Management's Responsibility for Financial Reporting

The management of Inter Pipeline Ltd. (Inter Pipeline) is responsible for the presentation and preparation of the accompanying consolidated financial statements of Inter Pipeline.

The consolidated financial statements have been prepared by Inter Pipeline in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and Canadian generally accepted accounting principles as contained within Part 1 of the Chartered Professional Accountants of Canada Handbook and, where necessary, include amounts based on the best estimates and judgments of the management of Inter Pipeline.

The management of Inter Pipeline recognizes the importance of Inter Pipeline maintaining the highest possible standards in the preparation and dissemination of statements presenting its financial condition. If alternative accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. In discharging its responsibilities for the integrity and reliability of the financial statements, management has developed and maintains a system of accounting and reporting supported by internal controls designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

Ernst & Young LLP, an independent firm of chartered professional accountants, was appointed to audit Inter Pipeline's financial statements and provide an independent audit opinion. To provide their opinion on the accompanying consolidated financial statements, Ernst & Young LLP review Inter Pipeline's system of internal controls and conduct their work to the extent they consider appropriate.

The Audit Committee, comprised entirely of independent directors, is appointed by the Board of Directors of Inter Pipeline. The Audit Committee meets quarterly to review Inter Pipeline's interim consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors. As well, the Audit Committee meets annually to review Inter Pipeline's annual consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors. The Board of Directors approves Inter Pipeline's interim and annual consolidated financial statements and the accompanying Management's Discussion and Analysis.

Inter Pipeline Ltd.

(Signed) Christian P. Bayle
President and Chief Executive Officer
February 18, 2021

(Signed) Brent C. Heagy
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Inter Pipeline Ltd.

Opinion

We have audited the consolidated financial statements of Inter Pipeline Ltd. (Inter Pipeline), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated statements of changes in equity, consolidated statements of net income, consolidated statements of comprehensive income and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Inter Pipeline as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Inter Pipeline in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill As at December 31, 2020, the carrying amount of goodwill was $245.9 million. Refer to Note 3 Summary of Significant Accounting Policies of the consolidated financial statements for a description of Inter Pipeline's accounting policy for impairment of non-financial assets, including goodwill. Refer to Note 9 Goodwill and Intangible Assets of the consolidated financial statements for Inter Pipeline's disclosures with respect to significant judgments, estimates and assumptions underlying the annual goodwill impairment analysis. Goodwill is tested at least annually for impairment. An impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount of a cash generating unit ("CGU"). The recoverable amounts of Inter Pipeline's CGUs are the higher of each CGU's value-in-use and fair value less costs of disposal, estimated using a discounted cash flow approach. Auditing management's annual goodwill impairment test was complex due to the degree of judgment and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amounts of the CGUs. Significant assumptions included discount rates and forecasted revenue, which are affected by expectations about future market and economic conditions.	To test the estimated recoverable amount of the Corridor and Inter Terminals Denmark CGUs, we performed the following procedures, among others: • We involved our valuation specialists to assess the methodology applied, and the various inputs utilized in determining the discount rate by referencing current industry, economic, and comparable company information, company and cash-flow specific risk premiums. • We tested management's cash flow forecasts, including forecast revenue assumptions, by comparing them to actual historical performance as well as to forecast market rates and contractual terms where available. • We performed look-back analyses to assess the accuracy of management's prior cash flow forecasts. • We performed sensitivity analyses on significant assumptions to evaluate the changes in the recoverable amounts of the CGUs that would arise from changes in those assumptions. • We assessed the adequacy of Inter Pipeline's disclosures included in the notes to the consolidated financial statements in relation to this matter.

Other Information

Management is responsible for the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Inter Pipeline's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Inter Pipeline or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Inter Pipeline's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Inter Pipeline's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Inter Pipeline's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Inter Pipeline to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Inter Pipeline to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Inter Pipeline audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ann-Marie Brockett.

Ernst & Young LLP

Calgary, Canada

February 18, 2021

Consolidated Balance Sheets

(millions of Canadian dollars)		**December 31 2020**		As at December 31 2019
ASSETS				
Current Assets				
Cash and cash equivalents (note 25)	**$**	**40.1**	$	32.6
Accounts receivable		**329.3**		323.2
Prepaid expenses and other assets		**50.1**		47.9
Inventory		**14.0**		14.7
Assets of the Empress divestiture group held for sale (note 6)		**175.3**		—
Total Current Assets		**608.8**		418.4
Non-Current Assets				
Right-of-use assets (note 12)		**110.5**		192.7
Property, plant and equipment (note 8)		**11,915.2**		11,757.8
Goodwill and intangible assets (note 9)		**431.9**		582.5
Total Assets	**$**	**13,066.4**	$	12,951.4
LIABILITIES AND EQUITY				
Current Liabilities				
Dividends payable (note 10)	**$**	**17.2**	$	60.0
Accounts payable, accrued liabilities and provisions		**463.6**		638.0
Lease liabilities (note 12)		**14.6**		20.1
Current income taxes payable		**3.0**		2.2
Deferred revenue (note 22)		**3.4**		8.5
Short-term debt and current portion of long-term debt (note 11)		**323.1**		1,170.1
Commercial paper (note 11)		**1,306.6**		1,199.3
Liabilities of the Empress divestiture group held for sale (note 6)		**44.3**		—
Total Current Liabilities		**2,175.8**		3,098.2
Non-Current Liabilities				
Long-term debt (note 11)		**5,165.0**		4,267.6
Long-term lease liabilities (note 12)		**125.1**		203.9
Provisions (note 13)		**375.3**		286.2
Employee benefits (note 14)		**8.3**		21.5
Long-term deferred revenue and other liabilities		**26.7**		29.2
Deferred income taxes (note 15)		**974.4**		955.5
Total Liabilities		**8,850.6**		8,862.1
Commitments (notes 8 and 18)				
Equity				
Shareholders' equity (note 16)		**4,213.0**		4,064.0
Total reserves		**2.8**		25.3
Total Equity		**4,215.8**		4,089.3
Total Liabilities and Equity	**$**	**13,066.4**	$	12,951.4

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors of Inter Pipeline Ltd.:

(Signed) Richard. A Shaw
Director

(Signed) Margaret A. McKenzie
Director

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)

	Share Capital	Earnings / (Deficit)	Contributed Surplus	Reserves	Total Equity
Balance, January 1, 2020	$ 4,900.3	$ (838.8)	$ 2.5	$ 25.3	**$ 4,089.3**
Net income for the year	—	359.0	—	—	**359.0**
Other comprehensive loss	—	—	—	(22.5)	**(22.5)**
Dividends declared (note 10)	—	(335.7)	—	—	**(335.7)**
Shares issued under Premium Dividend™ and Dividend Reinvestment Plan (note 16)	125.7	—	—	—	**125.7**
Stated capital adjustment (note 16)	(5,026.0)	5,026.0	—	—	**—**
Balance, December 31, 2020	**$ —**	**$ 4,210.5**	**$ 2.5**	**$ 2.8**	**$ 4,215.8**
Balance, January 1, 2019	$ 4,541.2	$ (671.4)	$ 2.5	$ 93.0	$ 3,965.3
Net income for the year	—	539.0	—	—	539.0
Other comprehensive loss	—	—	—	(67.7)	(67.7)
Dividends declared (note 10)	—	(706.4)	—	—	(706.4)
Shares issued under Premium Dividend™ and Dividend Reinvestment Plan (note 16)	359.1	—	—	—	359.1
Balance, December 31, 2019	$ 4,900.3	$ (838.8)	$ 2.5	$ 25.3	$ 4,089.3

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Genuity Corp.

Consolidated Statements of Net Income

(millions of Canadian dollars)	Years Ended December 31 2020	2019
REVENUE		
Operating revenue (note 22)	**$ 2,400.5**	$ 2,535.3
EXPENSES		
Cost of sales	**676.9**	743.9
Operating (note 24)	**568.1**	565.1
Depreciation and amortization	**360.3**	356.4
Financing charges (note 23)	**189.6**	185.8
General and administrative (note 24)	**187.4**	173.9
Gain on sale of European divestiture group (note 5)	**(77.8)**	—
Loss (gain) on disposal of assets	**23.8**	(7.1)
Total Expenses	**1,928.3**	2,018.0
INCOME BEFORE INCOME TAXES	**472.2**	517.3
Income tax expense (recovery) (note 15)		
Current	**6.7**	2.0
Deferred	**106.5**	(23.7)
Total Income Tax Expense (Recovery)	**113.2**	(21.7)
NET INCOME	**$ 359.0**	$ 539.0
Net income per share (note 16)		
Basic and diluted	**$ 0.84**	$ 1.31

Consolidated Statements of Comprehensive Income

(millions of Canadian dollars)	Years Ended December 31 2020	2019
NET INCOME	**$ 359.0**	$ 539.0
OTHER COMPREHENSIVE LOSS		
Translation reserve recognized on sale of European divestiture group (note 5)	**(92.4)**	—
Item that may be reclassified subsequently to net income		
Unrealized gain (loss) on translating financial statements of foreign operations	**69.9**	(72.1)
Item that will not be reclassified to net income		
Actuarial gain on defined benefit pension plan	**—**	4.4
Other Comprehensive Loss	**(22.5)**	(67.7)
COMPREHENSIVE INCOME	**$ 336.5**	$ 471.3

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years Ended December 31 **2020**	2019
OPERATING ACTIVITIES		
Net income	**$ 359.0**	$ 539.0
Items not involving cash:		
Depreciation and amortization	**360.3**	356.4
Gain on sale of European divestiture group (note 5)	**(77.8)**	—
Loss (gain) on disposal of assets	**23.8**	(7.1)
Non-cash expense	**6.1**	8.3
Deferred income tax expense (recovery)	**106.5**	(23.7)
Realized loss on foreign exchange derivative (note 5)	**14.3**	—
Funds from operations	**792.2**	872.9
Net change in non-cash operating working capital (note 25)	**(80.4)**	(31.8)
Cash provided by operating activities	**711.8**	841.1
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(1,145.5)**	(1,593.6)
Receipt of government grants (note 26)	**26.5**	6.2
Proceeds on disposal of assets	**1.2**	30.2
Net proceeds from sale of European divestiture group (note 5)	**654.2**	—
Realized loss on foreign exchange derivative (note 5)	**(14.3)**	—
Net change in non-cash investing working capital (note 25)	**(112.6)**	87.8
Cash used in investing activities	**(590.5)**	(1,469.4)
FINANCING ACTIVITIES		
Cash dividends paid on common shares (note 10)	**(210.0)**	(347.3)
Principal payments on lease liabilities	**(19.6)**	(16.3)
Increase in debt	**160.1**	989.9
Transaction costs on debt	**(9.7)**	(13.9)
Net change in non-cash financing working capital (note 25)	**(41.9)**	2.8
Cash (used in) provided by financing activities	**(121.1)**	615.2
Effect of foreign currency translation on cash	**7.3**	(0.5)
Increase (decrease) in cash and cash equivalents	**7.5**	(13.6)
Cash and cash equivalents, beginning of year	**32.6**	46.2
Cash and cash equivalents, end of year	**$ 40.1**	$ 32.6
Cash taxes paid	**$ 0.7**	$ 3.5
Cash interest paid	**$ 288.4**	$ 214.5

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2020

(millions of Canadian dollars, except as otherwise indicated)

1. STRUCTURE OF THE CORPORATION

Inter Pipeline Ltd. (Inter Pipeline or the Corporation) was formed under the Business Corporations Act (Alberta) pursuant to an amalgamation on September 2, 2013, and is the corporate successor of Inter Pipeline Fund.

Inter Pipeline is comprised of four business segments located in two geographic segments: oil sands transportation business, natural gas liquids (NGL) processing business and conventional oil pipelines business, all operating in Canada, and the bulk liquid storage business, which operates in Europe. The head office, principal address and records office of Inter Pipeline are located at 3200, 215 - 2nd Street SW, Calgary, Alberta, Canada.

These audited consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors of Inter Pipeline on February 18, 2021.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies that follow have been consistently applied to all years presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Measurement Basis

The financial statements are prepared on a going concern basis under the historical cost convention, except for long-term incentive plan (LTIP) awards and derivative financial instruments that have been measured at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Inter Pipeline's significant accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3c.

b) Basis of Consolidation

These audited consolidated financial statements include the accounts of Inter Pipeline, its subsidiary companies, partnerships and any joint arrangements. The financial statements of the subsidiary companies, partnerships and joint arrangements are prepared for the same reporting period as Inter Pipeline, using consistent accounting policies.

Subsidiaries

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Inter Pipeline obtained control, and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions, and unrealized gains and losses from intercompany transactions, are eliminated on consolidation.

Interest in Joint Operation

Inter Pipeline has a 50% interest in the Empress V natural gas processing straddle plant which is accounted for as a joint operation. Empress V is not a separate legal entity and all strategic financial and operating decisions must be jointly agreed by all parties to the joint arrangement. All parties have direct exclusive rights to their joint interest share of the Empress V assets and the economic benefit generated from them. Accordingly, the results of Empress V are consolidated in a manner that reflects Inter Pipeline's 50% interest in the individual income, expenses, assets, liabilities and cash flows of Empress V on a line by line basis in the consolidated results.

On September 28, 2020, Empress V was classified as a divestiture group held for sale (refer to notes 3k and 6).

Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting at the date control of a business is obtained. The cost of an acquisition is measured as the aggregate of the fair values of the assets given or equity instruments issued, net of liabilities incurred or assumed, and is allocated to the fair value of the acquiree's identifiable net assets acquired, including intangible assets. Goodwill is recognized when the cost of the acquisition exceeds the fair value of the identifiable net assets acquired. Costs directly associated with the acquisition are expensed.

c) Critical Accounting Estimates and Judgments

The preparation of the annual consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of coronavirus (COVID-19). The outbreak and the measures intended to limit the pandemic contributed to retracement and volatility in financial markets, which have adversely impacted global commercial activity and significantly increased economic uncertainty. This uncertainty has created volatility in commodity prices, foreign exchange rates, and a decline in long-term interest rates. Due to the depressed commodity prices, Inter Pipeline's share price and market capitalization decreased significantly in 2020.

Although economies are beginning to re-open, the full extent of the impact of COVID-19 on Inter Pipeline's operations and future financial performance is currently unknown as the duration, severity, and spread of COVID-19 and its variants are uncertain and unpredictable. These uncertainties, which may persist beyond when it is determined how to contain the virus and reduce its impact, may increase the complexity of estimates and assumptions used to prepare the financial statements, and changes to these assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

The amounts recorded for depreciation and amortization; impairment of non-financial assets; provisions; deferred income taxes; and business combinations are based on estimates and judgments. By their nature, these estimates and judgments are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates and judgments in future years could be material. The following discusses the most significant accounting judgments and estimates that Inter Pipeline has made in the preparation of these consolidated financial statements.

Depreciation and Amortization

Calculation of the net book value of property, plant and equipment and intangible assets requires Inter Pipeline to make estimates of the useful life of the assets, residual value at the end of the asset's useful life, method of depreciation and amortization and whether impairment in value has occurred. Residual values of the assets, estimated useful lives and depreciation and amortization methodology are reviewed annually with prospective application of any changes, if deemed appropriate. Changes to estimates and specifically those related to pipeline assets, which could be significant, could be caused by a variety of factors, including changes to the physical life of the assets as well as the estimated remaining life of crude oil reserves expected to be gathered and shipped on these pipeline systems. A change in any of the estimates would result in a prospective change in the amount of depreciation and, as a result, a charge to net income recorded in the period in which the change occurs, with a similar change in the carrying value of the assets on the consolidated balance sheets.

Impairment of Non-financial Assets

For the purposes of Inter Pipeline's impairment testing, a recoverable amount is estimated using a discounted ten year forecasted cash flow with a terminal value, based on Inter Pipeline's assessment of the long-term outlook for each business. The terminal value represents the value of cash flows beyond the tenth year, incorporating estimates of future growth rates. Cash flows are estimated from several sources including internal budgets and long-term contractual agreements with customers. Observable market data is used to develop discount rates for each business, which approximate the discount rate from a market participant's perspective. The fair value measurement is classified within level 3 of the fair value hierarchy (note 3s).

Impairment indicators include, but are not limited to, a significant decline in an asset's market value, significant adverse changes in the technological, market, economic or legal environment in which the assets are operated, evidence of obsolescence or physical damage of an asset, significant changes in the planned use of an asset, or ongoing under-performance of an asset. Application of these factors to the facts and circumstances of a particular asset requires a significant amount of judgment.

The determination of the magnitude of impairment involves the use of estimates, assumptions and judgments on highly uncertain matters particularly with respect to determining the recoverable amount. Such estimates, assumptions and judgments include, but are not limited to, the choice of discount rates that reflect appropriate asset-specific risks, timing of revenue and customer turnover, inflation factors for projected operating and capital expenditures and commodity prices.

Provisions

Inter Pipeline is required to apply a number of assumptions in estimating provisions recorded for decommissioning and environmental remediation associated with Inter Pipeline's sites. Liabilities are calculated based on current price estimates using current technologies in accordance with current legal or constructive requirements. Liabilities are adjusted for inflation to reflect the timing of when the decommissioning or remediation activity is anticipated. Where a range of estimates exists, the possible outcomes are weighted to determine a probable settlement value or the midpoint is used where all outcomes are equally likely. Inter Pipeline's decommissioning obligations are expected to occur when the assets are no longer economically viable. The economic lives of these assets are estimated based on future expectations involving the supply of petroleum, chemical and other products and demand for certain services and therefore the timing of decommissioning may change significantly in the future. Actual costs and cash outflows may differ from these estimates due to changes in laws or regulations, timing of projects, costs and technology. As a result, there could be material adjustments to the provisions established. If the effect of the time value of money is material, provisions are discounted to their present value using a pre-tax risk-free rate.

Property, plant and equipment related to pipeline systems consist primarily of underground pipelines and above ground equipment and facilities. The potential cost of future decommissioning activities is a function of several factors, including regulatory requirements at the time of pipeline abandonment, the diameter and length of the pipeline and the pipeline's location. Decommissioning requirements can vary considerably, ranging from purging product from the pipeline, refilling with inert gas and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Under current regulations, the estimated cost for the decommissioning obligation includes such activities as: purging product from the pipeline, refilling with inert gas and capping all open ends and removal of surface facilities and reclamation of the surface facility sites.

Property, plant and equipment related to processing plants and storage facilities consist primarily of three straddle plants, two offgas plants, one olefinic fractionator, the Heartland Petrochemical Complex (HPC) and eight bulk liquid storage facilities. Inter Pipeline's decommissioning obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the aforementioned assets. The estimated costs for decommissioning obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the sites.

Deferred Income Taxes

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

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

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

Business Combinations

The consideration transferred for an acquired business is allocated to the identifiable assets acquired and liabilities assumed at their estimated fair values on the acquisition date. The excess of the consideration transferred over the amount allocated to net assets is recorded as goodwill. All available information is used to estimate fair values. External consultants are typically engaged to assist in the fair value determination of identifiable intangible assets and other significant assets or liabilities. The preliminary allocation of consideration transferred may be adjusted, as necessary, up to one year after the acquisition closing date due to additional information impacting asset valuation and liabilities assumed.

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

d) Segment Reporting

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location. This is consistent with how the business is managed and results reported to the Chief Executive Officer and Chief Financial Officer, who are Inter Pipeline's chief operating decision makers. Operating segments that have similar economic characteristics are aggregated into reportable segments.

The following expenses are only recorded in certain segments as this allocation reflects how the segments' profit and loss is reported to the chief operating decision makers: Canadian general and administrative costs are allocated to the corporate segment unless they are recoverable through contracts with third parties, in which case they are allocated to the operating segment that holds the contract. Financing costs related to interest or accretion expense are allocated to the operating segment that holds the associated debt or provision obligation. Income taxes for Canadian operations are allocated to the corporate segment.

Segment assets and liabilities are measured on the same basis as consolidated assets and liabilities.

Industry Segments

The oil sands transportation business consists of the Cold Lake, Corridor and Polaris pipeline systems that transport petroleum products and provide related blending and handling services in Alberta. The NGL processing business consists of processing natural gas to extract NGLs, the processing of oil sands upgrader offgas to extract an NGL and olefin mix which is fractionated into marketable paraffinic and olefinic products, and HPC. The conventional oil pipelines business consists of the Bow River, Central Alberta, and Mid-Saskatchewan pipeline systems that provide for the transportation of petroleum products and related blending, handling and marketing activities. The bulk liquid storage business involves the primary storage and handling of bulk liquid products through the operation of eight bulk liquid storage terminals.

Geographic Segments

Inter Pipeline has two geographic segments, Canada and Europe. The bulk liquid storage business is located in Europe, while all other operating segments are located in Canada.

e) Revenue Recognition

Revenue is recognized when control of the underlying goods or services for a particular performance obligation is transferred to a customer by applying the following five steps:

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

Goods or services that are promised to a customer are referred to as "performance obligations". Inter Pipeline's performance obligations have been determined as follows:

Business Unit	Nature of Performance Obligations	Recognition
Oil Sands Transportation	• Transportation and blending of petroleum products	• over time
NGL Processing	• Processing of NGLs • Sale of NGL products	• over time • at a point in time
Conventional Oil Pipelines	• Transportation of petroleum products • Blending and delivery of petroleum products	• over time • at a point in time
Bulk Liquid Storage	• Storage of petroleum and petrochemical products • Handling and ancillary services	• over time • at a point in time

Revenue is disaggregated into categories that depict how the nature, timing, and uncertainty of revenues and cash flows are affected by economic factors. Inter Pipeline has categorized its revenue into the following contract types: (i) cost-of-service; (ii) fee-based; (iii) commodity-based; and (iv) product margin.

Cost-of-Service Contracts

Inter Pipeline provides transportation, NGL processing and storage services under cost-of-service contracts that generally are not impacted by throughput volumes or commodity price fluctuations. This includes take-or-pay contracts with dedicated volume or revenue commitments, modified cost-of-service contracts that may have throughput volume exposure in certain circumstances, as well as contracts which generally provide for a return on invested capital and recovery of substantially all operating costs.

Inter Pipeline satisfies its performance obligations and recognizes revenue under cost-of-service contracts over time, as the associated transportation, gas processing, or storage services are provided, or ratably over the term of any take-or-pay arrangements. Contracts may contain make-up rights which are earned by the shippers when minimum volume commitments are not utilized during the period and under certain circumstances can be used to offset excess volumes in future periods, subject to expiry periods. Inter Pipeline recognizes revenues associated with make-up rights at the earlier of when the make-up volume is shipped, the make-up right expires, or when it is determined that the likelihood that the shipper will utilize the make-up rights is remote.

Revenue is deferred when payments are received in advance of future services, or in the case of certain declining rate base cost-of-service contracts, when the term of invoicing is less than the period over which performance obligations are satisfied. Deferred amounts are recognized over the period the performance obligation is expected to be satisfied.

Fee-Based Contracts

Fee-based contracts are generally subject to fluctuations in throughput volume but not commodity prices. Revenue is based on a contracted fee and consideration is variable with respect to volumes. Inter Pipeline satisfies its performance obligations and recognizes revenue under fee-based contracts over time as the associated transportation, gas processing, or storage services are provided.

Commodity-Based Contracts

NGL products and NGL processing services are provided under commodity-based contracts. These contracts are generally subject to throughput volume and commodity price fluctuations. Inter Pipeline satisfies its performance obligations and recognizes revenue under commodity-based contracts once the products have been delivered or over time as processing services are provided.

Product Margin Contracts

Inter Pipeline provides product blending and delivery services under product margin contracts. These contracts relate to midstream marketing activities on Inter Pipeline's conventional pipeline assets. Revenue is recognized once title is transferred, which is the same point that control is transferred.

f) Net Income per Common Share

Basic net income per common share is calculated by dividing the net income for the year attributable to common shareholders of Inter Pipeline by the weighted average number of common shares outstanding during the period. Diluted net income per common share is determined by adjusting the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, using the treasury stock method. Outstanding shares issued under the Premium Dividend™ and Dividend Reinvestment Plan are assumed to have been converted to common shares at the date of record.

g) Cash and Cash Equivalents

Cash and cash equivalents consist of bank accounts and overnight deposits with original maturities of three months or less.

h) Inventory

Inventory is measured at the lower of cost and net realizable value and consists primarily of NGLs, olefins and crude oil. The cost of inventories is determined using the weighted average costing method and includes direct purchase costs and when

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applicable, costs of production, extraction, fractionation, and transportation. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling costs. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventories.

i) Property, Plant and Equipment

The calculation of depreciation for property, plant and equipment includes assumptions related to useful lives and residual values. The assumptions are based on management's experience with similar assets and corporate policies.

Inter Pipeline's property, plant and equipment consists of pipelines and related facilities, extraction, fractionation and offgas plants, storage facilities and associated equipment, and HPC, which is currently under construction. The cost of property, plant and equipment includes all expenditures directly attributable to bringing the asset to the location and condition necessary for its intended use, including costs incurred for construction, an allocation of directly attributable overhead costs, and capitalized borrowing costs. Capitalization of borrowing costs ceases when the related property, plant and equipment is substantially complete and ready for its intended productive use. Expenditures on new construction, facility expansions, major repairs and maintenance, or betterments are capitalized, while maintenance, pipeline integrity verification, and repair costs are expensed as incurred. Depreciation of the property, plant and equipment and additions thereto is charged once the assets are ready for their intended use, and is calculated on a straight-line basis over the estimated service life of the assets, which ranges from three to 80 years for pipeline and storage facilities, and three to 40 years for extraction, fractionation and offgas plants.

j) Goodwill and Intangible Assets

Goodwill

Inter Pipeline has goodwill in three of its cash generating units (CGUs): The Corridor and Polaris pipeline systems in the oil sands transportation business and Inter Terminals Denmark in the bulk liquid storage business. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the CGUs. Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the business combination. A group of CGUs represents the lowest level within the entity at which goodwill is monitored for internal management purposes, which may not be higher than an operating segment After initial recognition, goodwill is carried at cost less any write downs for impairment. During each fiscal year and as economic events dictate, management conducts an impairment test taking into consideration any events or circumstances which might have impaired the recoverable amount. An impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its recoverable amount.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Intangible Assets

Inter Pipeline's intangible assets consist of customer contracts that are amortized on a straight-line basis over the life of the respective contract. Should the expected term of the contracts change, the amortization of the remaining balance would change prospectively.

k) Assets and liabilities held for sale

Assets and liabilities of a divestiture group are classified as held for sale on Inter Pipeline's consolidated balance sheet if the divestiture group's carrying amount will be recovered principally through a sale transaction rather than through continuing use. A divestiture group is a group of assets (current and non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction and liabilities directly associated with those assets will be transferred in the transaction. The assets and liabilities of a divestiture group classified as held for sale are measured at the lower of their carrying value and fair value less costs of divestiture, presented separately from other assets and liabilities in the statement of financial position, and shall not be offset and presented as a single amount. Assets of the divestiture group are not depreciated or amortized while they are classified as held for sale. However, all revenue, expenses and cash flows attributable to the divestiture group continue to be recognized on a line by line basis.

l) Leases

Lessee Accounting

Inter Pipeline has lease agreements for buildings, land and plant and equipment. The determination of whether an arrangement is, or contains a lease is based on the right to control an identified asset over the term of the arrangement. Qualifying leases are recorded as a right-of-use (ROU) asset for the right to use the underlying asset, and a lease liability for the obligation to make lease payments in the consolidated balance sheets of Inter Pipeline. Lease payments associated with low value leases and leases with a term of under 12 months are expensed.

Right-of-Use Assets

At the commencement date of a lease, a ROU asset is recognized at cost and depreciated on a straight line basis over the term of the agreement. ROU assets measured at cost are comprised of the initial lease liability, any lease payments made at or before the commencement date, initial direct costs, and estimates of costs for dismantling and restoration. ROU assets are remeasured when a modification to the underlying lease results in a remeasurement of the corresponding lease liability.

Lease Liabilities

At the commencement date of a lease, a lease liability is recognized at the present value of all future lease payments discounted using either the interest rate implicit in the lease or using Inter Pipeline’s incremental borrowing rate if the implicit rate is not readily available. Discounted future lease payments are comprised of fixed payments less any incentives received, variable payments based on an index or rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option (where the option to exercise is reasonably certain), and penalties for terminating a lease (where the expectation of termination is reasonably certain).

The carrying value of the lease liability is increased by the interest on the lease liability and decreased by the lease payments made. The interest charge is allocated to each period during the lease term. Interest on the lease liability is calculated using the discount rate at the commencement date. Variable lease payments that do not depend on an index or rate are expensed in the period in which they occur.

Any modification to an existing lease agreement triggers reassessment of the lease contract. If the lease modification is not accounted for as a separate lease, the lease liability is remeasured at the effective date of the modification by discounting the revised lease payments using a revised discount rate. A remeasurement of the lease liability will result in a corresponding adjustment to the ROU asset. If the corresponding ROU asset is nil, the adjustment will be recognized in net income.

Lessor Accounting

Inter Pipeline holds operating lease agreements within the bulk liquid storage business segment for the lease of storage assets to third parties. Initial direct costs are included in the carrying value of the underlying assets and depreciated over the term of the lease. The depreciation policy for these underlying assets is consistent with the depreciation policy for similar assets. Lease income from operating leases is generally recognized on a systematic basis that is representative of the pattern in which benefit derived from the use of the underlying asset is diminished. Variable lease payments that do not depend on a rate or index are recognized when they are earned. Inter Pipeline’s operating lease agreements typically include fixed storage fees or reservation fees for access to storage capacity, which are classified as lease revenue, as well as fees for handling and ancillary services which are not classified as lease revenue.

m) Borrowing Costs

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

n) Provisions

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

On initial recognition of a decommissioning obligation, an amount equal to the estimated present value of the obligation is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's estimated useful life. Any subsequent changes to the decommissioning cost estimate or discount rate will result in a similar adjustment to the cost of the related long-lived asset. The provision will accrete to its full value over time through charges to income, or until Inter Pipeline settles the obligation. Recoveries from third parties which are virtually certain to be realized are recorded separately and are not offset against the related provision.

o) Employee Benefits

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

p) Government Grants

Government grants are recognized at fair value when there is reasonable assurance that the grant will be received and any conditions attached to the grant will be fulfilled. Grants that compensate Inter Pipeline for expenses incurred are recognized as reduction to expenses in the same periods in which the expenses are incurred. Grants related to the acquisition of long-term assets are deducted from the carrying value of the asset.

q) Income Taxes

Current Income Taxes

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

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

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

Current income tax relating to items recognized directly in shareholders' equity is recognized in equity and not the consolidated statements of net income.

Deferred Income Taxes

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

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

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

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

r) Foreign Currency Translation

Foreign Currency Transactions

Items included in the financial statements of each of Inter Pipeline's subsidiaries are measured using the functional currency of that subsidiary being the currency of the primary economic environment in which that subsidiary operates. Transactions that are in a currency other than the functional currency of the subsidiary are translated at exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency at the reporting date are retranslated to the functional currency at the exchange rate in effect at the reporting date with the resulting exchange gains or losses recognized in the statements of net income.

Foreign Operations

The results of all of Inter Pipeline's subsidiaries that have a functional currency other than the Canadian dollar are translated into Canadian dollars as follows:

1. All assets and liabilities, including goodwill and other fair value adjustments arising on business combinations, at foreign exchange rates at the end of the applicable reporting period; and
2. All income and expenses at monthly average exchange rates over the reporting periods.

The resulting translation gains and losses are included in OCI as foreign currency translation adjustments.

Inter Terminals Denmark and Inter Terminals Sweden within the bulk liquid storage business, and Inter Pipeline US Marketing Ltd. within the NGL processing business, have functional currencies that differ from the Canadian dollar. Each of the entities that were part of the European divestiture group had functional currencies that differed from the Canadian dollar. None of Inter Pipeline's subsidiaries operate in hyperinflationary economies.

s) Asset Impairment

Non-financial Assets

Property, plant and equipment, right-of-use assets, and intangible assets with definite lives are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at least annually for impairment regardless of whether indicators of impairment exist.

For the purpose of measuring recoverable amounts, assets are grouped in CGUs, which are the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of a CGU's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, the best evidence of fair value is the value obtained from recent market transactions or the value stated in a binding sale agreement. If no such transactions can be identified, an appropriate discounted cash flow valuation model that incorporates projected cash flows is used. These calculations are corroborated by valuation multiples or other available fair value indicators. After-tax cash flows are discounted using a weighted average cost of capital (WACC) discount rate that reflects the relative risk of the asset. Projected future cash flows used in the goodwill impairment assessment represent management's best estimate of the future operating performance of these businesses at the current time. A significant change in these assumptions or unanticipated future events could require a provision for impairment in the future which would be recorded as a reduction of the carrying value of goodwill with a charge against net income.

An impairment test is performed by comparing a CGU's carrying amount to its recoverable amount. An impairment loss is recognized to the extent a CGU's carrying amount exceeds its recoverable amount. An impairment loss is recognized in the period it occurs. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then on a pro-rata basis to reduce the carrying amount of other assets in the CGU with an offset to net income. Impairment losses, other than goodwill impairment, are subsequently evaluated for potential reversal when events or circumstances warrant such consideration.

Financial Assets

Financial assets carried at amortized cost are assessed at each reporting date to determine expected credit losses on a forward-looking basis. For accounts receivable and contract assets, Inter Pipeline applies the simplified approach and recognizes lifetime expected credit losses upon initial recognition of the receivables. Historical customer default rates, age of balances outstanding, and forward-looking information are used to determine the expected credit losses. When an expected credit loss is required to be recognized, the carrying amount of the asset is reduced by the assessed amount with an offsetting entry to net income.

t) Financial Instruments

Financial Instruments - Recognition and Measurement

Financial assets are required to be classified and measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income. Financial assets have been classified based on Inter Pipeline's business model for managing its financial assets and the contractual terms of the associated cash flows. Financial liabilities are classified and measured at either amortized cost or fair value through profit or loss.

Inter Pipeline has classified and measured the following financial instruments as amortized cost: cash and cash equivalents; the majority of accounts receivable; dividends payable; the majority of accounts payable, accrued liabilities and provisions; long-term debt, short-term debt and commercial paper.

Derivative financial instruments are classified and measured at fair value through profit or loss.

Inter Pipeline capitalizes debt transaction costs, premiums and discounts within long-term debt, short-term debt and commercial paper.

Financial Instruments - Fair Value Hierarchy

Financial instruments recorded at fair value in the consolidated balance sheets are categorized based on the fair value hierarchy of inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 inputs involve limited use of judgments as fair value inputs are based on unadjusted quoted prices in active markets for identical assets and liabilities. Inter Pipeline does not use level 1 inputs for any of its fixed rate debt or derivative financial instrument fair value measurements.

Level 2 inputs require slightly more judgment than level 1 but still involve observable and corroborated, either directly or indirectly, market factors. Inter Pipeline's level 2 inputs include quoted market prices for interest rates and credit risk premiums. Inter Pipeline obtains information from sources including independent price publications, third party pricing services, market exchanges and investment dealer quotes. Inter Pipeline uses level 2 inputs for all of its fixed rate debt and derivative financial instrument fair value measurements.

Level 3 inputs require the most significant judgments and consist primarily of unobservable or non-market based inputs. Level 3 inputs include longer term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value which primarily includes extrapolation of observable future prices to similar locations, similar instruments or later time periods. Level 3 inputs may include items based on pricing services or broker quotes, but the inputs are not observable and cannot be verified. Inter Pipeline does not use level 3 inputs for any of its fixed rate debt or derivative financial instrument fair value measurements.

u) Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve includes exchange differences arising from the translation of the financial statements of foreign operations. Upon the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation are reclassified to net income when the gain or loss on disposal is recorded.

Defined Benefit Pension Reserve

The defined benefit pension reserve includes actuarial gains and losses on defined benefit pension obligations.

4. FUTURE ACCOUNTING PRONOUNCEMENT

IAS 16 Property, Plant and Equipment (IAS 16)

In May 2020 the IASB issued *Property, Plant and Equipment – Proceeds before Intended Use* which made amendments to IAS 16. The amendments prohibit an entity from deducting from the cost of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity shall recognize such sales proceeds and related cost in net income. These amendments are mandatory for annual accounting periods beginning on or after January 1, 2022, with early adoption permitted.

Inter Pipeline has elected to early adopt these amendments effective January 1, 2021. The retrospective adoption of these amendments had no impact to Inter Pipeline's consolidated financial statements on the date of initial application or comparative periods.

5. SALE OF A PORTION OF THE EUROPEAN BULK LIQUID STORAGE BUSINESS

On November 12, 2020, Inter Pipeline sold all of its bulk liquid storage and handling assets in the United Kingdom, Ireland, Netherlands, and Germany (collectively the “European divestiture group”) for gross proceeds before closing adjustments of $727.4 million. The following table summarizes the gain and the net income impact on the sale of the European divestiture group:

Gross proceeds before closing adjustments	$	727.4
Closing adjustments		(43.2)
Gross proceeds from sale		684.2
Cash and cash equivalents[(1)]		(30.0)
Net proceeds from sale of European divestiture group		654.2
Net assets disposed, excluding cash and cash equivalents[(1)]		(668.8)
Gain reclassified from foreign currency translation reserve		92.4
Gain on sale of European divestiture group	**$**	**77.8**
Impairment of goodwill[(2)] (note 9)		(30.0)
Realized loss on foreign exchange derivative[(3)]		(14.3)
Costs of divestiture[(3)]		(14.1)
Total net income impact of sale of European divestiture group	**$**	**19.4**

(1) Cash and cash equivalents of $30.0 million are included in the calculation of net proceeds from sale of European divestiture group, and thus, are excluded from net assets disposed

(2) Recorded within depreciation and amortization expenses

(3) Recorded within general and administrative expenses

The following table summarizes the net assets of the European divestiture group at November 12, 2020:

Current Assets		
Cash and cash equivalents	$	30.0
Accounts receivable		37.0
Prepaid expenses and other assets		5.0
Non-Current Assets		
Right-of-use assets (note 12)		84.8
Property, plant and equipment (note 8)		735.9
Goodwill and intangible assets (note 9)		65.7
Assets of the European divestiture group	**$**	**958.4**
Current Liabilities		
Accounts payable, accrued liabilities and provisions	$	32.2
Lease liabilities (note 12)		6.1
Deferred revenue (note 22)		5.4
Non-Current liabilities		
Long-term lease liabilities (note 12)		80.8
Provisions (note 13)		69.5
Employee benefits		6.5
Long-term deferred revenue and other liabilities (note 22)		5.9
Deferred income taxes (note 15)		53.2
Liabilities of the European divestiture group	**$**	**259.6**
Net assets of the European divestiture group	**$**	**698.8**

6. ASSETS AND LIABILITIES OF THE EMPRESS DIVESTITURE GROUP HELD FOR SALE

On September 28, 2020, Inter Pipeline announced that it has entered into an agreement to acquire the Milk River pipeline system and $35 million of cash proceeds from Plains Midstream Canada ULC in exchange for Inter Pipeline's 100% ownership interest in the Empress II and 50% ownership interest in the Empress V Straddle plants (collectively the "Empress divestiture group"). The Milk River pipeline system will provide operational and commercial synergies with Inter Pipeline's existing conventional oil transportation business. The transaction is expected to be completed in the first half of 2021 and is subject to customary closing conditions.

At December 31, 2020, the assets and liabilities of the Empress divestiture group have been reclassified as follows:

Current Assets		
Accounts receivable	$	6.9
Prepaid expenses and other assets		3.3
Non-Current Assets		
Property, plant and equipment (note 8)		131.7
Goodwill and intangible assets (note 9)		33.4
Assets of the Empress divestiture group held for sale	**$**	**175.3**
Current Liabilities		
Accounts payable, accrued liabilities and provisions	$	4.0
Deferred revenue (note 22)		0.2
Non-Current Liabilities		
Provisions (note 13)		5.5
Deferred income taxes (note 15)		34.6
Liabilities of the Empress divestiture group held for sale	**$**	**44.3**

7. SEGMENT REPORTING

Inter Pipeline operates its business under the following principal business segments:

Year Ended December 31, 2020	Canada					Europe	
	Oil Sands Transportation	NGL Processing	Conventional Oil Pipelines	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
REVENUE							
Cost-of-service	$ 856.6	$ 45.9	$ 59.3	$ —	$ 961.8	$ 227.9	$ 1,189.7
Fee-based	—	213.4	119.0	—	332.4	75.6	408.0
Commodity-based	—	429.6	—	—	429.6	—	429.6
Product margin	—	—	373.2	—	373.2	—	373.2
TOTAL REVENUE(1)	$ 856.6	$ 688.9	$ 551.5	$ —	$ 2,097.0	$ 303.5	$ 2,400.5
EXPENSES							
Cost of sales	—	317.0	359.9	—	676.9	—	676.9
Operating	192.4	182.5	60.8	—	435.7	132.4	568.1
Depreciation and amortization	112.0	91.5	27.3	29.5	260.3	100.0	360.3
Financing charges	21.7	1.4	1.3	160.5	184.9	4.7	189.6
General and administrative	29.1	—	—	124.3	153.4	34.0	187.4
Gain on sale of the European divestiture group	—	—	—	(77.8)	(77.8)	—	(77.8)
Loss on disposal of assets	2.2	6.6	7.3	—	16.1	7.7	23.8
TOTAL EXPENSES	357.4	599.0	456.6	236.5	1,649.5	278.8	1,928.3
INCOME (LOSS) BEFORE INCOME TAXES	499.2	89.9	94.9	(236.5)	447.5	24.7	472.2
Income tax expense	—	—	—	99.4	99.4	13.8	113.2
NET INCOME (LOSS)	$ 499.2	$ 89.9	$ 94.9	$ (335.9)	$ 348.1	$ 10.9	$ 359.0
Items not involving cash:							
Depreciation and amortization(2)	114.2	98.1	34.6	(48.3)	198.6	107.7	306.3
Non-cash expense (recovery)	2.1	1.7	(0.6)	2.9	6.1	—	6.1
Deferred income tax expense	—	—	—	95.9	95.9	10.6	106.5
Realized loss on foreign exchange derivative	—	—	—	14.3	14.3	—	14.3
FUNDS FROM (USED IN) OPERATIONS	$ 615.5	$ 189.7	$ 128.9	$ (271.1)	$ 663.0	$ 129.2	$ 792.2
EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT	$ 14.3	$ 994.8	$ 64.2	$ 17.8	$ 1,091.1	$ 54.4	$ 1,145.5
							As at December 31, 2020
Property, plant and equipment - net book value	$ 6,020.2	$ 4,337.0	$ 896.0	$ 92.4	$ 11,345.6	$ 569.6	$ 11,915.2
Goodwill and intangible assets - net book value	$ 201.0	$ 142.0	$ —	$ —	$ 343.0	$ 88.9	$ 431.9
Assets of the Empress divestiture group held for sale	$ —	$ 175.3	$ —	$ —	$ 175.3	$ —	$ 175.3
Other assets	$ 118.3	$ 214.6	$ 99.3	$ 77.4	$ 509.6	$ 34.4	$ 544.0
TOTAL ASSETS	$ 6,339.5	$ 4,868.9	$ 995.3	$ 169.8	$ 12,373.5	$ 692.9	$ 13,066.4

(1) NGL Processing revenue includes $147.0 million of sales to external customers located in the United States.

(2) Includes gain on sale of European divestiture group and loss on disposal of assets.

Year Ended December 31, 2019							
	Canada					Europe	
	Oil Sands Transportation	NGL Processing	Conventional Oil Pipelines	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
REVENUE							
Cost-of-service	$ 813.4	$ 47.0	$ 55.7	$ —	$ 916.1	$ 208.9	$ 1,125.0
Fee-based	—	215.4	146.1	—	361.5	85.3	446.8
Commodity-based	—	448.5	—	—	448.5	—	448.5
Product margin	—	—	515.0	—	515.0	—	515.0
TOTAL REVENUE[1]	$ 813.4	$ 710.9	$ 716.8	$ —	$ 2,241.1	$ 294.2	$ 2,535.3
EXPENSES							
Cost of sales	—	271.9	472.0	—	743.9	—	743.9
Operating	148.1	202.4	74.4	—	424.9	140.2	565.1
Depreciation and amortization	91.1	94.7	23.4	28.6	237.8	118.6	356.4
Financing charges	37.8	2.5	1.2	138.6	180.1	5.7	185.8
General and administrative	25.7	—	—	114.1	139.8	34.1	173.9
(Gain) loss on disposal of assets	(9.7)	1.9	(0.4)	0.8	(7.4)	0.3	(7.1)
TOTAL EXPENSES	293.0	573.4	570.6	282.1	1,719.1	298.9	2,018.0
INCOME (LOSS) BEFORE INCOME TAXES	520.4	137.5	146.2	(282.1)	522.0	(4.7)	517.3
Income tax recovery	—	—	—	(10.5)	(10.5)	(11.2)	(21.7)
NET INCOME (LOSS)	$ 520.4	$ 137.5	$ 146.2	$ (271.6)	$ 532.5	$ 6.5	$ 539.0
Items not involving cash:							
Depreciation and amortization[2]	81.4	96.6	23.0	29.4	230.4	118.9	349.3
Non-cash expense (recovery)	1.8	2.5	(1.2)	4.4	7.5	0.8	8.3
Deferred income tax recovery	—	—	—	(12.5)	(12.5)	(11.2)	(23.7)
FUNDS FROM (USED IN) OPERATIONS	$ 603.6	$ 236.6	$ 168.0	$ (250.3)	$ 757.9	$ 115.0	$ 872.9
EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT	$ 99.5	$ 1,271.8	$ 133.7	$ 19.1	$ 1,524.1	$ 69.5	$ 1,593.6
							As at December 31, 2019
Property, plant and equipment - net book value	$ 6,057.9	$ 3,541.7	$ 829.3	$ 80.8	$ 10,509.7	$ 1,248.1	$ 11,757.8
Goodwill and intangible assets - net book value	$ 204.7	$ 200.9	$ —	$ —	$ 405.6	$ 176.9	$ 582.5
Other assets	$ 78.8	$ 196.3	$ 101.0	$ 85.0	$ 461.1	$ 150.0	$ 611.1
TOTAL ASSETS	$ 6,341.4	$ 3,938.9	$ 930.3	$ 165.8	$ 11,376.4	$ 1,575.0	$ 12,951.4

(1) NGL Processing revenue includes $164.5 million of sales to external customers located in the United States.

(2) Includes (gain) loss on disposal of assets.

8. PROPERTY, PLANT AND EQUIPMENT

		Pipelines, Facilities and Equipment		Construction Work in Progress		Leased to Others		Total
COST								
Balance, January 1, 2019	$	9,556.4	$	1,288.0	$	1,534.2	$	12,378.6
Additions and transfers from construction[(1)]		414.8		1,645.5		44.3		2,104.6
Disposals and completed construction[(1)]		(38.4)		(444.3)		(4.8)		(487.5)
Foreign currency translation adjustments		(2.8)		(0.6)		(80.3)		(83.7)
Balance, December 31, 2019		9,930.0		2,488.6		1,493.4		13,912.0
Additions and transfers from construction[(1)]		442.7		1,266.2		71.2		1,780.1
Disposals and completed construction[(1)]		(38.0)		(512.1)		(8.2)		(558.3)
Sale of the European divestiture group		(114.7)		(32.3)		(923.1)		(1,070.1)
Reclassified to assets of the Empress divestiture group held for sale		(255.7)		—		—		(255.7)
Foreign currency translation adjustments		1.3		3.0		84.8		89.1
Balance, December 31, 2020	**$**	**9,965.6**	**$**	**3,213.4**	**$**	**718.1**	**$**	**13,897.1**
ACCUMULATED DEPRECIATION								
Balance, January 1, 2019	$	1,538.4	$	—	$	382.4	$	1,920.8
Depreciation		198.4		—		69.0		267.4
Disposals		(15.4)		—		(3.8)		(19.2)
Foreign currency translation adjustments		(0.1)		—		(14.7)		(14.8)
Balance, December 31, 2019		1,721.3		—		432.9		2,154.2
Depreciation		228.6		—		56.1		284.7
Disposals		(17.4)		—		(3.6)		(21.0)
Sale of the European divestiture group		(7.5)		—		(326.7)		(334.2)
Reclassified to assets of the Empress divestiture group held for sale		(124.0)		—		—		(124.0)
Foreign currency translation adjustments		7.2		—		15.0		22.2
Balance, December 31, 2020	**$**	**1,808.2**	**$**	**—**	**$**	**173.7**	**$**	**1,981.9**
NET BOOK VALUE								
As at December 31, 2019	$	8,208.7	$	2,488.6	$	1,060.5	$	11,757.8
As at December 31, 2020	**$**	**8,157.4**	**$**	**3,213.4**	**$**	**544.4**	**$**	**11,915.2**

(1) The majority of property, plant and equipment additions are related to constructed assets and are initially recorded as construction work in progress before being transferred to pipelines, facilities and equipment, or classified as leased to others, when the related asset is available for use.

At December 31, 2020, Inter Pipeline had $290.7 million of contractual commitments for property, plant and equipment.

9. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets	Total Goodwill and Intangible Assets
COST			
Balance, January 1, 2019	$ 379.6	$ 563.9	$ 943.5
Foreign currency translation adjustments	(16.8)	(3.8)	(20.6)
Balance, December 31, 2019	362.8	560.1	922.9
Terminations and disposals	—	(48.6)	(48.6)
Sale of the European divestiture group	(84.0)	(15.3)	(99.3)
Reclassified to assets of the Empress divestiture group held for sale	—	(162.9)	(162.9)
Foreign currency translation adjustments	10.3	0.7	11.0
Balance, December 31, 2020	**$ 289.1**	**$ 334.0**	**623.1**
ACCUMULATED AMORTIZATION			
Balance, January 1, 2019	$ —	$ 267.5	$ 267.5
Amortization	—	32.4	32.4
Impairment	40.0	—	40.0
Foreign currency translation adjustments	0.4	0.1	0.5
Balance, December 31, 2019	40.4	300.0	340.4
Amortization	—	29.7	29.7
Terminations and disposals	—	(48.6)	(48.6)
Impairment	30.0	—	30.0
Sale of the European divestiture group	(30.0)	(3.6)	(33.6)
Reclassified to assets of the Empress divestiture group held for sale	—	(129.5)	(129.5)
Foreign currency translation adjustments	2.8	—	2.8
Balance, December 31, 2020	**$ 43.2**	**$ 148.0**	**$ 191.2**
NET BOOK VALUE			
As at December 31, 2019	$ 322.4	$ 260.1	$ 582.5
As at December 31, 2020	**$ 245.9**	**$ 186.0**	**$ 431.9**

Goodwill

The carrying amounts of goodwill allocated to the Corridor and Polaris pipeline CGUs are $52.6 million and $104.3 million, respectively, at December 31, 2020 and 2019. The carrying amount of goodwill allocated to the Inter Terminals Denmark CGU is $89.0 million (December 31, 2019 - $82.5 million). Goodwill associated with the Inter Terminals UK, Germany and Ireland, and Inter Terminals Netherlands CGUs of $54.0 million was disposed of through a sale on November 12, 2020 (note 5). Prior to this disposal, impairment of $30.0 million was recorded on the associated goodwill when it was reclassified to assets held for sale on September 22, 2020.

Corridor and Polaris Pipeline Systems

In arriving at the recoverable amount, after-tax discount rates of 3.0% and 5.3% were applied to after-tax cash flows from the Corridor and Polaris pipeline systems, respectively. Cash flow projections are based on long-term cost-of-service contracts with shippers that are not impacted by throughput volume or commodity price fluctuations. These cash flows are then aggregated with a terminal value incorporating a declining growth rate of 0.8% for Corridor and no growth rate for Polaris. The recoverable amounts of the Corridor and Polaris CGUs are significantly higher than the carrying amounts.

Inter Terminals Denmark

In arriving at the recoverable amount, an after-tax discount rate of 6.0% was applied to after-tax cash flows. Cash flow projections incorporate best estimates of revenue, operating and maintenance expenditures, administrative expenses and capital expenditures over 10 years. These cash flow projections are then aggregated with a terminal value, representing the value of cash flows beyond the tenth year incorporating an annual growth rate of 1.0%. The recoverable amount of the Inter Terminals Denmark CGU exceeds its carrying value of $502.0 million by $37.4 million or 7.5%.

Assumptions

The key assumptions used by Inter Pipeline in calculating the recoverable amounts are as follows:

Discount Rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow forecasts. The discount rate or WACC is based on the specific circumstances of each CGU. The WACC calculation takes into account debt and equity weightings based on observable market participant data. The cost of equity is derived from the expected risk-free rate of return plus an appropriate equity risk premium, and the after-tax cost of debt is based on expected borrowing rates for each CGU. Segment-specific risks are also considered and are evaluated annually based on publicly available market data.

Leaving all other variables constant, a 0.4% increase to the WACC would result in the recoverable amount being equal to the carrying amount for the Inter Terminals Denmark CGU. Management does not believe that a reasonably possible change in the WACC for the Corridor and Polaris CGUs would result in the recoverable amounts being less than the carrying amounts.

Revenue

Revenue in the Corridor and Polaris CGUs is based on long-term contractual transportation agreements with shippers. Revenue in the Inter Terminals Denmark CGU is based on management’s best estimates, taking into consideration existing contracts, timing of contract renewals, as well as relevant market factors. An average annual revenue inflation rate of 1.4% and an average utilization rate of 85.3% have been incorporated into the 10 year cash flow forecasts of the Inter Terminals Denmark CGU.

Leaving all other variables constant, a 0.6% decrease in the annual revenue inflation rate incorporated in the 10 year cash flow forecasts would result in the recoverable amount being equal to the carrying amount for the Inter Terminals Denmark CGU.

10. DIVIDENDS TO SHAREHOLDERS

	Years Ended December 31	
(millions, except per share amounts)	**2020**	2019
Dividends declared on common shares	**$ 335.7**	$ 706.4
Dividends settled with the issuance of shares under the Premium Dividend™ and Dividend Reinvestment Plan	**(125.7)**	(359.1)
Cash dividends paid on common shares	**$ 210.0**	$ 347.3
Dividends declared per share	**$ 0.7875**	$ 1.7100

As at December 31, 2020, dividends of $17.2 million were payable on 429.2 million outstanding common shares at $0.04 per share (December 31, 2019 - $60.0 million payable on 420.7 million outstanding common shares at $0.1425 per share).

On January 11, 2021, Inter Pipeline declared dividends of $0.04 per share. The dividends were paid on or about February 16, 2021, to shareholders of record on January 22, 2021. The total declared dividends were approximately $17.2 million. On

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February 9, 2021, Inter Pipeline declared dividends of $0.04 per share. The dividends will be paid on or about March 15, 2021, to shareholders of record on February 23, 2021. The total estimated declared dividends are approximately $17.2 million.

11. FINANCIAL DEBT

The following table summarizes Inter Pipeline's financial debt as at December 31, 2020 and December 31, 2019:

	Maturity Date	**December 31 2020**	December 31 2019
Corridor syndicated credit facility (a)	December 14, 2023	**$ 1,309.5**	$ 1,205.1
Inter Pipeline syndicated credit facilities (b)			
$1.5 billion syndicated credit facility	December 5, 2024	**44.0**	18.0
$1.0 billion syndicated credit facility (c)	August 13, 2021	**—**	—
Inter Pipeline term credit facility (d)	August 13, 2022	**500.0**	500.0
4.897% Corridor debentures (e)	February 3, 2020	**—**	150.0
Medium-term notes			
4.967% Series 1 (f)	February 2, 2021	**325.0**	325.0
3.776% Series 3	May 30, 2022	**400.0**	400.0
3.448% Series 4 (g)	July 20, 2020	**—**	500.0
4.637% Series 5	May 30, 2044	**500.0**	500.0
3.173% Series 7	March 24, 2025	**300.0**	300.0
2.608% Series 8	September 13, 2023	**350.0**	350.0
3.484% Series 9	December 16, 2026	**450.0**	450.0
2.734% Series 10	April 18, 2024	**500.0**	500.0
4.232% Series 11 (g)	June 1, 2027	**700.0**	—
Subordinated hybrid notes			
Series 2019-A (h)(j)	March 26, 2079	**750.0**	750.0
Series 2019-B (i)(j)	November 19, 2079	**700.0**	700.0
Demand facilities			
Inter Pipeline demand facility[(1)](k)	Demand	**—**	—
Corridor demand facility (l)	Demand	**—**	—
Inter Terminals Denmark demand facility (m)	Demand	**—**	21.4
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts)		**6,828.5**	6,669.5
Less: Short-term debt, current portion of long-term debt and commercial paper[(2)]		**(1,634.5)**	(2,376.5)
Long-term debt excluding transaction costs and discounts		**5,194.0**	4,293.0
Transaction costs, net of accumulated amortization		**(31.7)**	(28.8)
Discount, net of accumulated amortization		**(2.1)**	(3.7)
Add: Current portion of transaction costs and discounts		**4.8**	7.1
Long-term debt		**5,165.0**	4,267.6
Short-term debt and current portion of long-term debt including transaction costs and discounts		**323.1**	1,170.1
Commercial paper including transaction costs and discounts[(2)]		**1,306.6**	1,199.3
Financial debt		**$ 6,794.7**	$ 6,637.0

(1) At December 31, 2020, letters of credit totalling $10.7 million (December 31, 2019 - $11.3 million) have been issued under Inter Pipeline's demand facility; however no amounts have been borrowed against the facility at December 31, 2020 (December 31, 2019 - $nil).

(2) Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Corridor syndicated credit facility that has no repayment requirements until December 2023.

(a) Borrowings on the $1,550 million Corridor syndicated credit facility can be by way of prime loans, U.S. base-rate loans, London Interbank Offered Rate (LIBOR) loans, bankers' acceptances or letters of credit plus applicable margins.

(b) Borrowings on the Inter Pipeline syndicated credit facilities can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances or letters of credit plus applicable margins.

(c) On April 24, 2020, Inter Pipeline entered into a new $1.0 billion unsecured revolving credit facility. The facility had an initial maturity date of August 13, 2021, which can be extended under certain conditions. Fees on amounts borrowed are based on bankers' acceptances plus an applicable margin. Other terms and conditions are substantially similar with Inter Pipeline's existing $1.5 billion syndicated credit facility. At December 31, 2020, no amounts were drawn against this facility. On February 11, 2021, Inter Pipeline amended the agreement by reducing the pricing margin and extending the maturity date to December 5, 2022.

(d) On April 24, 2020, Inter Pipeline extended the maturity date of the $500 million term credit facility to August 13, 2022. Subsequent to the year, on January 27, 2021, Inter Pipeline amended the agreement by reducing the pricing margin.

(e) On February 3, 2020, the $150 million 4.897% Corridor debentures matured and were repaid.

(f) On February 2, 2021, the $325 million 4.967% Series 1 medium-term notes matured and were repaid.

(g) On June 1, 2020, Inter Pipeline issued $700 million of medium-term notes in the Canadian public debt market. The $700 million, Series 11, due June 1, 2027, bears a fixed interest rate of 4.232% per annum, payable semi-annually in equal instalments in arrears. Net proceeds were used to reduce indebtedness under Inter Pipeline's $1.5 billion syndicated credit facility and to repay $500 million of Series 4 medium-term notes that matured July 20, 2020.

(h) The interest rate of 6.875%, payable in equal semi-annual payments, is fixed 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 rate reset date until March 26, 2079, the interest rate will be reset to the three-month banker's acceptance rate plus 5.76%.

(i) The interest rate of 6.625%, payable in equal semi-annual payments, is fixed from November 19, 2019 to November 18, 2029. Starting November 19, 2029, on every interest reset date (February 19, May 19, August 19, November 19) until November 19, 2049, the interest rate will be reset to the three-month banker's acceptance rate plus 4.90%. Starting November 19, 2049, on every interest rate reset date until November 19, 2079, the interest rate will be reset to the three-month banker's acceptance rate plus 5.65%.

(j) The Series 2019 A and B notes are subject to optional redemption by Inter Pipeline, whereby on or after the completion of the fixed interest period, Inter Pipeline may redeem the notes in whole at any time, or in part on any interest payment date. The notes are subject to automatic conversion, without the consent of the holders of the notes, into Class A preferred shares, that will carry the right to receive cumulative preferential cash dividends at the same rate as the interest rate that would have accrued on the notes. The automatic conversion into Class A preferred shares occurs only under certain bankruptcy and insolvency events. The fair value of the automatic conversion feature was deemed to be nominal at inception.

(k) Fees on amounts borrowed under Inter Pipeline's $75 million demand facility are based on the prime rate plus an applicable margin, while undrawn amounts are not charged standby fees.

(l) Fees on amounts borrowed under Corridor's $25 million demand facility match the Corridor syndicated facility while undrawn amounts are not charged standby fees.

(m) On October 21, 2020, Inter Terminals Denmark amended its demand facility to decrease the total facility amount from £40 million to £15 million. Amounts borrowed in Pound Sterling bear interest at the LIBOR plus an applicable margin and funds drawn in Euro bear interest at the Euro Interbank Offered Rate plus an applicable margin. Undrawn amounts are not charged standby fees.

12. LEASES

Inter Pipeline has lease agreements for buildings, land and plant and equipment for periods ranging from 2021 to 2094.

Right-of-Use Assets

	Buildings	Land	Plant and Equipment	Total
COST				
Balance, January 1, 2019	$ 95.5	$ 95.0	$ 6.1	$ 196.6
Additions	3.1	2.3	13.3	18.7
Foreign currency translation adjustments	(0.1)	(2.9)	(0.4)	(3.4)
Balance, December 31, 2019	98.5	94.4	19.0	211.9
Additions	0.6	13.9	5.6	20.1
Terminations and disposals	—	(2.6)	(0.2)	(2.8)
Sale of the European divestiture group	(0.9)	(92.7)	(0.8)	(94.4)
Foreign currency translation adjustments	(0.1)	2.2	(0.2)	1.9
Balance, December 31, 2020	**$ 98.1**	**$ 15.2**	**$ 23.4**	**$ 136.7**
ACCUMULATED DEPRECIATION				
Balance, January 1, 2019	$ —	$ —	$ —	$ —
Depreciation	9.5	6.6	3.1	19.2
Balance, December 31, 2019	9.5	6.6	3.1	19.2
Depreciation	9.0	5.4	4.7	19.1
Terminations and disposals	—	(2.6)	(0.2)	(2.8)
Sale of the European divestiture group	(0.7)	(8.5)	(0.4)	(9.6)
Foreign currency translation adjustments	(0.1)	0.4	—	0.3
Balance, December 31, 2020	**$ 17.7**	**$ 1.3**	**$ 7.2**	**$ 26.2**
NET BOOK VALUE				
As at December 31, 2019	$ 89.0	$ 87.8	$ 15.9	$ 192.7
As at December 31, 2020	**$ 80.4**	**$ 13.9**	**$ 16.2**	**$ 110.5**

Lease Liabilities

Balance, January 1, 2019	$	224.1
Additions		19.1
Financing charges		8.6
Lease payments		(24.2)
Foreign currency translation adjustments		(3.6)
Balance, December 31, 2019		224.0
Additions		20.4
Financing charges		7.9
Lease payments		(27.5)
Sale of the European divestiture group		(86.9)
Foreign currency translation adjustments		1.8
Balance, December 31, 2020	**$**	**139.7**

a) Lessor Arrangements

Inter Pipeline leases storage assets to third parties under operating lease agreements for periods ranging from 2021 to 2040. These lease agreements typically include fixed storage fees or reservation fees for access to storage capacity, which are classified as lease revenue, as well as fees for handling and ancillary services which are not classified as lease revenue. For the year ended December 31, 2020, lease revenue of $229.4 million was included in operating revenue.

Inter Pipeline expects to recognize undiscounted lease revenue from its existing operating lease agreements as follows:

Less than one year	$	71.8
One to five years		41.3
After five years		14.6
Total future minimum lease revenue	$	127.7

13. PROVISIONS

	Decommissioning Obligations	Environmental Liabilities	Total
Balance, January 1, 2019	$ 199.5	$ 25.7	**$ 225.2**
Revisions to estimated amount of liabilities	64.9	(0.8)	**64.1**
Obligations discharged	(1.8)	—	**(1.8)**
Accretion expense	4.8	0.4	**5.2**
Foreign currency translation adjustments	(6.1)	(0.4)	**(6.5)**
Balance, December 31, 2019	261.3	24.9	**286.2**
Revisions to estimated amount of liabilities(1)	153.5	1.0	**154.5**
Obligations discharged	(1.8)	—	**(1.8)**
Accretion expense	4.5	0.3	**4.8**
Sale of the European divestiture group	(64.1)	(5.4)	**(69.5)**
Reclassified to liabilities of the Empress divestiture group held for sale	(5.5)	—	**(5.5)**
Foreign currency translation adjustments	6.3	0.3	**6.6**
Balance, December 31, 2020	**$ 354.2**	**$ 21.1**	**$ 375.3**

(1) Includes additional decommissioning obligations from ongoing construction of HPC, revisions to the estimated amount of existing obligations resulting from decreases to discount rates, and increases to estimated costs to fulfill existing decommissioning obligations.

The following estimates of expected economic life and inflation rates were used to calculate the undiscounted amount of estimated expenditures expected to be incurred on decommissioning of pipeline systems, NGL processing plants, bulk liquid storage sites, and remediation of known environmental liabilities. The long-term risk-free rates were used to discount the future cash flows for decommissioning obligations and the 5 to 10 year risk-free rates were used to discount the future cash flows for environmental liabilities:

Business Segment	Expected Economic Life (years)(1)	Inflation Rate	Long-Term Risk-Free Discount Rate	5 to 10 Year Risk-Free Discount Rate
Oil sands transportation	80 to 300(2)	1.7%	1.9%	n/a
NGL processing	25 to 40	1.7%	1.9%	n/a
Conventional oil pipelines	40 to 300(2)	1.7%	1.9%	1.1% to 1.5%
Bulk liquid storage	30 to 40	1.1% to 1.2%	1.1% to 1.3%	n/a

(1) Environmental liabilities are being accreted over 5 to 10 years.

(2) The expected economic life of the Cold Lake, Corridor, Polaris and Bow River pipeline systems is 80 to 300 years. The mid-point value of 190 years is used in the decommissioning obligation assessment.

14. EMPLOYEE BENEFITS

	December 31 2020	December 31 2019
Long-term incentive plan liability	**$ 8.3**	$ 12.7
Pension liability	**—**	8.8
Employee benefits	**$ 8.3**	$ 21.5

Long-Term Incentive Plan Liability

Restricted Share Units

Effective January 1, 2006, Inter Pipeline implemented an LTIP for its employees, officers, and directors. The LTIP is governed by a RSUP document that defines how awards made under the RSUP will be determined and administered. A Restricted Share Unit (RSU), as granted under the RSUP, is valued based on Inter Pipeline's share price plus credit for cash dividends paid to shareholders during the period the RSUs are held. Unless otherwise provided in an individual grant agreement, the RSU will vest one-third on each of the successive anniversary dates from the date of grant. The life of RSUs granted is three years. Upon exercise of an RSU, the amount owing will be paid out in cash net of applicable withholding taxes.

The following table summarizes the status of Inter Pipeline's RSUs as at December 31, 2020, and December 31, 2019:

(thousands)	Number of RSUs
Balance, January 1, 2019	1,259.1
Granted	1,231.8
Exercised	(572.4)
Forfeited	(107.8)
Balance, December 31, 2019	1,810.7
Granted	1,350.5
Exercised	(723.7)
Forfeited	(53.6)
Balance, December 31, 2020	**2,383.9**

At December 31, 2020, the current portion of the liability included in accounts payable, accrued liabilities and provisions was $24.5 million (December 31, 2019 - $31.0 million). At December 31, 2020, 1.1 million RSUs are exercisable (December 31, 2019 - 0.8 million). Inter Pipeline's five day simple average closing share price at December 31, 2020, was $12.02 (December 31, 2019 - $22.61).

The total intrinsic value of RSUs vested and not exercised as at December 31, 2020 was $15.4 million (December 31, 2019 - $19.6 million).

The weighted average remaining contractual life of the outstanding RSUs as at December 31, 2020, was 1.6 years (December 31, 2019 - 1.7 years).

For the year ended December 31, 2020, RSU costs of $1.7 million were included in operating expenses and $2.5 million were included in general and administrative expenses (2019 - $6.4 million and $21.9 million, respectively), before allocations to capital projects.

Performance Share Units

Effective January 1, 2015, Inter Pipeline implemented a PSUP for its officers. The PSUP is governed by a PSUP document that defines how PSU awards will be determined and administered.

A PSU is valued based on the 20 trading day volume weighted average price of Inter Pipeline's common shares, plus an amount equivalent to cash dividends paid to date, and a performance multiplier.

The PSUP has been structured to allow payouts of up to two times the initial grant value in the event of extraordinary performance. Conversely, a payout of zero could result if certain thresholds are not met during the three year performance period.

The PSUs cliff vest at the end of each three year performance period unless otherwise provided in an individual grant agreement or employment contract. Upon vesting of a PSU, the amount owing will be paid out in cash net of applicable withholding taxes.

The following table summarizes the status of Inter Pipeline's PSUs as at December 31, 2020, and December 31, 2019:

(thousands)	Number of PSUs
Balance, January 1, 2019	243.9
Granted	207.3
Exercised	(112.8)
Balance, December 31, 2019	338.4
Granted	199.3
Balance, December 31, 2020	**537.7**

At December 31, 2020, the current portion of the liability included in accounts payable, accrued liabilities and provisions was $0.5 million (December 31, 2019 - $2.7 million). Inter Pipeline's 20 trading day volume weighted average share price at December 31, 2020 was $12.89 (December 31, 2019 - $22.31).

The weighted average remaining contractual life of the outstanding PSUs as at December 31, 2020, was 1.1 years (December 31, 2019 - 1.2 years).

For the year ended December 31, 2020, PSU recoveries of $0.8 million were included in general and administrative expenses (2019 - costs of $0.6 million).

15. INCOME TAXES

On June 28, 2019, the Government of Alberta enacted legislation which reduced the general provincial corporate income tax rate from 12% to 11% effective July 1, 2019, from 11% to 10% effective January 1, 2020, from 10% to 9% effective January 1, 2021 and from 9% to 8% by January 1, 2022. The result of these provincial corporate income tax rate reductions was a one-time decrease in deferred income tax liabilities of $143.6 million recognized in 2019. On October 20, 2020, the Government of Alberta enacted legislation which accelerated the previously enacted rate reduction schedule to reduce the general provincial corporate income tax rate from 10% to 8%, effective July 1, 2020. The result of this accelerated provincial corporate income tax rate reduction is nominal.

On March 11, 2020, tax legislation was substantively enacted in the UK which maintained the statutory income tax rate of 19% instead of reducing the income tax rate to 17% on April 1, 2020, as was previously substantively enacted. The effect of recognizing this UK income tax rate change was a $4.5 million increase in deferred income tax liabilities.

The major components of income tax expense for the years ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31	
	2020	2019
Current income taxes		
Current income tax charge	**$ 7.0**	$ 3.4
Adjustments in respect of current income tax of the previous year	**(0.3)**	(1.4)
Current income tax expense	**6.7**	2.0
Deferred income taxes		
Relating to the origination and reversal of temporary differences	**97.2**	119.8
Adjustments in respect of deferred income tax of the previous year	**4.8**	0.1
Adjustments to deferred tax attributable to changes in tax rates and laws	**4.5**	(143.6)
Deferred income tax expense (recovery)	**106.5**	(23.7)
Total income tax expense (recovery)	**$ 113.2**	$ (21.7)

Income tax expense varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before income taxes as shown in the following table:

	Years Ended December 31	
	2020	2019
Income before income taxes	**$ 472.2**	$ 517.3
Tax rate	**24.0 %**	26.5 %
Income tax at statutory rate	**113.3**	137.1
Alberta corporate tax rate reduction	**—**	(143.6)
Deductible intercompany interest expense	**(6.9)**	(7.6)
Impact of UK corporate tax rate change	**4.5**	—
Impact of change in deferred tax rates	**4.8**	(1.3)
Gain on sale of European divestiture group	**(8.1)**	—
Other	**5.6**	(6.3)
Total income tax expense (recovery)	**$ 113.2**	$ (21.7)

The tax rates used in the reconciliation above are the combined federal and provincial tax rates payable by Inter Pipeline in Canada.

Deferred income taxes relate to the following temporary differences:

	Consolidated Balance Sheets		**Consolidated Statements of Net Income**	
	December 31	December 31	Years Ended December 31	
	2020	2019	**2020**	2019
Property, plant and equipment	**$ (1,347.3)**	$ (1,131.1)	**$ (312.1)**	$ (2.9)
Non-capital losses	**334.3**	181.1	**157.2**	6.7
Goodwill and intangible assets	**(43.1)**	(61.3)	**8.1**	17.6
Provisions	**81.7**	53.9	**40.1**	3.9
Other	**—**	1.9	**0.2**	(1.6)
Deferred income tax (expense) recovery			**$ (106.5)**	$ 23.7
Net deferred tax liability	**$ (974.4)**	$ (955.5)		

Reconciliation of net deferred income tax liabilities:

	2020	2019
Balance, January 1	**$ (955.5)**	$ (983.5)
Tax (expense) recovery recognized in net income	**(106.5)**	23.7
Tax expense recognized in equity	**—**	(1.0)
Sale of the European divestiture group	**53.2**	—
Reclassified to assets of the Empress divestiture group held for sale	**34.6**	—
Revaluation of foreign deferred income tax liabilities and other	**(0.2)**	5.3
Balance, December 31	**$ (974.4)**	$ (955.5)

There are capital losses associated with the sale of the European divestiture group that Inter Pipeline does not expect to realize the benefit of in the foreseeable future. The amount of unrecognized capital losses at December 31, 2020, was $161.1 million (2019 - $nil).

16. SHAREHOLDERS' EQUITY

a) Authorized

Unlimited number of common shares, with voting rights and no par value.

Class A preferred shares, limited to not more than 20% of the number of issued and outstanding common shares, with no voting rights.

b) Premium Dividend™ and Dividend Reinvestment Plan

Under the Dividend Reinvestment component of the plan, eligible shareholders may reinvest their cash dividends to purchase additional common shares issued from treasury at the average market price on the applicable payment date. Under the Premium Dividend™ component of the plan, eligible shareholders may elect to exchange these additional common shares for a cash payment equal to 101% of the regular cash dividend on the applicable dividend payment date. Effective March 30, 2020, Inter Pipeline suspended the Premium Dividend™ and Dividend Reinvestment Plan indefinitely.

c) Issued, Fully Paid and Outstanding

(millions)	Number of Common Shares	Share Capital
Balance, January 1, 2019	403.8	$ 4,541.2
Issued under Premium Dividend™ and Dividend Reinvestment Plan	16.9	359.1
Balance, December 31, 2019	420.7	4,900.3
Issued under Premium Dividend™ and Dividend Reinvestment Plan	8.5	125.7
Stated capital adjustment	—	(5,026.0)
Balance, December 31, 2020	**429.2**	**$ —**

™ Denotes trademark of Canaccord Genuity Corp.

d) Calculation of Net Income per Common Share

(millions, except per share amounts)	Years Ended December 31 **2020**	2019
Net income – basic and diluted	**$ 359.0**	$ 539.0
Weighted average shares outstanding – basic	**427.5**	412.4
Effect of Premium Dividend™ and Dividend Reinvestment Plan	**0.5**	1.1
Weighted average shares outstanding – diluted	**428.0**	413.5
Net income per common share – basic and diluted	**$ 0.84**	$ 1.31

e) Stated Capital Adjustment

On May 7, 2020, shareholders of Inter Pipeline approved a resolution to reduce Inter Pipeline's stated capital to $1.00 without payment effective as of May 31, 2020. As a result, Inter Pipeline's share capital was reduced by $5,026.0 million. This stated capital adjustment did not result in changes to Inter Pipeline's total shareholders' equity, only components therein.

17. RELATED PARTY TRANSACTIONS

Inter Pipeline wholly owns a number of subsidiaries located in Canada, the United States and Europe.

No revenue was earned from related parties for the years ended December 31, 2020 and 2019.

Key Management Personnel

Total compensation of the Board of Directors and certain key officers consisted of the following:

	Years Ended December 31 **2020**	2019
Short-term employee benefits(1)	**$ 3.6**	$ 4.0
Share-based payments(2)	**(0.2)**	4.3
Total compensation(3)	**$ 3.4**	$ 8.3

(1) Short-term employee benefits consist of base salary, annual earned bonuses and employer contributions for non-monetary benefits.

(2) Share-based payments consist of the compensation (recovery) expense recognized for RSUs and PSUs outstanding at the year end and RSUs and PSUs exercised by key management personnel during the year (see note 14 for a discussion of the RSUP and PSUP).

(3) Post employment benefits, other long-term benefits and termination benefits are not applicable for Inter Pipeline’s key management personnel in the years ended December 31, 2020 and 2019.

18. COMMITMENTS AND CONTINGENCIES

a) Purchase Obligations

Inter Pipeline had operating purchase commitments totalling approximately $3,084.2 million at December 31, 2020.

b) Royalty Credits

On December 5, 2016, Inter Pipeline was approved to receive up to $200 million in royalty credits from the Government of Alberta’s Petrochemical Diversification Program. The royalty credits were awarded in support of Inter Pipeline’s propane dehydrogenation (PDH) facility, and the credits will be available once the PDH facility is in operation. The royalty credits can then be sold to oil or natural gas producers which use the credits to reduce their royalty payments.

The royalty credits, which are accounted for as government grants, will not be recognized on the balance sheet until construction of the PDH facility is complete and Inter Pipeline has reasonable assurance that the conditions attached to the grant will be fulfilled.

c) Legal Claims

Inter Pipeline is involved in a limited number of legal claims which arise in the normal course of business. While the final outcomes of such claims cannot be predicted with certainty and could have a material effect on its consolidated financial statements, Inter Pipeline believes its positions are supportable and it has not currently recognized a provision in its consolidated financial statements for any potential losses, which it has evaluated as being remote.

19. CAPITAL DISCLOSURES

Inter Pipeline's capital management objectives are aligned with its commercial strategies and its long-term outlook for the business. The primary objectives are to maintain (i) stable cash 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.

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. In 2020, Inter Pipeline adjusted the level of cash dividends paid to shareholders, issued new financial debt, renegotiated existing debt terms, and repaid existing debt. In the future, Inter Pipeline may also choose to issue new common or preferred shares to maintain or modify the capital structure.

Inter Pipeline maintains flexibility in its capital structure to fund growth capital and acquisitions through market and industry cycles. Inter Pipeline projects its funding requirements 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 funds from operations in excess of dividends to fund capital requirements. At December 31, 2020, Inter Pipeline had access to committed credit facilities totalling $4,550.0 million, of which $2,696.5 million remained unutilized. Inter Pipeline also had access to demand facilities of $126.1 million, of which $115.4 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

Inter Pipeline was compliant with all financial covenants throughout each of the periods presented.

20. FINANCIAL INSTRUMENTS

a) Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at December 31, 2020, are classified as follows:

	Amortized Cost	Fair Value Through Profit or Loss	Non-Financial Asset or Liability[1]	Carrying Value of Asset or Liability
Assets[2]				
Cash and cash equivalents	$ 40.1	$ —	$ —	$ 40.1
Accounts receivable	320.8	—	8.5	329.3
Prepaid expenses and other assets	0.1	—	50.0	50.1
Assets of the Empress divestiture group held for sale	6.9	—	168.4	175.3
Liabilities				
Dividends payable	$ 17.2	$ —	$ —	$ 17.2
Accounts payable, accrued liabilities and provisions	409.4	0.8	53.4	463.6
Deferred revenue and other liabilities	15.2	—	14.9	30.1
Long-term debt, short-term debt and commercial paper (note 11)[3]	6,828.5	—	—	6,828.5
Liabilities of the Empress divestiture group held for sale	4.0	—	40.3	44.3

(1) Not all components of assets and liabilities meet the definition of a financial asset or liability.

(2) Inter Pipeline does not have any assets that meet the definition of "fair value through other comprehensive income".

(3) Carrying values exclude transaction costs, discount and accumulated amortization.

b) Fair Value of Fixed Rate Debt

At December 31, 2020, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value[1]	Fair Value
Medium-term notes	$ 3,525.0	$ 3,744.6
Subordinated hybrid notes	$ 1,450.0	$ 1,499.4

(1) Carrying value excludes transaction costs, discount and accumulated amortization.

The estimated value of fixed rate debt has been determined based on available market information and appropriate valuation methods, including the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The actual amounts realized may differ from these estimates.

21. RISK MANAGEMENT

Inter Pipeline is exposed to a number of inherent financial risks arising in the normal course of operations which include market risk related to commodity prices, interest rates, and foreign currency exchange rates, credit risk and liquidity risk.

a) Market Risk

Market risk is the risk or uncertainty that the fair value of financial instruments, future cash flows and net earnings of Inter Pipeline will fluctuate due to movements in market rates. Inter Pipeline may utilize derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a market risk management policy that defines and specifies the controls and responsibilities to manage market exposure to changing commodity prices and changes within the financial markets relating to interest rates and foreign exchange exposure. Inter Pipeline's market risk management policy prohibits the use of derivative financial instruments for speculative purposes.

Commodity Price Risk Management

Inter Pipeline is exposed to commodity price risk arising from purchases and sales of crude oil, natural gas, NGLs, power, carbon credits and petrochemicals. Inter Pipeline manages its commodity risk exposures by utilizing commodity swaps. As at December 31, 2020, there were no material commodity swaps outstanding. Subsequent to December 31, 2020, Inter Pipeline entered into material commodity swaps for propane, polymer grade propylene, butane and condensate with terms of between one and twelve months, as part of its strategy to manage exposure to commodity prices.

Interest Rate Risk Management

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of a change in market interest rates. Inter Pipeline manages its interest rate risk by balancing its exposure to fixed and variable rates while minimizing interest costs. When deemed appropriate, Inter Pipeline may enter into interest rate or cross currency swaps to manage its interest rate price risk exposure. As at December 31, 2020, there were no interest rate or cross-currency swaps outstanding.

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations. Since fixed rate long-term debt is carried at amortized cost rather than at fair value, the carrying value of this debt is not subject to interest rate risk.

Sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on long-term debt, short-term debt and commercial paper outstanding at December 31, 2020. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

Based on the variable rate debt obligations outstanding at December 31, 2020, a 1% change in interest rates at this date would have changed interest expense for the year ended December 31, 2020, by approximately $18.5 million assuming all other variables remain constant. Of this amount, $13.1 million for the year ended December 31, 2020, relates to the Corridor syndicated credit facility (note 11) and is recoverable through the terms of the Corridor Firm Service Agreement; therefore, the after-tax income impact for the year ended December 31, 2020, would be $4.1 million.

Foreign Exchange Risk Management

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its United States and European based subsidiaries and transactional currency exposures arising from purchases and sales in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged.

On September 22, 2020, Inter Pipeline entered into a £400 million variable date foreign exchange derivative contract to manage foreign exchange rate volatility for the expected proceeds from the sale of the European divestiture group. For the year ended December 31, 2020, the realized risk management loss on this derivative contract was $14.3 million. As at December 31, 2020, there were no foreign exchange hedges outstanding.

b) Credit Risk

Credit exposure on financial instruments arises from a counterparty's inability or unwillingness to fulfill its obligations to Inter Pipeline. Inter Pipeline's credit risk exposure relates primarily to customers (accounts receivable) and financial counterparties holding cash and derivative financial instruments. Inter Pipeline's exposure to credit risk arises from default of a customer or counterparty's obligations, with a maximum exposure equal to the carrying amount of these instruments. Credit risk is managed through a credit management policy, credit approval and monitoring procedures.

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

At December 31, 2020, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval, ongoing monitoring procedures and historical experience. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, business performance, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees, letters of credit, prepayments, or some other form of credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to rely on indemnification provisions, lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis. With the uncertainty surrounding COVID-19 and recent market volatility, Inter Pipeline has increased the scrutiny and diligence applied to credit monitoring procedures.

Inter Pipeline assesses lifetime expected credit losses for accounts receivable using historical default rates, aged accounts receivable analysis, and forward-looking information to determine the appropriate expected credit losses. At December 31, 2020, lifetime expected credit losses for accounts receivable outstanding were insignificant.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL processing business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2020, accounts receivable associated with these two business segments were $253.5 million or 77.0% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

c) Liquidity Risk

Liquidity risk is the risk that suitable sources are not available to fund business operations, commercial strategies or meet financial obligations (refer to note 18 for commitments and contingencies and note 19 for capital disclosures). The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at December 31, 2020, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Dividends payable	$ 17.2	$ 17.2	$ —	$ —
Accounts payable, accrued liabilities and provisions	463.6	463.6	—	—
Lease liabilities	190.3	19.2	73.1	98.0
Deferred revenue and other liabilities	30.1	3.4	18.2	8.5
Long-term debt, short-term debt and commercial paper(1)	6,828.5	1,634.5	2,094.0	3,100.0
Liabilities of the Empress divestiture group held for sale	44.3	44.3	—	—
Total	$ 7,574.0	$ 2,182.2	$ 2,185.3	$ 3,206.5

(1) Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Corridor syndicated credit facility that has no repayment requirements until December 2023.

22. REVENUE

a) Revenue Allocated to Remaining Performance Obligations

Inter Pipeline expects to recognize revenue in future periods related to currently unsatisfied or partially unsatisfied performance obligations through its long-term cost-of-service contracts. The amount of revenue to be recognized in future periods is subject to both fixed and variable components. Variable components are a significant portion of Inter Pipeline's overall revenue from contracts with customers and may include flow-through operating costs, utilization of make-up-rights, and pricing adjustments associated with inflation rates or tied to other market indexes. The majority of these variable components are considered to be constrained as they are uncertain or not reliably estimable. Inter Pipeline has assessed its cost-of-service contracts and has concluded that estimations excluding constrained variable components are not representative of Inter Pipeline's future revenue and therefore have not been disclosed.

b) Deferred Revenue

	Current	Long-term	Total Deferred Revenue
Balance, January 1, 2019	$ 16.6	$ 15.1	$ 31.7
Additions	77.2	2.7	79.9
Reclassifications(1)	0.8	(1.6)	(0.8)
Revenue recognized	(85.8)	—	(85.8)
Foreign currency translation adjustments	(0.3)	(0.1)	(0.4)
Balance, December 31, 2019	**8.5**	**16.1**	**24.6**
Additions	56.5	2.7	59.2
Reclassifications(1)	1.4	(1.4)	—
Revenue recognized	(57.5)	—	(57.5)
Sale of the European divestiture group	(5.4)	(5.9)	(11.3)
Reclassified to liabilities of the Empress divestiture group held for sale	(0.2)	—	(0.2)
Foreign currency translation adjustments	0.1	—	0.1
Balance, December 31, 2020	**$ 3.4**	**$ 11.5**	**$ 14.9**

(1) Reclassifications include movements between current and long-term deferred revenue and to other balance sheet accounts.

c) Major Customers

In 2020, two major customers accounted for 25.5% (2019 - two major customers accounted for 23.9%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

23. FINANCING CHARGES

	Years Ended December 31	
	2020	2019
Interest expense on:		
Credit facilities	**$ 47.4**	$ 53.0
Corridor debentures	**0.6**	7.4
Medium-term notes	**129.5**	119.7
Subordinated hybrid notes	**98.0**	44.9
Lease liabilities	**7.9**	8.6
Total Interest	**283.4**	233.6
Capitalized interest	**(106.1)**	(57.3)
Amortization of transaction costs on financial debt	**7.1**	3.9
Accretion of provisions and pension plan funding charges	**5.2**	5.6
Financing charges	**$ 189.6**	$ 185.8

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization during the year ended December 31, 2020 was 4.3% (December 31, 2019 – 3.9%).

24. EXPENSES BY NATURE

	Years Ended December 31	
	2020	2019
Employee costs	**$ 215.0**	$ 241.0
External services	**209.7**	176.1
Fuel and power	**143.2**	149.6
Materials and supplies	**76.3**	77.6
Property taxes and insurance	**74.1**	73.5
Other	**37.2**	21.2
Total expenses by nature	**$ 755.5**	$ 739.0
Allocated to:		
Operating	**568.1**	565.1
General and administrative	**187.4**	173.9
Total operating and general and administrative expenses	**$ 755.5**	$ 739.0

25. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in Non-Cash Working Capital

		December 31 2020		December 31 2019
Accounts receivable	**$**	**(6.1)**	$	(81.0)
Prepaid expenses and other assets		**(2.2)**		(18.7)
Inventory		**0.7**		(4.6)
Dividends payable		**(42.8)**		2.5
Accounts payable, accrued liabilities and provisions		**(173.2)**		169.5
Current income taxes payable		**0.8**		(0.4)
Deferred revenue		**(5.1)**		(8.1)
Non-cash working capital of the Empress divestiture group held for sale		**(6.1)**		—
Impact of foreign exchange rate differences and other		**(0.9)**		(0.4)
Changes in non-cash working capital	**$**	**(234.9)**	$	58.8
These changes relate to the following activities:				
Operating		**(80.4)**		(31.8)
Investing		**(112.6)**		87.8
Financing		**(41.9)**		2.8
Changes in non-cash working capital	**$**	**(234.9)**	$	58.8

b) Cash and Cash Equivalents

		December 31 2020		December 31 2019
Cash on hand and at banks	**$**	**40.1**	$	30.9
Short-term deposits		**—**		1.7
Cash and cash equivalents	**$**	**40.1**	$	32.6

26. GOVERNMENT GRANTS

For the year ended December 31, 2020, Inter Pipeline recorded $19.6 million (2019 - $nil) as a reduction to employee expenses, related to amounts received from the Government of Canada under the Canada Emergency Wage Subsidy. Inter Pipeline also recorded $26.5 million (2019 - $6.2 million) as a reduction to the capital cost of HPC, related to amounts received from the Government of Canada's Strategic Innovation Fund.