provisional purchase price allocation based on the best information available to date:

Cash	$	46.8
Restricted cash(1)		105.0
Property, plant and equipment		898.6
Intangible asset(2)		168.6
Deferred tax asset		219.0
Non-cash working capital		(12.1)
Decommissioning obligation		(42.3)
	$	1,383.6

(1) On the date of acquisition, $105 million of the $1.38 billion cash consideration was transferred to an escrow account. This amount will be returned to Inter Pipeline if royalty credits, under the Alberta Government's Petrochemical Diversification Program, are not awarded to Williams Canada by March 31, 2017.

(2) A customer contract intangible asset has been recorded due to the off-market nature of the economic terms of an agreement for a sustained period of time. The intangible asset will be amortized over the life of the contract.

Other Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2016**	2015	**2016**	2015
Income tax expense	**$ 34.9**	$ 38.7	**$ 104.0**	$ 144.4
Depreciation and amortization	**54.8**	50.0	**164.9**	135.9
Financing charges	**35.9**	35.6	**106.2**	103.6
General and administrative	**28.4**	16.0	**98.1**	55.7
Loss on disposal of assets	**0.1**	2.5	**2.2**	5.0
Unrealized change in fair value of derivative financial instruments	**-**	0.2	**-**	(0.1)

Income Tax Expense

In the three and nine months ended September 30, 2016, consolidated income tax expense decreased $3.8 million and $40.4 million, respectively, compared to the same periods in 2015. The decrease in the third quarter is due to lower consolidated income before income taxes; while the decrease year to date in 2016 is primarily due to one-time deferred income tax expense of $35.9 million recognized in the second quarter of 2015 for the increase in Alberta provincial corporate tax rate from 10% to 12%.

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets increased $4.8 million and $29.0 million in the three and nine months ended September 30, 2016, respectively, compared to the same periods in 2015. This increase is primarily due to new assets now in service, accelerated amortization of certain intangible assets in the NGL processing business and depreciation of assets acquired with Williams Canada. The year to date increase is also due to depreciation of assets acquired with Inter Terminals Sweden for the entire period in 2016, as opposed to from the acquisition date of June 2015.

Financing Charges

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2016**	2015	**2016**	2015
Interest on credit facilities	**$ 8.6**	$ 8.7	**$ 25.3**	$ 26.6
Interest on Corridor Debentures	**1.8**	1.9	**5.5**	5.7
Interest on Medium-Term Notes Series 1 to 8	**24.0**	23.6	**71.2**	68.8
Total interest	**34.4**	34.2	**102.0**	101.1
Capitalized interest	**(0.1)**	(0.1)	**(0.4)**	(1.9)
Amortization of transaction costs on financial debt	**0.9**	0.8	**2.5**	2.4
Accretion of provisions and pension plan funding charges	**0.7**	0.7	**2.1**	2.0
Total financing charges	**$ 35.9**	$ 35.6	**$ 106.2**	$ 103.6

Total financing charges increased $0.3 million and $2.6 million in the three and nine months ended September 30, 2016, respectively, from the comparable periods in 2015.

Interest on medium-term notes increased $0.4 million in the current quarter and $2.4 million year to date in 2016, over the comparable periods in 2015, due to the timing of issuance of Series 7 on March 23, 2015 and Series 8 on September 13, 2016.

Capitalized interest was the same for the third quarter of 2015 and 2016 and decreased $1.5 million year to date in 2016, from the same period in 2015, as there were fewer capital projects with related interest costs being capitalized.

Interest on credit facilities was comparable in the third quarter of 2016 and 2015 with a decrease of $0.1 million, while year to date in 2016 decreased $1.3 million primarily due to lower weighted average short-term interest rates, compared to the same period in 2015.

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

General and Administrative

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2016**	2015	**2016**	2015
Canada	**$ 20.9**	$ 9.9	**$ 75.9**	$ 39.6
Europe	**7.5**	6.1	**22.2**	16.1
	$ 28.4	$ 16.0	**$ 98.1**	$ 55.7

Canadian general and administrative expenses increased $11.0 million in the current quarter and $36.3 million year to date in 2016, from the same periods in 2015. The increase is largely due to higher employee costs and rent expense, as well as acquisition related costs. Higher employee costs primarily arose from increased long-term incentive plan expense due to a larger increase in Inter Pipeline's share price during the third quarter and year to date in 2016, compared to the same periods in 2015. Rent costs increased as Inter Pipeline's head office was relocated to new premises in the first quarter of 2016, and was also impacted on a year to date basis by a one-time adjustment in rent expense of $14.9 million in the first quarter of 2016, for the difference between future lease obligations and the estimated sublease recoveries as the previous non-cancellable office leases were deemed to be onerous contracts.

In the three and nine months ended September 30, 2016, European general and administrative costs increased $1.4 million and $6.1 million, respectively, over the same periods in 2015. The increase is primarily due to the inclusion of general and administrative costs from Inter Terminals Sweden.

Loss on Disposal of Assets

Inter Pipeline incurred a loss on disposal of assets of $0.1 million in the current quarter and $2.2 million year to date in 2016 which was due to a turbine exchange in the NGL processing business, and the disposal and de-recognition of certain assets in the bulk liquid storage business.

SUMMARY OF QUARTERLY RESULTS

	2014	2015				2016		
(millions, except volume, per share and % amounts)	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**First Quarter**	**Second Quarter**	**Third Quarter**
Pipeline volumes *(000s b/d)* (1)								
Oil sands transportation	1,023.9	1,097.7	853.9	1,119.9	1,111.8	**1,104.2**	**1,012.6**	**1,093.3**
Conventional oil pipelines	213.2	214.2	208.5	209.4	214.8	**208.5**	**201.3**	**192.8**
Total pipeline volumes	1,237.1	1,311.9	1,062.4	1,329.3	1,326.6	**1,312.7**	**1,213.9**	**1,286.1**
NGL processing volumes *(000s b/d)* (1)(2)								
Ethane	66.6	71.0	56.3	62.0	59.1	**60.9**	**51.9**	**58.0**
Propane-plus	36.8	42.0	34.1	40.8	41.3	**44.9**	**42.2**	**42.5**
Total NGL processing volumes	103.4	113.0	90.4	102.8	100.4	**105.8**	**94.1**	**100.5**
Utilization								
Bulk liquid storage	84%	90%	93%	93%	97%	**98%**	**97%**	**98%**
Revenue								
Oil sands transportation	$ 140.5	$ 177.4	$ 182.7	$ 195.2	$ 213.4	**$ 191.6**	**$ 193.3**	**$ 192.9**
Conventional oil pipelines	87.1	77.8	74.7	80.9	89.0	**$ 81.5**	**$ 85.6**	**$ 86.9**
Bulk liquid storage	39.5	48.1	44.4	57.1	64.8	**$ 65.8**	**$ 61.3**	**$ 61.0**
NGL processing	123.0	102.5	88.8	91.0	88.5	**$ 77.5**	**$ 72.8**	**$ 93.7**
	$ 390.1	$ 405.8	$ 390.6	$ 424.2	$ 455.7	**$ 416.4**	**$ 413.0**	**$ 434.5**
Funds from operations (3)								
Oil sands transportation	$ 97.2	$ 130.2	$ 135.0	$ 146.1	$ 157.8	**$ 139.4**	**$ 141.4**	**$ 142.3**
Conventional oil pipelines	46.8	46.8	46.5	49.8	51.5	**$ 50.0**	**$ 47.1**	**$ 49.1**
Bulk liquid storage	15.8	20.5	20.6	29.0	28.2	**$ 31.3**	**$ 29.6**	**$ 30.2**
NGL processing	24.7	28.7	23.3	23.6	25.2	**$ 23.6**	**$ 30.5**	**$ 28.7**
Corporate costs	(24.8)	(49.7)	(44.4)	(43.3)	(51.3)	**$ (58.3)**	**$ (51.9)**	**$ (38.9)**
	$ 159.7	$ 176.5	$ 181.0	$ 205.2	$ 211.4	**$ 186.0**	**$ 196.7**	**$ 211.4**
Per share (3)	$ 0.49	$ 0.53	$ 0.54	$ 0.61	$ 0.63	**$ 0.55**	**$ 0.58**	**$ 0.62**
Net income	$ 79.6	$ 122.8	$ 73.8	$ 128.4	$ 138.0	**$ 104.6**	**$ 122.9**	**$ 121.3**
Net income attributable to shareholders	$ 75.6	$ 113.7	$ 65.3	$ 118.7	$ 129.7	**$ 95.8**	**$ 114.4**	**$ 113.7**
Per share – basic	$ 0.24	$ 0.34	$ 0.19	$ 0.35	$ 0.39	**$ 0.28**	**$ 0.34**	**$ 0.34**
Per share – diluted	$ 0.23	$ 0.34	$ 0.19	$ 0.35	$ 0.39	**$ 0.28**	**$ 0.34**	**$ 0.34**
Dividends to shareholders (4)	$ 114.9	$ 121.8	$ 123.1	$ 123.5	$ 128.7	**$ 131.3**	**$ 131.4**	**$ 131.4**
Per share (4)	$ 0.3525	$ 0.3675	$ 0.3675	$ 0.3675	$ 0.3825	**$ 0.3900**	**$ 0.3900**	**$ 0.3900**
Shares outstanding (basic)								
Weighted average	325.8	331.5	334.8	335.8	336.3	**336.6**	**336.8**	**338.7**
End of period	326.2	334.2	335.3	336.2	336.4	**336.7**	**336.9**	**359.5**
Capital expenditures (5)								
Growth (3)	$ 150.3	$ 132.5	$ 67.8	$ 43.4	$ 52.6	**$ 32.2**	**$ 27.7**	**$ 40.8**
Sustaining (3)	12.7	9.5	10.0	12.3	27.8	**18.0**	**10.0**	**8.1**
	$ 163.0	$ 142.0	$ 77.8	$ 55.7	$ 80.4	**$ 50.2**	**$ 37.7**	**$ 48.9**
Payout ratio (3)	74.0%	73.3%	71.9%	63.6%	63.8%	**74.6%**	**70.3%**	**64.8%**
Total assets	$ 8,647.2	$ 8,733.8	$ 8,955.5	$ 9,010.4	$ 9,029.4	**$ 8,921.9**	**$ 8,869.7**	**$ 10,141.0**
Total debt (6)	$ 4,590.7	$ 4,680.7	$ 4,865.1	$ 4,876.2	$ 4,851.7	**$ 4,850.2**	**$ 4,832.7**	**$ 5,596.6**
Total shareholders' equity	$ 2,548.1	$ 2,737.6	$ 2,732.2	$ 2,805.4	$ 2,821.1	**$ 2,752.9**	**$ 2,692.8**	**$ 3,269.9**
Enterprise value (3)	$ 16,314.8	$ 15,590.4	$ 14,487.4	$ 13,153.2	$ 12,323.7	**$ 13,857.0**	**$ 14,064.4**	**$ 15,555.0**
Consolidated Net Debt to Total Capitalization (3)	52.2%	51.4%	52.8%	52.7%	52.8%	**53.8%**	**54.2%**	**54.5%**

(1) Cold Lake volumes and Empress V NGL production reported on a 100% basis.

(2) Average quarterly throughput volumes from the recently acquired Williams Canada offgas processing have not been included in the table above as only eight days of operations from the closing date of the acquisition are included in Inter Pipeline's September 30, 2016 results and therefore would not contain any meaningful information.

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

(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 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 September 30, 2016, Inter Pipeline had access to committed credit facilities totaling $3.05 billion, of which $563.9 million remained unutilized, and demand facilities totaling $99.0 million of which $98.7 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three and nine months ended September 30, 2016, approximately $4.2 million and $16.3 million, respectively, of equity was issued through the dividend reinvestment plan. Effective with the October dividend announced on October 5, 2016, Inter Pipeline re-instated the premium component of its Premium Dividend™ and Dividend Reinvestment Plan.

On August 17, 2016, Inter Pipeline completed an offering of 22.4 million subscription receipts at a price of $26.75 per subscription receipt for total gross proceeds of $600.0 million. Each subscription receipt entitled the holder to receive one common share of Inter Pipeline upon closing of the Acquisition. Subscription Receipt holders received dividend equivalent payments per subscription receipt equal to dividends declared on each common share. On September 23, 2016 the subscription receipts were exchanged for common shares of Inter Pipeline in accordance with the terms of the subscription receipt agreement and were delisted from the TSX. Net proceeds from the equity offering were used to partially fund the Acquisition.

On August 30, 2016 Inter Pipeline increased its syndicated credit facility by $250 million, from $1.25 billion to $1.5 billion. The term of the credit facility remains unchanged with a maturity date of December 4, 2020, which can be extended further upon certain conditions.

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

TM denotes trademark of Canaccord Genuity Corp.

On September 13, 2016, Inter Pipeline issued $350.0 million senior unsecured medium-term notes Series 8 due September 13, 2023, in the Canadian public debt market. The medium-term notes Series 8 bear interest at a fixed rate of 2.608% per annum, payable semi-annually. Net proceeds from the offering were used to partially fund the Acquisition.

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 a result of the subscription receipt offering in August 2016 and the medium-term note offering in September 2016, the amount of Securities that can be issued under the shelf prospectus and related prospectus supplements has been reduced to $2.05 billion.

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

(millions)	Recourse	Non-recourse	September 30 **2016**	December 31 2015
Credit facilities available				
Corridor syndicated credit facility	$ -	$ 1,550.0	**$ 1,550.0**	$ 1,550.0
Inter Pipeline syndicated credit facility(1)	1,500.0	-	**1,500.0**	1,250.0
	1,500.0	1,550.0	**3,050.0**	2,800.0
Demand facilities(2)	74.0	25.0	**99.0**	105.8
	$ 1,574.0	$ 1,575.0	**$ 3,149.0**	$ 2,905.8
Total debt outstanding				
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility			**$ 1,120.0**	$ 664.0
Medium-Term Notes Series 1 to 8(4)			**2,975.0**	2,625.0
Inter Terminals demand facility(1)			**-**	26.5
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility			**1,351.6**	1,386.2
Corridor Debentures			**150.0**	150.0
Total debt outstanding(3)(5)			**$ 5,596.6**	$ 4,851.7

(1) On August 30, 2016 Inter Pipeline increased the size of its syndicated credit facility from $1.25 billion to $1.5 billion.

(2) 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 converted at a Pound Sterling/CAD rate of 1.7004 at September 30, 2016.

(3) At September 30, 2016, outstanding Inter Pipeline letters of credit of approximately $14.8 million were not included in total debt outstanding.

(4) On September 13, 2016, Inter Pipeline issued $350 million of medium-term notes Series 8.

(5) Financial debt reported in the September 30, 2016 consolidated financial statements of $5,577.4 million, includes long-term debt, short-term debt and commercial paper outstanding of $5,596.6 million less discounts and debt transaction costs of $19.2 million.

Inter Pipeline's debt outstanding at September 30, 2016, matures at various dates up to May 2044 as follows:

(millions)		Amount	Rate	Maturity date
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility	$	1,120.0	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
Series 8		350.0	2.608%	September 13, 2023
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility		1,351.6	Variable	December 13, 2019
Corridor Debentures		150.0	4.897%	February 3, 2020

Financial Covenants

Inter Pipeline was in compliance with all covenants under its credit facilities and medium-term notes as at September 30, 2016.

The following table provides a listing of the key financial covenants as at September 30, 2016:

	Maximum Ratio	September 30 2016
Inter Pipeline Ltd.		
Inter Pipeline syndicated credit facility		
Consolidated Net Debt to Total Capitalization(1)(2)(3)(4)	65%	54.5%
Medium-Term Notes Series 1 to 8		
Funded Debt to Total Capitalization(2)(5)(6)	70%	52.8%
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 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 September 30, 2016, approximately $2,871.6 million or 51.3% of Inter Pipeline's total debt outstanding was exposed to variable interest rates. Of this amount $1,351.6 million or 47.1% 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 September 30, 2016 and December 31, 2015.

	Twelve Months Ended	
	September 30	December 31
(times)	**2016**	2015
Interest coverage(1)(2)	**5.3**	5.4

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

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's expected capital spending profile and future contractual obligations at September 30, 2016. 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)	$ 321.4	$ 13.2	$ 264.4	$ 43.8
Conventional oil pipelines	6.8	6.6	0.2	-
Bulk liquid storage	39.7	25.2	14.5	-
NGL processing	293.0	30.0	263.0	-
Growth capital funded by Inter Pipeline(2)(3)	660.9	75.0	542.1	43.8
Sustaining capital funded by Inter Pipeline(2)(3)	31.8	31.8	-	-
	692.7	106.8	542.1	43.8
Total debt(4)(5)(6)				
Corridor syndicated credit facility(5)	1,351.6	1,351.6	-	-
Inter Pipeline syndicated credit facility	1,120.0	-	1,120.0	-
Corridor Debentures	150.0	-	150.0	-
Medium-Term Notes Series 1 to 8	2,975.0	400.0	1,025.0	1,550.0
	5,596.6	1,751.6	2,295.0	1,550.0
Other obligations				
Operating leases	342.8	7.0	107.4	228.4
Purchase obligations	240.8	41.5	78.6	120.7
Long-term portion of incentive plan	8.6	-	8.6	-
Adjusted working capital deficit(3)	24.1	24.1	-	-
	$ 6,905.6	$ 1,931.0	$ 3,031.7	$ 1,942.9

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

(2) Inter Pipeline's expected growth and sustaining capital(3) spending profile including the 15% non-controlling interest in Cold Lake is $730.5 million.

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

(4) At September 30, 2016, outstanding Inter Pipeline letters of credit of approximately $14.8 million were not included in total debt outstanding. Financial debt reported in the September 30, 2016 consolidated financial statements of $5,577.4 million, includes long-term debt, short-term debt and commercial paper of $5,596.6 million less discounts and debt transaction costs of $19.2 million.

(5) 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.

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 $35.1 million under its employee long-term incentive plan, of which $26.5 million is included in the working capital deficit*.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

(iv) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL processing plants and facilities and leased bulk liquid storage sites and remediation of known environmental liabilities is $147.7 million at September 30, 2016. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended September 30		Nine Months Ended September 30	
(millions, except per share and % amounts)	**2016**	2015	**2016**	2015
Cash provided by operating activities	**$ 218.1**	$ 204.7	**$ 606.4**	$ 526.6
Net change in non-cash operating working capital	**(6.7)**	0.5	**(12.3)**	36.1
Less funds from operations(1) attributable to non-controlling interest	**(8.7)**	(11.2)	**(28.5)**	(31.2)
Funds from operations(1) attributable to shareholders	**$ 202.7**	$ 194.0	**$ 565.6**	$ 531.5
Dividends to shareholders	**$ 131.4**	$ 123.5	**$ 394.1**	$ 368.4
Dividends per share(2)	**$ 0.3900**	$ 0.3675	**$ 1.1700**	$ 1.1025
Payout ratio(1)	**64.8%**	63.6%	**69.7%**	69.3%

(1) Please refer to the NON-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 objective is to provide shareholders with stable dividends over economic and industry cycles. 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 a non-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 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 September 30		Nine Months Ended September 30	
(millions)	**2016**	2015	**2016**	2015
Cash provided by operating activities	**$ 218.1**	$ 204.7	**$ 606.4**	$ 526.6
Less cash provided by operating activities attributable to non-controlling interest	**(8.2)**	(11.0)	**(28.3)**	(29.4)
Dividends to shareholders	**(131.4)**	(123.5)	**(394.1)**	(368.4)
Excess	**$ 78.5**	$ 70.2	**$ 184.0**	$ 128.8

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2016**	2015	**2016**	2015
Net income attributable to shareholders	**$ 113.7**	$ 118.7	**$ 323.9**	$ 297.7
Dividends to shareholders	**(131.4)**	(123.5)	**(394.1)**	(368.4)
Shortfall	**$ (17.7)**	$ (4.8)	**$ (70.2)**	$ (70.7)

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 as net income also includes certain non-cash expenses such as depreciation and amortization, deferred income taxes and unrealized changes in the fair value of derivative financial instruments.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at September 30, 2016 are as follows:

(millions)	Total
Common shares outstanding	359.5

At November 1, 2016, Inter Pipeline had 359.6 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 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 September 30, 2016. 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 Processing Business

FRAC-SPREAD RISK MANAGEMENT

Inter Pipeline is exposed to frac-spread risk being the difference between the selling prices for NGL and olefins products and the input cost of the natural gas required to produce the respective NGL and olefins products. Cochrane frac-spread risk is the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Derivative financial instruments may be utilized to manage frac-spread risk. As at September 30, 2016, 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 processing and conventional oil pipelines business segments. When deemed appropriate, Inter Pipeline enters into financial heat rate swap and power price swap contracts to manage power price risk exposure in these businesses. As at September 30, 2016, 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 September 30, 2016, 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 or cross-currency swap agreements to manage its interest rate price risk exposure. As at September 30, 2016, there are no interest rate hedges outstanding.

Based on the variable rate obligations outstanding at September 30, 2016, a 1% change in interest rates at this date would have changed interest expense for the three and nine months ended September 30, 2016, by approximately $7.2 million and $21.5 million, respectively, assuming all other variables remain constant. Of this amount, $3.4 million and $10.1 million for the three and nine months ended September 30, 2016, respectively, relate to Corridor's syndicated credit facility and is recoverable through the terms of the Corridor FSA. The after-tax income impact for the three and nine months ended September 30, 2016 would be $2.8 million and $8.3 million, respectively.

Credit Risk

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL processing business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At September 30, 2016, accounts receivable associated with these two business segments were $140.8 million or 71.8% 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 September 30, 2016, accounts receivable outstanding meeting the definition of either past due or impaired are insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three and nine month periods ended September 30, 2016 or 2015.

CONTROLS AND PROCEDURES

There have been no significant changes in Inter Pipeline's internal control over financial reporting (ICFR) during the period June 30, 2016 to September 30, 2016 that have materially affected, or are reasonably likely to materially affect, Inter Pipeline's ICFR.

Management has limited the scope of their design of disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of the recently acquired Williams Canada, the results of which are consolidated in Inter Pipeline's interim financial statements at September 30, 2016. See the NGL Processing Business Segment in the **RESULTS OF OPERATIONS** section of this report for further information regarding the Williams Canada acquisition.

In September 2016, Inter Pipeline acquired Williams Canada. Where possible, Williams Canada has adopted Inter Pipeline's DC&P and ICFR. For business processes unique to Williams Canada, management is committed to completing DC&P and ICFR before the end of the third quarter of the 2017 fiscal year.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's interim financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 3 *Summary of Significant Accounting Policies* of the December 31, 2015 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

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

Inter Pipeline's interim financial statements for the three and nine months ended September 30, 2016 have been presented in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting* and have been prepared by management following the same accounting policies and methods of computation as disclosed in the audited consolidated financial statements for the year ended December 31, 2015.

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

During the third quarter of 2016, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2015 annual MD&A, other than the following risk factors as they pertain to the acquisition of Williams Canada.

Risks Relating to the Acquired Business

Offgas Availability and Composition

The volumes of offgas processed by the Liquid Extractions Plants, which are part of the Acquired Business, depend on volumes available from the Suncor oil sands upgraders and the CNR Horizon oil sands upgrader from which the extraction plants source their offgas supply. The production of NGL and olefins from the extraction plants is largely dependent on the quantity and composition of the NGL and olefins within the offgas. The quantity and composition may vary over time which could have a materially negative effect on production from the extraction plants.

Frac-spread and Commodity Prices

The Acquired Entities midstream operations are exposed to possible price fluctuations between the time it processes offgas feedstock and sells olefinic and NGL products. Olefinic frac-spread is the difference between the selling prices for olefins and NGL products and the input cost of the natural gas required to produce the respective olefins and NGL products. The frac-spread can change significantly from period to period depending on the relationship between crude oil and natural gas prices, absolute commodity prices, and changes in the Canadian to U.S. dollar foreign exchange rate. The amount of profit or loss of the Acquired Business will generally increase or decrease with the frac-spread.

Counterparty and Recontracting Risk

The Acquired Business has contractual relationships with producers for the delivery of offgas feedstock. If the producers do not fulfill their contractual obligations, Inter Pipeline may not be able to source offgas feedstock and may therefore not be able to operate the Acquired Business, causing us to suffer financial losses. The Acquired Business is subject to recontracting risk upon the expiry of long-term offgas supply contracts. The ability to recontract economic volumes of offgas feedstock will be dependent on the viable production and upgrading of bitumen at the Suncor and CNRL oil sands sites.

Reliance on Principal Customers and Operators

The Acquired Business relies on NOVA Chemicals Corporation (Nova) to purchase ethane-ethylene produced at the Redwater Olefinic Fractionator, which is operated by Pembina Pipeline Corporation (Pembina). If for any reason Nova or Pembina is unable to perform their obligations under the agreements with Acquired Business, the revenue and the operations of the Acquired Business could be negatively impacted.

The Integration of the Acquired Business in Inter Pipeline following the closing of the Acquisition

Achieving the anticipated benefits of the Acquisition will depend in part upon whether Inter Pipeline can integrate the Acquired Business in an effective and efficient manner. The integration of any business may be complex and time-consuming. An inability to realize the full extent of the anticipated benefits of the Acquisition, as well as any delays encountered in the integration process and the realization of such benefits, could have an adverse effect upon the revenues, level of expenses and operating results of Inter Pipeline.

Completion and Success of PDH and Polypropylene Opportunity

There can be no assurance that Inter Pipeline will proceed to develop the PDH and polypropylene facilities; all necessary regulatory approvals can be obtained to develop and construct the PDH and polypropylene facilities; or that these facilities will achieve the anticipated benefits including royalty credits from the Alberta Government Petrochemical Diversification Program. An inability to complete or realize the anticipated benefits of the PDH and polypropylene facilities could have an adverse effect upon the operating results of Inter Pipeline.

Income Tax Laws

There can be no assurance that the Canada Revenue Agency or other applicable taxing authorities will agree with the expected tax benefits of the Acquisition. Furthermore, there can be no assurance that applicable Canadian income tax laws, regulations or tax treaties will not be changed or interpreted in a manner, or that applicable taxing authorities will not take administrative positions, that may be adverse to Inter Pipeline and its shareholders following completion of the Acquisition.

Increased Indebtedness

Inter Pipeline drew down approximately $400 million under its revolving credit facility and issued approximately $350 million of medium term notes. Such additional indebtedness increased Inter Pipeline’s interest expense and debt service obligations and may have a negative effect on Inter Pipeline’s results of operations. The increased indebtedness will also make Inter Pipeline’s results more sensitive to increases in interest rates. There is no guarantee that Inter Pipeline will be able to obtain additional indebtedness or other financing on terms favourable to us or at all in order to repay the principal on such indebtedness when it becomes due.

Information provided by the Sellers

All information relating to the Acquired Entities is based on public filings and other information provided by the Sellers. Although Inter Pipeline has conducted what it believes to be a prudent and thorough level of investigation in connection with the Acquisition, an unavoidable level of risk remains regarding the accuracy and completeness of such information.

Potential Undisclosed Liabilities Associated with the Acquisition

In connection with the Acquisition, there may be liabilities that Inter Pipeline failed to discover or were unable to quantify in Inter Pipeline's due diligence which Inter Pipeline conducted prior to the Acquisition or which may have been worse than anticipated and Inter Pipeline may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on Inter Pipeline's business. In addition, the Acquisition Agreement limits the amount for which Inter Pipeline is indemnified, such that liabilities in respect of the Acquired Business may be greater than the amounts for which Inter Pipeline are indemnified under the Acquisition Agreement.

Realization of Acquisition Benefits

There is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods Inter Pipeline anticipate. The realization of such benefits may be affected by a number of factors, many of which are beyond Inter Pipeline's control.

Entry into New Business Activities

The Acquisition will result in a combination of the current business activities currently carried on by each of Inter Pipeline and the Acquired Entities as separate entities. The combination of these activities may expose shareholders to different business risks than those to which they were exposed prior to the Acquisition. As a result of the changing risk profile, Inter Pipeline may be subject to review of its credit ratings, which may result in a downgrade or negative outlook being assigned to its credit rating.

NON-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", "funds from operations", "funds from operations per share", "growth capital expenditures", "sustaining capital expenditures", "interest coverage", and "payout ratio" are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

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

Adjusted working capital 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.

(millions)	September 30 **2016**	December 31 2015
Current assets		
Cash and cash equivalents	**$ 70.4**	$ 40.3
Accounts receivable	**196.2**	183.1
Prepaid expenses and other deposits	**18.7**	26.3
Inventory	**11.1**	0.6
Current liabilities		
Dividends payable	**(43.8)**	(43.8)
Accounts payable, accrued liabilities and provisions	**(230.4)**	(220.6)
Current income taxes payable	**(25.1)**	(29.6)
Deferred revenue	**(21.2)**	(7.5)
Adjusted working capital deficiency	**$ (24.1)**	$ (51.2)

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 September 30		Nine Months Ended September 30	
(millions)	**2016**	2015	**2016**	2015
Net income	**$ 121.3**	$ 128.4	**$ 348.8**	$ 325.0
Financing charges	**35.9**	35.6	**106.2**	103.6
Current income tax expense	**16.0**	16.4	**56.7**	44.7
Deferred income tax expense	**18.9**	22.3	**47.3**	99.7
Depreciation and amortization	**54.8**	50.0	**164.9**	135.9
EBITDA	**$ 246.9**	$ 252.7	**$ 723.9**	$ 708.9
Loss on disposal of assets	**0.1**	2.5	**2.2**	5.0
Non-cash financing charges	**(1.6)**	(1.6)	**(4.6)**	(4.5)
Non-cash expense (recovery)	**1.7**	1.8	**16.3**	(2.8)
Unrealized change in fair value of derivative financial instruments	**-**	0.2	**-**	(0.1)
Proceeds from long-term lease inducements	**14.6**	-	**14.6**	-
Adjusted EBITDA	**$ 261.7**	$ 255.6	**$ 752.4**	$ 706.5
Less adjusted EBITDA attributable to non-controlling interest	**(8.8)**	(11.1)	**(28.6)**	(31.2)
Adjusted EBITDA attributable to shareholders	**$ 252.9**	$ 244.5	**$ 723.8**	$ 675.3

Adjusted EBITDA by contract type is a percentage of adjusted EBITDA, reconciled in the table above, based on (i) cost-of-service contracts which generally provide for a return on invested capital and recovery of substantially all operating costs. This includes both cost-of-service contracts (agreements that are not impacted by throughput volume or commodity price fluctuations) and modified cost-of-service contracts (agreements that may have throughput volume exposure in certain circumstances) collectively referred to as cost-of-service contracts, (ii) fee-based contracts are generally subject to throughput volume and operating cost exposure, but not commodity price fluctuations, and (iii) commodity-based contracts are generally subject to throughput volume, operating cost and commodity price fluctuations. This measure, in combination with other measures, is used by the investment community to assess the overall stability and predictability of the business.

	Nine Months Ended September 30	
	2016	2015
Adjusted EBITDA by contract type		
Cost-of-service	**61%**	63%
Fee-based	**30%**	30%
Commodity-based	**9%**	7%

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

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:

(millions, except per share amounts)	September 30 **2016**	December 31 2015
Closing share price	**$ 27.70**	$ 22.21
Total closing number of common shares outstanding	**359.5**	336.4
	9,958.4	7,472.0
Total debt	**5,596.6**	4,851.7
Enterprise value	**$ 15,555.0**	$ 12,323.7

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

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2016**	2015	**2016**	2015
Net income	**$ 121.3**	$ 128.4	**$ 348.8**	$ 325.0
Depreciation and amortization	**54.8**	50.0	**164.9**	135.9
Loss on disposal of assets	**0.1**	2.5	**2.2**	5.0
Non-cash expense (recovery)	**1.7**	1.8	**16.3**	(2.8)
Unrealized change in fair value of derivative financial instruments	**-**	0.2	**-**	(0.1)
Deferred income tax expense	**18.9**	22.3	**47.3**	99.7
Proceeds from long-term lease inducements	**14.6**	-	**14.6**	-
Funds from operations	**$ 211.4**	$ 205.2	**$ 594.1**	$ 562.7
Less funds from operations attributable to non-controlling interest	**(8.7)**	(11.2)	**(28.5)**	(31.2)
Funds from operations attributable to shareholders	**$ 202.7**	$ 194.0	**$ 565.6**	$ 531.5
Funds from operations	**$ 211.4**	$ 205.2	**$ 594.1**	$ 562.7
Total interest less capitalized interest	**34.3**	34.0	**101.6**	99.1
Current income tax expense	**16.0**	16.4	**56.7**	44.7
Adjusted EBITDA	**$ 261.7**	$ 255.6	**$ 752.4**	$ 706.5
Less adjusted EBITDA attributable to non-controlling interest	**(8.8)**	(11.1)	**(28.6)**	(31.2)
Adjusted EBITDA attributable to shareholders	**$ 252.9**	$ 244.5	**$ 723.8**	$ 675.3

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.

(millions)	Three Months Ended September 30 Growth		Sustaining		2016 Total		2015 Total
Oil sands transportation	**$**	**4.2**	**$**	**0.5**	**$**	**4.7**	$ 20.7
Conventional oil pipelines		**14.1**		**1.4**		**15.5**	18.7
Bulk liquid storage		**21.4**		**2.4**		**23.8**	10.3
NGL processing		**1.1**		**1.2**		**2.3**	0.9
Corporate		**-**		**2.6**		**2.6**	5.1
Capital expenditures	**$**	**40.8**	**$**	**8.1**	**$**	**48.9**	$ 55.7
Capital expenditures funded by Inter Pipeline(1)	**$**	**40.3**	**$**	**8.0**	**$**	**48.3**	$ 54.9

(millions)	Nine Months Ended September 30 Growth		Sustaining		2016 Total		2015 Total
Oil sands transportation	**$**	**11.6**	**$**	**0.8**	**$**	**12.4**	$ 127.6
Conventional oil pipelines		**47.5**		**3.2**		**50.7**	105.3
Bulk liquid storage		**39.8**		**6.1**		**45.9**	24.9
NGL processing		**1.8**		**8.5**		**10.3**	6.4
Corporate(2)		**-**		**17.5**		**17.5**	11.3
Capital expenditures	**$**	**100.7**	**$**	**36.1**	**$**	**136.8**	$ 275.5
Capital expenditures funded by Inter Pipeline(1)	**$**	**99.8**	**$**	**36.0**	**$**	**135.8**	$ 268.2

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

(2) Corporate sustaining capital predominately relates to leasehold improvement costs for the new office space.

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 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 3rd day of November, 2016