



## Management's Discussion and Analysis

For the three months ended March 31, 2017

## 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 month period ended March 31, 2017, to provide readers with information about Inter Pipeline, including management's assessment of its future plans and operations. This information may not be appropriate for other purposes. This MD&A contains certain forward-looking statements or information (collectively referred to as "forward-looking statements") within the meaning of applicable securities legislation. All statements, other than statements of historical fact included in 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, growth and development 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; 5) capital expenditure forecasts; 6) the future value of petrochemicals and natural gas liquids (NGL); and 7) the plans and forecasts described under the **OUTLOOK** section.

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, NGL processing 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 month period ended March 31, 2017

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period ended March 31, 2017, as compared to the three month period ended March 31, 2016. The MD&A should be read in conjunction with the March 31, 2017 unaudited condensed interim consolidated financial statements (interim financial statements), the interim financial statements and MD&A for the quarterly period ended March 31, 2016, the audited consolidated financial statements and MD&A for the year ended December 31, 2016, the **Annual Information Form**, and other information filed by Inter Pipeline at [www.sedar.com](http://www.sedar.com).

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

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

- Funds from operations (FFO) totalled \$247 million, a 33 percent increase over first quarter 2016
- FFO for the NGL processing business segment set a new record of \$82 million, an increase of \$58 million over the same period last year
- Net income for the quarter was a record \$140 million
- Declared cash dividends of \$150 million, or \$0.405 per share
- Attractive quarterly payout ratio<sup>\*</sup> of 61 percent
- Record total pipeline throughput volumes, averaged 1,461,300 barrels per day (b/d)

## SUBSEQUENT EVENT

- Issued \$500 million of senior medium-term notes at an attractive interest rate of 2.734%

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

## PERFORMANCE OVERVIEW

	Three Months Ended March 31	
<i>(millions, except volumes, per share and % amounts)</i>	2017	2016
Pipeline volumes (000s b/d) <sup>(1)</sup>		
Oil sands transportation	1,251.4	1,104.2
Conventional oil pipelines	209.9	208.5
Total pipeline volumes	1,461.3	1,312.7
NGL processing volumes (000s b/d) <sup>(1)</sup>		
Natural gas processing - Ethane	61.1	60.9
Natural gas processing - Propane-plus	42.9	44.9
Redwater Olefinic Fractionator sales volume	31.6	-
Total NGL processing volumes	135.6	105.8
Utilization		
Bulk liquid storage	99%	98%
Revenue		
Oil sands transportation	\$ 191.1	\$ 191.6
NGL processing	213.4	77.5
Conventional oil pipelines	118.7	81.5
Bulk liquid storage	55.5	65.8
	\$ 578.7	\$ 416.4
Funds from operations <sup>(2)</sup>		
Oil sands transportation <sup>(2)</sup>	\$ 148.2	\$ 139.4
NGL processing	81.9	23.6
Conventional oil pipelines	53.4	50.0
Bulk liquid storage	26.2	31.3
Corporate costs	(62.8)	(58.3)
	\$ 246.9	\$ 186.0
Per share <sup>(3)</sup>	\$ 0.67	\$ 0.55
Net income	\$ 140.0	\$ 104.6
Net income attributable to shareholders	\$ 140.0	\$ 95.8
Per share – basic	\$ 0.38	\$ 0.28
Per share – diluted	\$ 0.38	\$ 0.28
Dividends to shareholders	\$ 149.7	\$ 131.3
Per share <sup>(4)</sup>	\$ 0.4050	\$ 0.3900
Shares outstanding (basic)		
Weighted average	369.2	336.6
End of period	370.7	336.7
Capital expenditures <sup>(5)</sup>		
Growth <sup>(3)</sup>	\$ 52.7	\$ 32.2
Sustaining <sup>(3)</sup>	10.3	18.0
	\$ 63.0	\$ 50.2
Payout ratio <sup>(3)</sup>	60.6%	74.6%
	As at	As at
	March 31	December 31
<i>(millions, except % amounts)</i>	2017	2016
Total assets	\$ 10,134.9	\$ 10,151.6
Total debt <sup>(6)</sup>	\$ 5,732.5	\$ 5,828.6
Total equity	\$ 3,261.4	\$ 3,187.9
Enterprise value <sup>(3)</sup>	\$ 16,122.5	\$ 16,732.5
Consolidated Net Debt to Total Capitalization <sup>(3)</sup>	56.2%	57.2%

- (1) Cold Lake volumes and Empress V NGL production reported on a 100% basis. Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.
- (2) Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system. For the three months ended March 31, 2016, funds from operations included non-controlling interest amounts of \$10.1 million related to the Cold Lake pipeline system.
- (3) Please refer to the NON-GAAP FINANCIAL MEASURES section.
- (4) Dividends to shareholders per share are calculated based on the number of common shares outstanding at each record date.
- (5) Amounts reported on a 100% basis that includes non-controlling interest. Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.
- (6) Financial debt reported in the March 31, 2017 interim financial statements of \$5,710.7 million, includes long-term debt, short-term debt and commercial paper of \$5,732.5 million less discounts and debt transaction costs of \$21.8 million.

## Three Months Ended March 31, 2017

Inter Pipeline generated strong financial results in the first quarter of 2017 as FFO increased \$60.9 million or 32.7% from \$186.0 million in 2016 to \$246.9 million in 2017. The increase in FFO was primarily driven by the NGL processing business with the acquisition of offgas processing in September 2016 and higher Cochrane propane-plus frac-spreads. FFO was also higher in the oil sands transportation business largely due to lower current income taxes. FFO in the conventional oil pipelines business increased due to a higher contribution from midstream marketing activities. FFO in the bulk liquid storage business decreased largely due to unfavourable foreign exchange translation adjustments. Corporate costs increased as a result of higher employee, rent and interest costs which were partially offset by lower current income taxes due to tax synergies created from the acquisition of offgas processing.

Inter Pipeline's net income in the first quarter increased \$35.4 million from \$104.6 million in 2016 to \$140.0 million in 2017. Net income was favourably impacted by the increase in FFO discussed above, which was partially offset by higher deferred income taxes, depreciation and amortization expense. In addition, net income in the first quarter of 2016 was unfavourably impacted by a \$14.9 million one-time onerous contract adjustment relating to non-cancellable office leases.

Total dividends to shareholders increased \$18.4 million in the first quarter or 14.0% from \$131.3 million in 2016 to \$149.7 million in 2017. The increase is due to a greater number of common shares outstanding and a higher monthly dividend paid per share. Outstanding common shares increased as a result of the issuance of common shares associated with the acquisition of offgas processing and the acquisition of the remaining 15% ownership interest in the Cold Lake pipeline system, in addition to strong shareholder participation in Inter Pipeline's dividend reinvestment plan. In November 2016, Inter Pipeline announced a dividend rate increase of \$0.06 per share on an annualized basis. For the three months ended March 31, 2017, Inter Pipeline's payout ratio\* was 60.6%.

Inter Pipeline's total debt outstanding was \$5,732.5 million at March 31, 2017, or \$96.1 million lower than \$5,828.6 million at December 31, 2016. During this period Inter Pipeline also invested \$63.0 million on capital projects. At March 31, 2017, total debt includes non-recourse debt of \$1,479.6 million held at Inter Pipeline (Corridor) Inc.

## 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 2017, we will continue to develop and leverage our existing asset base, control costs and pursue additional growth opportunities on a selective basis.

During the quarter, Inter Pipeline invested approximately \$53 million of growth capital\* across its oil sands transportation, NGL processing, conventional oil pipelines and bulk liquid storage segments. We continue to advance a planned \$495 million growth capital expenditure\* program, which is primarily focused on the development of an estimated \$3.1 billion integrated propane dehydrogenation (PDH) and polypropylene (PP) complex within our NGL processing business segment. These facilities would convert low-cost, locally sourced propane into higher value polypropylene, a valuable recyclable plastic. Approximately \$195 million of growth capital\* is contingent upon our Board of Directors fully sanctioning this

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

project. Inter Pipeline plans on making a final investment decision on this project by mid-2017, with commercial service beginning by mid-2021. Sustaining capital\* for 2017 is estimated at \$75 million and will be invested across our four business segments and to support other corporate initiatives.

Inter Pipeline's largest business segment is our oil sands transportation which is comprised of 100% ownership in the Corridor, Cold Lake and Polaris pipeline systems. Collectively, these systems have over 2.5 million b/d of installed pipeline capacity, including 1.2 million b/d of bitumen blend capacity on the Cold Lake pipeline system, 879,000 b/d of diluent capacity on the Polaris pipeline system and 465,000 b/d of bitumen blend capacity on the Corridor pipeline system. These bitumen blend and diluent pipeline systems are underpinned by long-term commercial arrangements with creditworthy counterparties that generate stable cost-of-service FFO. Total volumes transported on our oil sands pipeline systems reached a new record in the first quarter of 2017, averaging over 1,251,000 b/d.

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. This additional capacity positions Inter Pipeline to capture new oil sands transportation connections over the longer-term. Though a number of developments have been delayed in the current commodity price environment, we continue to aggressively pursue opportunities to utilize available spare capacity on our oil sands pipeline systems.

In September 2016, Inter Pipeline completed the acquisition of Williams Canada's Canadian NGL midstream businesses for approximately \$1.35 billion which has strengthened and diversified our NGL processing business segment. As one of Canada's largest NGL processing businesses, Inter Pipeline owns three major straddle plants, two offgas plants, an offgas liquids pipeline and a fractionator, all located in Alberta. The straddle facilities processed approximately of 3.2 billion cubic feet of natural gas per day and produced 104,000 b/d of NGL in the first quarter of 2017. Average sales volumes from the Redwater Olefinic Fractionator were 31,600 b/d for the quarter. In the second quarter of 2017, production volumes are expected to decline comparatively, as planned maintenance programs will result in a shutdown at both the Cochrane straddle plant and the Redwater Olefinic Fractionator for an approximate three-week period.

In the conventional oil pipelines segment, transportation volumes increased by approximately 5% over fourth quarter 2016 primarily as a result of increased drilling activity around the Mid-Saskatchewan pipeline system. Volumes in the first quarter of 2017 averaged 209,900 b/d compared to 200,300 b/d in fourth quarter of 2016 and 208,500 b/d in the first quarter of 2016.

Inter Pipeline's European bulk liquid storage business diversifies our asset base by both geography and market. With operations in the United Kingdom (UK), Sweden, Denmark, Germany and Ireland, the focus for this business segment in 2017 continues to be maintaining strong utilization levels and storage rates. We continue to seek opportunities to economically expand our existing storage capacity, while diversifying our product handling capabilities.

Demand for oil and chemical storage in Europe remains strong with average utilization rates increasing from 98% in the first quarter of 2016 to 99% for the same period in 2017. Inter Pipeline invested approximately \$6.5 million in the first quarter of 2017 to complete the construction of five new chemical storage tanks, with an aggregate capacity of 175,000 barrels, at the Seal Sands terminal in the UK. This new capacity is supported by long-term contracts and is expected to be in-service by mid-2017.

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

Inter Pipeline is committed to maintaining a strong balance sheet and financial flexibility. In 2017, we expect to finance our capital expenditure program primarily through undistributed cash flow, our revolving credit facility and proceeds from our dividend reinvestment plan. As at March 31, 2017, Inter Pipeline had \$675 million of available capacity on its \$1.5 billion revolving credit facility and ended the quarter with a consolidated net debt to total capitalization ratio\* of 56.2%.

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. credit ratings from S&P and DBRS of A, and Moody's Investors Service (Moody's) of A2, are currently under review following the announcement that Shell Canada intends to sell its majority stake in the Athabasca Oil Sands Project (AOSP) to Canadian Natural Resources Ltd. (Canadian Natural). The reviews reflect the potential for a change in average credit quality of the shippers on the Corridor pipeline system as a result of the pending ownership change.

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. We also continue to develop our new platform for growth with the acquisition of the offgas processing business, including the future development of Alberta's first PDH and PP facilities. 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 March 31		
<i>Volumes (000s b/d)</i>	2017	2016	% change
Cold Lake (100% basis) <sup>(1)</sup>	624.7	564.0	10.8
Corridor	415.6	369.5	12.5
Polaris	211.1	170.7	23.7
	<b>1,251.4</b>	1,104.2	13.3
<i>(millions)</i>			
Revenue <sup>(1)</sup>	\$ 191.1	\$ 191.6	(0.3)
Operating expenses <sup>(1)</sup>	\$ 30.8	\$ 33.1	(6.9)
Funds from operations <sup>(1)</sup>	\$ 148.2	\$ 139.4	6.3
Capital expenditures <sup>(1)</sup>			
Growth <sup>(2)</sup>	\$ 4.6	\$ 5.0	
Sustaining <sup>(2)</sup>	0.2	0.1	
	<b>\$ 4.8</b>	\$ 5.1	

(1) Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system. For the three month period ended March 31, 2016, Cold Lake pipeline system included the following amounts relating to non-controlling interest: revenue - \$12.5 million; operating expenses - \$2.2 million; FFO - \$10.1 million; and capital expenditures - \$0.2 million.

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

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

## Volumes

In the first quarter of 2017, the oil sands transportation business transported average volumes of 1,251,400 b/d, an increase of 147,200 b/d or 13.3% over the same period in 2016.

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 increased 60,700 b/d in the first quarter of 2017 from the comparable period in 2016. The increase is primarily due to higher volumes from FCCL Partnership's (FCCL), a business venture between Cenovus Energy and ConocoPhillips, Foster Creek oil sands project and Canadian Natural's Wolf Lake and Kirby oil sands projects. Volumes on the Cold Lake pipeline system typically fluctuate with the timing of steam injection cycles associated with certain shippers' production processes, however volume growth is anticipated over the long-term which is consistent with shippers' published forecasts.

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. In the first quarter of 2017, average volumes on the Corridor pipeline system increased 46,100 b/d over the same period in 2016, largely due to higher volumes from the Muskeg River mine. Volumes in the first quarter of 2016 were also unfavourably impacted by a turnaround at the Scotford upgrader.

The Polaris pipeline system provides diluent transportation service from the Edmonton area to the Athabasca and Cold Lake areas of Alberta. Average volumes on the Polaris pipeline system increased 40,400 b/d in the first quarter of 2017, primarily due to higher volumes to FCCL's Foster Creek oil sands project, compared to the same period in 2016.

## Revenue

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

Revenue from the oil sands transportation business decreased \$0.5 million in the first quarter from \$191.6 million in 2016 to \$191.1 million in 2017. The decline is largely due to lower cost recoveries, which was partially offset by higher capital fee revenue. FFO from the oil sands transportation business was favourably impacted by lower current income taxes in the current quarter, as discussed in income tax expense under the **Other Expenses** section.

## 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. Operating expenses declined \$2.3 million in the first quarter of 2017, largely due to decreases in property taxes and other general operating costs, from the same period in 2016.

## Capital Expenditures

The oil sands transportation business incurred total growth capital expenditures\* of \$4.6 million in the current quarter, largely related to various system connections.

## NGL Processing Business Segment

### Natural gas processing

	Three Months Ended March 31							
	2017				2016			
	<i>mmcf/d</i>	<i>(000s b/d)</i>		<i>mmcf/d</i>	<i>(000s b/d)</i>			
Straddle plant	Throughput	Ethane	Propane- plus	Total	Throughput	Ethane	Propane- plus	Total
Cochrane	2,207	40.1	30.9	71.0	1,986	38.1	32.0	70.1
Empress V (100% basis)	980	21.0	12.0	33.0	972	22.8	12.9	35.7
Empress II	-	-	-	-	-	-	-	-
	3,187	61.1	42.9	104.0	2,958	60.9	44.9	105.8

### Offgas processing

	Three Months Ended March 31
	2017
<i>(mmcf/d)</i>	
Offgas plants throughput volume	132
<i>(000s b/d)</i>	
Offgas plants production volume	26.0
Redwater Olefinic Fractionator sales volume	31.6
Redwater Olefinic Fractionator volume composition <sup>(1)</sup>	
Ethane-ethylene	39%
Paraffinic NGL	
Propane	28%
Normal butane	8%
Olefinic NGL	
Polymer grade propylene	12%
Alky feed	9%
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

<i>(millions)</i>	Three Months Ended March 31		
	2017	2016	% change
Revenue <sup>(1)</sup>	\$ 213.4	\$ 77.5	175.4
Shrinkage gas <sup>(1)</sup>	\$ 87.0	\$ 36.4	139.0
Operating expenses <sup>(1)</sup>	\$ 44.3	\$ 17.4	154.6
Funds from operations <sup>(1)</sup>	\$ 81.9	\$ 23.6	247.0
Capital expenditures <sup>(1)</sup>			
Growth <sup>(2)</sup>	\$ 28.1	\$ 0.3	
Sustaining <sup>(2)</sup>	\$ 5.5	\$ 6.4	
	\$ 33.6	\$ 6.7	

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

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

## Volumes

First quarter average natural gas volumes processed at Inter Pipeline's straddle plants increased 229 million cubic feet per day (mmcf/d) from 2,958 mmcf/d in 2016 to 3,187 mmcf/d in 2017.

Average throughput volumes at the Cochrane straddle plant increased 221 mmcf/d in the first quarter, compared to the same period in 2016. 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.

In the three months ended March 31, 2017, average throughput volumes increased 8 mmcf/d at the Empress V straddle plant over the same period in 2016. The Empress II straddle plant did not receive throughput volumes in the three months ended March 31, 2017 and 2016, 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.

In the first quarter, combined straddle plant NGL production decreased 1,800 b/d from 105,800 b/d in 2016 to 104,000 b/d in 2017. NGL production from the Cochrane and Empress V straddle plants is driven by changing throughput levels, composition of the natural gas, operating conditions and third party downstream facility constraints which can result in partial reinjection of volumes. Partial reinjection of ethane volumes as a result of third party downstream facility constraints occurred in the first quarter of 2016, which further increased in the first quarter of 2017.

In the three months ended March 31, 2017, Inter Pipeline's offgas plants in the Fort McMurray area processed average throughput volumes of 132 mmcf/d. Ethane-plus volumes produced from the offgas plants averaged 26,000 b/d in the current quarter. Throughput volumes to Inter Pipeline's offgas plants can be impacted by the operations associated with connected third party oil sands upgraders in the Fort McMurray area, as well as various downstream issues.

In the first quarter of 2017, the Redwater Olefinic Fractionator NGL sales volumes averaged 31,600 b/d. Sales from the Redwater Olefinic Fractionator can be impacted by the volumes and composition of the ethane-plus production from the offgas plants, cavern storage levels, operational and commercial matters, and various downstream related issues. Production from the offgas plants and sales volumes at the Redwater Olefinic Fractionator can differ due to varying inventory levels associated with the cavern storage facilities at the Redwater Olefinic Fractionator, operational and

commercial matters, and other downstream issues. In the current quarter, the inventory level in the feedstock storage cavern was drawn down in preparation for scheduled maintenance activities occurring in the second quarter of 2017.

## Revenue

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

In the first quarter of 2017, revenue from NGL processing increased \$135.9 million, over the same period in 2016. Revenue increased from the acquisition of offgas processing in the third quarter of 2016, which contributed \$97.9 million of revenue in the current quarter. The revenue from Inter Pipeline's straddle plants increased by \$38.0 million for the three months ended March 31, 2017, largely due to higher propane-plus and ethane pricing, offset in part by lower propane-plus volumes from the Cochrane straddle plant.

## Frac-spread

<i>(dollars)</i>	Three Months Ended March 31			
	2017		2016	
	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>	USD/USG <sup>(1)</sup>	CAD/USG <sup>(1)</sup>
Cochrane propane-plus market frac-spread	\$ 0.583	\$ 0.770	\$ 0.300	\$ 0.410
Cochrane propane-plus realized frac-spread	\$ 0.598	\$ 0.790	\$ 0.312	\$ 0.426
Offgas olefinic market frac-spread	\$ 1.397	\$ 1.848	-	-
Offgas olefinic realized frac-spread	\$ 1.245	\$ 1.647	-	-
Offgas paraffinic market frac-spread	\$ 0.320	\$ 0.423	-	-
Offgas paraffinic realized frac-spread	\$ 0.262	\$ 0.346	-	-

(1) The differential between USD/USG and CAD/USG frac-spreads is due to fluctuations in exchange rates between US and Canadian dollars. This conversion is calculated based on Bank of Canada exchange rates.

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

The market frac-spread for propane-plus from the Cochrane straddle plant is defined as the difference between the weighted average propane-plus price at Mont Belvieu, Texas and the monthly index price of AECO natural gas purchased for shrinkage calculated in US dollars per US gallon (USD/USG). Cochrane propane-plus realized frac-spread is defined in a similar manner and is calculated on a weighted average basis using market frac-spread for unhedged production and fixed-price frac-spread prices for any hedged production. Natural gas purchased for shrinkage is based on the combination of the monthly index and daily price of AECO paid. The Cochrane propane-plus realized frac-spread does not include market price differentials or extraction premiums.

In the first quarter, the Cochrane propane-plus realized frac-spread increased from \$0.31 USD/USG in 2016 to \$0.60 USD/USG in 2017. The 5-year and 15-year simple average Cochrane propane-plus market frac-spread at December 31, 2016 were \$0.68 USD/USG and \$0.61 USD/USG, respectively.

Offgas processing produces both olefinic and paraffinic NGL which are sold under multiple shorter term, individually negotiated contracts with unique pricing benchmarks. As a result, market and realized olefinic and paraffinic frac-spreads may change period over period. The spread between offgas market and realized frac-spread will fluctuate due to changing

inventory levels, timing differences between the production of offgas NGL and sales of the products and underlying contractual arrangements that vary with price and volume.

Olefins are typically higher value petrochemicals that do not naturally exist and consist of polymer grade propylene, alky feed and olefinic condensate. Paraffins are generally lower value NGL consisting of propane and normal butane. The olefinic market frac-spread for offgas processing is defined as the difference between the weighted average prices of propylene, alky feed and olefinic condensate products sold less applicable differentials and the daily index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Propylene pricing is based on a North American Gulf Coast benchmark price, while alky feed and olefinic condensate are currently priced on a differential to West Texas Intermediate (WTI) light sweet crude. The olefinic realized frac-spread for offgas processing is defined as the difference between the realized price of the propylene, alky feed and olefinic condensate products sold for unhedged production and fixed price frac-spread prices for any hedged production, and the realized cost of shrinkage gas purchased, including natural gas transportation, extraction premiums and associated costs, calculated in USD/USG. Shrinkage natural gas cost is based on a weighted average cost dependent on product inventory levels and applicable AECO daily and monthly index natural gas prices. The offgas olefinic realized frac-spread does not include product transportation or marketing fees.

The paraffinic market frac-spread for offgas processing is defined as the difference between the weighted average prices of propane and butane products less applicable differentials and the daily index price of AECO natural gas purchased for shrinkage calculated in USD/USG. Propane is currently based on a Conway monthly posting less a weighted average differential. Butane is currently priced based on a differential to WTI light sweet crude. The paraffinic realized frac-spread for offgas processing is defined as the difference between the realized price of the propane and butane products sold for unhedged production and fixed price frac-spread prices for any hedged production and the realized cost of shrinkage gas purchased, including natural gas transportation, extraction premiums and associated costs, calculated in USD/USG. Shrinkage natural gas cost is based on a weighted average cost dependent on product inventory levels and applicable AECO daily and monthly index natural gas prices. The offgas paraffinic realized frac-spread does not include product transportation or marketing fees.

In the first quarter of 2017, the offgas olefinic realized frac-spread was \$1.25 USD/USG and the offgas paraffinic realized frac-spread was \$0.26 USD/USG, while the offgas olefinic market frac-spread was \$1.40 USD/USG and the offgas paraffinic market frac-spread was \$0.32 USD/USG.

See the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section for further discussion of frac-spread hedges.

### **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 offgas 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 increased \$50.6 million in the current quarter to \$87.0 million, compared to the same period in 2016. Offgas processing incurred \$36.4 million of shrinkage gas expense in the first three months of 2017. Shrinkage gas expense for Inter Pipeline's straddle plants increased \$14.2 million in the first quarter of 2017 largely due to an increase in AECO natural gas prices, over the same

period in 2016. First quarter weighted average AECO prices\* increased from \$2.00 per gigajoule (GJ) in 2016 to \$2.79/GJ in 2017.

## Operating Expenses

Operating expenses of \$44.3 million in the NGL processing business increased \$26.9 million in the current quarter, over the comparable period in 2016. The inclusion of offgas processing in the first quarter of 2017 resulted in an increase of \$21.4 million to operating expenses. In the three months ended March 31, 2017, operating expenses from Inter Pipeline's straddle plants increased \$5.5 million, largely due to higher fuel and power costs arising from increased pricing and consumption, as well as an increase in general operating, maintenance and employee costs. Average Alberta power pool prices increased in the first quarter from \$18.11/MWh in 2016 to \$22.39/MWh in 2017.

## Capital Expenditures

In the first quarter of 2017, total growth capital expenditures<sup>†</sup> incurred in the NGL processing business were \$28.1 million, of which \$26.3 million was related to engineering and design costs on the proposed \$1.85 billion PDH facility and the proposed \$1.3 billion PP facility. The remaining growth capital expenditures<sup>†</sup> largely relate to equipment and facility upgrades at the Cochrane straddle plant and the Redwater Olefinic Fractionator. Sustaining capital expenditures<sup>†</sup> of \$5.5 million in the current quarter largely relate to processing system upgrades at the Cochrane straddle plant and measurement system upgrades on the Boreal pipeline system.

## Conventional Oil Pipelines Business Segment

	Three Months Ended March 31		
<i>Volumes (000s b/d)</i>	2017	2016	% change
Bow River	91.4	91.4	-
Central Alberta	25.6	29.5	(13.2)
Mid-Saskatchewan	92.9	87.6	6.1
	209.9	208.5	0.7
<i>(millions, except per barrel amount)</i>			
Revenue	\$ 118.7	\$ 81.5	45.6
Midstream product purchases	\$ 49.0	\$ 17.2	184.9
Operating expenses	\$ 15.1	\$ 14.2	6.3
Funds from operations	\$ 53.4	\$ 50.0	6.8
Revenue per barrel <sup>(2)</sup>	\$ 2.83	\$ 2.92	(3.1)
Capital expenditures			
Growth <sup>(1)</sup>	\$ 4.8	\$ 16.7	
Sustaining <sup>(1)</sup>	0.6	0.6	
	\$ 5.4	\$ 17.3	

(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.

\* 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

## Volumes

In the first quarter of 2017, average volumes increased 1,400 b/d on the conventional oil pipelines systems over the same period in 2016. Volumes on the Mid-Saskatchewan pipeline system increased 5,300 b/d in the first three months of 2017 largely due to increased regional production from the Viking light oil play. Average Central Alberta pipeline system volumes decreased 3,900 b/d in the first quarter due to declines in producer activity and lower volumes at third party truck terminals, compared to the same period in 2016. Volumes on the Bow River pipeline system were consistent for the three months ended March 31, 2017 and 2016.

## Revenue

The conventional oil pipelines business earns revenue for the transportation of petroleum products in accordance with a number of 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 first quarter of 2017, revenue from conventional oil pipelines increased \$37.2 million over the same period in 2016. Revenue from midstream marketing was \$38.4 million higher during this period due to increased blending activity and higher WTI oil prices. Transportation revenue decreased \$1.2 million in the first quarter of 2017, as higher volumes were transported on lower toll pipeline segments as compared to the same period in 2016.

## Midstream Product Purchases

Midstream product purchases increased \$31.8 million in the current quarter, due to higher product purchase volumes from increased blending activity and product marketing services, as well as higher product pricing, over the same period in 2016.

## Operating Expenses

In the first quarter of 2017, conventional oil pipelines operating expenses increased \$0.9 million, over the comparable period in 2016, largely due to higher general operating and employee related costs.

## Capital Expenditures

In the three months ended March 31, 2017, the conventional oil pipelines business incurred growth capital expenditures\* of \$4.8 million, relating to various pipeline system enhancements and facility upgrades.

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

## Bulk Liquid Storage Business Segment

	Three Months Ended March 31		
	2017	2016	% change
Utilization	99%	98%	1.0
<i>(millions)</i>			
Revenue	\$ 55.5	\$ 65.8	(15.7)
Operating expenses	\$ 22.6	\$ 25.5	(11.4)
Funds from operations	\$ 26.2	\$ 31.3	(16.3)
Capital expenditures			
Growth <sup>(1)</sup>	\$ 15.2	\$ 10.2	
Sustaining <sup>(1)</sup>	1.6	1.5	
	\$ 16.8	\$ 11.7	

(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 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 across 16 terminals. These terminals are strategically located with five terminals at the ports of Immingham, Teesside and Tyneside in the UK, one terminal on the Shannon estuary in Ireland, two terminals on the River Rhine at Mannheim, Germany, four terminals in Denmark located on the Danish Straits and four terminals in Sweden located along the Baltic Sea and Danish Straits.

First quarter average utilization rates in the bulk liquid storage business increased from 98% in 2016 to 99% in 2017, as strong demand across Inter Terminals' business continued.

### 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 months ended March 31, 2017, revenue from the bulk liquid storage business decreased \$10.3 million, from the comparable period in 2016. Foreign exchange translation adjustments unfavourably impacted revenue by \$7.1 million. Revenue also declined due to lower activity levels at certain terminals in Denmark, and a non-recurring release of previously deferred revenue in Sweden in the first quarter of 2016.

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

### Foreign Exchange Rates

	Three Months Ended March 31		
<i>(dollars)</i>	2017	2016	% change
Euro/CAD	\$ 1.4101	\$ 1.5155	(7.0)
Pound Sterling/CAD	\$ 1.6398	\$ 1.9674	(16.6)

## Operating Expenses

In the current quarter, operating expenses of \$22.6 million in the bulk liquid storage business declined \$2.9 million, from the same period in 2016, due to favourable foreign currency translation adjustments of \$3.2 million.

## Capital Expenditures

The bulk liquid storage business incurred total growth capital expenditures\* of \$15.2 million in the first quarter of 2017. Of this, approximately \$6.5 million related to the build of five new tanks with aggregate capacity of 175,000 barrels at Seal Sands terminal in the UK, for a total of approximately \$16 million spent to date, and a total estimated project cost of \$25 million. The remaining growth capital expenditures\* primarily relate to a number of tank reactivations, life extensions and modification projects.

In the three months ended March 31, 2017, the bulk liquid storage business spent \$1.6 million in sustaining capital expenditures\*, relating to terminal infrastructure, safety improvement projects and environmental performance enhancement initiatives.

## Other Expenses

	Three Months Ended March 31	
(millions)	2017	2016
Depreciation and amortization	\$ 62.7	\$ 54.9
Income tax expense	48.2	32.0
Financing charges	41.5	35.3
General and administrative	33.4	45.3
Loss on disposal of assets	4.1	0.5

## Depreciation and Amortization

In the three months ended March 31, 2017, depreciation and amortization of tangible and intangible assets increased \$7.8 million, over the comparable period in 2016. The increase is primarily due to the depreciation of offgas assets, which were acquired in the third quarter of 2016.

## Income Tax Expense

In the three months ended March 31, 2017, consolidated income tax expense increased \$16.2 million, over the same period in 2016. Consolidated income tax expense is the sum of current income tax expense and deferred income tax expense.

Current income tax expense decreased \$15.6 million in the current quarter, compared to the same period in 2016. The decrease is largely due to the utilization of tax assets acquired in the offgas acquisition in September 2016.

Deferred income tax expense increased \$31.8 million in the first quarter of 2017, over the comparable period in 2016. The increase is primarily due to the utilization of tax assets to lower current income tax expense in the quarter.

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

## Financing Charges

	Three Months Ended March 31	
<i>(millions)</i>	<b>2017</b>	2016
Interest on credit facilities	\$ 9.3	\$ 8.5
Interest on Corridor Debentures	1.8	1.8
Interest on Medium-Term Notes	29.8	23.5
Total interest	40.9	33.8
Capitalized interest	(1.6)	-
Amortization of transaction costs on financial debt	1.1	0.8
Accretion of provisions and pension plan funding charges	1.1	0.7
Total financing charges	\$ 41.5	\$ 35.3

Total financing charges increased \$6.2 million in the first quarter of 2017, compared to the same period in 2016.

In the current quarter, higher interest of \$6.3 million on medium-term notes resulted from the issuance of Series 8 on September 13, 2016 and Series 9 on December 16, 2016, from the same period in 2016.

Interest on credit facilities increased \$0.8 million in the three months ended March 31, 2017, due to higher weighted average credit facility debt outstanding and increased short-term interest rates, compared to the same period in 2016.

In the first quarter of 2017, higher capitalized interest of \$1.6 million largely related to the proposed PDH and PP facilities, over the comparable period in 2016.

Accretion of provisions and pension plan funding charges increased \$0.4 million in the three months ended March 31, 2017, over the same period in 2016, due to the inclusion of decommissioning obligations from the offgas acquisition in September 2016.

In the current quarter, higher amortization of transaction costs on financial debt of \$0.3 million was largely due to new debt issuances since the first quarter of 2016.

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

## General and Administrative

	Three Months Ended March 31	
<i>(millions)</i>	<b>2017</b>	2016
Canada	\$ 27.0	\$ 37.2
Europe	6.4	8.1
	\$ 33.4	\$ 45.3

Canadian general and administrative expenses decreased \$10.2 million in the first quarter of 2017, compared to the same period in 2016. General and administrative costs were higher in the first quarter of 2016 due to a \$14.9 million one-time rent expense adjustment relating to non-cancellable office leases that were deemed to be onerous contracts. Partially offsetting this was higher employee costs, largely due to the inclusion of additional employees from the offgas acquisition, and integration related costs also arising from the offgas acquisition, compared to the same period in 2016.

European general and administrative costs decreased \$1.7 million in the current quarter, compared to the same period in 2016, largely due to favourable foreign currency translation adjustments.

**Loss on Disposal of Assets**

Inter Pipeline incurred a loss on disposal of assets of \$4.1 million in the current quarter, largely due to the disposal and de-recognition of certain assets in the conventional oil pipelines and bulk liquid storage businesses.

## SUMMARY OF QUARTERLY RESULTS

	2015				2016				2017
(millions, except volume, per share and % amounts)	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	
<b>Pipeline volumes (000s b/d)<sup>(1)</sup></b>									
Oil sands transportation	853.9	1,119.9	1,111.8	1,104.2	1,012.6	1,093.3	1,172.5	1,251.4	
Conventional oil pipelines	208.5	209.4	214.8	208.5	201.3	192.8	200.3	209.9	
<b>Total pipeline volumes</b>	<b>1,062.4</b>	<b>1,329.3</b>	<b>1,326.6</b>	<b>1,312.7</b>	<b>1,213.9</b>	<b>1,286.1</b>	<b>1,372.8</b>	<b>1,461.3</b>	
<b>NGL processing volumes (000s b/d)<sup>(1)(2)</sup></b>									
Natural gas processing - Ethane	56.3	62.0	59.1	60.9	51.9	58.0	69.9	61.1	
Natural gas processing - Propane-plus	34.1	40.8	41.3	44.9	42.2	42.5	43.8	42.9	
Redwater Olefinic Fractionator sales volume <sup>(2)</sup>	-	-	-	-	-	-	29.9	31.6	
<b>Total NGL processing volumes</b>	<b>90.4</b>	<b>102.8</b>	<b>100.4</b>	<b>105.8</b>	<b>94.1</b>	<b>100.5</b>	<b>143.6</b>	<b>135.6</b>	
<b>Utilization</b>									
Bulk liquid storage	93%	93%	97%	98%	97%	98%	99%	99%	
<b>Revenue</b>									
Oil sands transportation	\$ 182.7	\$ 195.2	\$ 213.4	\$ 191.6	\$ 193.3	\$ 192.9	\$ 200.8	\$ 191.1	
NGL processing	88.8	91.0	88.5	77.5	72.8	93.7	191.1	213.4	
Conventional oil pipelines	74.7	80.9	89.0	81.5	85.6	86.9	111.0	118.7	
Bulk liquid storage	44.4	57.1	64.8	65.8	61.3	61.0	57.8	55.5	
	\$ 390.6	\$ 424.2	\$ 455.7	\$ 416.4	\$ 413.0	\$ 434.5	\$ 560.7	\$ 578.7	
<b>Funds from operations</b>									
Oil sands transportation	\$ 135.0	\$ 146.1	\$ 157.8	\$ 139.4	\$ 141.4	\$ 142.3	\$ 158.5	\$ 148.2	
NGL processing	23.3	23.6	25.2	23.6	30.5	28.7	65.0	81.9	
Conventional oil pipelines	46.5	49.8	51.5	50.0	47.1	49.1	52.4	53.4	
Bulk liquid storage	20.6	29.0	28.2	31.3	29.6	30.2	28.9	26.2	
Corporate costs	(44.4)	(43.3)	(51.3)	(58.3)	(51.9)	(38.9)	(50.1)	(62.8)	
	\$ 181.0	\$ 205.2	\$ 211.4	\$ 186.0	\$ 196.7	\$ 211.4	\$ 254.7	\$ 246.9	
<b>Per share<sup>(3)</sup></b>	<b>\$ 0.54</b>	<b>\$ 0.61</b>	<b>\$ 0.63</b>	<b>\$ 0.55</b>	<b>\$ 0.58</b>	<b>\$ 0.62</b>	<b>\$ 0.71</b>	<b>\$ 0.67</b>	
Net income	\$ 73.8	\$ 128.4	\$ 138.0	\$ 104.6	\$ 122.9	\$ 121.3	\$ 128.8	\$ 140.0	
Net income attributable to shareholders	\$ 65.3	\$ 118.7	\$ 129.7	\$ 95.8	\$ 114.4	\$ 113.7	\$ 125.8	\$ 140.0	
Per share – basic and diluted	\$ 0.19	\$ 0.35	\$ 0.39	\$ 0.28	\$ 0.34	\$ 0.34	\$ 0.35	\$ 0.38	
Dividends to shareholders <sup>(4)</sup>	\$ 123.1	\$ 123.5	\$ 128.7	\$ 131.3	\$ 131.4	\$ 131.4	\$ 145.1	\$ 149.7	
Per share <sup>(4)</sup>	\$ 0.3675	\$ 0.3675	\$ 0.3825	\$ 0.3900	\$ 0.3900	\$ 0.3900	\$ 0.4000	\$ 0.4050	
Shares outstanding (basic)									
Weighted average	334.8	335.8	336.3	336.6	336.8	338.7	361.2	369.2	
End of period	335.3	336.2	336.4	336.7	336.9	359.5	367.9	370.7	
Capital expenditures <sup>(5)</sup>									
Growth <sup>(3)</sup>	\$ 67.8	\$ 43.4	\$ 52.6	\$ 32.2	\$ 27.7	\$ 40.8	\$ 49.9	\$ 52.7	
Sustaining <sup>(3)</sup>	10.0	12.3	27.8	18.0	10.0	8.1	22.3	10.3	
	\$ 77.8	\$ 55.7	\$ 80.4	\$ 50.2	\$ 37.7	\$ 48.9	\$ 72.2	\$ 63.0	
Payout ratio <sup>(3)</sup>	71.9%	63.6%	63.8%	74.6%	70.3%	64.8%	57.8%	60.6%	
Total assets	\$ 8,955.5	\$ 9,010.4	\$ 9,029.4	\$ 8,921.9	\$ 8,869.7	\$ 10,141.0	\$ 10,151.6	\$ 10,134.9	
Total debt <sup>(6)</sup>	\$ 4,865.1	\$ 4,876.2	\$ 4,851.7	\$ 4,850.2	\$ 4,832.7	\$ 5,596.6	\$ 5,828.6	\$ 5,732.5	
Total equity	\$ 2,732.2	\$ 2,805.4	\$ 2,821.1	\$ 2,752.9	\$ 2,692.8	\$ 3,269.9	\$ 3,187.9	\$ 3,261.4	
Enterprise value <sup>(3)</sup>	\$ 14,487.4	\$ 13,153.2	\$ 12,323.7	\$ 13,857.0	\$ 14,064.4	\$ 15,555.0	\$ 16,732.5	\$ 16,122.5	
Consolidated Net Debt to Total Capitalization <sup>(3)</sup>	52.8%	52.7%	52.8%	53.8%	54.2%	54.5%	57.2%	56.2%	

(1) Cold Lake volumes and Empress V NGL production reported on a 100% basis. Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

(2) Average quarterly throughput volumes from the offgas processing acquisition in September 2016 have not been included for the third quarter of 2016 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. Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

(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<sup>\*</sup> and acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and FFO in excess of dividends to fund capital requirements. At March 31, 2017, Inter Pipeline had access to committed credit facilities totaling \$3.05 billion, of which \$895.4 million remained unutilized, and demand facilities totaling \$98.3 million of which \$92.6 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 months ended March 31, 2017, approximately \$78.0 million of equity was issued through the dividend reinvestment plan.

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.

Subsequent to March 31, 2017, on April 18, 2017 Inter Pipeline issued \$500 million of senior unsecured medium-term notes Series 10 due April 18, 2024, in the Canadian public debt market. The medium-term notes Series 10 bear interest at a fixed rate of 2.734% per annum, payable semi-annually. Net proceeds from the offering were used to repay existing bank indebtedness under its revolving credit facility and for other general corporate purposes. The amount of Securities that can be issued under the shelf prospectus and related prospectus supplements has been reduced to \$1.1 billion at April 18, 2017 as a result of previous issuances.

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

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

## Credit Facilities and Debt Outstanding

<i>(millions)</i>			March 31	December 31
	Recourse	Non-recourse	2017	2016
<b>Credit facilities available</b>				
Corridor syndicated credit facility	\$ -	\$ 1,550.0	\$ 1,550.0	\$ 1,550.0
Inter Pipeline syndicated credit facility	1,500.0	-	1,500.0	1,500.0
	1,500.0	1,550.0	3,050.0	3,050.0
Demand facilities <sup>(1)</sup>	73.3	25.0	98.3	98.1
	\$ 1,573.3	\$ 1,575.0	\$ 3,148.3	\$ 3,148.1
<b>Total debt outstanding</b>				
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility			\$ 825.0	\$ 913.0
Medium-Term Notes			3,425.0	3,425.0
Inter Terminals demand facility <sup>(1)</sup>			2.9	-
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility			1,329.6	1,340.6
Corridor Debentures			150.0	150.0
<b>Total debt outstanding<sup>(2)(3)</sup></b>			<b>\$ 5,732.5</b>	<b>\$ 5,828.6</b>

- (1) Demand facilities consist of: Inter Pipeline's \$40 million demand facility; Corridor's \$25 million demand facility; and Inter Terminals Limited and Inter Terminals EOT ApS Pound Sterling 20 million demand facility which was converted at a Pound Sterling/CAD rate of 1.6662 at March 31, 2017.
- (2) At March 31, 2017, outstanding Inter Pipeline letters of credit of approximately \$2.8 million were not included in total debt outstanding.
- (3) Financial debt reported in the March 31, 2017 consolidated financial statements of \$5,710.7 million, includes long-term debt, short-term debt and commercial paper outstanding of \$5,732.5 million less discounts and debt transaction costs of \$21.8 million.

Inter Pipeline's debt outstanding at March 31, 2017, matures at various dates up to May 2044 as follows:

<i>(millions)</i>	Amount	Rate	Maturity date
<b>Inter Pipeline Ltd.</b>			
Inter Pipeline syndicated credit facility	\$ 825.0	Variable	December 3, 2021
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
Series 9	450.0	3.484%	December 16, 2026
<b>Inter Pipeline (Corridor) Inc.</b>			
Corridor syndicated credit facility	1,329.6	Variable	December 14, 2020
Corridor Debentures	150.0	4.897%	February 3, 2020
<b>Inter Terminals Limited and Inter Terminals EOT ApS</b>			
Pound Sterling 20 million demand facility	2.9	Variable	Demand

## Financial Covenants

Inter Pipeline was in compliance with all covenants under its credit facilities and medium-term note indentures as at March 31, 2017.

The following table provides a listing of the key financial covenants as at March 31, 2017:

	Maximum Ratio	March 31 2017
<b>Inter Pipeline Ltd.</b>		
Inter Pipeline syndicated credit facility		
Consolidated Net Debt to Total Capitalization <sup>(1)(2)(3)(4)</sup>	65%	56.2%
Medium-Term Notes		
Funded Debt to Total Capitalization <sup>(2)(5)(6)</sup>	70%	54.0%
<b>Inter Pipeline (Corridor) Inc.</b>		
Corridor syndicated credit facility		
Corridor Debentures		
Rate Base Debt to Rate Base <sup>(7)(8)</sup>	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 March 31, 2017, approximately \$2,557.5 million or 44.6% of Inter Pipeline's total debt outstanding was exposed to variable interest rates. Of this amount \$1,329.6 million or 52.0% relates to Corridor debt outstanding and its financing costs are directly recoverable through the terms of the Corridor FSA. When deemed appropriate, Inter Pipeline may enter into interest rate swap agreements to manage its interest rate risk exposure.

The following interest coverage\* ratio is calculated on a consolidated basis for the twelve month periods ended March 31, 2017 and December 31, 2016.

<i>(times)</i>	Twelve Months Ended	
	March 31	December 31
Interest coverage <sup>(1)(2)</sup>	<b>5.3</b>	5.1

(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
<b>Inter Pipeline Ltd.</b>		
S&P	BBB+	Stable
DBRS	BBB (high)	Stable
<b>Inter Pipeline (Corridor) Inc.</b>		
S&P	A	- <sup>(1)</sup>
DBRS	A	- <sup>(1)</sup>
Moody's	A2	- <sup>(1)</sup>

(1) Inter Pipeline (Corridor) Inc.'s rating was placed on creditwatch with negative implications by S&P, under review with negative implications by DBRS and under review for downgrade by Moody's, following the announcement that Shell Canada intends to sell its majority stake in the AOSP to Canadian Natural. The reviews reflect the potential for a change in average credit quality of the shippers on the Corridor pipeline system as a result of the pending ownership change.

\* 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 March 31, 2017. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and FFO in excess of dividends. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

<i>(millions)</i>	Total	Less than one year	One to five years	After five years
Capital expenditure projects <sup>(1)</sup>				
Oil sands transportation	\$ 473.9	\$ 43.0	\$ 430.9	\$ -
NGL processing	119.6	119.6	-	-
Conventional oil pipelines	31.2	31.2	-	-
Bulk liquid storage	28.7	28.7	-	-
Growth capital funded by Inter Pipeline <sup>(2)</sup>	653.4	222.5	430.9	-
Sustaining capital funded by Inter Pipeline <sup>(2)</sup>	66.1	66.1	-	-
	719.5	288.6	430.9	-
Total debt <sup>(3)(4)</sup>				
Corridor syndicated credit facility <sup>(4)</sup>	1,329.6	1,329.6	-	-
Inter Pipeline syndicated credit facility	825.0	-	825.0	-
Corridor Debentures	150.0	-	150.0	-
Medium-Term Notes	3,425.0	400.0	1,025.0	2,000.0
Inter Terminals demand facility	2.9	2.9	-	-
	5,732.5	1,732.5	2,000.0	2,000.0
Other obligations				
Operating leases	342.2	29.3	104.8	208.1
Purchase obligations	290.5	94.6	81.4	114.5
Long-term portion of incentive plan	6.5	-	6.5	-
Adjusted working capital deficit <sup>(2)</sup>	60.5	60.5	-	-
	\$ 7,151.7	\$ 2,205.5	\$ 2,623.6	\$ 2,322.6

(1) Capital expenditures classified as "less than one year" represent expected spending for the remaining months in 2017.

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

(3) At March 31, 2017, outstanding Inter Pipeline letters of credit of approximately \$2.8 million were not included in total debt outstanding. Financial debt reported in the March 31, 2017 consolidated financial statements of \$5,710.7 million, includes long-term debt, short-term debt and commercial paper of \$5,732.5 million less discounts and debt transaction costs of \$21.8 million.

(4) 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 2020.

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.

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

- (iii) Inter Pipeline has obligations of \$28.7 million under its employee long-term incentive plan, of which \$22.2 million is included in the working capital deficit\*.
- (iv) Present value of estimated expenditures expected to be incurred in the longer term on decommissioning of active pipeline systems, NGL processing facilities and leased bulk liquid storage sites and remediation of known environmental liabilities is \$155.1 million at March 31, 2017. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

## DIVIDENDS TO SHAREHOLDERS

<i>(millions, except per share and % amounts)</i>	Three Months Ended March 31	
	2017	2016
Cash provided by operating activities	\$ 243.4	\$ 175.3
Net change in non-cash operating working capital	3.5	10.7
Less funds from operations attributable to non-controlling interest <sup>(2)</sup>	-	(10.1)
Funds from operations attributable to shareholders	\$ 246.9	\$ 175.9
Dividends to shareholders	\$ 149.7	\$ 131.3
Dividends per share <sup>(3)</sup>	\$ 0.4050	\$ 0.3900
Payout ratio <sup>(1)</sup>	60.6%	74.6%

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

(2) Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

(3) 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 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.

<i>(millions)</i>	Three Months Ended March 31	
	2017	2016
Cash provided by operating activities	\$ 243.4	\$ 175.3
Less cash provided by operating activities attributable to non-controlling interest <sup>(1)</sup>	-	(9.7)
Dividends to shareholders	(149.7)	(131.3)
Excess	\$ 93.7	\$ 34.3

(1) Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

<i>(millions)</i>	Three Months Ended March 31	
	2017	2016
Net income attributable to shareholders	\$ 140.0	\$ 95.8
Dividends to shareholders	(149.7)	(131.3)
Shortfall	\$ (9.7)	\$ (35.5)

Cash provided by operating activities 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, and deferred income taxes.

## OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at March 31, 2017 are as follows:

<i>(millions)</i>	Total
Common shares outstanding	370.7

At May 4, 2017, Inter Pipeline had 371.6 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 exchange and interest rates. Market risk management strategies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price, foreign exchange and interest rate risk to assist with stabilizing FFO. Inter Pipeline prohibits the use of derivative financial instruments for speculative purposes. All hedging policies are authorized and approved by the Board of Directors through Inter Pipeline's market risk management policy.

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 March 31, 2017. 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.

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

Inter Pipeline is exposed to frac-spread risk being the difference between the selling prices for certain NGL products and the input cost of the natural gas required to produce the respective products, including shrinkage gas. Various frac-spreads are as defined in the **Frac-spread** section of the **NGL Processing Business Segment**. Inter Pipeline may enter into natural gas liquids, AECO natural gas and foreign exchange swap contracts to manage frac-spread risk exposure in the NGL processing business. As at March 31, 2017, there were 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 March 31, 2017, there were no electricity price swap or heat rate price swap agreements outstanding.

#### **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 March 31, 2017, there were 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. 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 March 31, 2017, there were no interest rate hedges outstanding.

Based on the variable rate obligations outstanding at March 31, 2017, a 1% change in interest rates at this date would have changed interest expense for the three months ended March 31, 2017, by approximately \$6.3 million, assuming all other variables remain constant. Of this amount, \$3.3 million for the three months ended March 31, 2017, relates to Corridor's syndicated credit facility and is recoverable through the terms of the Corridor FSA. The after-tax income impact for the three months ended March 31, 2017 would be \$2.2 million.

## Credit Risk

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

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 March 31, 2017, accounts receivable associated with these two business segments were \$142.4 million or 67.7% 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 March 31, 2017, 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 months and years ended March 31, 2017 or 2016.

## CONTROLS AND PROCEDURES

There have been no significant changes in Inter Pipeline's internal control over financial reporting (ICFR) during the period December 31, 2016 to March 31, 2017 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 offgas processing, the results of which are consolidated in Inter

Pipeline's interim financial statements at March 31, 2017. See the NGL Processing Business Segment in the **RESULTS OF OPERATIONS** section of this report for further information regarding the offgas processing acquisition.

In September 2016, Inter Pipeline acquired Williams Canada. Where possible, offgas processing has adopted Inter Pipeline's DC&P and ICFR. For business processes unique to offgas processing, 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, 2016 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

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

Inter Pipeline's interim financial statements for the three months ended March 31, 2017 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, 2016.

## 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, 2017 or later periods with early adoption permitted. The standards impacted are as follows:

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

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and will be applied to annual periods beginning on January 1, 2018. 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. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when, or as, the entity satisfies a performance obligation.

IFRS 15 will be applied retrospectively to all revenue contracts using either: (i) a full retrospective approach with restatement of all prior periods presented; or (ii) a modified retrospective approach where the cumulative effect of initially applying the new standard is recognized as an adjustment to opening retained earnings in the period of adoption. Inter Pipeline is currently evaluating which adoption method to use.

Inter Pipeline has identified all revenue streams and customer contracts that are within the scope of IFRS 15 and is in the process of reviewing contracts and evaluating the impact that the new standard will have on its financial statements and disclosures. The new revenue standard will primarily affect the timing of revenue recognition under multiple element arrangements. Under multiple element arrangements, although the total revenue recognized during the term of a contract will be largely unaffected, the allocation of the transaction price to the delivered goods or services may result in revenue being deferred or accelerated from its associated cash flows. For short-term commodity based arrangements, no significant changes are expected on adoption of IFRS 15.

As further analysis is completed, Inter Pipeline will make changes to processes and systems, collect new data requirements, and quantify the impact, if any, on prior period revenues. Therefore it is not possible to make a reliable estimate of the impact of the new standard at this time.

### **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 first quarter of 2017, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors as discussed in its 2016 annual MD&A.

## **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 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.

<i>(millions)</i>	March 31 2017	December 31 2016
Current assets		
Cash and cash equivalents	\$ 27.1	\$ 21.4
Accounts receivable	210.4	226.1
Prepaid expenses and other deposits	17.2	20.1
Inventory	4.9	13.3
Current liabilities		
Dividends payable	(50.0)	(49.7)
Accounts payable, accrued liabilities and provisions	(240.9)	(277.3)
Current income taxes payable	(0.5)	(18.7)
Deferred revenue	(28.7)	(10.1)
Adjusted working capital deficiency	\$ (60.5)	\$ (74.9)

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

<i>(millions)</i>	Three Months Ended March 31	
	2017	2016
Net income	\$ 140.0	\$ 104.6
Financing charges	41.5	35.3
Current income tax expense	3.4	19.0
Deferred income tax expense	44.8	13.0
Depreciation and amortization	62.7	54.9
EBITDA	\$ 292.4	\$ 226.8
Loss on disposal of assets	4.1	0.5
Non-cash financing charges	(2.2)	(1.5)
Non-cash (recovery) expense	(4.7)	13.0
Adjusted EBITDA	\$ 289.6	\$ 238.8
Less adjusted EBITDA attributable to non-controlling interest <sup>(1)</sup>	-	(10.1)
Adjusted EBITDA attributable to shareholders	\$ 289.6	\$ 228.7

(1) Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

<i>(millions)</i>	Three Months Ended March 31	
	2017	2016
Funds from Operations	\$ 246.9	\$ 186.0
Total interest less capitalized interest	39.3	33.8
Current income tax expense	3.4	19.0
Adjusted EBITDA	\$ 289.6	\$ 238.8
Less adjusted EBITDA attributable to non-controlling interest <sup>(1)</sup>	-	(10.1)
Adjusted EBITDA attributable to shareholders	\$ 289.6	\$ 228.7

(1) Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

**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.

	Three Months Ended March 31	
	2017	2016
<b>Adjusted EBITDA by contract type</b>		
Cost-of-service	51%	61%
Fee-based	24%	32%
Commodity-based	25%	7%

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

**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:

	March 31 2017	December 31 2016
<i>(millions, except per share amounts)</i>		
Closing share price	\$ 28.03	\$ 29.64
Total closing number of common shares outstanding	370.7	367.9
	10,390.0	10,903.9
Total debt	5,732.5	5,828.6
Enterprise value	\$ 16,122.5	\$ 16,732.5

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

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

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

	Three Months Ended March 31			
	2017			2016
<i>(millions)</i>	Growth	Sustaining	Total	Total
Oil sands transportation	\$ 4.6	\$ 0.2	\$ 4.8	\$ 5.1
NGL processing	28.1	5.5	33.6	6.7
Conventional oil pipelines	4.8	0.6	5.4	17.3
Bulk liquid storage	15.2	1.6	16.8	11.7
Corporate <sup>(2)</sup>	-	2.4	2.4	9.4
Capital expenditures	\$ 52.7	\$ 10.3	\$ 63.0	\$ 50.2
Capital expenditures funded by Inter Pipeline <sup>(1)</sup>	\$ 52.7	\$ 10.3	\$ 63.0	\$ 50.0

(1) Capital expenditures funded by Inter Pipeline exclude the 15% non-controlling interest in the Cold Lake pipeline system. Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system.

(2) Corporate sustaining capital, in 2017, primarily relates to upgrades to Inter Pipeline's financial systems.

**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](http://www.sedar.com)

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

**Dated at Calgary, Alberta this 8th day of May, 2017**