inter pipeline

Management's Discussion and Analysis

For the three and nine months ended September 30, 2019

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 and nine months ended September 30, 2019, 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) the stability of Inter Pipeline's current level of dividends to its shareholders; 2) Inter Pipeline being well positioned to compete for future accretive growth opportunities, both locally and internationally, and that a well-contracted petrochemical infrastructure is expected to be an area of significant growth; 3) financial forecasts or anticipated financial performance; 4) timing, estimates, cost and anticipated benefits of capital projects (including the Heartland Petrochemical Complex, expansion of the crude terminal near Stettler, and the Viking Connector pipeline); 5) capital expenditure forecasts and financing plans for such expenditures; and 6) the plans and forecasts described under the OUTLOOK section, including the potential sale of the European bulk liquid storage business and the use of the proceeds to reduce debt and finance our capital expenditure program (including the HPC), stable nature of our business, and stability of our cost-of-service funds from operations.

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 amount of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to Inter Pipeline's business; the risks associated with existing and potential or threatened future lawsuits and regulatory actions against Inter Pipeline and its affiliates; increases in maintenance, operating or financing costs; difficulty in obtaining necessary regulatory approvals or land access rights and maintenance of support of such approvals and rights; the realization of the anticipated benefits of acquisitions; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. The impact of any one assumption, risk, uncertainty or other factor on a particular forward-looking statement cannot be determined with certainty, as these are interdependent and Inter Pipeline's future course of action depends on management's assessment of all information available at the relevant time.

Readers are cautioned that the foregoing list of assumptions, risks, uncertainties and factors is not exhaustive. See also the section entitled RISK FACTORS for further risk factors. The forward-looking statements contained in this MD&A are made as of the date of this document and, except to the extent expressly required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document and all subsequent forward-looking statements, whether written or oral, attributable to Inter Pipeline or persons acting on Inter Pipeline's behalf are expressly qualified in their entirety by these cautionary statements.

Management's Discussion and Analysis

For the three and nine months ended September 30, 2019

The MD&A provides a detailed explanation of Inter Pipeline's operating results for the three and nine months ended September 30, 2019, as compared to the three and nine months ended September 30, 2018. The MD&A should be read in conjunction with the September 30, 2019 unaudited condensed interim financial statements (interim financial statements), the interim financial statements and MD&A for the quarterly period ended September 30, 2018, the audited consolidated financial statements and MD&A for the year ended December 31, 2018, the **Annual Information Form**, and other information filed by Inter Pipeline on SEDAR at www.sedar.com or on Inter Pipeline's website at www.interpipeline.com.

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

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

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

Table of Contents

THIRD QUARTER HIGHLIGHTS

- Funds from operations (FFO) totaled $204 million
- Net income for the quarter was $80 million
- Declared cash dividends of $178 million or $0.43 per share
- Quarterly payout ratio* of 87 percent
- Total pipeline throughput averaged 1,367,400 barrels per day (b/d)
- Bulk liquid storage utilization rates rose to 92 percent during the quarter, up from 74 percent in the third quarter of 2018
- Construction of the Viking Connector, a new 75-kilometer pipeline for Inter Pipeline's conventional pipelines business, began in July 2019
- Progress at the $3.5 billion Heartland Petrochemical Complex (HPC) site continues to track according to budgetary and schedule targets

* Please refer to the NON-GAAP FINANCIAL MEASURES section

PERFORMANCE OVERVIEW

(millions, except volume, per share and % amounts)	Three Months Ended September 30				Nine Months Ended September 30			
		2019		2018		**2019**		2018
Pipeline volume *(000s b/d)*								
Oil sands transportation		**1,183.5**		1,227.2		**1,180.3**		1,229.0
Conventional oil pipelines		**183.9**		214.3		**185.3**		206.7
Total pipeline volume		**1,367.4**		1,441.5		**1,365.6**		1,435.7
NGL processing volume *(000s b/d)* (1)								
Natural gas processing - Ethane		**62.2**		56.1		**64.6**		54.7
Natural gas processing - Propane-plus		**43.7**		41.6		**45.0**		43.1
Redwater Olefinic Fractionator sales volume		**25.9**		32.3		**31.3**		31.0
Total NGL processing volume		**131.8**		130.0		**140.9**		128.8
Utilization								
Bulk liquid storage		**92%**		74%		**84%**		80%
Revenue								
Oil sands transportation	**$**	**202.7**	$	199.4	**$**	**603.8**	$	599.8
NGL processing		**138.2**		235.0		**518.0**		644.4
Conventional oil pipelines		**175.4**		205.2		**551.5**		570.5
Bulk liquid storage		**74.5**		45.4		**218.0**		147.3
Total revenue	**$**	**590.8**	$	685.0	**$**	**1,891.3**	$	1,962.0
Funds from operations								
Oil sands transportation	**$**	**152.5**	$	150.3	**$**	**449.8**	$	449.2
NGL processing		**46.2**		134.8		**186.3**		334.7
Conventional oil pipelines		**39.7**		53.8		**123.4**		152.7
Bulk liquid storage		**30.5**		14.8		**84.2**		50.9
Corporate costs		**(64.5)**		(54.0)		**(187.6)**		(172.1)
Total funds from operations	**$**	**204.4**	$	299.7	**$**	**656.1**	$	815.4
Per share (2)	**$**	**0.49**	$	0.77	**$**	**1.60**	$	2.12
Net income	**$**	**79.9**	$	169.4	**$**	**438.5**	$	448.2
Per share – basic and diluted	**$**	**0.19**	$	0.44	**$**	**1.07**	$	1.16
Adjusted EBITDA (2)	**$**	**249.6**	$	340.1	**$**	**787.8**	$	937.9
Dividends to shareholders	**$**	**177.5**	$	163.3	**$**	**527.1**	$	485.7
Per share (3)	**$**	**0.4275**	$	0.4200	**$**	**1.2825**	$	1.2600
Shares outstanding (basic)								
Weighted average		**414.6**		388.4		**410.3**		384.9
End of period		**416.6**		390.2		**416.6**		390.2
Capital expenditures								
Growth (2)	**$**	**428.8**	$	229.9	**$**	**1,109.2**	$	561.5
Sustaining (2)		**13.4**		24.7		**44.1**		45.6
Total capital expenditures	**$**	**442.2**	$	254.6	**$**	**1,153.3**	$	607.1
Payout ratio (2)		**86.8%**		54.5%		**80.3%**		59.6%

(millions, except % amounts)	As at September 30		As at December 31	
		2019		2018
Total assets	**$**	**12,441.1**	$	11,461.5
Total debt (4)	**$**	**6,252.3**	$	5,680.1
Total equity	**$**	**4,040.1**	$	3,965.3
Enterprise value (2)	**$**	**15,939.0**	$	13,489.8
Consolidated net debt to total capitalization (2)		**46.5%**		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 per share are calculated based on the number of common shares outstanding at each record date.

(4) Financial debt reported in the September 30, 2019 interim financial statements of $6,226.9 million, includes long-term debt, short-term debt and commercial paper outstanding of $6,252.3 million less discounts and debt transaction costs of $25.4 million.

Three Months Ended September 30, 2019

Inter Pipeline generated FFO of $204.4 million for the third quarter of 2019, $95.3 million lower than $299.7 million in the third quarter of 2018. The decrease in FFO was driven by the NGL processing business as its FFO declined to $46.2 million in the current quarter from $134.8 million in the third quarter of 2018. The decrease was primarily due to lower frac-spread pricing and lower sales volume resulting from scheduled turnaround activities at the Redwater Olefinic Fractionator (ROF), Pioneer I and II offgas plants that coincided with turnarounds at the Suncor and Horizon upgraders. The conventional oil pipelines business FFO decreased due to lower volume resulting from increased competition and reduced drilling activity around the Mid-Saskatchewan pipeline system, as well as reduced midstream marketing activities. Bulk liquid storage business FFO increased due to strong operating results from the newly acquired storage business and additional storage contracts secured in Denmark. The oil sands transportation business FFO was consistent quarter over quarter generating $152.5 million during the current quarter, compared to $150.3 million a year ago. Corporate costs increased in the current quarter as a result of higher general and administrative costs. The adoption of IFRS 16 increased FFO by $4.8 million in the third quarter of 2019 and had no impact on net income. See the **Accounting Policies Adopted in 2019** section below for further information on the adoption of IFRS 16 in 2019.

Inter Pipeline's net income decreased to $79.9 million in the third quarter of 2019 from $169.4 million in the third quarter of 2018. Net income was unfavourably impacted by the decrease in FFO as discussed above, a non-cash impairment charge of $31.2 million net of tax, partially offset by lower deferred income taxes and a gain on disposal of assets.

Total dividends to shareholders increased $14.2 million or 8.7% from $163.3 million in the third quarter of 2018 to $177.5 million in the third quarter of 2019. The increase is due to a greater number of common shares outstanding and a higher monthly dividend paid per share. Inter Pipeline's payout ratio* was 86.8% for the three months ended September 30, 2019.

Inter Pipeline's total debt outstanding increased $195.8 million from $6,056.5 million at June 30, 2019 to $6,252.3 million at September 30, 2019. During this period, Inter Pipeline invested $442.2 million in capital projects. At September 30, 2019, total debt includes non-recourse debt of $1,364.4 million held by Inter Pipeline (Corridor) Inc.

Nine Months Ended September 30, 2019

Inter Pipeline generated FFO of $656.1 million in the nine months ended September 30, 2019, compared to $815.4 million in 2018. The decrease in FFO is largely due to the same reasons mentioned above. The adoption of IFRS 16 increased FFO by $14.2 million year to date in 2019 and had no impact on net income. See the **Accounting Policies Adopted in 2019** section below for further information on the adoption of IFRS 16 in 2019.

Inter Pipeline's year to date net income decreased from $448.2 million in 2018 to $438.5 million in 2019. The decrease was largely due to the same reasons mentioned above, as well as a one-time $143.6 million recovery recognized in the second quarter of 2019 related to a revaluation of deferred income tax balances resulting from a reduction in the provincial corporate income tax rate. On June 28, 2019, the Government of Alberta substantively enacted legislation which reduced the provincial corporate income tax rate from 12% to 11%, effective July 1, 2019, with gradual reductions to 8% by January 1, 2022.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

In the nine months ended September 30, 2019, total dividends to shareholders increased $41.4 million or 8.5% from $485.7 million in 2018 to $527.1 million in 2019, for the same reasons mentioned above. Inter Pipeline's payout ratio* for the nine months ended September 30, 2019 was 80.3%.

Inter Pipeline's total debt outstanding was $6,252.3 million at September 30, 2019. In the nine months ended September 30, 2019, Inter Pipeline invested $1,153.3 million in capital projects.

OUTLOOK

Inter Pipeline owns and operates world-scale energy infrastructure assets in Western Canada and Europe. Our long-term strategy is to protect, develop and expand high-quality assets that generate stable and predictable cash flow, while delivering strong returns to shareholders. In 2019, we continue to develop and leverage our existing asset base, while managing costs and pursuing additional growth opportunities.

Inter Pipeline remains highly focused on executing construction, commercial and operational activities for the $3.5 billion HPC, located in Strathcona County, Alberta near our existing Redwater Olefinic Fractionator. Upon completion, HPC will be Canada's first integrated propane dehydrogenation and polypropylene facility and will convert low-cost, locally sourced propane into higher value polypropylene. Inter Pipeline expects to spend approximately $1.2 billion on this project in 2019 and has invested $1.9 billion in this project since inception.

Construction activities at HPC continue to track according to budgetary and schedule targets. Milestones for the third quarter include completing piling activities with approximately 6,500 pilings installed, commencing structural steel erection for the polypropylene plant, and installing the first major components of the central utility block. The last major equipment lifts for the complex were also completed in the quarter with the installation of the propane dehydrogenation flare stack and the 300-tonne polypropylene purge bin. Once operational 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.

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. Average throughput volume for these transportation systems in the third quarter of 2019 was 1,183,500 b/d. These bitumen blend and diluent pipeline systems are underpinned by long-term commercial arrangements with creditworthy counterparties that generate stable cost-of-service funds from operations.

As one of Canada's largest NGL processing businesses, Inter Pipeline owns three major straddle plants, two offgas plants, an offgas liquids pipeline and a fractionator, all located in Alberta. While cash flow from this business does vary from year to year due to fluctuations in market prices, feedstock flows, and various operational and commercial matters, it continues to provide an excellent source of cash flow for reinvestment back into our business.

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

Our three major straddle facilities processed approximately 3.21 billion cubic feet of natural gas per day and produced 105,900 b/d of NGL in the third quarter of 2019. 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.

Inter Pipeline successfully completed planned turnaround activities at the ROF, Pioneer I and II offgas plants in the third quarter of 2019. The facilities were offline for approximately three weeks and sales volume for the quarter were lower as a result of this scheduled maintenance. The Pioneer I and Pioneer II offgas plants processed an average of 129 million cubic feet of natural gas per day during the third quarter of 2019, with average NGL sales volume from ROF of 25,900 b/d.

Inter Pipeline's conventional oil pipelines business consists of the Bow River, Central Alberta and Mid-Saskatchewan pipeline systems. During the third quarter of 2019, these pipeline systems transported an average of 183,900 b/d.

Inter Pipeline is currently advancing a multi-phase expansion of the Central Alberta pipeline system. Phase one of this development program, which began in late 2017, includes the conversion of the pipeline system to multi-product batch operation, and construction of additional truck offloading and tank storage capacity at the Stettler Station. Batch operations began in mid-2018 and an additional 10,000 b/d of truck unloading capacity entered service in October of 2019. Two new 130,000 barrel storage tanks and the final component of phase one, are expected to be complete by the spring of 2020.

The second phase of this program, a $100 million investment in a new 75-kilometer pipeline called the Viking Connector, will connect Inter Pipeline's Throne Station, on the Bow River pipeline system, to the Central Alberta pipeline system. This project is expected to add approximately 10,000 to 15,000 b/d of throughput volume to the Central Alberta pipeline system in the first half of 2020. This connection will provide new access to the Edmonton market hub and more flexibility for our producers.

With operations in the United Kingdom, Ireland, Germany, the Netherlands, Denmark and Sweden, we store various oils, petrochemical and biofuel products in Europe through an integrated network of storage terminals located at key coastal ports and inland waterways, making us one of the largest bulk liquid storage businesses in Europe. Third quarter 2019 average storage utilization rates were 92%, an improvement compared to 74% for the same period in 2018. Throughput activity from our acquired storage business in the UK and Netherlands, and higher throughput activity from the securing of additional storage contracts, particularly in Denmark, supported these improved rates.

In the third quarter of 2019, we announced a process is underway to explore the potential sale of our bulk liquid storage business segment. The decision to explore alternatives is consistent with Inter Pipeline's practice of making prudent long-term portfolio management decisions, considering our organic growth initiatives in other parts of the business. Should a sale be completed, potential proceeds would be used to reduce debt and finance our capital expenditure program, including HPC.

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 September 30, 2019, Inter Pipeline had $1.2 billion of available capacity on its $1.5 billion revolving credit facility and a consolidated net debt to total capitalization ratio[*] of 46.5% compared to 51.8% at December 31, 2018.

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

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+ (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. Inter Pipeline's entrepreneurial spirit, disciplined investment framework and financial strength has allowed us to grow and prosper through a variety of economic cycles. Our extensive energy infrastructure base continues to be well positioned to compete for future accretive growth opportunities, both locally and internationally, and our petrochemical infrastructure is expected to be an area of significant growth for our company. 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 September 30			Nine Months Ended September 30		
Volume (000s b/d)	**2019**	2018	*% change*	**2019**	2018	*% change*
Cold Lake	**547.6**	573.1	*(4.4)*	**557.6**	580.9	*(4.0)*
Corridor	**422.0**	403.1	*4.7*	**391.7**	401.1	*(2.3)*
Polaris	**213.9**	251.0	*(14.8)*	**231.0**	247.0	*(6.5)*
	1,183.5	1,227.2	*(3.6)*	**1,180.3**	1,229.0	*(4.0)*

(millions)						
Revenue	**$ 202.7**	$ 199.4	*1.7*	**$ 603.8**	$ 599.8	*0.7*
Operating expenses	**$ 35.1**	$ 34.5	*1.7*	**$ 107.7**	$ 107.3	*0.4*
Funds from operations	**$ 152.5**	$ 150.3	*1.5*	**$ 449.8**	$ 449.2	*0.1*
Capital expenditures						
Growth[1]	**$ 12.7**	$ 16.7		**$ 75.4**	$ 35.6	
Sustaining[1]	**1.5**	0.9		**3.7**	1.0	
	$ 14.2	$ 17.6		**$ 79.1**	$ 36.6	

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

Volume

Inter Pipeline's oil sands transportation business involves the transportation of petroleum products and related blending and handling services in northern Alberta, and is comprised of the 100% owned Cold Lake, Corridor and Polaris pipeline systems. Oil sands transportation services are generally provided to shippers pursuant to long-term cost-of-service contracts that provide for a defined annual capital fee and the recovery of substantially all operating costs. Generally, FFO within the oil sands transportation business is not impacted by commodity price or throughput volume fluctuations.

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 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.

In the three and nine months ended September 30, 2019, average volume transported in the oil sands transportation business decreased by 43,700 b/d, and 48,700 b/d, respectively, over the same periods in 2018. The decrease was primarily due to third-party operational issues and the Government of Alberta's imposed production curtailment program.

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 in the three and nine months ended September 30, 2019, has increased slightly to $202.7 million and $603.8 million, respectively, compared to the same periods in 2018. For both periods, higher cost recoveries and return on debt, from an increase in interest rates, were partially offset by a lower return on equity associated with a decrease in the long-term Government of Canada bond rate.

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. Operating expenses in the three and nine months ended September 30, 2019 increased by $0.6 million and $0.4 million, respectively, compared to the same periods in 2018. For both periods, operating expenses remained relatively consistent as higher general operating costs were partially offset by lower unplanned repair and maintenance and integrity costs.

Capital Expenditures

The oil sands transportation business incurred growth capital expenditures[*] of $12.7 million in the third quarter of 2019, primarily related to system enhancement projects on the Corridor pipeline system, as well as the Kirby North project. Sustaining capital expenditures[*] in the third quarter of 2019 totaled $1.5 million primarily related to pipeline upgrade projects on the Cold Lake pipeline system.

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

NGL Processing Business Segment

Natural gas processing

	Three Months Ended September 30							
	2019				2018			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**2,147**	**37.0**	**30.3**	**67.3**	2,040	33.3	29.1	62.4
Empress V (100% basis)	**1,012**	**24.3**	**12.9**	**37.2**	825	19.1	10.2	29.3
Empress II	**53**	**0.9**	**0.5**	**1.4**	192	3.7	2.3	6.0
	3,212	**62.2**	**43.7**	**105.9**	3,057	56.1	41.6	97.7

	Nine Months Ended September 30							
	2019				2018			
	mmcf/d	*(000s b/d)*			*mmcf/d*	*(000s b/d)*		
Straddle plant	Throughput	Ethane	Propane-plus	Total	Throughput	Ethane	Propane-plus	Total
Cochrane	**2,237**	**37.4**	**30.5**	**67.9**	2,042	29.0	29.0	58.0
Empress V (100% basis)	**1,022**	**23.9**	**12.7**	**36.6**	889	20.9	11.0	31.9
Empress II	**151**	**3.3**	**1.8**	**5.1**	252	4.8	3.1	7.9
	3,410	**64.6**	**45.0**	**109.6**	3,183	54.7	43.1	97.8

Offgas processing

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
(mmcf/d)				
Offgas plants throughput volume	**129**	162	**150**	156
(000s b/d)				
Offgas plants production volume	**26.1**	34.7	**30.5**	32.2
Redwater Olefinic Fractionator sales volume	**25.9**	32.3	**31.3**	31.0
Redwater Olefinic Fractionator volume composition [(1)]				
Ethane-ethylene	**40%**	41%	**39%**	41%
Paraffinic NGL				
Propane	**30%**	28%	**29%**	29%
Normal butane	**7%**	8%	**7%**	7%
Olefinic NGL				
Polymer grade propylene	**12%**	11%	**14%**	11%
Alky feed	**7%**	8%	**7%**	8%
Olefinic condensate	**4%**	4%	**4%**	4%

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

NGL processing financial results

	Three Months Ended September 30			Nine Months Ended September 30		
(millions)	**2019**	2018	*% change*	**2019**	2018	*% change*
Revenue [(1)]	**$ 138.2**	$ 235.0	*(41.2)*	**$ 518.0**	$ 644.4	*(19.6)*
Cost of sales [(1)]	**$ 43.8**	$ 52.2	*(16.1)*	**$ 185.2**	$ 170.6	*8.6*
Operating expenses [(1)]	**$ 48.6**	$ 48.5	*0.2*	**$ 146.6**	$ 139.2	*5.3*
Funds from operations [(1)]	**$ 46.2**	$ 134.8	*(65.7)*	**$ 186.3**	$ 334.7	*(44.3)*
Capital expenditures [(1)]						
Growth [(2)]	**$ 352.5**	$ 200.6		**$ 913.8**	$ 491.5	
Sustaining [(2)]	**15.1**	8.3		**25.3**	14.9	
	$ 367.6	$ 208.9		**$ 939.1**	$ 506.4	

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

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

Volume

Inter Pipeline's straddle plants processed average natural gas volume of 3,212 million cubic feet per day (mmcf/d) in the current quarter and 3,410 mmcf/d year to date in 2019, an increase of 155 mmcf/d and 227 mmcf/d, respectively, over the comparable periods in 2018.

In the three and nine months ended September 30, 2019, average natural gas throughput volume at the Cochrane straddle plant increased 107 mmcf/d and 195 mmcf/d, respectively, compared to the same periods in 2018. Throughput volume was higher due to increased volume on the TransCanada Alberta System. Throughput volume at the Cochrane straddle plant is impacted by, and fluctuates 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 volume increased by 187 mmcf/d and 133 mmcf/d in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. For both periods, throughput volume was higher due to the absence of a scheduled plant maintenance outage that occurred at the Empress V facility in the second and third quarters of 2018. Average volume at the Empress II straddle plant decreased by 139 mmcf/d and 101 mmcf/d in the three and nine months ended September 30, 2019, compared to the same periods in 2018. The plant did not process any volume during the second quarter of 2019. The decrease in throughput volume 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 volume 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 8,200 b/d to 105,900 b/d in 2019, and year to date by 11,800 b/d to 109,600 b/d in 2019, compared to the same periods in 2018. For both periods, the increase in production from the straddle plants was largely due to higher natural gas volume processed at Cochrane and Empress V and increased ethane sales. 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 volume.

Inter Pipeline's Pioneer I and Pioneer II offgas plants processed combined average volume of 129 mmcf/d and 150 mmcf/d during the three and nine months ended September 30, 2019, respectively, compared to 162 mmcf/d and 156 mmcf/d during the same periods in 2018. Average ethane-plus volume produced from the offgas plants decreased by 8,600 b/d in the current quarter to 26,100 b/d and by 1,700 b/d year to date to 30,500 b/d. For both periods, the decrease in production was due to turnaround activity at Pioneer I and Pioneer II, which coincided with turnarounds at third-party upgraders. Throughput volume to, and production volume 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 volume from the ROF decreased in the current quarter by 6,400 b/d, and remained relatively consistent year to date, compared to the same periods in 2018. For both periods, sales volume declined due to a scheduled 3-week turnaround at ROF, however the year to date benefited from higher polymer grade propylene sales volume.

In general, production from the offgas plants and sales volume at the ROF can differ due to varying inventory levels associated with cavern storage facilities, operational and commercial matters, and other downstream issues. In addition, sales and production volume composition can vary due to the impact of new contractual arrangements, various rail logistical challenges and other factors.

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 decreased by $96.8 million and $126.4 million in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. For both periods the decrease was due to lower propane-plus, paraffinic and olefinic frac-spread pricing, partially offset by increased ethane revenue.

Revenue in the current quarter and year to date was also positively impacted by new contractual arrangements related to the sales and marketing of polymer grade propylene that came into effect on January 1, 2019. This resulted in certain transportation costs now being recorded in cost of sales, which had previously reduced revenue in the comparable periods of 2018.

Natural gas processing frac-spread

	Three Months Ended September 30			
(dollars)	**2019**		2018	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Cochrane propane-plus market frac-spread	**$ 0.44**	**$ 0.59**	$ 0.97	$ 1.26
Cochrane propane-plus realized frac-spread	**$ 0.45**	**$ 0.60**	$ 0.98	$ 1.28

	Nine Months Ended September 30			
(dollars)	**2019**		2018	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Cochrane propane-plus market frac-spread	**$ 0.52**	**$ 0.69**	$ 0.87	$ 1.12
Cochrane propane-plus realized frac-spread	**$ 0.51**	**$ 0.68**	$ 0.86	$ 1.11

(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 current quarter from $0.98 USD/USG in 2018 to $0.45 USD/USG in 2019 and decreased year to date from $0.86 USD/USG in 2018 to $0.51 USD/USG in 2019.

Offgas processing frac-spread

	Three Months Ended September 30			
(dollars)	**2019**		2018	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Offgas olefinic indicative frac-spread (2)	**$ 1.45**	**$ 1.92**	$ 2.03	$ 2.66
Offgas paraffinic indicative frac-spread (2)	**$ 0.49**	**$ 0.65**	$ 0.86	$ 1.12
Offgas olefinic benchmark adjustment (2)	**$ 0.47**	**$ 0.62**	$ 0.60	$ 0.78
Offgas paraffinic benchmark adjustment (2)	**$ 0.50**	**$ 0.65**	$ 0.43	$ 0.56

	Nine Months Ended September 30			
(dollars)	**2019**		2018	
	USD/USG (1)	*CAD/USG (1)*	*USD/USG (1)*	*CAD/USG (1)*
Offgas olefinic indicative frac-spread (2)	**$ 1.42**	**$ 1.88**	$ 1.89	$ 2.43
Offgas paraffinic indicative frac-spread (2)	**$ 0.54**	**$ 0.71**	$ 0.80	$ 1.03
Offgas olefinic benchmark adjustment (2)	**$ 0.51**	**$ 0.68**	$ 0.57	$ 0.73
Offgas paraffinic benchmark adjustment (2)	**$ 0.42**	**$ 0.56**	$ 0.37	$ 0.47

(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 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 product sales composition, differentials, marketing fees, product and natural gas transportation, extraction premiums, seasonality, and other associated

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

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 to derive an olefinic and paraffinic frac-spread.

For the three and nine months ended September 30, 2019, the olefinic and paraffinic indicative frac-spreads decreased compared to the same periods in 2018, due to weaker product pricing. The paraffinic benchmark adjustment increased due to a deviation between sales and production composition as a result of the scheduled turnaround, as well as product differentials and contractual arrangements. The olefinic benchmark adjustment decreased as a result of favourable product differentials, which was partially offset by a deviation in sales and production composition.

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. During the current quarter cost of sales decreased $8.4 million and increased $14.6 million year to date, compared to the same periods in 2018. Cost of sales increased for both periods largely due to the inclusion of transportation costs for olefinic NGL products, which in the comparable periods were included within revenue, as discussed above, however the current quarter was more than offset by lower AECO natural gas prices. Weighted average AECO prices* decreased for the three and nine months ended September 30, 2019 at $0.99/GJ and $1.31/GJ, respectively, compared to $1.28/GJ and $1.33/GJ in 2018.

Operating Expenses

Operating expenses in the NGL processing business increased by $0.1 million in the current quarter and $7.4 million year to date, compared to the same periods in 2018. Inter Pipeline's straddle plants' operating expenses decreased $2.4 million in the current quarter and $5.5 million year to date, compared to the same periods in 2018. For both periods, the decrease was mainly due to the absence of a scheduled plant maintenance outage that occurred at the Empress II and V facilities in the second and third quarters of 2018, however the year to date period was slightly offset by higher power costs. Offgas processing operating expenses increased by $2.5 million in the current quarter and $12.9 million year to date, compared to the same periods in 2018. For both periods, the increase was due to higher general operating and scheduled turnaround costs. Average Alberta power pool prices decreased in the current quarter from $54.65/MWh in 2018 to $46.87/MWh in 2019 and increased year to date from $48.60/MWh in 2018 to $57.55/MWh in 2019.

Capital Expenditures

In the current quarter, the NGL processing business incurred total growth capital expenditures* of $352.5 million. $337.6 million was incurred on the Heartland Petrochemical Complex for procurement of materials and construction services. The remaining growth capital expenditures* of $14.9 million related to various equipment and facility upgrades at the Cochrane straddle plant and the Redwater Olefinic Fractionator. Total sustaining capital expenditures* of $15.1 million in the third

* Please refer to the NON-GAAP FINANCIAL MEASURES section

quarter of 2019, primarily related to planned turnaround activity at the Redwater Olefinic Fractionator, Pioneer I and Pioneer II plants.

Conventional Oil Pipelines Business Segment

	Three Months Ended September 30			Nine Months Ended September 30		
Volume (000s b/d)	**2019**	2018	*% change*	**2019**	2018	*% change*
Bow River	**100.2**	95.9	*4.5*	**98.6**	88.8	*11.0*
Central Alberta	**29.9**	32.1	*(6.9)*	**29.6**	27.5	*7.6*
Mid-Saskatchewan	**53.8**	86.3	*(37.7)*	**57.1**	90.4	*(36.8)*
	183.9	214.3	*(14.2)*	**185.3**	206.7	*(10.4)*
(millions, except per barrel amount)						
Revenue	**$ 175.4**	$ 205.2	*(14.5)*	**$ 551.5**	$ 570.5	*(3.3)*
Cost of sales	**$ 115.7**	$ 130.8	*(11.5)*	**$ 370.3**	$ 357.0	*3.7*
Operating expenses	**$ 20.0**	$ 20.4	*(2.0)*	**$ 56.2**	$ 63.9	*(12.1)*
Funds from operations	**$ 39.7**	$ 53.8	*(26.2)*	**$ 123.4**	$ 152.7	*(19.2)*
Revenue per barrel (1)	**$ 2.96**	$ 2.94	*0.7*	**$ 2.97**	$ 2.98	*(0.3)*
Capital expenditures						
Growth (2)	**$ 36.9**	$ 7.7		**$ 78.1**	$ 15.9	
Sustaining (2)	**(0.5)**	2.2		**4.9**	5.7	
	$ 36.4	$ 9.9		**$ 83.0**	$ 21.6	

(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 volume, divided by actual volume.

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

Volume

In the three and nine months ended September 30, 2019, average volume transported on the conventional oil pipeline systems decreased by 30,400 b/d and 21,400 b/d, respectively, compared to the same periods in 2018. Mid-Saskatchewan pipeline system volume decreased for the three and nine months ended September 30, 2019 by 32,500 b/d and 33,300 b/d, respectively, compared to the same periods in 2018. The decrease for both periods was due to increased competition, reduced drilling activity, and inclement weather. The year to date was further impacted by apportionment on downstream third-party pipeline systems. On the Central Alberta pipeline system, average volume in the current quarter decreased by 2,200 b/d and increased by 2,100 b/d year to date, compared to the same periods in 2018. For both periods the sweet crude oil batching operation that was implemented in the third quarter of 2018 increased volume, however the current quarter was more than offset by a decrease in sour crude oil volume. Average volume on the Bow River pipeline system increased for the three and nine months ended September 30, 2019 by 4,300 b/d and 9,800 b/d, respectively, compared to the same periods in 2018. The increase for both periods was largely due to higher producer activity, as well as the absence of a third-party refinery turnaround which impacted Hardisty southbound transmission volume in the second and third quarters of 2018.

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 cost-of-service 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 decreased $29.8 million and $19.0 million in the three and nine months ended September 30, 2019, compared to the same periods in 2018. Midstream marketing revenue for the current quarter decreased by $21.7 million due to lower commodity prices, partially offset by higher blending activity as a result of increased volume from the sweet crude batching operation. Year to date, midstream marketing revenue remained relatively consistent. Transportation revenue for the current quarter and year to date was $8.1 million and $19.4 million lower, respectively, due to competition on the Mid-Saskatchewan system, somewhat offset by higher trucked volume on the Bow River pipeline system. In addition, the year to date period was impacted by apportionment.

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 current quarter by $15.1 million and increased $13.3 million year to date, compared to the same periods in 2018. For both periods, increased blending activity resulted in higher product purchases, however for the current quarter, lower commodity prices more than offset the incremental volume purchased.

Operating Expenses

Conventional oil pipelines operating expenses in the three and nine months ended September 30, 2019 decreased by $0.4 million and $7.7 million, respectively, compared to the same periods in 2018. The decrease in both periods is largely due to higher integrity and remediation costs in 2018.

Capital Expenditures

In the current quarter, the conventional oil pipelines business incurred growth capital expenditures* of $36.9 million, primarily related to pipeline and facility upgrades and expansions on the Bow River and Central Alberta pipeline systems, including the Viking Connector and Stettler Crude Oil Terminal expansion. Sustaining capital expenditures* in the third quarter totaled $3.4 million primarily related to various maintenance projects on the Bow River pipeline system.

Bulk Liquid Storage Business Segment

	Three Months Ended September 30			Nine Months Ended September 30		
	2019	2018	*% change*	**2019**	2018	*% change*
Utilization	**92%**	74%	*24.3*	**84%**	80%	*5.0*
(millions)						
Revenue	**$ 74.5**	$ 45.4	*64.1*	**$ 218.0**	$ 147.3	*48.0*
Operating expenses	**$ 33.0**	$ 22.6	*46.0*	**$ 103.9**	$ 72.5	*43.3*
Funds from operations	**$ 30.5**	$ 14.8	*106.1*	**$ 84.2**	$ 50.9	*65.4*
Capital expenditures						
Growth(1)	**$ 11.3**	$ 4.9		**$ 26.5**	$ 18.5	
Sustaining(1)	**6.0**	3.9		**12.2**	8.9	
	$ 17.3	$ 8.8		**$ 38.7**	$ 27.4	

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

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Utilization

Average utilization in the bulk liquid storage business increased in the current quarter from 74% in 2018 to 92% in 2019, and year to date from 80% in 2018 to 84% in 2019. The increase for both periods reflects higher throughput activity, particularly in Denmark, from securing additional storage contracts.

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.

In the three and nine months ended September 30, 2019, revenue from the bulk liquid storage business increased by $29.1 million and $70.7 million, respectively, compared to the same periods in 2018. The increase for both periods was due to revenue from the newly acquired storage business in the United Kingdom and the Netherlands, which operated at a 95% utilization rate for both periods, and from securing new storage contracts in Denmark. Foreign currency translation adjustments unfavourably impacted revenue by $2.1 million in the current quarter and $5.3 million year to date, compared to the same periods in 2018.

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

Foreign Exchange Rates

	Three Months Ended September 30			Nine Months Ended September 30		
(dollars)	**2019**	2018	*% change*	**2019**	2018	*% change*
Euro/CAD	**$ 1.4679**	$ 1.5202	*(3.4)*	**$ 1.4936**	$ 1.5378	*(2.9)*
Pound Sterling/CAD	**$ 1.6279**	$ 1.7035	*(4.4)*	**$ 1.6929**	$ 1.7401	*(2.7)*

Operating Expenses

Bulk liquid storage operating expenses increased $10.4 million and $31.4 million in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The increase in operating costs was primarily attributable to the impact of operations from the newly acquired storage business. Additionally, foreign exchange favourably impacted operating expenses by $1.2 million in the current quarter and $2.7 million year to date, compared to the same periods in 2018.

Capital Expenditures

In the current quarter, the bulk liquid storage business incurred total growth capital expenditures[*] of $11.3 million, primarily related to enhancement and tank integrity projects. The business also incurred sustaining capital expenditures[*] of $6.0 million in the third quarter, including expenditures on safety improvement projects, environmental enhancement initiatives, automation and financial system upgrade projects.

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

Other Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2019**	2018	**2019**	2018
Depreciation and amortization	**$ 115.5**	$ 66.3	**$ 272.8**	$ 204.8
Income tax expense (recovery)	**15.8**	59.7	**(50.0)**	159.5
Financing charges	**47.0**	43.5	**137.4**	129.0
General and administrative	**48.6**	36.5	**132.6**	107.9
(Gain) loss on disposal of assets	**(12.2)**	0.6	**(9.9)**	2.1

Depreciation and Amortization

Depreciation and amortization of tangible and intangible assets for the three and nine months ended September 30, 2019, increased $49.2 million and $68.0 million, respectively, over the same periods in 2018. The increase is primarily attributable to a non-cash impairment charge of $40.0 million recognized in the current quarter for goodwill associated with our storage operation in Denmark. Additionally, the depreciation of new assets now in service and the adoption of IFRS 16 further increased depreciation and amortization. See the **Accounting Policies Adopted in 2019** section below for further information on the adoption of IFRS 16 in 2019.

Income Tax Expense

In the three and nine months ended September 30, 2019, consolidated income tax decreased $43.9 million and $209.5 million, compared to the same periods in 2018. Consolidated income tax is the sum of current income tax and deferred income tax.

For both periods, current income tax has remained relatively consistent, compared to the same periods in 2018.

In the three and nine months ended September 30, 2019, deferred income tax decreased $45.4 million and $210.6 million, respectively, compared to the same periods in 2018. For both periods, the decrease is due to lower consolidated income before taxes which resulted in fewer tax assets being deducted in the current period, and the tax impact of the non-cash impairment charge recognized in the current quarter. However, the year to date period further decreased due to a provincial corporate tax rate reduction on June 28, 2019, where the Government of Alberta substantively enacted legislation which reduced the provincial corporate income tax rate from 12% to 11%, effective July 1, 2019, with gradual reductions to 8% by January 1, 2022. This resulted in a one-time deferred tax recovery of $143.6 million during the second quarter of 2019.

Financing Charges

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2019**	2018	**2019**	2018
Interest expense on:				
Credit facilities	**$ 13.3**	$ 12.1	**$ 40.4**	$ 31.6
Corridor debentures	**1.8**	1.9	**5.5**	5.5
Medium-term notes	**29.9**	30.5	**89.7**	94.2
Subordinated hybrid notes	**12.9**	-	**26.6**	-
Lease liabilities	**2.1**	-	**6.5**	-
Total interest	**60.0**	44.5	**168.7**	131.3
Capitalized interest	**(15.5)**	(3.3)	**(38.6)**	(9.3)
Amortization of transaction costs on financial debt	**1.0**	1.0	**2.9**	3.0
Accretion of provisions and pension plan funding charges	**1.5**	1.3	**4.4**	4.0
Financing charges	**$ 47.0**	$ 43.5	**$ 137.4**	$ 129.0

In the three and nine months ended September 30, 2019, total financing charges increased $3.5 million and $8.4 million, compared to the periods in 2018.

Interest on credit facilities increased $1.2 million in the current quarter and increased $8.8 million year to date in 2019, compared to the same periods in 2018. For both periods, the increase is due to increased short-term interest rates. The year to date period was additionally impacted by higher weighted average syndicated credit facility debt outstanding. On August 13, 2019, Inter Pipeline entered into a $500 million 1-year term credit facility. Proceeds were used to partially repay existing debt under the $1.5 billion syndicated revolving credit facility, that carries higher fees, of which available capacity may be redrawn.

Interest charges on the subordinated hybrid notes in the three and nine months ended September 30, 2019, were due to the $750 million hybrid note issuance on March 26, 2019.

Interest on lease liabilities in the current periods was due to the adoption of IFRS 16. See the **Accounting Policies Adopted in 2019** section below for further information on the adoption of IFRS 16 in 2019.

Interest on medium-term notes decreased $0.6 million in the current quarter of 2019 and $4.5 million year to date, compared to the same periods in 2018, due to the maturity and repayment of the Series 2 notes on July 30, 2018.

Capitalized interest increased by $12.2 million in the current quarter of 2019 and $29.3 million year to date in 2019, compared to the same periods in 2018, largely as result of the increased spending on 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 September 30		Nine Months Ended September 30	
(millions)	**2019**	2018	**2019**	2018
Canada	**$ 39.2**	$ 29.1	**$ 106.5**	$ 86.2
Europe	**9.4**	7.4	**26.1**	21.7
	$ 48.6	$ 36.5	**$ 132.6**	$ 107.9

In the three and nine months ended September 30, 2019, Canadian general and administrative expenses increased $10.1 million and $20.3 million, respectively, compared to the same periods in 2018. The increase for both periods was largely due to higher employee costs, resulting from the inclusion of additional employees to support operational requirements, advisory fees, partially offset by the adoption of IFRS 16. As a result of the adoption of IFRS 16, certain office lease costs are now required to be recorded as depreciation and financing charges instead of general and administrative expenses. See the **Accounting Policies Adopted in 2019** section below for further information on the adoption of IFRS 16 in 2019.

European general and administrative costs increased in the three and nine months ended September 30, 2019 by $2.0 million and $4.4 million, respectively, compared to the same periods in 2018, primarily due to additional head office costs for the newly acquired storage business.

Gain on Disposal of Assets

Inter Pipeline realized a gain on disposal of assets of $12.2 million in the current quarter of 2019 and $9.9 million year to date in 2019. The gain was due to proceeds received from the disposal of line fill on one of Inter Pipeline's oil sands pipeline systems, partially offset by a loss on the disposal and de-recognition of certain non-core assets in the NGL processing, oil sands transportation and bulk liquid storage businesses.

SUMMARY OF QUARTERLY RESULTS

	2017	2018				2019		
(millions, except volume, per share and % amounts)	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**First Quarter**	**Second Quarter**	**Third Quarter**
Pipeline volume *(000s b/d)*								
Oil sands transportation	1,211.8	1,279.0	1,181.3	1,227.2	1,216.4	**1,199.5**	**1,158.1**	**1,183.5**
Conventional oil pipelines	204.5	209.4	196.4	214.3	184.2	**187.1**	**184.9**	**183.9**
Total pipeline volume	1,416.3	1,488.4	1,377.7	1,441.5	1,400.6	**1,386.6**	**1,343.0**	**1,367.4**
NGL processing volume *(000s b/d)* (1)								
Natural gas processing - Ethane	53.3	64.2	43.9	56.1	65.4	**72.2**	**59.5**	**62.2**
Natural gas processing - Propane-plus	40.4	46.3	41.3	41.6	49.7	**49.5**	**41.8**	**43.7**
Redwater Olefinic Fractionator sales volume	34.0	33.0	27.8	32.3	37.0	**35.5**	**32.6**	**25.9**
Total NGL processing volume	127.7	143.5	113.0	130.0	152.1	**157.2**	**133.9**	**131.8**
Utilization								
Bulk liquid storage	91%	82%	84%	74%	68%	**78%**	**83%**	**92%**
Revenue								
Oil sands transportation	$ 208.6	$ 200.1	$ 200.3	$ 199.4	$ 205.3	**$ 200.7**	**$ 200.4**	**$ 202.7**
NGL processing	196.2	214.1	195.3	235.0	243.8	**208.8**	**171.0**	**138.2**
Conventional oil pipelines	159.2	180.6	184.7	205.2	126.5	**176.3**	**199.8**	**175.4**
Bulk liquid storage	54.3	51.2	50.7	45.4	55.3	**73.1**	**70.4**	**74.5**
Total revenue	$ 618.3	$ 646.0	$ 631.0	$ 685.0	$ 630.9	**$ 658.9**	**$ 641.6**	**$ 590.8**
Funds from operations								
Oil sands transportation	$ 154.5	$ 148.9	$ 150.0	$ 150.3	$ 150.8	**$ 147.6**	**$ 149.7**	**$ 152.5**
NGL processing	91.2	98.6	101.3	134.8	120.1	**68.0**	**72.1**	**46.2**
Conventional oil pipelines	53.7	50.7	48.2	53.8	24.9	**34.1**	**49.6**	**39.7**
Bulk liquid storage	20.9	18.7	17.4	14.8	15.0	**26.8**	**26.9**	**30.5**
Corporate costs	(52.5)	(62.7)	(55.4)	(54.0)	(37.5)	**(65.0)**	**(58.1)**	**(64.5)**
Total funds from operations	$ 267.8	$ 254.2	$ 261.5	$ 299.7	$ 273.3	**$ 211.5**	**$ 240.2**	**$ 204.4**
Per share (2)	$ 0.71	$ 0.67	$ 0.68	$ 0.77	$ 0.68	**$ 0.52**	**$ 0.59**	**$ 0.49**
Net income	$ 141.9	$ 142.7	$ 136.1	$ 169.4	$ 144.3	**$ 98.3**	**$ 260.3**	**$ 79.9**
Per share – basic and diluted	$ 0.37	$ 0.37	$ 0.35	$ 0.44	$ 0.36	**$ 0.24**	**$ 0.63**	**$ 0.19**
Dividends to shareholders (3)	$ 157.2	$ 160.4	$ 162.0	$ 163.3	$ 169.7	**$ 173.9**	**$ 175.7**	**$ 177.5**
Per share (3)	$ 0.415	$ 0.420	$ 0.420	$ 0.420	$ 0.425	**$ 0.428**	**$ 0.428**	**$ 0.428**
Adjusted EBITDA (2)	$ 311.1	$ 295.2	$ 302.6	$ 340.1	$ 307.4	**$ 253.1**	**$ 285.1**	**$ 249.6**
Shares outstanding (basic)								
Weighted average	378.3	381.4	384.9	388.4	397.8	**406.0**	**410.3**	**414.6**
End of period	379.8	383.2	386.7	390.2	403.8	**408.2**	**412.4**	**416.6**
Capital expenditures								
Growth (2)	$ 113.2	$ 146.1	$ 185.5	$ 229.9	$ 314.3	**$ 316.7**	**$ 363.7**	**$ 428.8**
Sustaining (2)	21.2	6.1	14.8	24.7	28.9	**11.9**	**18.8**	**13.4**
Total capital expenditures	$ 134.4	$ 152.2	$ 200.3	$ 254.6	$ 343.2	**$ 328.6**	**$ 382.5**	**$ 442.2**
Payout ratio (2)	58.7%	63.1%	61.9%	54.5%	62.1%	**82.2%**	**73.1%**	**86.8%**
Total assets	$ 10,361.7	$ 10,496.3	$ 10,570.3	$ 10,699.7	$ 11,461.5	**$ 11,882.6**	**$ 12,162.8**	**$ 12,441.1**
Total debt (4)	$ 5,457.2	$ 5,396.1	$ 5,387.2	$ 5,339.8	$ 5,680.1	**$ 5,858.2**	**$ 6,056.5**	**$ 6,252.3**
Total equity	$ 3,463.8	$ 3,576.0	$ 3,592.4	$ 3,660.4	$ 3,965.3	**$ 3,940.5**	**$ 4,080.4**	**$ 4,040.1**
Enterprise value (2)	$ 15,342.5	$ 13,963.6	$ 14,915.4	$ 14,079.6	$ 13,489.8	**$ 14,883.2**	**$ 14,457.7**	**$ 15,939.0**
Consolidated net debt to total capitalization (2)	53.5%	52.5%	52.5%	51.8%	51.8%	**44.2%**	**45.0%**	**46.5%**

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

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

(3) Dividends to shareholders 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 September 30, 2019, Inter Pipeline had access to committed credit facilities totaling $3.6 billion, of which $1.5 billion remained unutilized, and demand facilities totaling $165.2 million of which $131.0 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline. In the first quarter of 2019, Inter Terminals amended the Pound Sterling demand facility by increasing the total facility amount from £20 million to £40 million.

Inter Pipeline may also issue equity capital to ensure its balance sheet remains well prepared for expected growth. During the three and nine months ended September 30, 2019, $93.2 million and $269.9 million, respectively, of equity was issued through the dividend reinvestment plan.

On March 26, 2019, Inter Pipeline issued $750 million of fixed-to-floating rate subordinated hybrid notes due March 26, 2079. The subordinated hybrid notes were issued under Inter Pipeline's short form base shelf prospectus and a prospectus supplement dated March 21, 2019. The interest rate of 6.875% is payable in equal semi-annual payments for the period from March 26, 2019 to March 25, 2029. Starting March 26, 2029, on every interest reset date (June 26, September 26, December 26, March 26) until March 26, 2049, the interest rate will be reset to the three-month banker's acceptance rate plus 5.01%. Starting March 26, 2049, on every interest reset date until March 26, 2079, the interest rate will be reset to the banker's acceptance rate plus 5.76%. The notes are subject to optional redemption by Inter Pipeline, whereby on or after March 26, 2029, Inter Pipeline may redeem the notes in whole at any time, or in part on any interest payment date. Proceeds from the note offering were used to repay indebtedness under our revolving credit facility and to fund organic growth projects, including HPC. The subordinated hybrid notes have been assigned credit ratings of BBB- by S&P and BB (high) by DBRS.

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* Please refer to the NON-GAAP FINANCIAL MEASURES section

On August 13, 2019, Inter Pipeline entered into a $500 million 1-year term credit facility. The term credit facility is extendible and bears interest at rates applicable to bankers' acceptances plus applicable margins.

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

Inter Pipeline has several committed credit facilities, medium-term notes and debentures that support commercial paper programs and provide short-term liquidity for general corporate purposes. In addition, Inter Pipeline has demand credit facilities that are also used for general corporate purposes, including providing additional liquidity.

The following table summarizes Inter Pipeline's credit facilities and debt outstanding as at September 30, 2019:

(millions)	Rate type	Total amount	Amount drawn
Recourse debt			
Inter Pipeline syndicated credit facility	Variable	$ 1,500.0	**$ 290.0**
Inter Pipeline term credit facility	Variable	500.0	**500.0**
Demand facilities (1)	Variable	140.2	**22.9**
Medium-term notes	Fixed	3,325.0	**3,325.0**
Subordinated hybrid notes	Fixed (2)	750.0	**750.0**
Non-recourse debt (3)			
Corridor syndicated credit facility	Variable	1,550.0	**1,214.4**
Corridor debentures	Fixed	150.0	**150.0**
Corridor demand facility	Variable	25.0	**-**
Total debt outstanding (4)(5)			**$ 6,252.3**

(1) Demand facilities consist of: Inter Pipeline's $75 million demand facility and Inter Terminals Pound Sterling 40 million demand facility which was converted at a Pound Sterling/CAD rate of 1.6290 at September 30, 2019.

(2) For the initial 10 years, the subordinated hybrid notes carry a fixed interest rate of 6.875%. Subsequently, the interest rate will be set to equal the three-month banker's acceptance rate plus a margin of 5.01% from years 10 to 30, and margin of 5.76% from years 30 to 60.

(3) All interest costs associated with non-recourse Corridor debt are directly recoverable through the terms of the Corridor FSA.

(4) At September 30, 2019, outstanding Inter Pipeline letters of credit of approximately $11.3 million were not included in total debt outstanding.

(5) Financial debt reported in the September 30, 2019 interim financial statements of $6,226.9 million, includes long-term debt, short-term debt and commercial paper outstanding of $6,252.3 million less discounts and debt transaction costs of $25.4 million.

Financial Covenants

Inter Pipeline was in compliance with all financial covenants under its credit facilities and note indentures as at September 30, 2019.

The following table provides a listing of the key financial covenants as at September 30, 2019:

	Maximum Ratio	September 30, 2019
Inter Pipeline Ltd.		
Inter Pipeline syndicated and term credit facilities		
Consolidated net debt to total capitalization (1)(2)(3)(4)	65%	46.5%
Medium-term notes		
Funded debt to total capitalization (2)(5)(6)	70%	40.0%
Inter Pipeline (Corridor) Inc.		
Corridor syndicated credit facility		
Corridor debentures		
Rate base debt to rate base (7)(8)	75%	73.5%

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

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

(3) "Total Capitalization" for Inter Pipeline's syndicated and term credit facilities covenant is the sum of debt including hybrid debt securities, but excluding non-recourse debt, debt attributable to unrestricted subsidiaries or any non-controlling interest, plus convertible debentures, plus consolidated shareholders' equity of the borrower, but excluding any shareholders' equity from or attributable to non-recourse assets, unrestricted subsidiaries, 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 volume 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.

The following interest coverage* ratio is calculated on a consolidated basis:

	Twelve Months Ended	
	September 30	December 31
(times)	**2019**	2018
Interest coverage (1)(2)	**3.5**	5.3

(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.

* Please refer to the NON-GAAP FINANCIAL MEASURES section

Contractual Obligations, Commitments and Guarantees

(millions)	Total	Less than one year	One to five years	After five years
Total debt[1][2]				
Corridor syndicated credit facility[2]	$ 1,214.4	$ 1,214.4	$ -	$ -
Inter Pipeline syndicated credit facility	290.0	-	290.0	-
Inter Pipeline term credit facility	500.0	500.0	-	-
Corridor debentures	150.0	150.0	-	-
Medium-term notes	3,325.0	500.0	1,575.0	1,250.0
Subordinated hybrid notes	750.0	-	-	750.0
Inter Terminals demand facility	22.9	22.9	-	-
	6,252.3	2,387.3	1,865.0	2,000.0
Other obligations[3]				
Capital expenditure commitments[4]	688.5	267.0	421.5	-
Lease liabilities	316.5	27.8	94.0	194.7
Purchase obligations	187.4	43.2	81.1	63.1
Adjusted working capital deficit[5]	381.2	381.2	-	-
Long-term portion of incentive plan	11.2	-	11.2	-
	$ 7,837.1	$ 3,106.5	$ 2,472.8	$ 2,257.8

(1) At September 30, 2019, outstanding Inter Pipeline letters of credit of approximately $11.3 million were not included in total debt outstanding. Financial debt reported in the September 30, 2019 interim financial statements of $6,226.9 million, includes long-term debt, short-term debt and commercial paper outstanding of $6,252.3 million less discounts and debt transaction costs of $25.4 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) Lease liabilities 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 $42.3 million under its employee long-term incentive plan, of which $31.1 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 $221.3 million at September 30, 2019. Due to the uncertainty of timing for payment of these obligations, they were excluded from the table above.

DIVIDENDS TO SHAREHOLDERS

	Three Months Ended September 30		Nine Months Ended September 30	
(millions, except per share and % amounts)	**2019**	2018	**2019**	2018
Cash provided by operating activities	**$ 223.0**	$ 278.1	**$ 629.0**	$ 822.5
Net change in non-cash operating working capital	**(18.6)**	21.6	**27.1**	(7.1)
Funds from operations	**$ 204.4**	$ 299.7	**$ 656.1**	$ 815.4
Dividends to shareholders	**$ 177.5**	$ 163.3	**$ 527.1**	$ 485.7
Dividends per share(1)	**$ 0.4275**	$ 0.420	**$ 1.2825**	$ 1.260
Payout ratio(2)	**86.8%**	54.5%	**80.3%**	59.6%

(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 and debt agreement 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 September 30		Nine Months Ended September 30	
(millions)	**2019**	2018	**2019**	2018
Cash provided by operating activities	**$ 223.0**	$ 278.1	**$ 629.0**	$ 822.5
Dividends to shareholders	**(177.5)**	(163.3)	**(527.1)**	(485.7)
Excess	**$ 45.5**	$ 114.8	**$ 101.9**	$ 336.8

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2019**	2018	**2019**	2018
Net income	**$ 79.9**	$ 169.4	**$ 438.5**	$ 448.2
Dividends to shareholders	**(177.5)**	(163.3)	**(527.1)**	(485.7)
(Shortfall) excess	**$ (97.6)**	$ 6.1	**$ (88.6)**	$ (37.5)

Cash provided by operating activities was greater than dividends to shareholders in all periods. Shortfalls and excess 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 September 30, 2019 are as follows:

(millions)	Total
Common shares outstanding	416.6

At November 5, 2019, Inter Pipeline had 418.0 million common shares outstanding.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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. As at September 30, 2019, there were no hedges outstanding. For a discussion of these and other risks, please see Inter Pipeline's MD&A and Annual Information Form, each for the year ended December 31, 2018 available on SEDAR at www.sedar.com or on Inter Pipeline's website at www.interpipeline.com.

CONTROLS AND PROCEDURES

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.

As permitted by and in accordance with, National Instrument 52-109, "*Certification of Disclosure in Issuers' Annual and Interim Filings*", Management has limited the scope of their design of disclosure controls and procedures (DC&P) and ICFR to exclude controls, policies and procedures of the newly acquired storage business that was acquired in November of 2018, the results of which are consolidated in Inter Pipeline's interim financial statements at September 30, 2019. See the Bulk

Liquid Storage Business Segment in the **RESULTS OF OPERATIONS** section of this report for further information regarding the newly acquired storage business. 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's interim financial statements requires management to make critical and complex judgments, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgments, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should refer to note 3 *Summary of Significant Accounting Policies* of the December 31, 2018 audited consolidated financial statements for a list of Inter Pipeline's significant accounting policies.

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

With the exception of additional judgments, estimates, and assumptions related to the application of IFRS 16, there have been no material changes to Inter Pipeline's critical accounting estimates applied to the interim financial statements for the three and nine months ended September 30, 2019. For further information, including a discussion of critical accounting estimates, please see Inter Pipeline's audited consolidated financial statements and MD&A, each for the year ended December 31, 2018 available on SEDAR at www.sedar.com or on Inter Pipeline's website at www.interpipeline.com.

ACCOUNTING POLICIES ADOPTED IN 2019

IFRS 16 *Leases* (IFRS 16)

Inter Pipeline adopted IFRS 16 on January 1, 2019. IFRS 16 replaces IAS 17 Leases and related interpretations, and establishes a single, on-balance sheet accounting model for lessees which results 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 continue with a dual lease classification model. Classification as a finance or operating lease determines how and when a lessor will recognize lease revenue, and the type of assets to be recorded. Inter Pipeline has identified certain bulk liquid storage agreements in which it is a lessor in accordance with IFRS 16.

Inter Pipeline adopted 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 was recognized as an adjustment to opening balances at January 1, 2019, with the standard applied prospectively.

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

The following table summarizes the impact of the adoption of IFRS 16 on Inter Pipeline's consolidated balance sheet at January 1, 2019:

	December 31 2018	IFRS 16 adjustments	January 1 2019
ASSETS			
Right-of-use assets	$ -	$ 196.6	$ 196.6
Total	$ -	$ 196.6	$ 196.6
LIABILITIES			
Accounts payable, accrued liabilities and provisions	$ 467.8	$ (5.4)	$ 462.4
Lease liabilities (1)	-	14.1	14.1
Long-term lease liabilities (1)	-	210.0	210.0
Provisions	228.1	(2.9)	225.2
Long-term deferred revenue and other liabilities	55.3	(19.2)	36.1
Total	$ 751.2	$ 196.6	$ 947.8

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

In the current quarter of 2019, the adoption of IFRS 16 had the following impact to Inter Pipeline's financial results:

i) decrease in general and administrative expenses of $3.8 million;

ii) decrease in operating expenses of $2.5 million;

iii) decrease in cost of sales of $0.7 million;

iv) increase in depreciation and amortization of $4.8 million; and

v) increase in financing charges of $2.2 million.

For the year to date period ended September 30, 2019, the adoption of IFRS 16 had the following impact to Inter Pipeline's financial results:

i) decrease in general and administrative expenses of $11.4 million;

ii) decrease in operating expenses of $7.7 million;

iii) decrease in cost of sales of $1.7 million;

iv) increase in depreciation and amortization of $14.2 million; and

v) increase in financing charges of $6.6 million.

For the three and nine months ended September 30, 2019, the adoption of IFRS 16 increased FFO by $4.8 million and $14.2 million, respectively, and had no impact on Inter Pipeline's net income. For further information on the adoption of IFRS 16, please see the notes to Inter Pipeline's interim financial statements available on SEDAR at www.sedar.com or on Inter Pipeline's website at www.interpipeline.com.

RISK FACTORS

During the three and nine months ended September 30, 2019, there were no significant changes to Inter Pipeline's operating activities that would affect the disclosure of risk factors discussed in its 2018 annual MD&A.

NON-GAAP FINANCIAL MEASURES

Certain non-GAAP financial measures referred to in this MD&A, namely "adjusted working capital deficiency", "EBITDA", "adjusted EBITDA", "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 recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

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

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

(millions)	September 30 **2019**	December 31 2018
Current assets		
Cash and cash equivalents	**$ 44.0**	$ 46.2
Accounts receivable	**276.4**	242.2
Prepaid expenses and other assets	**32.2**	29.2
Inventory	**14.0**	10.1
Current liabilities		
Dividends payable	**(59.4)**	(57.5)
Accounts payable, accrued liabilities and provisions	**(672.5)**	(467.8)
Current income taxes payable	**(1.0)**	(2.6)
Deferred revenue	**(14.9)**	(16.6)
Adjusted working capital deficiency	**$ (381.2)**	$ (216.8)

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 September 30		Nine Months Ended September 30	
(millions)	**2019**	2018	**2019**	2018
Net income	**$ 79.9**	$ 169.4	**$ 438.5**	$ 448.2
Financing charges	**47.0**	43.5	**137.4**	129.0
Current income tax expense (recovery)	**0.7**	(0.8)	**1.6**	0.5
Deferred income tax expense (recovery)	**15.1**	60.5	**(51.6)**	159.0
Depreciation and amortization	**115.5**	66.3	**272.8**	204.8
EBITDA	**$ 258.2**	$ 338.9	**$ 798.7**	$ 941.5
(Gain) loss on disposal of assets	**(12.2)**	0.6	**(9.9)**	2.1
Non-cash financing charges	**(2.5)**	(2.3)	**(7.3)**	(7.0)
Non-cash expense	**6.1**	2.9	**6.3**	1.3
Adjusted EBITDA	**$ 249.6**	$ 340.1	**$ 787.8**	$ 937.9

	Three Months Ended September 30		Nine Months Ended September 30	
(millions)	**2019**	2018	**2019**	2018
Funds from operations	**$ 204.4**	$ 299.7	**$ 656.1**	$ 815.4
Total interest less capitalized interest	**44.5**	41.2	**130.1**	122.0
Current income tax expense (recovery)	**0.7**	(0.8)	**1.6**	0.5
Adjusted EBITDA	**$ 249.6**	$ 340.1	**$ 787.8**	$ 937.9

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 volume 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 September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
Adjusted EBITDA by contract type				
Cost-of-service	**71%**	51%	**67%**	55%
Fee-based	**15%**	14%	**16%**	13%
Commodity-based	**11%**	31%	**14%**	28%
Product margin	**3%**	4%	**3%**	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)	September 30 **2019**	December 31 2018
Closing share price	**$ 23.25**	$ 19.34
Total closing number of common shares	**416.6**	403.8
	9,686.7	7,809.7
Total debt	**6,252.3**	5,680.1
Enterprise value	**$ 15,939.0**	$ 13,489.8

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, significantly extend the life of existing assets or support the expansion of current operations. This measure is used by the investment community to assess the extent of discretionary capital spending.

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

	Three Months Ended September 30			
			2019	2018
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 12.7**	**$ 1.5**	**$ 14.2**	$ 17.6
NGL processing	**352.5**	**15.1**	**$ 367.6**	208.9
Conventional oil pipelines	**36.9**	**(0.5)**	**$ 36.4**	9.9
Bulk liquid storage	**11.3**	**6.0**	**$ 17.3**	8.8
Corporate[(1)]	**15.4**	**(8.7)**	**$ 6.7**	9.4
Capital expenditures	**$ 428.8**	**$ 13.4**	**$ 442.2**	$ 254.6

	Nine Months Ended September 30			
			2019	2018
(millions)	Growth	Sustaining	Total	Total
Oil sands transportation	**$ 75.4**	**$ 3.7**	**$ 79.1**	$ 36.6
NGL processing	**913.8**	**25.3**	**$ 939.1**	506.4
Conventional oil pipelines	**78.1**	**4.9**	**$ 83.0**	21.6
Bulk liquid storage	**26.5**	**12.2**	**$ 38.7**	27.4
Corporate[(1)]	**15.4**	**(2.0)**	**$ 13.4**	15.1
Capital expenditures	**$ 1,109.2**	**$ 44.1**	**$ 1,153.3**	$ 607.1

(1) In the third quarter of 2019, corporate sustaining capital expenditures were reclassified to growth capital expenditures in order to better align with how management monitors its non-discretionary capital spending.

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 or on Inter Pipeline's website at www.interpipeline.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 7th day of November, 2019