Management's Discussion and Analysis

For the year ended December 31, 2018

FORWARD-LOOKING INFORMATION

The following **Management's Discussion and Analysis (MD&A)** highlights Inter Pipeline Ltd. and its subsidiaries' (collectively, Inter Pipeline) significant operating and financial results for the three month period and year ended December 31, 2018, 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 being 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, cost and anticipated benefits of capital projects (including the Heartland Petrochemical Complex), 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, including the stability of funds from operations and demand for certain petroleum products in Europe.

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 and year ended December 31, 2018

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three month period and year ended December 31, 2018, as compared to the three month period and year ended December 31, 2017. The MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 and 2017, the unaudited condensed interim consolidated financial statements (interim financial statements) for the quarterly periods ended March 31, June 30, and September 30, 2018 and the related MD&A for such periods, the **Annual Information Form**, and other information filed by Inter Pipeline at www.sedar.com.

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

This MD&A reports certain financial measures that are not recognised 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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2018 HIGHLIGHTS

- Annual funds from operations (FFO) totalled a record $1.1 billion, a 10 percent increase over 2017
- NGL processing business generated record annual FFO of $455 million
- Net income increased 12 percent to a record $593 million
- Declared cash dividends of $655 million, or $1.69 per share
- Attractive annual payout ratio* of 60 percent
- Announced our 10th consecutive annual dividend increase to $1.71 per share
- Total pipeline throughput volumes averaged a record 1,426,900 barrels per day (b/d)
- Divested the Heartland Petrochemical Complex’s $600 million Central Utility Block reducing the Heartland Petrochemical Complex’s (HPC) overall capital cost obligation
- Acquired a new storage business in the United Kingdom (UK) and Netherlands for USD$270 million
- Approved an $82 million expansion project for the Central Alberta pipeline system crude terminal near Stettler, Alberta

FOURTH QUARTER HIGHLIGHTS

- Strong quarterly FFO of $273 million
- Attractive quarterly payout ratio* of 62 percent
- Declared cash dividends of $170 million, or $0.43 per share
- Average throughput volumes for oil sands and conventional pipeline systems were 1,400,600 b/d
- NGL sales volumes at Redwater averaged a quarterly record 37,000 b/d
- Completed fabrication of several major components of the HPC

* Please refer to the NON-GAAP FINANCIAL MEASURES section

PERFORMANCE OVERVIEW

	Three Months Ended December 31		Years Ended December 31	
(millions, except volumes, per share and % amounts)	**2018**	2017	**2018**	2017
Pipeline volumes *(000s b/d)*				
Oil sands transportation	**1,216.4**	1,211.8	**1,225.8**	1,182.6
Conventional oil pipelines	**184.2**	204.5	**201.1**	208.0
Total pipeline volumes	**1,400.6**	1,416.3	**1,426.9**	1,390.6
NGL processing volumes *(000s b/d)* (1)				
Natural gas processing - Ethane	**65.4**	53.3	**57.4**	51.6
Natural gas processing - Propane-plus	**49.7**	40.4	**44.7**	37.6
Redwater Olefinic Fractionator sales volume	**37.0**	34.0	**32.5**	29.6
Total NGL processing volumes	**152.1**	127.7	**134.6**	118.8
Utilization				
Bulk liquid storage	**68%**	91%	**77%**	96%
Revenue				
Oil sands transportation	**$ 205.3**	$ 208.6	**$ 805.1**	$ 802.2
NGL processing	**243.8**	196.2	**888.2**	720.0
Conventional oil pipelines	**126.5**	159.2	**697.0**	517.3
Bulk liquid storage	**55.3**	54.3	**202.6**	221.1
Total revenue	**$ 630.9**	$ 618.3	**$ 2,592.9**	$ 2,260.6
Funds from operations				
Oil sands transportation	**$ 150.8**	$ 154.5	**$ 600.0**	$ 607.9
NGL processing	**120.1**	91.2	**454.8**	279.6
Conventional oil pipelines	**24.9**	53.7	**177.6**	214.3
Bulk liquid storage	**15.0**	20.9	**65.9**	97.6
Corporate costs	**(37.5)**	(52.5)	**(209.6)**	(208.8)
Total funds from operations	**$ 273.3**	$ 267.8	**$ 1,088.7**	$ 990.6
Per share (2)	**$ 0.68**	$ 0.71	**$ 2.80**	$ 2.65
Net income	**$ 144.3**	$ 141.9	**$ 592.5**	$ 526.7
Per share – basic and diluted	**$ 0.36**	$ 0.37	**$ 1.53**	$ 1.41
Adjusted EBITDA (2)	**$ 307.4**	$ 311.1	**$ 1,245.3**	$ 1,149.1
Dividends to shareholders	**$ 169.7**	$ 157.2	**$ 655.4**	$ 609.9
Per share (3)	**$ 0.425**	$ 0.415	**$ 1.685**	$ 1.630
Shares outstanding (basic)				
Weighted average	**397.8**	378.3	**388.2**	373.7
End of period	**403.8**	379.8	**403.8**	379.8
Capital expenditures				
Growth (2)	**$ 314.3**	$ 113.2	**$ 875.8**	$ 333.0
Sustaining (2)	**28.9**	21.2	**74.5**	67.5
Total capital expenditures	**$ 343.2**	$ 134.4	**$ 950.3**	$ 400.5
Payout ratio (2)	**62.1%**	58.7%	**60.2%**	61.6%

	As at December 31	
(millions, except % amounts)	**2018**	2017
Total assets	**$ 11,461.5**	$ 10,361.7
Total debt (4)	**$ 5,680.1**	$ 5,457.2
Total equity	**$ 3,965.3**	$ 3,463.8
Enterprise value (2)	**$ 13,489.8**	$ 15,342.5
Consolidated Net Debt to Total Capitalization (2)	**51.8%**	53.5%

(1) Empress V NGL production reported on a 100% basis.

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

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

(4) Financial debt reported in the December 31, 2018 consolidated financial statements of $5,659.4 million, includes long-term debt, short-term debt and commercial paper outstanding of $5,680.1 million less discounts and debt transaction costs of $20.7 million.

Year Ended December 31, 2018

Inter Pipeline generated strong financial results, as FFO increased $98.1 million or 10% from $990.6 million in 2017 to an annual record of $1.1 billion in 2018. The increase in FFO was led by record annual FFO from the NGL processing business, which benefitted from higher volumes and product pricing. The oil sands transportation business continued to earn consistent FFO. However, the conventional oil pipeline business generated lower FFO primarily as a result of weaker performance in the fourth quarter as discussed below. Contributions from a newly acquired European storage business in the fourth quarter of 2018 favourably contributed to FFO for the bulk liquid storage business, however annual results declined unfavourably due to market conditions that impacted storage demand. Corporate costs for 2018 remained relatively consistent with 2017.

Inter Pipeline's annual net income increased by $65.8 million to a record $592.5 million from $526.7 million in 2017. The increase was a result of higher FFO as discussed above, offset in part by higher deferred income taxes, depreciation and amortization expense.

Total annual dividends to shareholders increased $45.5 million or 7.5% from $609.9 million in 2017 to $655.4 million in 2018. The increase is due to a greater number of common shares outstanding, resulting from strong shareholder participation in the dividend reinvestment plan and a higher monthly dividend paid per share. In November 2018, Inter Pipeline announced a dividend rate increase of $0.03 per share on an annualized basis. Inter Pipeline's payout ratio* for the year ended December 31, 2018 was 60.2%. In November 2018, Inter Pipeline also issued 9.62 million common shares to partially finance the newly acquired storage business.

Inter Pipeline's total debt outstanding of $5,680.1 million at December 31, 2018, was $222.9 million higher than $5,457.2 million at December 31, 2017. The increase was due to partially debt financing the HPC project and the newly acquired storage business. In 2018, Inter Pipeline invested $950.3 million in capital projects. Total debt includes non-recourse debt held at Inter Pipeline (Corridor) Inc. of $1,394.0 million at December 31, 2018, compared to $1,441.0 million at December 31, 2017.

Three Months Ended December 31, 2018

Inter Pipeline generated strong financial results in the fourth quarter of 2018, as FFO increased $5.5 million or 2.1% to $273.3 million from $267.8 million in the fourth quarter of 2017. The increase in FFO was driven by the NGL processing business as its FFO increased to $120.1 million, mainly due to higher olefinic volumes and pricing and the absence of a one-time unfavourable prior period adjustment of approximately $25 million in 2017. FFO generated in oil sands transportation and the bulk liquid storage businesses was consistent quarter over quarter. The conventional business FFO decreased due to increased competition and downstream apportionment issues that reduced throughput volume, which negatively impacted quarterly results. In addition, the unprecedented widening of crude oil pricing differentials in November and December also affected midstream marketing activities. Corporate costs decreased in the current quarter as a result of lower financing and general and administrative costs.

In the fourth quarter, Inter Pipeline's net income increased $2.4 million from $141.9 million in 2017 to $144.3 million in 2018. Net income was favourably impacted by the increase in FFO as discussed above, offset somewhat by higher deferred income taxes, depreciation and amortization expense.

Total dividends to shareholders increased $12.5 million or 8.0% from $157.2 million in the fourth quarter of 2017 to $169.7 million in the fourth quarter of 2018. The increase is due to the same reasons mentioned above. Inter Pipeline's payout ratio* was 62.1% for the three months ended December 31, 2018.

Inter Pipeline's total debt outstanding increased $340.3 million from $5,339.8 million at September 30, 2018 to $5,680.1 million at December 31, 2018. The increase was largely due to the same reasons mentioned above. During this period, Inter Pipeline also invested $343.2 million in capital projects. At December 31, 2018, total debt includes non-recourse debt of $1,394.0 million held by 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 2018, we continued to develop and leverage our existing asset base, control costs and pursue additional growth opportunities.

A signature project for Inter Pipeline continued to be the development and construction of the $3.5 billion Heartland Petrochemical Complex (HPC), which is located in Strathcona County, Alberta near our existing Redwater Olefinic Fractionator. Upon completion, HPC will be the first integrated propane dehydrogenation (PDH) and polypropylene (PP) facility of its kind in Canada and will convert low-cost, locally sourced propane into higher value polypropylene. The HPC construction timetable remains both on schedule and on budget, with total capital investment since inception surpassing $1 billion. The completion of advance concrete work has allowed for the timely delivery of several major facility components, with modules beginning to arrive on site in late 2018. Once operational, which is projected to be in late 2021, Inter Pipeline expects to earn approximately $450 million to $500 million per year in long-term average annual EBITDA*, representing a strong return on invested capital.

In 2019, Inter Pipeline's planned $1.46 billion capital expenditure program, which includes approximately $120 million of sustaining capital*, will focus on developing, expanding and maintaining our four business segments, with a majority of capital directed toward HPC.

During 2019, Inter Pipeline expects to invest approximately $1.1 billion on a number of HPC activities, including installation of several major components, facility module fabrication and site construction activities. In 2019, detailed design work and procurement of major equipment will be completed.

Inter Pipeline's largest business segment is oil sands transportation, which is comprised of 100% ownership in the Corridor, Cold Lake and Polaris pipeline systems. Collectively, these systems have more than 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. Inter Pipeline's oil sands transportation systems transported an annual record of 1,225,800 b/d of bitumen blend and diluent during 2018, up 4% compared to 2017. These bitumen blend and diluent pipeline systems are underpinned by long-term commercial arrangements with creditworthy counterparties that generate stable cost-of-service FFO. Approximately $90 million will be invested in this business in 2019, with more than half of the expenditures supporting the completion of the

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Cold Lake pipeline connection to Canadian Natural's Kirby North oil sands project. Construction of a dual 23 km pipeline and pump station is expected to be completed in early 2019, with an in-service date of mid-2019.

As one of Canada's largest NGL processing businesses, Inter Pipeline continued to benefit from favourable frac-spreads and strong demand throughout 2018. Our three major straddle facilities processed approximately 3.3 billion cubic feet of natural gas per day and produced 102,100 b/d of NGL during the year. The Pioneer 1 and Pioneer 2 offgas plants processed an average of 160 million cubic feet of natural gas per day during 2018, with average NGL sales volumes from the Redwater Olefinic Fractionator of 32,500 b/d. In aggregate, these facilities are capable of processing in excess of six billion cubic feet of natural gas per day and producing over 240,000 b/d of NGL. Approximately $30 million in capital expenditures will be invested in 2019 to increase processing capacity and product storage at the Redwater Olefinic Fractionator and other miscellaneous projects at our NGL extraction plants.

In 2018, Inter Pipeline's three conventional oil pipeline systems transported an average of 201,100 b/d. In the third quarter of 2018, Inter Pipeline approved an $82 million expansion project for the Central Alberta Pipeline system crude terminal near Stettler, Alberta. This capital investment will further position Inter Pipeline to better serve the developing light oil in Alberta's Eastern Duvernay basin. The expansion includes the construction of two 130,000 barrel crude oil storage tanks, additional truck unloading capacity and associated pumping and metering facilities, which will better position Inter Pipeline to meet the growing customer demand. The expansion is expected to be in service by mid-2020. In 2019, approximately $100 million will be invested into this business segment with the majority of capital supporting the development of several projects to serve the emerging light oil plays in Alberta's East Duvernay and Viking regions.

Inter Pipeline's European bulk liquid storage business diversifies our asset base in terms of geography and market. With operations in the UK, Ireland, Germany, the Netherlands, Denmark and Sweden, we continue to seek opportunities to economically expand our existing storage capacity, while diversifying our product handling capabilities. In the fourth quarter of 2018, Inter Pipeline acquired NuStar Energy, L.P.'s European bulk liquid storage business for approximately USD$270 million. The acquisition consisted of seven high-quality storage terminals strategically located throughout the UK and within the Port of Amsterdam, that have strong utilization rates, and are underpinned by a variety of cost-of-service and fee-based contracts which have historically generated stable cash flows.

In 2018, demand for certain petroleum products in Europe faced a steep backwardated pricing environment, particularly in Denmark. As a result, the average storage utilization rate during the year was 77%. In 2019 Inter Pipeline plans to invest approximately $20 million across certain facilities to meet increased demand for storage in the UK, Sweden, Germany and the Netherlands.

Inter Pipeline is committed to maintaining a strong balance sheet and financial flexibility. We will continue financing our capital expenditure program primarily through undistributed cash flow, our revolving credit facility and proceeds from our dividend reinvestment plan. As of December 31, 2018, Inter Pipeline had $560 million of available capacity on its $1.5 billion revolving credit facility and a consolidated net debt to total capitalization ratio* of 51.8%.

Our financial position and the stable nature of our business, allows Inter Pipeline to maintain strong investment grade credit ratings. Standard & Poor's (S&P) and DBRS Limited (DBRS) have assigned Inter Pipeline a credit rating of BBB+

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

(negative outlook) and BBB (stable trend), respectively. Inter Pipeline (Corridor) Inc. has investment grade credit ratings of A (low) with a stable trend from DBRS, and BBB+ (stable outlook) from S&P.

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. Our strong balance sheet combined with a proven operational capability, means that Inter Pipeline is well-positioned to continue generating long-term positive results for our shareholders.

RESULTS OF OPERATIONS

Oil Sands Transportation Business Segment

	Three Months Ended December 31			Years ended December 31		
Volumes (000s b/d)	**2018**	2017	*% change*	**2018**	2017	*% change*
Cold Lake	**573.1**	608.4	*(5.8)*	**578.9**	589.6	*(1.8)*
Corridor	**393.9**	377.6	*4.3*	**399.3**	398.9	*0.1*
Polaris	**249.4**	225.8	*10.5*	**247.6**	194.1	*27.6*
	1,216.4	1,211.8	*0.4*	**1,225.8**	1,182.6	*3.7*
(millions)						
Revenue	**$ 205.3**	$ 208.6	*(1.6)*	**$ 805.1**	$ 802.2	*0.4*
Operating expenses	**$ 40.8**	$ 39.2	*4.1*	**$ 148.1**	$ 147.4	*0.5*
Funds from operations	**$ 150.8**	$ 154.5	*(2.4)*	**$ 600.0**	$ 607.9	*(1.3)*
Capital expenditures						
Growth[1]	**$ 23.9**	$ 19.6		**$ 59.5**	$ 47.6	
Sustaining[1]	**1.1**	0.1		**2.1**	1.0	
	$ 25.0	$ 19.7		**$ 61.6**	$ 48.6	

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

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

The Cold Lake pipeline system is a bitumen blend and diluent pipeline system that transports diluted bitumen from the Cold Lake oil sands area of Alberta to delivery points in Hardisty and Edmonton, Alberta.

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 bitumen blend 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.

The Polaris pipeline system provides diluent transportation service from the Edmonton area to the Athabasca and Cold Lake areas of Alberta.

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

Volumes

In the three months and year ended December 31, 2018, average volumes transported in the oil sands transportation business increased by 4,600 b/d, and 43,200 b/d, respectively, over the same periods in 2017.

On the Cold Lake pipeline system, average volumes in the three months and year ended December 31, 2018, decreased by 35,300 b/d and 10,700 b/d, respectively, compared to the same periods in 2017. For both periods, volumes from Imperial's Cold Lake and Canadian Natural's Wolf Lake oil sands projects decreased, but were somewhat offset by higher volumes from Cenovus' Foster Creek and Osum's Orion 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.

In the three months and year ended December 31, 2018, average volumes on the Corridor pipeline system increased by 16,300 b/d and 400 b/d, respectively, from the same period in 2017. In the fourth quarter of 2017, volumes were unfavourably impacted by planned maintenance at the Scotford upgrader. The full year of 2018 has remained relatively consistent with 2017.

Average volumes on the Polaris pipeline system increased by 23,600 b/d and 53,500 b/d in the three months and year ended December 31, 2018, respectively, compared to the same periods in 2017. For both periods the increase was primarily due to higher deliveries to FCCL Partnership's Foster Creek, Imperial's Kearl, Japan Canada Oil Sands Limited/Nexen Hangingstone and Husky's Sunrise projects.

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 by $3.3 million in the current quarter, compared to the same period in 2017, largely due to lower capital fee revenue, which was partially offset by higher return on debt from an increase in interest rates. Annual 2018 revenue increased by $2.9 million, compared to the same period in 2017, primarily due to the aforementioned return on debt increase, higher incremental capital and interconnection fee revenues, partially offset by lower cost recoveries.

Operating Expenses

Operating expenses in the oil sands transportation business segment typically have a limited impact on Inter Pipeline's FFO, as substantially all operating expenditures are recovered from shippers on the Cold Lake, Corridor and Polaris pipeline systems. In the three months and year ended December 31, 2018, operating expenses in the oil sands transportation business increased $1.6 million and $0.7 million, respectively, compared to the same periods in 2017. The increase is due to higher costs for fuel and power, offset by lower repair and remediation costs.

Capital Expenditures

The oil sands transportation business incurred growth capital expenditures* of $59.5 million in 2018, primarily related to the Kirby North and other third-party connections.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

NGL Processing Business Segment

Natural gas processing

Three Months Ended December 31

	2018				2017			
	mmcf/d	(000s b/d)			mmcf/d	(000s b/d)		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**2,203**	**32.4**	**30.7**	**63.1**	1,949	27.9	28.0	55.9
Empress V (100% basis)	**1,007**	**23.3**	**12.3**	**35.6**	1,000	25.4	12.4	37.8
Empress II	**561**	**9.7**	**6.7**	**16.4**	-	-	-	-
	3,771	**65.4**	**49.7**	**115.1**	2,949	53.3	40.4	93.7

Years ended December 31

	2018				2017			
	mmcf/d	(000s b/d)			mmcf/d	(000s b/d)		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**2,082**	**29.8**	**29.4**	**59.2**	1,797	28.7	25.8	54.5
Empress V (100% basis)	**920**	**21.6**	**11.3**	**32.9**	941	22.9	11.8	34.7
Empress II	**329**	**6.0**	**4.0**	**10.0**	-	-	-	-
	3,331	**57.4**	**44.7**	**102.1**	2,738	51.6	37.6	89.2

Offgas processing

	Three Months Ended December 31		Years Ended December 31	
	2018	2017	**2018**	2017
(mmcf/d)				
Offgas plants throughput volume	**171**	144	**160**	141
(000s b/d)				
Offgas plants production volume	**35.2**	30.5	**33.0**	28.4
Redwater Olefinic Fractionator sales volume	**37.0**	34.0	**32.5**	29.6
Redwater Olefinic Fractionator volume composition (1)				
Ethane-ethylene	**41%**	42%	**41%**	40%
Paraffinic NGL				
Propane	**29%**	29%	**29%**	29%
Normal butane	**7%**	7%	**7%**	8%
Olefinic NGL				
Polymer grade propylene	**11%**	12%	**11%**	12%
Alky feed	**8%**	7%	**8%**	8%
Olefinic condensate	**4%**	3%	**4%**	3%

(1) Composition is based on production volumes, which may differ from sales volumes and is a factor in the indicative frac-spread calculation.

NGL processing financial results

	Three Months Ended December 31			Years Ended December 31		
(millions)	**2018**	2017	*% change*	**2018**	2017	*% change*
Revenue (1)	**$ 243.8**	$ 196.2	*24.3*	**$ 888.2**	$ 720.0	*23.4*
Cost of sales (1)	**$ 67.6**	$ 64.7	*4.5*	**$ 238.2**	$ 270.1	*(11.8)*
Operating expenses (1)	**$ 55.8**	$ 40.3	*38.5*	**$ 195.0**	$ 170.3	*14.5*
Funds from operations (1)	**$ 120.1**	$ 91.2	*31.7*	**$ 454.8**	$ 279.6	*62.7*
Capital expenditures (1)						
Growth (2)	**$ 271.0**	$ 66.3		**$ 762.5**	$ 203.6	
Sustaining (2)	**6.9**	3.1		**21.8**	20.1	
	$ 277.9	$ 69.4		**$ 784.3**	$ 223.7	

(1) Empress V straddle plant is recorded based on Inter Pipeline's 50% ownership.

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

Inter Pipeline's NGL processing business extracts NGL from natural gas and oil sands upgrader offgas. The natural gas processing facilities consist of a 100% ownership interest in the Cochrane and Empress II straddle plants and a 50% ownership interest in the Empress V straddle plant. The Empress and Cochrane plants are located on the eastern and western legs, respectively, of the TransCanada Alberta System near export points from Alberta. The offgas processing facilities consist of the Pioneer I and Pioneer II offgas plants located near Fort McMurray, Alberta, a fractionator near Redwater, Alberta, and the Boreal pipeline system that connects these facilities.

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

Volumes

Inter Pipeline's straddle plants processed average natural gas volumes of 3,771 million cubic feet per day (mmcf/d) in the current quarter and 3,331 mmcf/d for the full year of 2018, an increase of 822 mmcf/d and 593 mmcf/d, respectively, over the comparable periods in 2017.

In the three months and year ended December 31, 2018, average throughput volumes at the Cochrane straddle plant increased by 254 mmcf/d and 285 mmcf/d, respectively, compared to the same periods in 2017. For both periods, throughput volumes were higher because of increased capacity on the TransCanada Alberta System, however the full year of 2018 also increased due to a scheduled 32-day full plant maintenance outage and an unplanned partial outage in 2017. Throughput volumes at the Cochrane straddle plant are impacted by, and fluctuate with, demand for Canadian natural gas in the United States (US) west-coast region, as well as third party pipeline matters.

At the Empress V straddle plant, average throughput volumes increased by 7 mmcf/d during the current quarter and decreased 21 mmcf/d for the full year of 2018, compared to the same periods in 2017. The current quarter volumes remained relatively consistent with the same period in 2017, however the full year of 2018 decreased due to a 31-day scheduled turnaround during the second and third quarters of 2018. The Empress II straddle plant had average throughput volumes in the three months and year ended December 31, 2018, of 561 mmcf/d and 329 mmcf/d, respectively, compared to no throughput volumes in the same periods in 2017. The increase in throughput volumes at the Empress II straddle plant does not materially impact operating results due to the 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.

Combined NGL production from the straddle plants increased in the current quarter by 21,400 b/d to 115,100 b/d in 2018, and for the full year by 12,900 b/d to 102,100 b/d in 2018. For both periods the increase in production is largely due to higher natural gas volumes processed at the Cochrane and Empress II straddle plants, as discussed above. NGL production from the straddle plants is largely 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.

Inter Pipeline's Pioneer I and Pioneer II offgas plants processed combined average volumes of 171 mmcf/d and 160 mmcf/d during the three months and year ended December 31, 2018, respectively, compared to 144 mmcf/d and 141 mmcf/d during the same periods in 2017. Average ethane-plus volumes produced from the offgas plants increased 4,700 b/d in the fourth quarter to 35,200 b/d in 2018 and increased 4,600 b/d for the full year to 33,000 b/d in 2018. Throughput volumes to, and production volumes from, Inter Pipeline's offgas plants can be impacted by the operations associated with connected third party oil sands upgraders in the Fort McMurray area, offgas composition, as well as various downstream issues.

Average NGL sales volumes from the Redwater Olefinic Fractionator increased in the three months and year ended December 31, 2018, by 3,000 b/d and 2,900 b/d, respectively, compared to the same periods in 2017. 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. For the three months and year ended December 31, 2018, the sales volume increase was primarily driven by fewer upstream issues during the current quarter and the absence of a scheduled full plant turnaround that occurred 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.

Revenue from the NGL processing business increased by $47.6 million and $168.2 million in the three months and year ended December 31, 2018, respectively, compared to the same periods in 2017. Revenue increased for both periods, due to higher olefinic pricing and volumes, as well as the absence of a one-time prior period unfavourable adjustment of approximately $25 million reported in the fourth quarter of 2017. Also contributing to the full year of 2018 was higher pricing and volumes on paraffinic and propane-plus products, as compared to the same period in 2017.

Natural gas processing frac-spread

	Three Months Ended December 31			
(dollars)	**2018**		2017	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Cochrane propane-plus market frac-spread	**$ 0.71**	**$ 0.94**	$ 0.85	$ 1.08
Cochrane propane-plus realized frac-spread	**$ 0.74**	**$ 0.97**	$ 0.87	$ 1.10

	Years Ended December 31			
(dollars)	**2018**		2017	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Cochrane propane-plus market frac-spread	**$ 0.83**	**$ 1.07**	$ 0.66	$ 0.86
Cochrane propane-plus realized frac-spread	**$ 0.83**	**$ 1.07**	$ 0.68	$ 0.88

(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. Differences between realized propane-plus frac-spread and market propane-plus frac-spread from the Cochrane straddle plant are due in part to differences between the monthly index price of AECO and daily index price of AECO.

The Cochrane propane-plus realized frac-spread decreased in the fourth quarter from $0.87 USD/USG in 2017 to $0.74 USD/USG in 2018 and increased in the full year from $0.68 USD/USG in 2017 to $0.83 USD/USG in 2018.

Offgas processing frac-spread

	Three Months Ended December 31			
(dollars)	**2018**		2017	
	USD/USG (1)	*CAD/USG* (1)	*USD/USG* (1)	*CAD/USG* (1)
Offgas olefinic indicative frac-spread (2)	**$ 1.70**	**$ 2.24**	$ 1.64	$ 2.08
Offgas paraffinic indicative frac-spread (2)	**$ 0.72**	**$ 0.95**	$ 0.86	$ 1.09
Offgas olefinic benchmark adjustment (2)	**$ 0.56**	**$ 0.74**	$ 0.60	$ 0.76
Offgas paraffinic benchmark adjustment (2)	**$ 0.31**	**$ 0.41**	$ 0.26	$ 0.33

	Years Ended December 31			
(dollars)	**2018**		2017	
	USD/USG (1)	*CAD/USG* (1)	*USD/USG* (1)	*CAD/USG* (1)
Offgas olefinic indicative frac-spread (2)	**$ 1.84**	**$ 2.39**	$ 1.43	$ 1.86
Offgas paraffinic indicative frac-spread (2)	**$ 0.78**	**$ 1.01**	$ 0.67	$ 0.86
Offgas olefinic benchmark adjustment (2)	**$ 0.57**	**$ 0.74**	$ 0.55	$ 0.72
Offgas paraffinic benchmark adjustment (2)	**$ 0.35**	**$ 0.46**	$ 0.29	$ 0.38

(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.

(2) Prior to the third quarter of 2018, Inter Pipeline reported a market and realized frac-spread for both offgas olefinic and paraffinic products. Beginning in the third quarter of 2018, Inter Pipeline now reports an indicative frac-spread. Inter Pipeline believes that this presentation better reflects frac-spread pricing for the Offgas processing business. The benchmark adjustment should be subtracted from the indicative frac-spread.

Offgas processing produces both olefinic and paraffinic NGL which are sold under multiple shorter term, individually negotiated contracts. 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 frac-spread for offgas processing is comprised of two components. The first is the indicative frac-spread that reflects the production composition mix and the related benchmark pricing. The offgas olefinic indicative frac-spread is defined as the difference between the benchmark prices of polymer grade propylene, alky feed and olefinic condensate products and the daily index price of AECO natural gas calculated in USD/USG before the olefinic benchmark adjustment. Polymer grade propylene benchmark pricing is based on a published price by IHS Markit*, while alky feed and olefinic condensate are currently priced on West Texas Intermediate (WTI) light sweet crude. The offgas paraffinic indicative frac-spread is defined as the difference between the benchmark prices of propane and butane products and the daily index price of AECO natural

* PG Propylene Contract, Benchmark published by IHS Markit, North America Light Olefins.

gas calculated in USD/USG before the paraffinic benchmark adjustment. Propane is based on a Conway posting, while butane is based on WTI light sweet crude. The indicative olefinic and paraffinic frac-spreads may change period over period as a result of fluctuations in benchmark pricing, production composition mix and the Canadian to U.S. dollar foreign exchange rate.

The second component of frac-spread is an aggregate benchmark adjustment that represents differentials, marketing fees, product and natural gas transportation, extraction premiums, and other associated costs calculated in USD/USG. The benchmark adjustment may fluctuate period over period, due to varying terms of the contractual arrangements, and the Canadian to U.S. dollar foreign exchange rate. The benchmark adjustment should be subtracted from the indicative frac-spread.

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

Cost of Sales

Cost of sales in the NGL processing business segment primarily represents shrinkage gas, which is 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. Cost of sales for offgas processing also includes transportation expenses. The price for shrinkage gas is based on a combination of AECO daily spot prices and monthly index natural gas prices. In the three months and year ended December 31, 2018, cost of sales increased $2.9 million and decreased $31.9 million, respectively, over the comparable periods in 2017. Cost of sales remained relatively consistent for the current quarter for both offgas processing and the straddle plants, however the decrease for 2018 was largely due to lower AECO natural gas prices from the same period in 2017. Weighted average AECO prices[*] decreased in the fourth quarter from $1.85/GJ in 2017 to $1.80/GJ in 2018 and for the full year from $2.30/GJ in 2017 to $1.45/GJ in 2018.

Operating Expenses

Operating expenses in the NGL processing business increased $15.5 million in the current quarter and $24.7 million for the full year of 2018, over the same periods in 2017. For the three months and year ended December 31, 2018, offgas processing operating expenses increased by $5.4 million and $5.1 million, respectively, compared to the same periods in 2017. Both periods were impacted by higher power costs, however full year results were partially offset by lower general operating costs. For the three months and year ended December 31, 2018, operating expenses for Inter Pipeline's straddle plants increased $10.1 million and $19.6 million, respectively, compared to the same periods in 2017, largely due to scheduled turnarounds during the second and third quarters at the Empress II and V facilities, and increased power costs. Average Alberta power pool prices increased in the fourth quarter from $22.46/MWh in 2017 to $55.52/MWh in 2018 and for the full year from $22.19/MWh in 2017 to $50.34/MWh in 2018.

Capital Expenditures

In 2018, the NGL processing business incurred total growth capital expenditures[*] of $762.5 million, of which $674.0 million related to engineering, design, procurement and civil construction on the Heartland Petrochemical Complex and $33.1 million related to the Complex's Central Utility Block prior to its sale in September of 2018. The remaining growth capital expenditures[*] largely related to various equipment and facility upgrades at the Redwater Olefinic Fractionator. Total

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

sustaining capital expenditures* in 2018 of $21.8 million primarily related to processing equipment maintenance and upgrades at the Cochrane straddle plant and the Redwater Olefinic Fractionator. During the third quarter of 2018, Inter Pipeline announced the completion of its divestiture of the Heartland Petrochemical Complex's Central Utility Block. Pursuant to the sale, Inter Pipeline recovered $53.5 million of development capital incurred to date. Inception to date, $1.1 billion has been invested on the Heartland Petrochemical Complex.

Conventional Oil Pipelines Business Segment

	Three Months Ended December 31			Years Ended December 31		
Volumes (000s b/d)	**2018**	2017	*% change*	**2018**	2017	*% change*
Bow River	**95.6**	88.1	*8.5*	**90.5**	91.2	*(0.8)*
Central Alberta	**32.3**	25.9	*24.7*	**28.7**	25.7	*11.7*
Mid-Saskatchewan	**56.3**	90.5	*(37.8)*	**81.9**	91.1	*(10.1)*
	184.2	204.5	*(9.9)*	**201.1**	208.0	*(3.3)*

(millions, except per barrel amount)	**2018**	2017	*% change*	**2018**	2017	*% change*
Revenue	**$ 126.5**	$ 159.2	*(20.5)*	**$ 697.0**	$ 517.3	*34.7*
Cost of sales	**$ 79.9**	$ 88.2	*(9.4)*	**$ 436.9**	$ 238.2	*83.4*
Operating expenses	**$ 21.8**	$ 17.8	*22.5*	**$ 85.7**	$ 64.8	*32.3*
Funds from operations	**$ 24.9**	$ 53.7	*(53.6)*	**$ 177.6**	$ 214.3	*(17.1)*
Revenue per barrel (1)	**$ 3.00**	$ 2.90	*3.4*	**$ 2.98**	$ 2.89	*3.1*
Capital expenditures						
Growth (2)	**$ 13.4**	$ 9.3		**$ 29.3**	$ 27.2	
Sustaining (2)	**8.1**	2.8		**13.8**	5.5	
	$ 21.5	$ 12.1		**$ 43.1**	$ 32.7	

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

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

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

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

Volumes

In the three months and year ended December 31, 2018, average volumes transported on the conventional oil pipelines systems decreased by 20,300 b/d and 6,900 b/d, respectively, from the same periods in 2017. Mid-Saskatchewan pipeline system volumes decreased by 34,200 b/d in the current quarter and 9,200 b/d for the full year in 2018, over the same periods in 2017. The decreases were due to alternative transportation options available for producers and shippers, and apportionment on downstream third-party pipeline systems, as nominated volumes exceeded capacity. Average Central Alberta pipeline system volumes increased for the three months and year ended December 31, 2018, by 6,400 b/d and 3,000 b/d, respectively, compared to the same periods in 2017, due to increased volumes associated with the new sweet crude batching operation that was implemented in July 2018. Volumes on the Bow River pipeline system increased by 7,500 b/d in the current quarter, compared to the same period in 2017, due to higher Hardisty southbound transmission

* Please refer to the NON-GAAP FINANCIAL MEASURES section

and truck terminal volumes. Volumes on the Bow River pipeline system for the year ended December 31, 2018 decreased by 700 b/d and remained relatively consistent compared to the same period in 2017.

Revenue

The conventional oil pipelines business earns revenue for the transportation of petroleum products in accordance with Inter Pipeline's tariffs under a number of fee-based and cost-of-service contracts, while its midstream marketing activities generate revenue under a number of marketing services and product margin contracts. Please refer to the adjusted EBITDA by contract type disclosure in the **NON-GAAP FINANCIAL MEASURES** section for further information.

Revenue from conventional oil pipelines for the current quarter decreased $32.7 million as compared to the same period in 2017. The decrease was largely due to reduced blending activity and midstream marketing revenue, which was the result of lower commodity prices due to the unprecedented widening of crude oil pricing differentials in the quarter. As discussed above, lower volume on the Mid-Saskatchewan system also contributed to the decrease in revenue. Revenue for the year ended December 31, 2018 increased $179.7 million over the comparable periods in 2017, largely due to higher midstream marketing revenue as a result of increased blending activity, product marketing services and higher WTI light sweet crude benchmark pricing.

Cost of Sales

Cost of sales in the conventional oil pipelines business primarily consists of purchases of petroleum products used for transportation, blending, and marketing activities. Cost of sales decreased in the three months ended December 31, 2018, by $8.3 million, compared to the same period in 2017, largely due to lower product pricing and blending activity. The increase for the year ended December 31, 2018 of $198.7 million, compared to the same periods in 2017 was due to higher product volumes purchased for incremental product marketing services and blending activity, as well as higher WTI light sweet crude benchmark pricing.

Operating Expenses

In the three months and year ended December 31, 2018, operating expenses in the conventional oil pipelines business increased $4.0 million and $20.9 million, respectively, largely due to higher integrity program costs, remediation and repair costs, and increased fuel and power costs, as compared to the same periods in 2017.

Capital Expenditures

In 2018, the conventional oil pipelines business incurred growth capital expenditures* of $29.3 million, primarily related to pipeline and facility upgrades and expansions on the Bow River and Central Alberta pipeline systems, including the Stettler Crude Oil Terminal expansion. Total sustaining capital expenditures* in 2018 of $13.8 million primarily related to pipeline replacement projects on the Bow River pipeline system.

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

Bulk Liquid Storage Business Segment

	Three Months Ended December 31			Years Ended Decmeber 31		
	2018	2017	*% change*	**2018**	2017	*% change*
Utilization	**68%**	91%	*(25.3)*	**77%**	96%	*(19.8)*
(millions)						
Revenue	**$ 55.3**	$ 54.3	*1.8*	**$ 202.6**	$ 221.1	*(8.4)*
Operating expenses	**$ 28.9**	$ 24.9	*16.1*	**$ 101.4**	$ 92.4	*9.7*
Funds from operations	**$ 15.0**	$ 20.9	*(28.2)*	**$ 65.9**	$ 97.6	*(32.5)*
Capital expenditures						
Growth[(1)]	**$ 6.0**	$ 18.0		**$ 24.5**	$ 54.6	
Sustaining[(1)]	**6.1**	6.2		**15.0**	16.6	
	$ 12.1	$ 24.2		**$ 39.5**	$ 71.2	

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

Inter Pipeline operates a bulk liquid storage business branded as Inter Terminals with operations in the UK, Germany, Ireland, Denmark, Sweden and the Netherlands. Inter Terminals is one of the largest independent bulk liquid storage businesses in Europe. Following the acquisition of a new storage business in the UK and Netherlands on November 30, 2018, Inter Terminals now has a combined storage capacity of approximately 37 million barrels across 23 terminals. These terminals are strategically located with 14 terminals across the UK, Germany and Ireland which provide storage and distribution facilities for a wide range of liquids, including chemicals, biofuels and waste oils, with the ability to receive and distribute products by ship, rail, truck or pipeline. One terminal is located in the Netherlands within the Port of Amsterdam, which is the world's largest gasoline blending hub; this terminal provides gasoline, gas oil and fuel oil storage, as well as blending services. In Denmark, four deep draft coastal terminals are located on the Danish Straits, providing build bulk, break bulk and custom blending services for distillates and fuel oil products. The four terminals in Sweden function as a strategic storage and blending hub for the trans-shipment of refined products, as well as the inland distribution of retail petroleum and petrochemical products.

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

Utilization

Average utilization in the bulk liquid storage business decreased in the current quarter from 91% in 2017 to 68% in 2018 and from 96% in 2017 to 77% in 2018. The decrease reflects unfavourable market conditions, particularly in Denmark where average utilization continues to be impacted by a backwardated pricing environment for certain oil products, which negatively impacted storage demand.

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 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.

Revenue from the bulk liquid storage business increased by $1.0 million in the current quarter and decreased $18.5 million for the year ended December 31, 2018, compared to the same periods in 2017. Both periods were impacted by lower demand arising from challenging market conditions which unfavourably impacted utilization and storage rates. However, revenue decreases in the current quarter were more than offset by the one month of contribution from the newly acquired storage business. Foreign currency translation adjustments unfavourably impacted revenue by $0.2 million in the current quarter and favourably by $5.8 million for the full year of 2018, compared to the same periods in 2017.

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

Foreign Exchange Rates

	Three Months Ended December 31			Years Ended December 31		
(dollars)	**2018**	2017	*% change*	**2018**	2017	*% change*
Euro/CAD	**$ 1.5071**	$ 1.4971	*0.7*	**$ 1.5302**	$ 1.4650	*4.5*
Pound Sterling/CAD	**$ 1.6989**	$ 1.6875	*0.7*	**$ 1.7299**	$ 1.6720	*3.5*

Operating Expenses

Bulk liquid storage operating expenses increased $4.0 million and $9.0 million in the three months and year ended December 31, 2018, respectively, over the comparable periods in 2017. For both periods, the increase in operating costs was primarily attributable to the impact of one month of operations from the newly acquired storage business. However, the full year was further impacted by higher costs related to repairs and maintenance, and fuel and power, primarily in the UK, as well as the absence of a one-time operating cost recovery recognized in the third quarter of 2017. Additionally, foreign exchange favourably impacted operating expenses by $0.1 million in the current quarter and unfavourably by $2.1 million for the full year of 2018, compared to the same periods in 2017.

Capital Expenditures

In the current quarter, the bulk liquid storage business incurred total growth capital expenditures* of $6.0 million, primarily relating to tank integrity and enhancement projects. The business also incurred sustaining capital expenditures* of $6.1 million, including expenditures on safety improvement and automation projects and environmental enhancement initiatives.

Acquisition in the UK and Netherlands

On November 30, 2018, Inter Pipeline acquired 100% of the issued and outstanding shares of NuStar Energy, L.P.'s European bulk liquid storage business valued at USD$270 million (CAD$360.7 million), before closing adjustments for working capital and debt, for a total cash consideration of USD$278.3 million (CAD$371.8 million). This acquisition was partially funded from net proceeds of the previously announced equity offering completed on November 7, 2018, and available capacity on Inter Pipeline's syndicated credit facility. Following this acquisition, Inter Terminals storage capacity in Western Europe increased by approximately 33% and establishes it as the largest independent storage company in the UK.

Operating results from the newly acquired storage business included in the consolidated financial statements contributed $8.4 million to revenue and $1.3 million to net income before tax. Had the acquisition occurred on January 1, 2018, management estimates that pro forma revenue and pro forma net income before tax would have increased by $95.2 million and $6.0 million, respectively. The pro forma information is not necessarily indicative of the results of operations that would have resulted had this acquisition been effective on the date indicated, or of future results.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Other Expenses

(millions)	Three Months Ended December 31 2018	2017	Years Ended December 31 2018	2017
Depreciation and amortization	**$ 68.9**	$ 66.1	**$ 273.7**	$ 255.7
Income tax expense	**56.0**	52.5	**215.5**	185.3
Financing charges	**34.4**	43.6	**163.4**	170.4
General and administrative	**29.7**	34.7	**137.6**	129.8
Loss on disposal of assets	**2.8**	4.4	**4.9**	9.5

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets for the three months and year ended December 31, 2018, increased $2.8 million and $18.0 million, respectively, over the same periods in 2017. The increase is primarily the result of depreciating new assets now in service.

Income Tax Expense

Consolidated income tax expense increased $3.5 million in the current quarter and $30.2 million for the full year of 2018, compared to the same periods in 2017. Consolidated income tax expense is the sum of current income tax expense and deferred income tax expense.

Current income tax expense has remained relatively consistent in the current quarter at $1.9 million and has increased $5.4 million to $2.4 million for the full year of 2018, compared to the same periods in 2017. The increase for the full year of 2018 is due to a favourable current income tax adjustment of $9.1 million recognized in the third quarter of 2017 from the utilization of tax assets acquired in the offgas acquisition.

Deferred income tax expense for the three months and year ended December 31, 2018 of $54.1 million and $213.1 million, respectively, increased $3.8 million and $24.8 million, respectively, compared to the same periods in 2017, due to the utilization of tax assets to lower current income tax expense.

Financing Charges

(millions)	Three Months Ended December 31 2018	2017	Years Ended December 31 2018	2017
Interest on credit facilities	**$ 14.2**	$ 10.3	**$ 45.8**	$ 37.5
Interest on Corridor debentures	**1.8**	1.9	**7.3**	7.4
Interest on medium-term notes	**30.0**	31.8	**124.2**	125.6
Total interest	**46.0**	44.0	**177.3**	170.5
Capitalized interest	**(13.8)**	(2.9)	**(23.1)**	(9.0)
Amortization of transaction costs on financial debt	**1.0**	1.1	**4.0**	4.2
Accretion of provisions and pension plan funding charges	**1.2**	1.4	**5.2**	4.7
Financing charges	**$ 34.4**	$ 43.6	**$ 163.4**	$ 170.4

In the three months and year ended December 31, 2018, total financing charges decreased $9.2 million and $7.0 million, respectively, over the comparable periods in 2017.

Interest on credit facilities increased $3.9 million in the current quarter and $8.3 million for the full year in 2018, compared to the same periods in 2017, due to higher short-term interest rates.

Interest on medium-term notes has decreased by $1.8 million in the current quarter, compared to the same period in 2017, due to the maturity and repayment of the Series 2 notes on July 30, 2018. The full year of 2018 decreased from 2017 by $1.4 million, as the issuance of Series 10 medium-term notes on April 18, 2017 were partially offset by the aforementioned Series 2 notes maturity.

Capitalized interest increased by $10.9 million and $14.1 million in the three months and year ended December 31, 2018, respectively, over the same periods in 2017, which is largely a result of the development of the Heartland Petrochemical Complex.

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

General and Administrative

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2018**	2017	**2018**	2017
Canada	**$ 18.1**	$ 27.5	**$ 104.3**	$ 102.1
Europe	**11.6**	7.2	**33.3**	27.7
	$ 29.7	$ 34.7	**$ 137.6**	$ 129.8

In the current quarter, Canadian general and administrative expenses decreased $9.4 million, compared to the same period in 2017, largely from lower long-term incentive plan expense stemming from a decrease in Inter Pipeline's share price. Annual Canadian general and administrative costs remained relatively consistent with 2017.

European general and administrative costs increased in the three months and year ended December 31, 2018, by $4.4 million and $5.6 million, respectively, over the same periods in 2017, largely due to transition and integration costs of the newly acquired storage business.

Loss on Disposal of Assets

Inter Pipeline incurred loss on disposal of assets of $2.8 million in the current quarter and $4.9 million for the full year in 2018, largely due to the disposal and de-recognition of certain non-core assets in the NGL processing and bulk liquid storage businesses.

SUMMARY OF QUARTERLY RESULTS

(millions, except volume, per share and % amounts)	2017 First Quarter	2017 Second Quarter	2017 Third Quarter	2017 Fourth Quarter	**2018 First Quarter**	**2018 Second Quarter**	**2018 Third Quarter**	**2018 Fourth Quarter**
Pipeline volumes *(000s b/d)*								
Oil sands transportation	1,251.4	1,121.1	1,147.1	1,211.8	**1,279.0**	**1,181.3**	**1,227.2**	**1,216.4**
Conventional oil pipelines	209.9	205.5	212.0	204.5	**209.4**	**196.4**	**214.3**	**184.2**
Total pipeline volumes	1,461.3	1,326.6	1,359.1	1,416.3	**1,488.4**	**1,377.7**	**1,441.5**	**1,400.6**
NGL processing volumes *(000s b/d)* (1)								
Natural gas processing - Ethane	61.1	44.1	48.2	53.3	**64.2**	**43.9**	**56.1**	**65.4**
Natural gas processing - Propane-plus	42.9	31.4	35.6	40.4	**46.3**	**41.3**	**41.6**	**49.7**
Redwater Olefinic Fractionator sales volume	31.6	20.6	31.9	34.0	**33.0**	**27.8**	**32.3**	**37.0**
Total NGL processing volumes	135.6	96.1	115.7	127.7	**143.5**	**113.0**	**130.0**	**152.1**
Utilization								
Bulk liquid storage	99%	98%	95%	91%	**82%**	**84%**	**74%**	**68%**
Revenue								
Oil sands transportation	$ 191.1	$ 199.0	$ 203.5	$ 208.6	**$ 200.1**	**$ 200.3**	**$ 199.4**	**$ 205.3**
NGL processing	213.4	138.9	171.5	196.2	**214.1**	**195.3**	**235.0**	**243.8**
Conventional oil pipelines	118.7	121.6	117.8	159.2	**180.6**	**184.7**	**205.2**	**126.5**
Bulk liquid storage	55.5	56.5	54.8	54.3	**51.2**	**50.7**	**45.4**	**55.3**
Total revenue	$ 578.7	$ 516.0	$ 547.6	$ 618.3	**$ 646.0**	**$ 631.0**	**$ 685.0**	**$ 630.9**
Funds from operations								
Oil sands transportation	$ 148.4	$ 149.6	$ 155.4	$ 154.5	**$ 148.9**	**$ 150.0**	**$ 150.3**	**$ 150.8**
NGL processing	81.9	28.4	78.1	91.2	**98.6**	**101.3**	**134.8**	**120.1**
Conventional oil pipelines	53.4	52.7	54.5	53.7	**50.7**	**48.2**	**53.8**	**24.9**
Bulk liquid storage	26.2	25.3	25.2	20.9	**18.7**	**17.4**	**14.8**	**15.0**
Corporate costs	(63.0)	(49.0)	(44.3)	(52.5)	**(62.7)**	**(55.4)**	**(54.0)**	**(37.5)**
Total funds from operations	$ 246.9	$ 207.0	$ 268.9	$ 267.8	**$ 254.2**	**$ 261.5**	**$ 299.7**	**$ 273.3**
Per share (2)	$ 0.67	$ 0.56	$ 0.72	$ 0.71	**$ 0.67**	**$ 0.68**	**$ 0.77**	**$ 0.68**
Net income	$ 140.0	$ 102.3	$ 142.5	$ 141.9	**$ 142.7**	**$ 136.1**	**$ 169.4**	**$ 144.3**
Per share – basic and diluted	$ 0.38	$ 0.27	$ 0.38	$ 0.37	**$ 0.37**	**$ 0.35**	**$ 0.44**	**$ 0.36**
Dividends to shareholders (3)	$ 149.7	$ 150.9	$ 152.1	$ 157.2	**$ 160.4**	**$ 162.0**	**$ 163.3**	**$ 169.7**
Per share (3)	$ 0.405	$ 0.405	$ 0.405	$ 0.415	**$ 0.420**	**$ 0.420**	**$ 0.420**	**$ 0.425**
Adjusted EBITDA (2)	$ 289.6	$ 244.8	$ 303.6	$ 311.1	**$ 295.2**	**$ 302.6**	**$ 340.1**	**$ 307.4**
Shares outstanding (basic)								
Weighted average	369.2	372.1	375.1	378.3	**381.4**	**384.9**	**388.4**	**397.8**
End of period	370.7	373.5	376.6	379.8	**383.2**	**386.7**	**390.2**	**403.8**
Capital expenditures								
Growth (2)	$ 52.7	$ 94.5	$ 72.6	$ 113.2	**$ 146.1**	**$ 185.5**	**$ 229.9**	**$ 314.3**
Sustaining (2)	10.3	17.3	18.7	21.2	**6.1**	**14.8**	**24.7**	**28.9**
Total capital expenditures	$ 63.0	$ 111.8	$ 91.3	$ 134.4	**$ 152.2**	**$ 200.3**	**$ 254.6**	**$ 343.2**
Payout ratio (2)	60.6%	72.9%	56.6%	58.7%	**63.1%**	**61.9%**	**54.5%**	**62.1%**
Total assets	$ 10,134.9	$ 10,204.1	$ 10,229.2	$ 10,361.7	**$ 10,496.3**	**$ 10,570.3**	**$ 10,699.7**	**$ 11,461.5**
Total debt (4)	$ 5,732.5	$ 5,664.1	$ 5,590.0	$ 5,457.2	**$ 5,396.1**	**$ 5,387.2**	**$ 5,339.8**	**$ 5,680.1**
Total equity	$ 3,261.4	$ 3,320.4	$ 3,381.0	$ 3,463.8	**$ 3,576.0**	**$ 3,592.4**	**$ 3,660.4**	**$ 3,965.3**
Enterprise value (2)	$ 16,122.5	$ 15,151.3	$ 15,328.8	$ 15,342.5	**$ 13,963.6**	**$ 14,915.4**	**$ 14,079.6**	**$ 13,489.8**
Consolidated Net Debt to Total Capitalization (2)	56.2%	55.5%	54.7%	53.5%	**52.5%**	**52.5%**	**51.8%**	**51.8%**

(1) Empress V NGL production reported on a 100% basis.

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

(i) stable dividends to shareholders over economic and industry cycles;

(ii) a flexible capital structure which optimizes the cost of capital within an acceptable level of risk; and

(iii) an investment grade credit rating.

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

Inter Pipeline maintains flexibility in its capital structure to fund growth capital* and acquisitions through market and industry cycles. Funding requirements are projected to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and FFO in excess of dividends to fund capital requirements. At December 31, 2018, Inter Pipeline had access to committed credit facilities totaling $3.05 billion, of which $866.0 million remained unutilized, and demand facilities totaling $134.9 million of which $101.8 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline. On July 30, 2018, $200 million of Series 2 medium-term notes matured and were repaid with funds available under Inter Pipeline's syndicated credit facility.

Inter Pipeline amended its $1.5 billion syndicated credit facility on December 5, 2018, extending the term for one year with a revised maturity date of December 5, 2023. On December 14, 2018, Corridor extended the maturity date of its $1.55 billion syndicated credit facility by two years to December 14, 2022.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three months and year ended December 31, 2018, $85.6 million and $327.6 million, respectively, of equity was issued through the dividend reinvestment plan.

On January 18, 2018, Inter Pipeline filed a new current short form base shelf prospectus with Canadian regulatory authorities. 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; (iv) subscription receipts; (v) warrants; (vi) share purchase contracts; and (vii) units (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.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

On November 7, 2018, Inter Pipeline completed an offering of 9.62 million common shares at a price of $20.80 per common share for total gross proceeds of $200.1 million ($193.9 million net proceeds). The common shares were issued under Inter Pipeline's short form base shelf prospectus and a prospectus supplement dated October 31, 2018.

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, butane, condensate, power, natural gas, NGLs and olefins) and changes within financial markets relating to interest rates and foreign exchange exposure. Further details of the risk management program are discussed in the **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** section.

Credit Facilities and Debt Outstanding

				December 31
(millions)	Recourse	Non-recourse	**2018**	2017
Credit facilities available				
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 [1]	109.9	25.0	**134.9**	133.9
	$ 1,609.9	$ 1,575.0	**$ 3,184.9**	$ 3,183.9
Total debt outstanding				
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility			**$ 940.0**	$ 487.0
Medium-term notes			**3,325.0**	3,525.0
Inter Terminals demand facility [1]			**21.1**	4.2
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility			**1,244.0**	1,291.0
Corridor debentures			**150.0**	150.0
Total debt outstanding [2][3]			**$ 5,680.1**	$ 5,457.2

(1) Demand facilities consist of: Inter Pipeline's $75 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 1.7439 at December 31, 2018.

(2) At December 31, 2018, outstanding Inter Pipeline letters of credit of approximately $12.0 million were not included in total debt outstanding.

(3) Financial debt reported in the December 31, 2018 consolidated financial statements of $5,659.4 million, includes long-term debt, short-term debt and commercial paper outstanding of $5,680.1 million less discounts and debt transaction costs of $20.7 million.

Inter Pipeline's debt outstanding at December 30, 2018, matures at various dates up to May 2044 as follows:

(millions)		Amount	Rate	Maturity date
Inter Pipeline Ltd.				
Inter Pipeline syndicated credit facility	$	940.0	Variable	December 5, 2023
Medium-term notes [1]				
Series 1		325.0	4.967%	February 2, 2021
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 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
Series 10		500.0	2.734%	April 18, 2024
Inter Pipeline (Corridor) Inc.				
Corridor syndicated credit facility		1,244.0	Variable	December 14, 2022
Corridor debentures		150.0	4.897%	February 3, 2020
Inter Terminals Limited and Inter Terminals EOT ApS				
Pound Sterling 20 million demand facility		21.1	Variable	On Demand

(1) On July 30, 2018, Inter Pipeline's $200 million senior unsecured medium-term notes Series 2 matured and were repaid.

Financial Covenants

Inter Pipeline was in compliance with all financial covenants under its credit facilities and note indentures as at December 31, 2018.

The following table provides a listing of the key financial covenants as at December 31, 2018:

	Maximum Ratio	December 31 2018
Inter Pipeline Ltd.		
Inter Pipeline syndicated credit facility		
Consolidated Net Debt to Total Capitalization (1)(2)(3)(4)	65%	51.8%
Medium-term notes		
Funded Debt to Total Capitalization (2)(5)(6)	70%	52.2%
Inter Pipeline (Corridor) Inc.		
Corridor syndicated credit facility		
Corridor debentures		
Rate Base Debt to Rate Base (7)(8)	75%	73.2%

(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 hybrid debt securities, 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, 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 including hybrid debt securities, but excluding non-recourse debt, debt attributable to unrestricted subsidiaries, plus convertible debentures, plus consolidated shareholders' equity of the borrower, but excluding any shareholders' equity from or attributable to non-recourse assets, unrestricted subsidiaries, 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 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.

Fixed versus Variable Interest Rate

									December 31, 2018
($ millions)		Recourse	%		Non-Recourse	%		Total	%
Variable	$	961.1	22.4%	$	1,244.0	89.2%	$	2,205.1	38.8%
Fixed		3,325.0	77.6%		150.0	10.8%		3,475.0	61.2%
	$	4,286.1	100%	$	1,394.0	100%	$	5,680.1	100%

All interest costs associated with non-recourse Corridor debt is directly recoverable through the terms of the Corridor FSA.

The following interest coverage* ratio is calculated on a consolidated basis for the years ended December 31, 2018 and December 31, 2017.

	Years Ended December 31	
(times)	**2018**	2017
Interest coverage (1)(2)	**5.3**	5.0

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

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

Credit Ratings

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

	Credit Rating	Trend/Outlook
Inter Pipeline Ltd. (1)		
S&P	BBB+	Negative
DBRS	BBB	Stable
Inter Pipeline (Corridor) Inc. (2)		
S&P	BBB+	Stable
DBRS	A (low)	Stable

(1) In July 2018, DBRS revised Inter Pipeline's credit rating from BBB (high) (under review with negative implications) to BBB (stable trend).

(2) In September 2018, S&P revised Inter Pipeline (Corridor) Inc.'s credit rating from A- (stable outlook) to BBB+ (stable outlook).

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Contractual Obligations, Commitments and Guarantees

The following table summarizes Inter Pipeline's future contractual obligations at December 31, 2018. Management intends to finance short-term commitments either through existing or renegotiated credit facilities and FFO in excess of dividends. Longer term commitments will be funded through Inter Pipeline's capital management policies as discussed earlier in the **LIQUIDITY AND CAPITAL RESOURCES** section.

(millions)	Total	Less than one year	One to five years	After five years
Total debt(1)(2)				
Corridor syndicated credit facility(2)	$ 1,244.0	$ 1,244.0	$ -	$ -
Inter Pipeline syndicated credit facility	940.0	-	940.0	-
Corridor debentures	150.0	-	150.0	-
Medium-term notes	3,325.0	-	1,575.0	1,750.0
Inter Terminals demand facility	21.1	21.1	-	-
	5,680.1	1,265.1	2,665.0	1,750.0
Other obligations (3)				
Capital expenditure commitments (4)	848.6	657.8	190.8	-
Operating leases	307.3	24.8	92.0	190.5
Purchase obligations	207.0	47.6	86.1	73.3
Adjusted working capital deficit(5)	216.8	216.8	-	-
Long-term portion of incentive plan	9.8	-	9.8	-
	$ 7,269.6	$ 2,212.1	$ 3,043.7	$ 2,013.8

(1) At December 31, 2018, outstanding Inter Pipeline letters of credit of approximately $12.0 million were not included in total debt outstanding. Financial debt reported in the December 31, 2018 consolidated financial statements of $5,659.4 million, includes long-term debt, short-term debt and commercial paper outstanding of $5,680.1 million less discounts and debt transaction costs of $20.7 million.

(2) 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 2022.

(3) In conjunction with the sale of the Central Utility Block (CUB) to Fengate Capital Management (Fengate) on September 25, 2018, Inter Pipeline entered into a long-term utility service agreement for electricity, steam and other key utility purchases to secure supply for future operations relating to the Heartland Petrochemical Complex in exchange for structured capital fee payments. Purchase prices of both the core utilities and capital fee payments are dependent on future market prices and adjustments to the final construction costs, respectively. As such, these commitments cannot be reasonably determined and therefore an amount has not been included in the contractual obligations schedule. The CUB is expected to be in service by mid-2021, at which time Inter Pipeline will purchase 100% of the steam and 60 megawatts per day, generated by the CUB.

(4) Capital expenditure commitments represent future minimum contractual purchase obligations. Those classified as "less than one year" represent expected spending for 2019.

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

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

(i) Operating leases and purchase obligations represent minimum payment obligations associated with leases and normal operating agreements for periods up to 2115.

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

(iii) Inter Pipeline has obligations of $37.8 million under its employee long-term incentive plan, of which $28.0 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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

environmental liabilities is $225.2 million at December 31, 2018. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended December 31		Years Ended December 31	
(millions, except per share and % amounts)	**2018**	2017	**2018**	2017
Cash provided by operating activities	**$ 255.6**	$ 302.6	**$ 1,078.1**	$ 1,028.4
Net change in non-cash operating working capital	**17.7**	(34.8)	**10.6**	(37.8)
Funds from operations	**$ 273.3**	$ 267.8	**$ 1,088.7**	$ 990.6
Dividends to shareholders	**$ 169.7**	$ 157.2	**$ 655.4**	$ 609.9
Dividends per share (1)	**$ 0.425**	$ 0.415	**$ 1.685**	$ 1.630
Payout ratio (2)	**62.1%**	58.7%	**60.2%**	61.6%

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

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

Inter Pipeline's objective is to provide shareholders with stable dividends over changing economic and industry cycles. As a result, not all FFO 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 as cash provided by operating activities less net changes in non-cash working capital. 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 recognised 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.

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

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2018**	2017	**2018**	2017
Cash provided by operating activities	**$ 255.6**	$ 302.6	**$ 1,078.1**	$ 1,028.4
Dividends to shareholders	**(169.7)**	(157.2)	**(655.4)**	(609.9)
Excess	**$ 85.9**	$ 145.4	**$ 422.7**	$ 418.5

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2018**	2017	**2018**	2017
Net income	**$ 144.3**	$ 141.9	**$ 592.5**	$ 526.7
Dividends to shareholders	**(169.7)**	(157.2)	**(655.4)**	(609.9)
Shortfall	**$ (25.4)**	$ (15.3)	**$ (62.9)**	$ (83.2)

Cash provided by operating activities was greater than dividends to shareholders in all periods. Shortfalls of dividends to shareholders over net income fluctuates period over period due to certain non-cash expenses such as depreciation and amortization, and deferred income taxes, which have no immediate impact on dividend sustainability.

OUTSTANDING SHARE DATA

Inter Pipeline's outstanding common shares at December 31, 2018 are as follows:

(millions)	Total
Common shares outstanding	403.8

At February 12, 2019, Inter Pipeline had 405.3 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 recognised as an unrealized change in fair value of these derivative financial instruments in the calculation of net income. When the financial instrument matures, any realized gain or loss is recorded in net income.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on long-term debt, short-term debt and commercial paper outstanding at December 31, 2018. 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 December 31, 2018, 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 December 31, 2018, 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 December 31, 2018, 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 December 31, 2018, there were no interest rate or cross-currency swap agreements outstanding.

Based on the variable rate obligations outstanding at December 31, 2018, a 1% change in interest rates at this date would have changed interest expense for the three months and year ended December 31, 2018, by approximately $5.6 million and $22.0 million, respectively, assuming all other variables remain constant. Of this amount, $3.1 million and $12.4 million for the three months and year ended December 31, 2018, respectively, 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 and year ended December 31, 2018 would be $1.8 million and $7.0 million, respectively.

Credit Risk

Inter Pipeline's credit risk exposure relates primarily to the non-performance of its customers and financial counterparties holding cash, accounts receivable, and prepaid expenses and other deposits. Credit risk is managed through Inter Pipeline's credit management policy, which establishes guidelines for defining and measuring credit risk, determining credit risk thresholds and monitoring credit risk exposures to counterparties and vendors. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, business performance, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees, letters of credit, 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 December 31, 2018, accounts receivable associated with these two business segments were $161.9 million or 66.8% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

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

Inter Pipeline assesses lifetime expected credit losses for accounts receivable using historical default rates, aged accounts receivable analysis, and forward looking information to determine the appropriate expected credit losses. At December 31, 2018, lifetime expected credit losses for accounts receivable outstanding were insignificant.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the three months and year ended December 31, 2018 or 2017.

CONTROLS AND PROCEDURES

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

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

There have been no significant changes in Inter Pipeline's internal control over financial reporting (ICFR) during the period covered by this MD&A that have materially affected, or are reasonably likely to materially affect, Inter Pipeline's ICFR.

Management has limited the scope of their design of DC&P and ICFR to exclude controls, policies and procedures of the newly acquired storage business, the results of which are consolidated in Inter Pipeline's audited consolidated financial statements at December 31, 2018.

In November 2018, Inter Pipeline acquired a new storage business in the UK and Netherlands. Where possible, this acquisition has adopted Inter Pipeline's DC&P and ICFR. For business processes unique to the newly acquired storage business, management is committed to completing DC&P and ICFR before the end of the fourth quarter of the 2019 fiscal year.

At December 31, 2018, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of Inter Pipeline's disclosure controls and procedures and internal control over financial reporting, excluding the newly acquired storage business, were effective as of December 31, 2018.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates and judgments in future years could be material. Information about critical judgments, estimates and assumptions in applying accounting policies for these areas is included in the relevant sections of the notes to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Readers should refer to note 3 Summary of Significant Accounting Policies of the December 31, 2018 annual consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

Intangible Assets

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

The Cold Lake Transportation Service Agreement (TSA) intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. The term of the Cold Lake TSA extends until Cold Lake LP gives notice that it forecasts it will earn less than $1.0 million of capital fees in the year. This intangible asset is being amortized on a straight-line basis over 30 years. The remaining amortization period of the Cold Lake TSA is approximately 14 years.

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

In the bulk liquid storage business, intangible assets consist of contracts and relationships for the storage and handling of bulk liquid products, and for the use of leased land. The value of these intangible assets is being realized over the term of the agreement or the expected duration of the customer relationship, which is the period over which amortization is being charged using the straight-line method. Should the term of the contracts or relationship change, the amortization of the remaining balance would change prospectively. The remaining amortization period of the customer contract is approximately 10 years.

Business Combinations

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

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

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

Goodwill

Inter Pipeline has goodwill in five of its cash generating units (CGU’s): the Corridor and Polaris pipeline systems in the oil sands transportation business; Inter Terminals UK, Germany and Ireland; Inter Terminals Denmark; and the newly acquired storage business in UK and Netherlands in the bulk liquid storage business. Assets are grouped in CGU’s which are the lowest levels for which there are separately identifiable cash inflows. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the Corridor; Polaris; Inter Terminals UK, Germany and Ireland; Inter Terminals Denmark; and the UK and Netherlands CGU’s. After initial recognition, goodwill is carried at cost less any write downs for impairment. During each fiscal year and as economic events dictate, management conducts an impairment test taking into consideration any events or circumstances which might have impaired the recoverable amount. Inter Pipeline assesses the recoverable amount of the goodwill for impairment on a fair value less costs of disposal basis by discounting projected future cash flows generated by these assets at a weighted average cost of capital that reflects the relative risk of the asset. If it is determined that the recoverable amount of the future cash flows is less than the carrying amount of the assets at the time of assessment, an impairment loss would be determined by deducting the fair value less costs of disposal on a discounted cash flow basis from the carrying amount. The recoverable amount of the underlying assets and liabilities were assessed and it was determined that there was no impairment of goodwill in 2018, except for the newly acquired storage business in the UK and Netherlands. Projected future cash flows used in the goodwill assessment represented management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

Property, Plant and Equipment

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

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

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

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

Property, plant and equipment of the NGL processing business is comprised primarily of three straddle plants, two offgas plants, an olefinic fractionator, and the Boreal pipeline system. Expenditures on new construction, facility expansions, major repairs and maintenance, or betterments are capitalized, while routine maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment and additions thereto is charged once the assets are ready for their intended use, and is calculated on a straight-line basis over the estimated useful life of the assets which ranges from 25 to 30 years.

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

Provisions

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

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

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

Property, plant and equipment related to the oil sands transportation and conventional oil pipelines businesses consist primarily of underground pipelines and above ground equipment and facilities. The potential cost of future decommissioning activities is a function of several factors, including regulatory requirements at the time of pipeline abandonment, the diameter and length of the pipeline and the pipeline's location. Decommissioning requirements can vary considerably, ranging from purging product from the pipeline, refilling with inert gas and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Under current regulations, the estimated cost for the decommissioning obligation include: such activities as purging product from the pipeline, refilling with inert gas and capping all open ends; and removal of surface facilities and reclamation of the surface facility sites. Decommissioning obligations for the oil sands transportation and conventional oil pipelines business assets are being accreted over a period of 40 to 190 years at a rate of 2.8% per annum, based on an estimated discounted value at December 31, 2018 of $30.1 million.

NGL processing and the bulk liquid storage businesses consist mainly of three straddle plants, two offgas plants, one olefinic fractionator, the Boreal pipeline system and 23 bulk liquid storage facilities, respectively. Inter Pipeline's decommissioning obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the extraction plants, olefinic fractionator and leased bulk liquid storage sites. The estimated costs for decommissioning obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the sites. Decommissioning obligations for the NGL processing business assets are being accreted over a period of 25 to 40 years at rates of 2.8% per annum based on the estimated discount value of $69.5 million at December 31, 2018. The decommissioning obligation for the bulk liquid storage business assets are being accreted over a range of 30 to 40 years at rates of 1.9% to 2.7% per annum based on the estimated discounted value at December 31, 2018 of $99.9 million.

Inter Pipeline's environmental remediation obligation relates to a number of projects which have been identified that Inter Pipeline is obligated to remediate in future periods. Based on management's current knowledge of regulations, technology and current plans to remediate these sites, an estimated discounted liability of $25.7 million has been recognized at December 31, 2018. Environmental obligations for the conventional oil pipelines and bulk liquid storage businesses are being accreted over a period of five to ten years at rates of 1.4% to 2.5% and 0.0% to 1.3% per annum, respectively.

Provisions associated with onerous head office lease contracts are calculated as the present value of the difference between the minimum future lease payments that Inter Pipeline is obligated to make under the non-cancellable lease contracts and the estimated sublease recoveries.

Income Taxes

Current Income Taxes

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada, the United States of America (United States) and Europe.

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

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

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

Deferred Income Taxes

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

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

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

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

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

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

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

ACCOUNTING POLICIES ADOPTED IN 2018

Inter Pipeline has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

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

IFRS 15 replaces IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. 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.

Inter Pipeline adopted the standard using the full retrospective approach. The adoption of IFRS 15 did not materially affect the timing or amount of revenue previously recognized; therefore, prior periods presented have not been restated.

IFRS 9 *Financial Instruments* (IFRS 9)

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 requires all financial assets to be classified and measured at amortized cost or fair value, based on how Inter Pipeline manages its financial instruments and their contractual cash flow characteristics. Requirements for the classification and measurement of financial liabilities are largely unchanged from IAS 39. IFRS 9 also establishes a forward-looking expected credit loss impairment model to be applied to certain financial assets.

The retrospective adoption of IFRS 9 did not affect Inter Pipeline's consolidated financial statements on the date of initial adoption or comparative periods. All financial assets and liabilities recorded at January 1, 2018, continue to be classified and measured at amortized cost, consistent with previous measurement under IAS 39.

FUTURE ACCOUNTING PRONOUNCEMENT

IFRS 16 *Leases* (IFRS 16)

IFRS 16 replaces IAS 17 Leases and related interpretations and will be applied to annual periods beginning on January 1, 2019. 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. Lessors will continue with a dual lease classification model. Classification as a finance or operating lease will determine how and when a lessor will recognize lease revenue, and the type of assets to be recorded.

Inter Pipeline has identified all contracts that are within the scope of IFRS 16 and anticipates that the adoption of IFRS 16 will have a material impact on its consolidated balance sheet due to material operating lease commitments. Inter Pipeline will adopt IFRS 16 using the modified retrospective approach which does not require the restatement of prior period financial information. The cumulative financial effect of the adoption will be recognized as an adjustment to opening retained earnings, with the standard applied prospectively. Inter Pipeline intends to utilize the practical expedient of relying on the December 31, 2018 onerous lease assessment as an alternative to performing an impairment review of right-of-use assets at January 1, 2019.

Lease payments associated with short-term leases with a term of 12 months or less will continue to be expensed, with no right-of-use asset or lease liability recognized. Inter Pipeline will also apply IFRS 16 requirements to certain portfolios of leases with similar characteristics.

Inter Pipeline expects the adoption of IFRS 16 to have the following impact on its consolidated balance sheet at January 1, 2019:

	December 31 2018	IFRS 16 adjustments	January 1 2019
ASSETS			
Right-of-use assets	$ -	$ 197.6	$ 197.6
Total	$ -	$ 197.6	$ 197.6
LIABILITIES			
Lease liabilities - current portion (1)	$ -	$ 14.1	$ 14.1
Lease liabilities - non-current portion (1)	-	210.0	210.0
Accounts payable, accrued liabilities and provisions	467.8	(4.4)	463.4
Provisions	228.1	(2.9)	225.2
Long-term deferred revenue and other liabilities	55.3	(19.2)	36.1
Total	$ 751.2	$ 197.6	$ 948.8

(1) Lease liabilities at January 1, 2019 were calculated at a weighted average borrowing rate of 3.9%.

RISK FACTORS

The risks summarized in the following sections may require Inter Pipeline to invest additional capital, pursue alternative business plans, or could have a material adverse effect on the business, financial condition, results of operations, FFO and future prospects of Inter Pipeline and its future ability to make cash dividends to shareholders. Readers are cautioned that this summary of risks may not be exhaustive, as there may be risks that are unknown and other risks that may pose unexpected consequences. Further, many of the risks are beyond Inter Pipeline's control and, despite Inter Pipeline's active management of its risk exposure, there is no guarantee that risk management activities will successfully mitigate such exposure. Readers are also cautioned to carefully consider the risk factors set out below and consider all other information contained herein and in Inter Pipeline's other public filings before making an investment decision.

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

Throughput and Demand Risks

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

Supply Risks and Commodity Prices

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

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

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

Competition and Contracts

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

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

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers (including the Cold Lake pipeline system’s founding shippers) who have committed to utilizing the Cold Lake pipeline system and who pay for such usage over the term of their contracts. Pursuant to the Cold Lake Transportation Service Agreement, the capital fee paid by the Cold Lake pipeline system’s founding shippers is not subject to a minimum ship-or-pay threshold. Although volumes that are shipped by the Cold Lake pipeline system’s founding shippers from the reserves dedication area while under the Cold Lake Transportation Service Agreement are generally committed to the Cold Lake pipeline system, the Cold Lake founding shippers may utilize alternative transportation methods (if certain minimum volume levels are maintained) subject to Inter Pipeline's right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake founding shippers will be sustained.

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

The Corridor pipeline system is operated pursuant to a long-term ship-or-pay contract with the Corridor shippers, who are contractually obligated to utilize the Corridor pipeline system for the transportation of all bitumen and diluent used or produced from the Athabasca oil sands project. There are 31 years remaining in the term of the agreement, extending through 2049 with options for further extensions. However, there is no assurance that the Corridor shippers will be able to perform their obligations under the contract with Inter Pipeline, or that revenues received from the Corridor shippers following the expiry of the term of the contract will be sustained.

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

Inter Pipeline can supplement revenues by marketing excess capacity on all three oil sands pipeline systems to third parties, but there can be no assurance that it will be successful in doing so. Furthermore, any potential third party capacity rights on the Corridor pipeline system are also subject to the approval of the current Corridor shippers.

Operational Factors

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

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

Rights-of-Way and Access

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

Regulatory Factors

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

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

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

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

Risks Associated with the NGL Processing Business

Natural Gas Availability and Composition

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

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

Offgas Availability and Composition

The volumes of offgas supply processed by the offgas plants depend on volumes available from the Suncor Energy Oil Sands Limited Partnership's (Suncor) oil sands upgrader and the Canadian Natural Horizon oil sands upgrader from which the offgas plants source their offgas supply. These upgraders process bitumen that has been produced locally through mining or in-situ operations, also owned by Canadian Natural and Suncor. Combined, these capital intensive oil sands production and upgrader facilities have been built based on long-term economic outlooks with a stable and long-term proven supply of bitumen, with minimal decline risk. These facilities can be affected by the demand for their products, material changes in their key cost drivers, regulatory changes, and various other factors that may be outside the control of Canadian Natural and Suncor, all of which have the potential to reduce production and/or delay development of new production thereby impacting offgas supply available for processing at the offgas plants.

In addition, the volumes of offgas supply available to be processed by the offgas plants can be directly impacted by the reliability of the Suncor and Canadian Natural upgraders, or their related mining or in-situ operations and downstream transportation options for the products they produce. These are complex operations and any number of operational related issues may cause a material disruption to the supply of offgas available for processing at the offgas plants.

The production of ethane-plus from the offgas plants is largely dependent on the quantity and composition of the offgas supply produced by Canadian Natural and Suncor. The quantity and composition may vary over time as a result of changing bitumen quality, production issues, and/or process changes by Canadian Natural and Suncor, which could have a materially negative effect on production from the offgas plants and the Redwater Olefinic Fractionator.

Operational Factors

The straddle plants, offgas plants, Redwater Olefinic Fractionator and Boreal pipeline system (collectively, the NGL Processing Facilities) are directly or indirectly connected to various third party systems, including the TransCanada Alberta System, Kerrobert Pipeline, Co-Ed Pipeline, the Alberta Ethane Gathering System, and the Joffre Feedstock Pipeline. Operational disruptions or apportionment on these third party systems and/or disruptions at the other facilities in the Empress, Redwater or Joffre areas may prevent the full utilization of the NGL Processing Facilities. In addition, various products produced at the Redwater Olefinic Fractionator are transported by rail or tank truck to end use customers in Canada and the United States. Any disruption to the operations, including labour disputes, infrastructure issues, or potential regulatory changes to the rail or trucking industry, could also impact the utilization of the offgas plants, Redwater Olefinic Fractionator and Boreal pipeline system.

The Redwater Olefinic Fractionator is also dependent on ethane-plus supplied by the Boreal pipeline system, which along with the offgas plants, are dependent on the reliable operation of the pipeline system. Any failure or disruption associated with the pipeline system could prevent the full utilization of the Redwater Olefinic Fractionator and the offgas plants, although this risk is partially mitigated through cavern storage for ethane-plus at the Redwater Olefinic Fractionator. The risks associated with this pipeline operated by Inter Pipeline are similar in nature to the Operational Factors, Rights-of-Way and Access, and Regulatory Factors as noted above in the Pipeline risk section.

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

In the event of a major facility incident, such as a fire, major equipment damage or serious safety incident, there could be a significant impact to the financial results and continuing operation of the impacted NGL Processing Facilities should insurance not cover the incident.

Competition

The straddle plants are subject to natural gas markets and, as such, are subject to competition for gas supply from all natural gas markets served by the TransCanada Alberta System. The straddle plants are subject to competition from other straddle plants that are in the general vicinity of the straddle plants or that may be constructed upstream of or in parallel to the straddle plants, including the Harmattan co-stream facility, described below. The straddle plants are also subject to competition from field processing facilities that extract NGL from the natural gas streams before injection into the TransCanada Alberta System. Offgas plants are not subject to this type of competition as the offgas supply is received directly from the Suncor and Canadian Natural upgraders.

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

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

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

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

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

Commodity Price; Frac-spread

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

At the Redwater Olefinic Fractionator, Inter Pipeline can be exposed to possible price fluctuations between the time it stores ethane-plus from the Boreal pipeline system in local storage caverns, and the time it processes the ethane-plus. This can vary depending on the amount of inventory and price fluctuations. Inter Pipeline is also exposed to possible price fluctuations between the time it processes the ethane-plus and when it sells the NGL products. 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**.

Extraction Premiums

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

Extraction rights for the offgas plants are granted pursuant to long-term contracts with the owners of oil sands upgrading facilities. Such contracts provide compensation through both fixed premium and profit sharing arrangements with minimal risk exposure to Inter Pipeline.

Contractual Risks

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

Inter Pipeline relies on NOVA Chemicals to purchase ethane-ethylene mix produced at the Redwater Olefinic Fractionator which is operated by Pembina NGL Corporation (Pembina). If, for any reason, Nova or Pembina is unable to perform their obligations under the agreements, the revenue and the operations of the offgas plants and Redwater Olefinic Fractionator could be negatively impacted. Various other products produced at the Redwater Olefinic Fractionator are sold under shorter term agreements to a variety of customers. Failure of these customers to accept the products, perform their obligations under the agreements, or the failure of Inter Pipeline to renew these agreements and/or find suitable alternative customers under similar terms and conditions could also negatively impact the financial results and operations of the offgas plants and Redwater Olefinic Fractionator.

Inter Pipeline has contractual relationships with Suncor and Canadian Natural for the delivery of offgas supply. If Suncor and Canadian Natural do not fulfill their contractual obligations, Inter Pipeline may not be able to source offgas supply and may therefore not be able to operate the offgas plants, Redwater Olefinic Fractionator and/or Boreal pipeline system, causing Inter Pipeline to suffer financial losses. Inter Pipeline is subject to re-contracting risk upon the expiry of long-term offgas supply contracts. The ability to re-contract economic volumes of offgas supply will be dependent on the viable production and upgrading of bitumen at the Suncor and Canadian Natural oil sands sites.

Regulatory Factors

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

The offgas plants, Redwater Olefinic Fractionator and Boreal pipeline system are not commercially regulated either; however, all NGL Processing Facilities are regulated by the AER and various legislation applicable to such facilities. As a result, Inter Pipeline's operations may be adversely affected by changes implemented by the AER or in the legislation governing the AER.

In addition to being regulated by the AER, the straddle plants and Redwater Olefinic Fractionator are subject to regulation under the *Oil and Gas Conservation Act* (Alberta), the *Oil and Gas Conservation Rules* (Alberta) and the *Environmental Protection and Enhancement Act* (Alberta); the offgas plants are subject to regulation under the *Oil Sands Conservation Act* (Alberta), the *Oil Sands Conservation Rules* (Alberta) and the *Environmental Protection and Enhancement Act* (Alberta); and the Boreal pipeline system is wholly within the boundaries of the Province of Alberta and is primarily subject to regulation under the *Pipeline Act* (Alberta) and *Pipeline Regulation* (Alberta).

Completion and Success of the Heartland Petrochemical Complex

There can be no assurance that Inter Pipeline will: complete the construction of the Heartland Petrochemical Complex as planned, including in accordance with its budget and schedule; or realize the anticipated benefits of the Heartland Petrochemical Complex, including all the benefits associated with the royalty credits granted by the Province of Alberta pursuant to the Petrochemicals Diversification Program Royalty Credit Regulation. An inability to: complete the Heartland Petrochemical Complex as planned; or realize the anticipated benefits of the Heartland Petrochemical Complex, could have an adverse effect on the financial results of Inter Pipeline.

Risks Associated with the Bulk Liquid Storage Business

Demand for Bulk Liquid Storage

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

The bulk liquid storage business in the Netherlands, Denmark and Sweden is primarily involved in the storage and handling of liquids for the petroleum refining and general oil-trading business. Therefore, a sustained slowdown in the petroleum sector or a sustained period of backwardation in the oil products market, could adversely affect financial and operating results.

The bulk liquid storage business is highly integrated with local refineries in several operating areas. The financial results from the bulk liquid storage business could be significantly reduced if there was a closure to one or more of these refineries, or if a refinery was converted into a competing storage facility.

Customs and Excise Warehouses

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

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

Operational Factors

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

Defined Benefit Pension Plan

Defined benefit pension plans exist for certain employees and former employees of Inter Terminals' UK and German businesses. The UK plan holds interests in various securities invested in equities, fixed income instruments and real estate. Fluctuations in the value of the UK plan's assets and the factors which are applied to calculate the plan's liabilities could result in a requirement for additional cash contributions by Inter Terminals.

Competition

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

Land Lease Renewals

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

Foreign Exchange Risk

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

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

Volatility in Commodity Prices

Petroleum prices are determined by a wide range of political and economic factors external to Inter Pipeline and beyond its control. These factors include economic conditions in the US and Canada and worldwide, the actions of Organization of the Petroleum Exporting Countries (OPEC), slowing growth in China and emerging economies, market volatility and disruptions in Asia, global excess in petroleum supply, weakening global relationships, isolationist trade policies, increased U.S. shale production, sovereign debt levels, political upheavals in various countries, governmental regulation, political stability in the Middle East and elsewhere, weather conditions (including climate change), opposition to petroleum products stemming from a climate change/greenhouse gas emissions agenda, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the prices of oil and natural gas liquids may have a material adverse effect on Inter Pipeline's business, borrowing capacity, financial condition, results of operations, financial results and future prospects. Lower commodity prices may render Inter Pipeline's development and expansion plans uneconomic.

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

Execution Risk

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

Reputational Risk

Reputational risk is the potential for negative impacts that could result from the deterioration of Inter Pipeline's reputation in the market or with key stakeholders. The potential for harming Inter Pipeline's reputation exists in every business decision and all risks can have an impact on reputation, which in turn can negatively impact Inter Pipeline's business and the value of common shares. Reputational risk cannot be managed in isolation from other forms of risk. Credit, market, investor relations, operational, third-party, insurance, liquidity, regulatory and legal risks must all be managed effectively to safeguard Inter Pipeline's reputation. Negative impacts from a compromised reputation could include reductions in FFO and customer base, and a decrease in the value of common shares or debt securities.

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

Credit Risk

Inter Pipeline is subject to credit risk arising out of its operations. A majority of Inter Pipeline's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Credit risk is managed through Inter Pipeline's credit management policy which sets out guidelines for defining and measuring credit risk, determining credit risk thresholds and monitoring credit risk exposures of counterparties and vendors. The credit worthiness 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; however, Inter Pipeline cannot be sure that counterparties are able to or will provide such requested security or that the amount of security provided will secure all obligations owing to Inter Pipeline. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may 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.

Royalty Regimes

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

Operational Factors

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

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

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

A significant operating cost for Inter Pipeline is electrical power. Deregulation of the Alberta electrical power market has contributed to increased volatility in electrical power prices. Factors such as a shortage of electrical power supply or high natural gas prices could contribute to higher electrical power prices, which may result in higher operating costs for Inter Pipeline. In addition, Alberta’s planned phase out of coal-fired electricity generation by 2030 and planned move to a “capacity market” for the purpose of pricing electricity could have an adverse effect on Inter Pipeline’s business in Alberta.

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

Project Development Risks

Inter Pipeline’s business includes the development, construction and operation of large scale energy and petrochemical projects such as the Heartland Petrochemical Complex. Unforeseen conditions or developments could arise during the course of these projects that could delay or prevent completion of, and/or substantially increase the cost of construction and/or could affect the current and projected level of production, the sustaining capital requirements or operating cost estimates relating to the projects. Such conditions or developments may include, without limitation, shortages of equipment, materials or labour; delays in delivery of equipment or materials; customs issues; labour disruptions; poor labour productivity; community protests; difficulties in obtaining necessary services; delays in obtaining regulatory permits; local government issues; political events; regulatory changes; investigations involving various authorities; adverse weather conditions (including climate change); opposition to projects stemming from a climate change/greenhouse gas emissions agenda; unanticipated increases in equipment, material, labour costs, unanticipated increases in utility supply requirements; unfavourable currency fluctuations; access to financing; natural or man-made disasters or accidents; and unforeseen engineering, technical and technological design, environmental, infrastructure or engineering problems. Any such event could delay commissioning, and affect production and cost estimates. There can be no assurance that the development or construction activities will proceed in accordance with current expectations or at all.

These risks and uncertainties could have a material adverse effect on Inter Pipeline's business, results of operations and financial performance.

Capital and Operating Cost Estimates

Capital and operating cost estimates made in respect of Inter Pipeline's operations and projects may not prove accurate. Capital and operating costs are estimated based on the cost of previous Inter Pipeline projects, interpretation of third party data, feasibility studies and other factors. Any of the following, among the other events and uncertainties described herein, could affect the ultimate accuracy of such estimates: unanticipated changes in products to be processed; incorrect data on which engineering assumptions are made; unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; failure to meet scheduled construction completion dates and production dates due to any of the foregoing events and uncertainties; expenditures in connection with a failure to meet such scheduled dates; unsatisfactory construction quality resulting in failure to meet such scheduled dates; labour negotiations; unanticipated costs related to commencing operations, ramping up and/or sustaining production; changes in government regulation (including regulations regarding prices, cost of feedstock, royalties, duties, taxes, permitting and restrictions on production quotas or exportation of Inter Pipeline’s products); and unanticipated changes in commodity input costs and quantities.

Regulatory Intervention and Changes in Legislation

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

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

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

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

Decommissioning, Abandonment and Reclamation Costs

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

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

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

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

Environmental Costs and Liabilities

Inter Pipeline's operations are subject to the laws and regulations of the European Union, UK, Germany, Ireland, Denmark, Sweden, Alberta and Saskatchewan, and the Canadian federal government relating to environmental protection and operational safety.

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

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

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

Greenhouse Gas Regulations

Inter Pipeline's facilities and other operations and activities emit greenhouse gases (GHG) and require Inter Pipeline to comply with greenhouse gas emissions legislation in Alberta. Alberta facilities emitting more than 100,000 tonnes of GHGs a year are currently subject to compliance with the *Climate Change and Emissions Management Act* (CCEMA) and the *Carbon Competitiveness Incentive Regulation* (CCIR) which require a reduction in emissions intensity over a period of years. Currently, the Cochrane plant is the only asset of Inter Pipeline that is subject to provincial GHG regulations.

The CCIR replaced the *Specified Gas Emitters Regulation* (SGER) on January 1, 2018. Where SGER created an emissions reduction requirement that was based on a particular facility's historical and idiosyncratic emissions profile, the CCIR imposes an output-based allocation benchmark on all regulated facilities. For 2018 and 2019, Inter Pipeline was assigned a transitional allocation benchmark of zero for the products at the Cochrane plant by the Alberta Climate Change office. As result of a transitional allocation benchmark of zero, Inter Pipeline will not have any compliance obligations pursuant to CCIR for 2018 and 2019. However, this transitional allocation benchmark will be reviewed in 2020 and it is unclear what the future benchmark will be.

On January 1, 2017, the *Climate Leadership Act* (Alberta) and the associated *Climate Leadership Regulation* (Alberta) came into force and created registration requirements for “direct remitters” and imposed a carbon levy on certain fuels used in Alberta. The carbon levy is in effect a tax on certain regulated fuels at a rate of $20 per tonne of greenhouse gas emissions in 2017 and $30 per tonne in 2018. Inter Pipeline obtained all required registrations and available exemptions from the carbon levy with the result that Inter Pipeline only has non-material obligations. For example, that the carbon levy applies to fuels used by Inter Pipeline for vehicles, maintenance, heating and electricity generation. The carbon levy exemptions available to Inter Pipeline on fuels used in a production process expire January 1, 2023. It is unclear if any replacement exemptions will be put in place at that time.

The Paris Climate Conference (COP) in 2015 resulted in the *Paris Agreement*, which expressed the long-term goal of signatories to keep the increase in global average temperature to well below 2°C above pre-industrial levels and the aim to limit the increase to 1.5°C. It also recognizes the need for global emissions to peak as soon as possible and to undertake rapid reductions following such peak. Canada signed the *Paris Agreement* and formally ratified it in October 2016 when the Canadian federal government announced a national carbon pricing floor which would require all provincial jurisdictions to have carbon pricing in effect by 2018 with a minimum floor of $50 per tonne by 2022 or Ottawa will impose a federal carbon tax. The federal carbon levy goes into effect April 1, 2019 and will affect provinces, which have not implemented their own carbon taxes, cap-and-trade systems or other plans for carbon pricing, namely Ontario, Manitoba, Saskatchewan and New Brunswick. The federal carbon levy will be at an initial rate of $20 per tonne. Provincially, the Government of Alberta has already implemented a carbon levy on almost all sources of GHG emissions, now at a rate of $30 per tonne. The implementation of the federal carbon levy is currently subject to a constitutional challenge submitted by the Province of Saskatchewan, which is supported by the Provinces of Ontario and New Brunswick. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on Inter Pipeline's business, financial condition, results of operations and prospects. Certain of Inter Pipeline's significant facilities and projects may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels.

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

Dependence on Key Personnel and Human Resources

The success of Inter Pipeline is largely dependent on the skills and expertise of key personnel who manage Inter Pipeline's business. The continued success of Inter Pipeline will be dependent upon its ability to hire and retain such personnel. In particular, Inter Pipeline's continued success depends on the abilities, experience, engagement, and succession of its management team and Board of Directors. The loss of key employees and/or directors through either attrition or retirement could adversely impact Inter Pipeline's future business and financial results. Inter Pipeline attempts to mitigate these risks by offering competitive compensation and benefits packages, training, succession planning, and providing a positive cultural working environment. Inter Pipeline does not have any "key man" insurance.

Concentration of Assets in Alberta

The majority of Inter Pipeline's assets are concentrated in Alberta, which leaves the company exposed to the economic conditions of that province. Inter Pipeline mitigates this risk through a diversity of business activities within the province of Alberta and by owning and operating assets in Saskatchewan and Western Europe.

International Operations

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

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions and, as part of its business plan, anticipates making additional acquisitions in the future. There is a risk that some or all of the expected benefits of completed acquisitions may fail to materialize, or may not occur within the time periods Inter Pipeline anticipates. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions, and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks, including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, increased credit risks through the assumption of additional debt, costs and contingent liabilities and exposure to known or unknown liabilities of the acquired business or assets.

Information provided by the Sellers

All information relating to entities acquired through acquisitions is based on public filings and other information provided by the sellers. Although Inter Pipeline conducts what it believes to be a prudent and thorough level of investigation in connection with acquisitions, an unavoidable level of risk remains regarding the accuracy and completeness of such information.

Potential Undisclosed Liabilities Associated with Acquisitions

In connection with an acquisition, there may be liabilities that Inter Pipeline failed to discover or were unable to quantify in Inter Pipeline’s due diligence which Inter Pipeline conducted prior to an acquisition or which may have been worse than anticipated and Inter Pipeline may not be indemnified for some or all of these liabilities. The discovery or quantification of any material liabilities could have a material adverse effect on Inter Pipeline’s business, financial condition or future prospects. In addition, liabilities in respect of an acquired business may be greater than the amounts for which Inter Pipeline is indemnified under an acquisition agreement.

Political Uncertainty

Inter Pipeline's business may be adversely affected by recent political and social events and decisions made in Canada, the United States, Europe and elsewhere. In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. Since the 2016 U.S. presidential election, the current American administration has begun taking steps to implement certain promises made during the campaign. The administration has withdrawn the United States from the Trans-Pacific Partnership and Congress has passed sweeping tax reform, which, among other things, significantly reduces US corporate tax rates. This may affect competitiveness of other jurisdictions, including Canada. In addition, the North American Free Trade Agreement ("**NAFTA**") has been renegotiated and on November 30, 2018, Canada, the U.S. and Mexico signed the Canada-United States–Mexico Agreement which is intended to replace NAFTA. The administration has also taken action with respect to reduction of regulation which may also affect relative competitiveness of other jurisdictions. It is unclear exactly what other actions the administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the energy industry. Any actions taken by the current United States administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian companies, including Inter Pipeline.

In addition to the political disruption in the United States, the citizens of the UK voted to withdraw from the European Union and the Government of the UK has taken steps to implement such withdrawal which is expected to occur in late March 2019. The terms of the UK's exit from the European Union and whether it will occur at all remain to be determined. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on Inter Pipeline's ability to market its products internationally, increase costs for goods and services required for Inter Pipeline's operations, reduce access to skilled labour and negatively impact Inter Pipeline's business, operations, financial conditions and the market value of Inter Pipeline's common shares.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the energy industry including the balance between economic development and environmental policy such as the potential impact of the government in British Columbia and announcements and actions by the government of British Columbia that may impact the completion of the Trans-Mountain Pipeline project, liquefied natural gas facilities and other infrastructure projects.

Capital Maintenance Levels

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

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

Future Capital Needs

Inter Pipeline may find it necessary in the future to obtain additional debt or equity financing to support Inter Pipeline's ongoing operations, undertake capital expenditures, finance expansion, develop new projects, respond to competitive pressures, acquire complementary businesses, repay existing or future indebtedness or take advantage of unanticipated opportunities. There can be no assurance that such additional funding, if needed, will be available on terms acceptable to Inter Pipeline, or at all, and any volatility or uncertainty in the credit markets in the future may increase costs associated with issuing debt. If adequate funds are not available on acceptable terms, Inter Pipeline may be unable to develop or enhance its business, take advantage of future opportunities or respond to competitive pressures, any of which could have

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

a material adverse effect on its business, financial conditions and operating results. In addition, in the event that Inter Pipeline's activities are financed partially or wholly with debt, such debt levels may exceed industry standards and the level of Inter Pipeline's indebtedness from time to time could impair Inter Pipeline's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Possible Downgrade of Investment Grade Credit Ratings

Credit ratings affect Inter Pipeline's financing costs, liquidity and operations over the long term and are intended as an independent measure of the credit quality of long-term debt securities or the issuer. Credit ratings affect Inter Pipeline's ability to obtain short and long-term financing and the cost of this financing, and Inter Pipeline's ability to engage in certain business activities in a cost-effective manner.

Credit ratings may not reflect all risks associated with an investment in any of Inter Pipeline's securities. The credit ratings applied to Inter Pipeline and its securities are an assessment by the relevant ratings agencies of Inter Pipeline's ability to pay its obligations as of the respective dates the ratings are assigned. The credit ratings may not reflect the potential impact of risks related to structure, market or other factors discussed herein on the value of Inter Pipeline's securities. The credit ratings assigned to any securities of Inter Pipeline are not a recommendation to purchase, hold or sell any of the securities, because ratings do not comment as to market price or suitability for a particular investor.

Inter Pipeline and its unsecured medium-term notes have investment grade credit ratings of BBB+ (negative outlook) and BBB (stable trend), by S&P and DBRS, respectively. Corridor's debentures have been assigned investment grade credit ratings of A (low) (stable) and BBB+ (stable) by DBRS and S&P, respectively. Should these credit ratings fall below investment grade, Inter Pipeline or Inter Pipeline (Corridor) Inc. may have to provide security, pay additional interest or pay in advance for goods and services. The perceived creditworthiness of Inter Pipeline and changes in, or a withdrawal of, its credit ratings may also affect the value of Inter Pipeline's common shares or debt securities. There is no assurance that any credit rating assigned to Inter Pipeline or Inter Pipeline (Corridor) Inc. will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. In addition, real or anticipated changes in credit ratings can affect the cost at which Inter Pipeline can access public or private debt markets.

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

Liquidity Risk

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

Refinancing Risk

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

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

Global Financial Market Volatility

Global financial markets have experienced heightened volatility and instability which may have a material adverse impact on Inter Pipeline and on its customers and suppliers. Financial market volatility can affect the debt and equity markets. This may impact the amount of financing available to all companies. It is impossible to predict future financial market volatility and instability and the impact on Inter Pipeline, and it may have a materially adverse effect on Inter Pipeline's growth strategy since Inter Pipeline's growth strategy assumes that financing will be available to Inter Pipeline to finance future development projects including the Heartland Petrochemical Complex facilities. If Inter Pipeline or its customers and suppliers cannot obtain financing under favorable terms, Inter Pipeline's business may be negatively impacted.

Litigation or Arbitration

Due to the nature of Inter Pipeline's business, Inter Pipeline and its subsidiaries are subject to legal proceedings and claims. Although management of Inter Pipeline believes such claims would be without merit, litigation or arbitration is expensive, time consuming and may divert management's attention away from the operation of Inter Pipeline. If any legitimate cause of action or arbitral matter arose which was successfully prosecuted against Inter Pipeline, Inter Pipeline's financial position, operations or results of operations could be materially and adversely affected.

In certain instances third parties have agreed or will agree to indemnify, defend and hold Inter Pipeline harmless from and against various claims, litigation and liabilities arising in connection with certain transactions or business matters. There is no assurance that third parties will possess sufficient assets, income, access to financing and insurance coverage to enable them to satisfy their indemnification obligations in favour of Inter Pipeline. In addition, Inter Pipeline may not be able to successfully enforce such indemnities or such indemnities may not be sufficient to fully indemnify Inter Pipeline from third party claims. The inability to recover fully any significant liabilities through an indemnity may have adverse effects on Inter Pipeline's financial position, operations or results of operations.

Aboriginal Land Claims

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

Crown Duty to Consult First Nations

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

Weather Conditions

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

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

With respect to construction activities, in areas where construction can be conducted in non-winter months, Inter Pipeline attempts to schedule its construction timetables so as to minimize delays due to cold winter weather.

In addition, there has been public discussion that climate change may be associated with weather conditions and increased volatility in seasonal temperatures. At this time, Inter Pipeline is unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting its operations.

Labour Relations

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

Policies and Procedures

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

Cyber-Security Threats and Reliance on Information Technology

Inter Pipeline's operations are dependent on the functioning of several information technology systems. Exposure of Inter Pipeline's information technology systems to external threats poses a risk to the security of these systems. Such cyber-security threats include unauthorized access to information technology systems due to hacking, viruses and other causes that can result in service disruptions, system failures and the disclosure, deliberate or inadvertent, of confidential business information. Significant interruption or failure of any or all of these systems could result in operational outages, delays, lost profits, lost data, increased costs, and other adverse outcomes. These factors could include a loss of communication links or reliable information, security breaches by computer hackers and cyber terrorists, and the inability to automatically process commercial transactions or engage in similar automated or computerized business activities.

Social Media

Increasingly, social media is used as a vehicle to carry out cyber phishing attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to gain entry into Inter Pipeline's systems, record management and obtain confidential information. As social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that Inter Pipeline may not be able to properly regulate social media use and preserve adequate records of business activities and client communications conducted through the use of social media platforms.

Expansion into New Activities

In the future, Inter Pipeline may acquire or move into new industry related activities or new geographical areas and may acquire different energy related assets; as a result, Inter Pipeline may face unexpected risks or, alternatively, its exposure to one or more existing risk factors may be significantly increased, which may in turn result in Inter Pipeline's future operational and financial conditions being adversely affected.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, Inter Pipeline may disclose confidential information relating to its business, operations or affairs. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put Inter Pipeline at competitive risk and may cause significant damage to its business. The harm to Inter Pipeline's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, Inter Pipeline will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Income Taxes

Inter Pipeline's tax returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Inter Pipeline's income taxes such reassessment may have an impact on current and future taxes payable.

Income tax laws may in the future be changed or interpreted in a manner that adversely affects Inter Pipeline. Furthermore, tax authorities having jurisdiction over Inter Pipeline may disagree with how it calculates its income for tax purposes or could change administrative practices to Inter Pipeline's detriment.

Non-Governmental Organizations and Eco-Terrorism Risks

Inter Pipeline's facilities or projects may be subject to action by non-governmental organizations, terrorist attack or public opposition. Any such action could expose Inter Pipeline to the risk of higher costs, delays or even project cancellations due to increased pressure on governments and regulators by special interest groups including Aboriginal groups, landowners, environmental interest groups (including those opposed to oil and gas production operations or otherwise) and other non-governmental organizations, blockades, legal or regulatory actions or challenges, increased regulatory oversight, reduced support of the federal, provincial or municipal governments, and delays in, challenges to, or the revocation of regulatory approvals, permits and/or licenses. There is no guarantee that Inter Pipeline will be able to satisfy the concerns of the special interest groups and non-governmental organizations and attempting to address such concerns may require Inter Pipeline to incur significant and unanticipated capital and operating expenditures.

Contingency Plans and Environmental Remediation

All of Inter Pipeline's operational areas, facilities and projects have preparedness and emergency response plans, each in accordance with internal guidelines for emergency management. Inter Pipeline's preparedness and emergency response plans have been developed based on our analysis of risk scenarios, the estimated consequences of these events and the implementation of strategies to be followed in response to each scenario. While Inter Pipeline strives to protect the health and safety of its workers, contractors and the communities in which Inter Pipeline operates, prevent hazardous substance spills and leaks, fires and explosions and mitigate environmental impacts, any inability to effectively handle an emergency or any particular scenario may have a material adverse effect on Inter Pipeline's business, financial condition and results of operations, FFO and future prospects.

Records Management

Records management is a wide-ranging discipline that extends the functionality of content/document management systems to enable the management and categorization of electronic records. Records management includes features that govern the filing, movement and disposal of records that are instrumental in managing Inter Pipeline's business. Demand for records management solutions is being driven by the increasing requirements for organizations to retain and dispose of documents in order to comply with regulatory requirements or changes in legislation. Effective corporate governance policies, privacy regulations and investor protection legislation all require organizations to implement effective and complete records management policies and procedures for their critical documents and records. For most organizations, including Inter Pipeline, this drives the need for a records management environment linked to document creation and control capabilities and therefore drives the need for integrated electronic content management systems that include records management. Any inability in a timely manner to perform records management practices in accordance with all applicable business, corporate, legal and regulatory requirements, including the proper classification, maintenance, protection, retrieval and disposal of records could have a material adverse effect on Inter Pipeline's business, results of operations and financial performance.

Risks Inherent in the Corporation

Fluctuating Dividends; Dividends Are Not Guaranteed

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

Market Price of the Common Shares

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

In addition, the market price for Inter Pipeline’s common shares may be affected by changes in general market or economic conditions, legislative changes, fluctuations in the markets for equity securities, interest rates, commodity prices and numerous other factors to be within and beyond the control of Inter Pipeline, many of which are enumerated here.

Leverage

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

Debt Restrictive Covenants

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

Issues of Additional Common Shares; Dilution

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

Foreign Exchange Risk on Dividends

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

Conflicts of Interest

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

Anti-Corruption Violations

The Canadian *Corruption of Foreign Public Officials Act*, the *US Foreign Corrupt Practices Act* and similar anti-bribery laws generally prohibit companies from making improper payments to foreign officials for the purpose of obtaining or retaining business. Given the nature of Inter Pipeline's business and international operations, Inter Pipeline has from time to time regulatory and business interaction with governments and government-owned entities and contact with persons who may be considered foreign officials. Inter Pipeline cannot guarantee that its employees, officers, directors, agents, or business partners have not in the past or will not in the future engage in conduct undetected by Inter Pipeline's processes and procedures and for which Inter Pipeline might be held liable under applicable anti-corruption laws. Violations of these laws, or allegations or investigations of allegations of such violations, could harm Inter Pipeline's reputation, disrupt its business and result in a material adverse effect on the business, results of operations, and financial condition of Inter Pipeline.

Changing Investor Sentiment

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, concerns of the impact of oil and gas operations on the environment, concerns of environmental damage relating to spills of petroleum products during transportation and concerns of indigenous rights, have affected certain investors' sentiments towards investing in the oil and gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they no longer are willing to fund or invest in oil and gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from Inter Pipeline's board of directors, management and employees. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in Inter Pipeline or not investing in Inter Pipeline at all. Any reduction in the investor base interested or willing to invest in the oil and gas industry and more specifically, Inter Pipeline, may result in limiting Inter Pipeline's access to capital, increasing the cost of capital, and decreasing the price and liquidity of Inter Pipeline's securities even if Inter Pipeline's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause a decrease in the value of an asset which may result in an impairment charge.

SELECTED ANNUAL FINANCIAL INFORMATION

	Years Ended December 31		
(millions, except per share amounts)	**2018**	2017	2016
Revenue	**$ 2,592.9**	$ 2,260.6	$ 1,824.6
Net income[1]	**$ 592.5**	$ 526.7	$ 449.7
Per share – basic and diluted	**$ 1.53**	$ 1.41	$ 1.31
Dividends declared per share[2]	**$ 1.685**	$ 1.630	$ 1.570
Total assets	**$ 11,461.5**	$ 10,361.7	$ 10,151.6
Total debt[3]	**$ 5,680.1**	$ 5,457.2	$ 5,828.6

(1) Effective November 1, 2016, Inter Pipeline acquired the remaining 15% ownership interest in the Cold Lake pipeline system. For the year ended December 31, 2016, FFO included non-controlling interest amount of $32.0 million, and the amount reported for net income represents the value attributable to the shareholders of Inter Pipeline.

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

(3) Financial debt reported in the December 31, 2018 consolidated financial statements of $5,659.4 million, includes long-term debt, short-term debt and commercial paper outstanding of $5,680.1 million less discounts and debt transaction costs of $20.7 million.

NON-GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely “adjusted working capital deficiency”, “EBITDA”, “adjusted EBITDA”, “adjusted EBITDA by contract type”, “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 recognised 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 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.

	As at December 31	
(millions)	**2018**	2017
Current assets		
Cash and cash equivalents	**$ 46.2**	$ 26.9
Accounts receivable	**242.2**	245.7
Prepaid expenses and other deposits	**29.2**	22.4
Inventory	**10.1**	12.6
Current liabilities		
Dividends payable	**(57.5)**	(53.2)
Accounts payable, accrued liabilities and provisions	**(467.8)**	(334.0)
Current income taxes payable	**(2.6)**	(3.1)
Deferred revenue	**(16.6)**	(52.1)
Adjusted working capital deficiency	**$ (216.8)**	$ (134.8)

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

	Three Months Ended December 31		Years Ended December 31	
(millions)	**2018**	2017	**2018**	2017
Net income	**$ 144.3**	$ 141.9	**$ 592.5**	$ 526.7
Financing charges	**34.4**	43.6	**163.4**	170.4
Current income tax expense (recovery)	**1.9**	2.2	**2.4**	(3.0)
Deferred income tax expense	**54.1**	50.3	**213.1**	188.3
Depreciation and amortization	**68.9**	66.1	**273.7**	255.7
EBITDA	**$ 303.6**	$ 304.1	**$ 1,245.1**	$ 1,138.1
Loss on disposal of assets	**2.8**	4.4	**4.9**	9.5
Non-cash financing charges	**(2.2)**	(2.5)	**(9.2)**	(8.9)
Non-cash expense	**3.2**	5.1	**4.5**	4.1
Proceeds from long-term deferred revenue	**-**	-	**-**	6.3
Adjusted EBITDA	**$ 307.4**	$ 311.1	**$ 1,245.3**	$ 1,149.1

(millions)	Three Months Ended December 31 2018	2017	Years Ended December 31 2018	2017
Funds from operations	$ 273.3	$ 267.8	$ 1,088.7	$ 990.6
Total interest less capitalized interest	32.2	41.1	154.2	161.5
Current income tax expense (recovery)	1.9	2.2	2.4	(3.0)
Adjusted EBITDA	$ 307.4	$ 311.1	$ 1,245.3	$ 1,149.1

Adjusted EBITDA by contract type is a percentage of adjusted EBITDA, reconciled in the table above, based on the type of contract: (i) cost-of-service contracts generally are not impacted by throughput volumes or commodity price fluctuations. This includes take-or-pay contracts with dedicated volume or revenue commitments, modified cost-of-service contracts that may have throughput volume exposure in certain circumstances, as well as contracts which generally provide for a return on invested capital and recovery of substantially all operating costs; (ii) fee-based contracts are generally subject to fluctuations in throughput volume but not commodity prices; (iii) commodity-based contracts are generally subject to throughput volume and commodity price fluctuations; and (iv) product margin contracts, which relate to midstream marketing activities on Inter Pipeline's conventional oil pipeline assets. 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 December 31 2018	2017	Years Ended December 31 2018	2017
Adjusted EBITDA by contract type				
Cost-of-service	57%	58%	56%	63%
Fee-based	15%	9%	13%	14%
Commodity-based	30%	29%	29%	19%
Product margin	-2%	4%	2%	4%

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, is used by the investment community to assess the financial strength of the business.

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

(millions, except per share amounts)	As at December 31 2018	2017
Closing share price	$ 19.34	$ 26.03
Total closing number of common shares	403.8	379.8
	7,809.7	9,885.3
Total debt	5,680.1	5,457.2
Enterprise value	$ 13,489.8	$ 15,342.5

Funds from operations per share are calculated on a weighted average basis using basic common shares outstanding during the period. This measure, in combination with other measures, is 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 December 31			
	2018			2017
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 23.9**	**$ 1.1**	**$ 25.0**	$ 19.7
NGL processing	**271.0**	**6.9**	**277.9**	69.4
Conventional oil pipelines	**13.4**	**8.1**	**21.5**	12.1
Bulk liquid storage	**6.0**	**6.1**	**12.1**	24.2
Corporate (1)	**-**	**6.7**	**6.7**	9.0
Capital expenditures	**$ 314.3**	**$ 28.9**	**$ 343.2**	$ 134.4

	Years Ended December 31			
	2018			2017
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 59.5**	**$ 2.1**	**$ 61.6**	$ 48.6
NGL processing	**762.5**	**21.8**	**784.3**	223.7
Conventional oil pipelines	**29.3**	**13.8**	**43.1**	32.7
Bulk liquid storage	**24.5**	**15.0**	**39.5**	71.2
Corporate (1)	**-**	**21.8**	**21.8**	24.3
Capital expenditures	**$ 875.8**	**$ 74.5**	**$ 950.3**	$ 400.5

(1) Corporate sustaining capital, in 2018, primarily relates to leasehold improvement and upgrades to Inter Pipeline's financial systems.

Interest coverage is calculated as net income 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 for the period as a percentage of FFO. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current dividends.

ADDITIONAL INFORMATION

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

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

Dated at Calgary, Alberta this 14th day of February, 2019