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 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

(Signed) Brent C. Heagy
Chief Financial Officer

February 19, 2015

Independent Auditors' Report

To the Shareholders of Inter Pipeline Ltd.

We have audited the accompanying consolidated financial statements of Inter Pipeline Ltd., which comprise the consolidated balance sheets as at December 31, 2014 and 2013 and the consolidated statements of changes in equity, net income (loss), comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

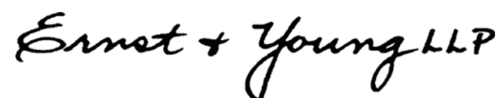
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inter Pipeline Ltd. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.



Calgary, Canada
February 19, 2015

Chartered Accountants

Consolidated Balance Sheets

(thousands of Canadian dollars)	December 31 2014	As at December 31 2013
ASSETS		
Current Assets		
Cash and cash equivalents (note 22)	**$ 61,098**	$ 47,236
Accounts receivable	**156,827**	246,310
Current income taxes receivable (note 12)	**11,474**	-
Derivative financial instruments (note 18)	**424**	5,051
Prepaid expenses and other deposits	**27,007**	41,302
Total Current Assets	**256,830**	339,899
Non-Current Assets		
Derivative financial instruments (note 18)	**-**	395
Property, plant and equipment (note 6)	**7,793,693**	6,699,702
Goodwill and intangible assets (note 7)	**596,663**	617,704
Total Assets	**$ 8,647,186**	$ 7,657,700
LIABILITIES AND EQUITY		
Current Liabilities		
Dividends payable (note 8)	**$ 39,961**	$ 32,980
Accounts payable, accrued liabilities and provisions (notes 10 and 11)	**390,228**	578,748
Current income taxes payable (note 12)	**-**	31,232
Derivative financial instruments (note 18)	**169**	1,394
Deferred revenue	**18,762**	6,763
Convertible shares (notes 13 and 25)	**170,000**	-
Current portion of long-term debt (note 9)	**149,990**	287,983
Commercial paper (note 9)	**1,277,530**	1,309,452
Total Current Liabilities	**2,046,640**	2,248,552
Non-Current Liabilities		
Long-term debt (note 9)	**3,143,941**	2,345,591
Convertible shares (notes 13 and 25)	**-**	170,000
Long-term payable	**-**	395
Provisions (note 10)	**66,702**	65,102
Employee benefits (note 11)	**20,088**	11,886
Long-term deferred revenue and other liabilities	**13,848**	16,461
Deferred income taxes (note 12)	**481,333**	415,446
Total Liabilities	**5,772,552**	5,273,433
Commitments (notes 6 and 16)		
Shareholders' Equity		
Shareholders' equity (note 13)	**2,513,408**	2,045,954
Total reserves (note 13)	**34,731**	54,296
Total Shareholders' Equity	**2,548,139**	2,100,250
Non-Controlling Interest (note 14)	**326,495**	284,017
Total Equity	**2,874,634**	2,384,267
Total Liabilities and Equity	**$ 8,647,186**	$ 7,657,700

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) William D. Robertson
Director

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)

	Attributable to Shareholders of Inter Pipeline Ltd.								
	Class A Limited Liability Partnership Units *(note 13)*	Class B Unlimited Liability Partnership Units *(note 13)*	Share Capital *(note 13)*	Earnings / (Deficit) *(note 13)*	Contributed Surplus *(note 13)*	Reserves *(note 13)*	Total Shareholders' Equity	Non-Controlling Interest *(note 14)*	Total Equity
Balance, January 1, 2014	$ -	$ -	$ 3,096,752	$ (1,053,255)	$ 2,457	$ 54,296	$ 2,100,250	$ 284,017	**$ 2,384,267**
Net income for the year	-	-	-	334,834	-	-	334,834	14,647	**349,481**
Other comprehensive loss	-	-	-	-	-	(19,565)	(19,565)	-	**(19,565)**
Dividends declared (note 8)	-	-	-	(423,070)	-	-	(423,070)	-	**(423,070)**
Issuance of common shares (note 13)									
Issued under Premium Dividend™ and Dividend Reinvestment Plan	-	-	264,472	-	-	-	264,472	-	**264,472**
Issued for cash (net of issue costs)	-	-	291,218	-	-	-	291,218	-	**291,218**
Stated capital adjustment (note 13)	-	-	(1,026,500)	1,026,500	-	-	-	-	**-**
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	-	-	(16,509)	**(16,509)**
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	-	-	44,340	**44,340**
Balance, December 31, 2014	$ -	$ -	$ 2,625,942	$ (114,991)	$ 2,457	$ 34,731	$ 2,548,139	$ 326,495	**$ 2,874,634**
Balance, January 1, 2013	$ 1,681,274	$ 1,681	$ -	$ -	$ -	$ (23,504)	$ 1,659,451	$ 93,357	$ 1,752,808
Net (loss) income for the year	-	-	-	(58,095)	-	-	(58,095)	11,100	(46,995)
Other comprehensive income	-	-	-	-	-	77,800	77,800	-	77,800
Dividends declared (note 8)	-	-	-	(338,184)	-	-	(338,184)	-	(338,184)
Issuance of common shares (note 13)									
Issued under Premium Dividend™ and Dividend Reinvestment Plan	147,082	147	99,462	-	-	-	246,691	-	246,691
Issued for cash (net of issue costs)	-	-	334,221	-	-	-	334,221	-	334,221
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	-	-	(11,865)	(11,865)
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	-	-	191,425	191,425
Transactions due to Corporate Conversion:									
Issuance of common shares (notes 13 and 25)	-	-	178,584	-	-	-	178,584	-	178,584
Amalgamation on Corporate Conversion (note 25)	-	-	-	(218)	-	-	(218)	-	(218)
Reclassifications (note 13)	656,129	661	-	(659,247)	2,457	-	-	-	-
Exchanged on Corporate Conversion (notes 13 and 25)	(2,484,485)	-	2,484,485	-	-	-	-	-	-
Cancellation of Class B partnership units (notes 13 and 25)	-	(2,489)	-	2,489	-	-	-	-	-
Balance, December 31, 2013	$ -	$ -	$ 3,096,752	$ (1,053,255)	$ 2,457	$ 54,296	$ 2,100,250	$ 284,017	$ 2,384,267

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Genuity Corp.

Consolidated Statements of Net Income (Loss)

(thousands of Canadian dollars)		Years Ended December 31 2014		2013
REVENUES				
Operating revenues (note 23)	$	1,556,261	$	1,362,713
EXPENSES				
Shrinkage gas		296,987		235,652
Midstream product purchases		107,319		75,820
Operating (note 21)		368,324		346,652
Depreciation and amortization		142,777		126,686
Financing charges (note 20)		93,630		91,882
General and administrative (note 21)		85,875		77,070
Unrealized change in fair value of derivative financial instruments (note 18)		(985)		9,065
Management and incentive fees to general partner (note 15)		-		7,971
General partner internalization (note 25)		-		348,584
(Gain) loss on disposal of assets		(2,126)		3,729
		1,091,801		1,323,111
INCOME BEFORE INCOME TAXES		464,460		39,602
Provision for income taxes (note 12)				
Current		45,352		57,114
Deferred		69,627		29,483
		114,979		86,597
NET INCOME (LOSS)	$	349,481	$	(46,995)
Net income (loss) attributable to				
Shareholders of Inter Pipeline Ltd.	$	334,834	$	(58,095)
Non-controlling interest (note 14)		14,647		11,100
	$	349,481	$	(46,995)
Net income (loss) per share attributable to shareholders of Inter Pipeline Ltd. (note 13)				
Basic	$	1.05	$	(0.20)
Diluted	$	1.02	$	(0.20)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(thousands of Canadian dollars)	Years Ended December 31 2014	2013
NET INCOME (LOSS)	**$ 349,481**	$ (46,995)
OTHER COMPREHENSIVE (LOSS) INCOME (note 13)		
Item that may be reclassified subsequently to net income (loss)		
Unrealized (loss) gain on translating financial statements of foreign operations	**(15,179)**	80,978
Items that will not be reclassified to net income (loss)		
Actuarial loss on defined benefit pension plan (note 11)	**(5,495)**	(3,492)
Income tax relating to defined benefit pension reserve (note 12)	**1,109**	314
	(19,565)	77,800
COMPREHENSIVE INCOME	**$ 329,916**	$ 30,805
Comprehensive income attributable to		
Shareholders of Inter Pipeline Ltd.	**$ 315,269**	$ 19,705
Non-controlling interest (note 14)	**14,647**	11,100
	$ 329,916	$ 30,805

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)		Years Ended December 31 2014		2013
OPERATING ACTIVITIES				
Net income (loss)	$	**349,481**	$	(46,995)
Items not involving cash:				
Depreciation and amortization		**142,777**		126,686
(Gain) loss on disposal of assets		**(2,126)**		3,729
Non-cash expense		**5,250**		2,004
Unrealized change in fair value of derivative financial instruments		**(985)**		9,065
General partner internalization (note 25)		**-**		348,584
Deferred income tax expense		**69,627**		29,483
Funds from operations		**564,024**		472,556
Net change in non-cash operating working capital (note 22)		**7,650**		(3,882)
Cash provided by operating activities		**571,674**		468,674
INVESTING ACTIVITIES				
Expenditures on property, plant and equipment		**(1,236,085)**		(1,948,471)
Proceeds on disposal of assets		**7,469**		1,790
Net change on amalgamation (note 25)		**-**		(218)
Net change in non-cash investing working capital (note 22)		**(118,797)**		201,385
Cash used in investing activities		**(1,347,413)**		(1,745,514)
FINANCING ACTIVITIES				
Cash dividends paid to shareholders of Inter Pipeline Ltd. (note 8)		**(158,598)**		(91,493)
Cash contributions received from Cold Lake non-controlling interest		**44,340**		191,425
Cash distributions paid by Cold Lake to non-controlling interest		**(16,509)**		(11,865)
Increase in debt		**629,869**		833,119
Transaction costs on debt		**(4,614)**		(4,894)
Issuance of common shares		**300,560**		345,045
Share issue costs		**(11,849)**		(14,356)
Net change in non-cash financing working capital (note 22)		**7,067**		8,739
Cash provided by financing activities		**790,266**		1,255,720
Effect of foreign currency translation on foreign currency denominated cash		**(665)**		3,377
Increase (decrease) in cash and cash equivalents		**13,862**		(17,743)
Cash and cash equivalents, beginning of year		**47,236**		64,979
Cash and cash equivalents, end of year	$	**61,098**	$	47,236
Cash taxes paid	$	**87,441**	$	35,146
Cash interest paid	$	**137,802**	$	105,517

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2014

(tabular amounts in thousands of Canadian dollars, except as otherwise indicated)

1. STRUCTURE OF THE CORPORATION

Inter Pipeline Ltd. (Inter Pipeline or the Corporation) was incorporated under the provisions of the *Business Corporations Act* (Alberta) on January 29, 2013. On May 31, 2013, the Corporation changed its name to Inter Pipeline Ltd. from 1726761 Alberta Ltd. On September 1, 2013, the Corporation carried on the business of Inter Pipeline Fund (the Fund) following the conversion from a limited partnership to a dividend paying corporation (Corporate Conversion) pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) (the Arrangement). The Fund was dissolved and, as a result, comparative figures in these and future financial statements reflect the history of the Fund, as previously reported, to the date of Corporate Conversion (refer to note 25 for more details on Corporate Conversion).

In these consolidated financial statements, Inter Pipeline will refer to common shares, shareholders, restricted share units (RSUs) and dividends, which were formerly referred to as partnership units, unitholders, deferred unit rights and distributions under the partnership structure.

Inter Pipeline is comprised of four industry operating segments located in two geographic segments: oil sands transportation business, conventional oil pipelines business and natural gas liquids (NGL) extraction 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 2600, 237 – 4th Avenue 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 19, 2015.

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). Certain prior year balances have been reclassified to match the current year presentation. 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 derivative financial assets and liabilities and long-term payable/long-term receivable that have been measured at fair value through profit or loss (FVTPL) and long-term incentive plan (LTIP) awards 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 3d.

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. Ownership interests in subsidiaries represented by other parties that do not control the entity are presented in the consolidated statements as balances and activities attributable to non-controlling interest.

Non-controlling Interest

Inter Pipeline has an indirect 85% ownership interest in the Cold Lake Pipeline Limited Partnership (Cold Lake LP) and an 85% ownership interest in its general partner, Cold Lake Pipeline Ltd. (collectively Cold Lake). Non-controlling interest represents a 15% ownership interest in Cold Lake attributable to an unrelated third party. The portion of equity in entities not owned by Inter Pipeline is reflected as non-controlling interest within total equity on the consolidated balance sheets.

Interest in Joint Operation

Inter Pipeline has a 50% interest in the Empress V NGL extraction facility 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.

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) Accounting Policies Adopted in 2014

IFRS Interpretations Committee Interpretation 21 *Levies* (IFRIC 21)

Inter Pipeline adopted IFRIC 21 on January 1, 2014. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The adoption of IFRIC 21 did not result in any changes to the accounting for levies by Inter Pipeline.

d) 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.

The amounts recorded for derivative financial instruments; long-term payable/long-term receivable; consolidation of non-controlling interest; impairment of non-financial assets; depreciation and amortization; 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.

Derivative Financial Instruments and Long-term Payable/Long-term Receivable

Inter Pipeline may utilize derivative financial instruments to manage its exposure to market risk relating to commodity prices, foreign exchange and interest rates. All derivative financial instruments and the long-term payable/long-term receivable are measured at fair value.

The fair values of derivative financial instruments and the long-term payable/long-term receivable are based on an approximation of the amounts that would have been paid to or received from counterparties to settle the instruments outstanding. The fair values of derivative financial instruments and the long-term payable/long-term receivable are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. These forward prices are assessed based on available market information for the time frame for which there are derivative financial instruments in place. These fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in these estimates could be material. These estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and differences could be significant. A significant change in commodity prices, foreign exchange rates or interest rate assumptions underlying mark-to-market valuations of derivative financial instruments and the long-term payable/long-term receivable would change the fair value reported in the consolidated balance sheets and unrealized change in fair value of derivative financial instruments in the consolidated statements of net income.

Consolidation of Non-controlling Interest

On January 2, 2003 Inter Pipeline acquired an additional 70% interest in Cold Lake which, combined with its initial 15% investment acquired on October 5, 2000, resulted in Inter Pipeline owning an 85% interest in Cold Lake. The remaining 15% is owned by an unrelated third party.

Cold Lake's Unanimous Shareholder Agreement (USA) establishes the decision-making abilities of Cold Lake's shareholders in relation to the Cold Lake pipeline system. Cold Lake is administered by a management committee, with each owner represented by two voting members. The USA splits decisions into two categories: those that require minimum approval and

those that require special majority approval. Decisions that are subject to minimum approval require an affirmative vote by members of the management committee representing at least 50% of the shareholders. Therefore, Inter Pipeline is the only owner that has the ability to approve items requiring minimum approval unilaterally. Decisions that are subject to special majority approval require the affirmative vote of at least two members representing 75% or more of the shareholders. Therefore, neither Cold Lake owner can unilaterally approve items requiring special majority approval.

As outlined in the USA, the following items require minimum approval:

- Decision to proceed with a feasibility study for a non-Transportation Service Agreement (Cold Lake TSA) expansion;
- Decision to proceed with non-Cold Lake TSA expansions where a feasibility study has been undertaken and no adverse economic impact is identified; and
- Cold Lake TSA expansions required by founding shippers pursuant to the existing Cold Lake TSA.

As outlined in the USA, the following items require special majority approval:

- Decision to proceed with laterals and extensions;
- Entering into new agreements which create obligations for Cold Lake in excess of a minimum dollar threshold;
- Decision to proceed with a proposed non-Cold Lake TSA expansion where no feasibility study has been undertaken;
- The timing, nature and amount of any debt financing to be undertaken; and
- Approval of Cold Lake's annual operating and capital budgets.

Upon initial adoption of IFRS in 2011, and specifically IAS 27 *Consolidated and Separate Financial Statements* (IAS 27) and IAS 31 *Interests in Joint Ventures* (IAS 31), Inter Pipeline determined that it had joint, rather than sole, control of Cold Lake. Under IAS 27, control was defined as "the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities". IAS 31 indicated that joint control existed when strategic financial and operating decisions relating to the activity required the unanimous consent of the parties sharing control. Inter Pipeline and the third party owner had joint control given that both owners shared control over financing decisions that required majority approval pursuant to the USA. As a result, Inter Pipeline's interest in Cold Lake was treated as a joint venture under IAS 31, and its 85% interest was proportionately consolidated.

In 2013, Inter Pipeline adopted IFRS 10 *Consolidated Financial Statements* (IFRS 10), which revised the definition of control from IAS 27. Under IFRS 10, a single control model was established that focused on relevant activities, which are defined as "activities of an investee that significantly affect the investee's returns" (Relevant Activities), and specifically an investor's power to direct those activities, exposure to variable returns and the ability to use power to affect the amount of an investor's returns. Compared with the requirements of IAS 27, IFRS 10 requires management to exercise significant judgment in its assessment of control including, but not limited to, the determination of the investee's Relevant Activities, the investor's ability to direct those Relevant Activities, the investor's exposure to returns of the investee, as well as rights of other parties. IFRS 10 also requires management to continuously assess control over an investee.

In accordance with IFRS 10, Inter Pipeline determined that it had control over Cold Lake upon the acquisition of the additional 70% interest in 2003. Inter Pipeline, as 85% owner of the Cold Lake pipeline system, has the ability to unilaterally approve all Relevant Activities, which require minimal approval pursuant to the USA. The most significant Relevant Activities include the identification of expansion and other transportation service opportunities, performance of due diligence, undertaking economic feasibility studies and managing decisions to undergo non-Cold Lake TSA capital projects, where a feasibility study has been undertaken. Management believes the ability to exclusively decide to proceed with such capital projects, including the major

capital program to construct a bitumen blend pipeline and associated facilities in support of the Foster Creek project, will significantly affect Cold Lake's returns, which is a key determination of control under IFRS 10. Such project returns are commercially negotiated by Inter Pipeline separately from the fixed returns contained within the Cold Lake TSA.

Capital projects to construct laterals and extensions are not considered to be Relevant Activities as the returns from those projects are fixed based on provisions within the existing Cold Lake TSA. In addition, financing activities are not considered to be significant Relevant Activities given that Cold Lake does not have any external debt, nor does Cold Lake have any intentions at this time to obtain debt financing in the future.

As a result of the foregoing, Inter Pipeline has the ability to unilaterally impact Cold Lake's returns by proceeding with significant capital projects, on a negotiated basis, without the approval or consent of the other third party owner. Projects that require special majority approval are based on returns prescribed within the Cold Lake TSA and have limited applicability to the determination of control under IFRS 10. Based on these considerations, Inter Pipeline has control over Cold Lake.

Impairment of Non-financial Assets

For the purposes of Inter Pipeline's impairment testing, fair value is estimated using a discounted cash flow methodology. This method estimates fair value less costs of disposal 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. Cash flows are estimated from several sources including internal budgets and long-term contractual transportation agreements with shippers. 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 3r).

The determination of the magnitude of impairment involves the use of estimates, assumptions and judgments on highly uncertain matters particularly with respect to determining fair value less costs of disposal. 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 maintenance capital expenditures and commodity prices.

Impairment indicators include 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.

For the purposes of Inter Pipeline's goodwill impairment testing, the recoverable value of a cash generating unit (CGU) calculated in a preceding year may be used in the current year if certain conditions are met. These conditions include: that the assets and liabilities of the CGU to which goodwill has been allocated have not changed significantly since the recoverable value was previously calculated; the most recent recoverable value calculation exceeded the CGU's carrying amount by a substantial margin; and based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable value was calculated, the likelihood that a current recoverable value calculation would be less than the current carrying amount of the CGU is remote. In 2014, Inter Pipeline calculated the recoverable value for all CGU's to which goodwill has been allocated.

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 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 asset on the consolidated balance sheets.

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.

Oil Sands Transportation Business and Conventional Oil Pipelines Business

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

NGL Extraction Business and Bulk Liquid Storage Business

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction facilities and twelve bulk liquid storage facilities, respectively. Inter Pipeline's decommissioning obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of the NGL extraction facilities and leased bulk liquid storage sites. The estimated costs for decommissioning obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the facility 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 of an acquired business is allocated to the identifiable assets acquired and liabilities assumed at their estimated fair values on the acquisition date. The excess of the consideration transferred over the amount allocated to net assets is recorded as goodwill. All available information is used to estimate fair values. External consultants are typically engaged to assist in the fair value determination of identifiable intangible assets and other significant assets or liabilities. The preliminary allocation of consideration transferred may be adjusted, as necessary, up to one year after the acquisition closing date due to additional information impacting asset valuation and liabilities assumed.

The allocation process of the consideration transferred involves uncertainty as management is required to make assumptions and apply judgment to estimates of the fair value of the acquired assets and liabilities, including highest and best use of assets. Quoted market prices and widely accepted valuation techniques, including discounted cash flows and market multiple analyses are used to estimate the fair market value of the assets and liabilities and depreciated replacement costs is 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.

e) Segment Reporting

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location, which is consistent with how the business is managed and results reported to the chief operating decision maker. Each operating segment, which is equivalent to a reportable segment, also uses a measure of profit and loss that represents income before income taxes. Operating segment assets and liabilities are measured on the same basis as consolidated assets and liabilities.

Industry Segments

The oil sands transportation business consists of three pipeline systems that transport petroleum products and diluent and provide related blending and handling services in northern Alberta. The Corridor, Cold Lake and Polaris pipeline systems operate under long-term contracts with a limited number of customers. The conventional oil pipelines business primarily involves the transportation, storage and processing of hydrocarbons, as well as midstream marketing blending and handling services. The NGL extraction business consists of processing natural gas to extract NGLs including ethane and a mixture of propane, butane and pentanes plus (collectively known as propane-plus). The bulk liquid storage business was rebranded Inter

Terminals, effective January 1, 2015, bringing together the Simon Storage operations in the United Kingdom (UK), Germany and Ireland under the same trading banner as Inter Terminals, Denmark. The combined Inter Terminals business involves the primary storage and handling of bulk liquid products through the operation of twelve 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.

f) Revenue Recognition

Oil Sands Transportation Business

Capital fee revenue on the Cold Lake pipeline system is determined by the nature of the contract and is recognized based on either a fixed fee or volumes transported and services provided to each shipper. In addition, an operating fee equivalent to substantially all of Cold Lake LP's operating costs is recovered from the Cold Lake shippers.

Revenue on the Corridor pipeline system is recognized as services are provided in accordance with terms prescribed by the Firm Service Agreement (Corridor FSA) with the shippers. Under the terms of the Corridor FSA, revenues are determined by an agreed upon annual revenue requirement formula which allows for the recovery of prescribed expenditures and costs associated with the operation of the Corridor pipeline system, including debt financing costs, operating costs, Rate Base (as defined in the Corridor FSA) depreciation and taxes, as well as a rate of return on the equity component of the Rate Base determined with reference to a spread over a long-term bond yield reported by the Bank of Canada.

The Polaris pipeline system recognizes capital fee revenue determined by the nature of the contract and is based on either a fixed fee or volumes transported and services provided to each shipper, with an adjustment, if necessary, to reflect each shipper's minimum "ship-or-pay" revenue commitment. In addition, an operating fee equivalent to substantially all of the pipeline's operating costs is recovered from the Polaris pipeline system's shippers.

Conventional Oil Pipelines Business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional oil pipelines gathering systems, namely trunk line tariffs and gathering tariffs are recognized as the services are provided. The majority of volumes are transported on the conventional oil pipelines gathering systems under short-term contracts with a fixed tolling arrangement and no volume commitment made by the shipper.

Volumes purchased by Inter Pipeline to be used in the blending process that are then resold at a pre-arranged differential are recognized on a net basis. Sales of additional volumes created through the blending process are recognized on a gross basis with corresponding product purchases of blend components. Revenue is recognized when title is transferred.

NGL Extraction Business

Revenue for the NGL extraction facilities is recognized when the earnings process is complete. This is as the service is provided or when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred and pricing is either fixed or determinable. Revenue recognition is based on three methodologies: according to the terms of the profit share agreements which include an annualized adjustment; fee based revenue which is recognized when volumes are produced; and cost of service revenue, which is predominantly based on a fixed monthly fee.

Bulk Liquid Storage Business

Revenues are derived from the storage and handling of bulk liquid products and provision of complementary services and are recognized as the services are provided. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duties. Revenue received in advance is recognized over the duration of the contract to which it applies.

Deferred Revenue

Deferred revenue represents cash received in excess of revenues recognized.

g) Net Income (Loss) per Common Share

Basic net income (loss) per common share is calculated by dividing the net income (loss) 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 (loss) 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, and convertible shares outstanding at the end of the period are assumed to have been converted to common shares at their date of issuance or the beginning of the period, whichever is later.

h) Cash and Cash Equivalents

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

i) Long-Term Payable and Long-Term Receivable

Inter Pipeline (Corridor) Inc. (Corridor) may utilize interest rate derivatives to manage a portion of its interest rate risk. Gains or losses arising on the interest rate swap contract were payable to, or recoverable from, the Corridor shippers, respectively; therefore the long-term portion of the unrealized gain or loss was recorded as a long-term liability or asset. The current portion is included in accounts payable, accrued liabilities and provisions or accounts receivable. Inter Pipeline chose to designate the long-term payable/receivable due to/from the Corridor shippers as FVTPL as it represented unrealized gains or losses on interest rate swaps that were classified as FVTPL (note 3r).

j) 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.

Oil Sands Transportation Business

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which is 80 years. The cost of pipelines and facilities includes all expenditures directly attributable to bringing the pipeline to the location and condition necessary for its intended use, including costs incurred for system construction, expansion and betterments until the assets are

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available for use. Pipeline system costs also include an allocation of directly attributable overhead costs and capitalized borrowing costs. Capitalization of borrowing costs ceases when the related property, plant and equipment is substantially complete and ready for its intended productive use.

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

Conventional Oil Pipelines Business

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

NGL Extraction Facilities and Equipment

Property, plant and equipment of the NGL extraction business are comprised primarily of three NGL extraction facilities and associated equipment. Expenditures on facility expansions, major repairs and maintenance, or betterments are capitalized, while routine maintenance and repair costs are expensed as incurred. Depreciation of the extraction facilities and additions thereto is charged once the assets are ready for their intended use, and is calculated on a straight-line basis over the 30 year estimated useful life of the assets.

Storage Facilities and Equipment

The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the property, plant and equipment is calculated on a straight-line basis over the estimated service life of the assets, the majority of which ranges from four to 75 years.

k) Goodwill and Intangible Assets

Goodwill

Inter Pipeline has goodwill in four of its CGU's: the Corridor and Polaris pipeline systems in the oil sands transportation business and Inter Terminals UK, Germany and Ireland and Inter Terminals Denmark in the bulk liquid storage business. Assets are grouped in CGU's which are the lowest levels for which there are separately identifiable cash inflows. Goodwill represents the excess of the consideration transferred over the fair value of the net identifiable assets of the Corridor, Polaris, Inter Terminals UK, Germany and Ireland and Inter Terminals Denmark CGU's. After initial recognition, goodwill is carried at cost less any write downs for impairment. During each fiscal year and as economic events dictate, management conducts an impairment test taking into consideration any events or circumstances which might have impaired the recoverable amount. If the carrying amount of the individual CGU exceeds its recoverable amount, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its recoverable amount, determined on a fair value less costs of disposal discounted cash flow basis.

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 are amortized using an amortization method and term based on estimates of the useful lives of these assets.

Cold Lake Transportation Services Agreement

The Cold Lake TSA intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreement entered into with the Cold Lake founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the Cold Lake TSA expired on December 31, 2011, the term of the Cold Lake TSA extends until Cold Lake LP gives notice that it forecasts it will earn less than $1.0 million of capital fees in the year. The Cold Lake founding shippers may contract with a third party to transport their dedicated petroleum after giving Cold Lake LP notice of at least 20 months prior to the effective date and meeting certain conditions. Cold Lake LP has the right to match any new service offer from a third party. This intangible asset is being amortized on a straight-line basis over 30 years. The remaining amortization period of the Cold Lake TSA is approximately 18 years.

Customer Contracts and Relationships

The NGL extraction business' intangible assets consist of customer contracts for the sales of ethane and propane-plus. Contracts include fee-based contracts, cost-of-service contracts and commodity-based arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition of July 28, 2004, which is the period over which amortization is being charged using the straight-line method. Should the useful life or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly. The average remaining amortization period of the customer contracts is approximately 20 years.

Within the bulk liquid storage business segment, Inter Terminals UK's intangible assets consist of a customer contract for the storage and handling of bulk liquid products. This asset is being amortized on a straight-line basis over 30 years. Should the likelihood of the renewal of the customer contract change, the amortization of the remaining balance would change accordingly. The remaining amortization period of the customer contract is approximately 21 years.

Patent

A patented operational process utilized in one of the NGL extraction facilities is being amortized on a straight-line basis over 14 years from the acquisition of the NGL extraction business on July 28, 2004. The remaining amortization period of the patent is approximately four years.

l) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs include interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are amortized over the estimated service life of the assets to which the borrowings relate.

m) Provisions

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

n) Employee Benefits

Long-term Incentive Plan

Awards are paid in cash under Inter Pipeline's LTIP, therefore a fair value basis of accounting is used 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. 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.

Pension Plans

The cost of pension benefits earned by certain employees in the UK, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected unit credit method. Plan assets are measured at fair value for the purpose of determining the actual return on plan assets. Adjustments for plan amendments are expensed over the vesting period of the employee benefits. Interest on Inter Pipeline's pension plan assets is calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income (OCI). Past service costs are recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognized immediately.

o) Income Taxes

Current Income Taxes

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada 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.

p) 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:

a. 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
b. 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.

Currently only Inter Pipeline Europe Limited (IPEL) and its respective subsidiaries have functional currencies that differ from the Canadian dollar. Neither IPEL nor any of its subsidiaries operate in hyperinflationary economies. IPEL comprises all of the operations in the bulk liquid storage business.

q) Asset Impairment

Non-Financial Assets

Property, plant and equipment 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 CGU's, 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 valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Inter Pipeline calculates the fair value less costs of disposal using a projected cash flow model applying a fair value less costs of disposal discounted cash flow methodology. After-tax cash flows are discounted using a weighted average cost of capital 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.

Goodwill acquired through a business combination is allocated to each CGU, or group of CGU's, that are expected to benefit from the business combination. A group of CGU's 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.

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 by Inter Pipeline at each reporting date to determine whether objective evidence of impairment exists. Significant assets are tested for impairment individually then assessed collectively in a group of assets with similar credit risk characteristics. A financial asset is considered to be impaired if one or more events have occurred that would impact the estimated future cash flows of that asset. If evidence of impairment exists, an entity recognizes an impairment loss, the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is then reduced by this amount with an offsetting entry to net income. Impairment losses on financial assets carried at amortized cost may be reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

r) Financial Instruments

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 risk management policy that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (power, crude oil, natural gas, and NGL's) as well as changes within the financial market relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's risk management policy prohibits the use of derivative financial instruments for speculative purposes.

Financial Instruments – Recognition and Measurement

Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities "held-for-trading" or designated as FVTPL on initial recognition. Financial assets or financial liabilities are classified as "held-for-trading" if they are acquired for the purpose of selling in the near term. Financial assets or financial liabilities are designated as FVTPL if Inter Pipeline manages such investments and makes purchases and sales decisions based on their fair value in accordance with Inter Pipeline's documented risk management policy, or if such designation eliminates or significantly reduces a measurement or recognition inconsistency. Financial assets and financial liabilities at FVTPL are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "cash, loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as "available-for-sale" that do not have a quoted market price in an active market are measured at fair value.

Inter Pipeline has classified its financial instruments as follows: certain components of prepaid expenses and other deposits are classified as "held-for-trading" and measured at carrying value. Cash and cash equivalents and the majority of accounts receivable are classified as "cash, loans and receivables". Dividends payable, the majority of accounts payable, accrued liabilities and provisions, certain components of deferred revenue, convertible shares and long-term debt, short-term debt and commercial paper are classified as "other financial liabilities". Derivative financial instruments and the related current and long-term payable/long-term receivable are classified as FVTPL.

Determination of the fair value of financial assets and liabilities requires the use of valuation techniques that involve many estimates, assumptions and judgments including the timing and magnitude of cash flows, discount rates and reference prices. Estimates of the fair value of derivative contracts outstanding at the end of each financial reporting period are recognized on the consolidated balance sheets and any unrealized changes in these estimates are recognized in the consolidated statements of net income. These amounts are estimates of the fair value at a point in time and the final amount will be determined on the date or interim dates that the derivative contract is settled.

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 derivative financial instruments and fixed rate debt 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 commodities, foreign exchange, interest rates and credit risk premiums. Financial instruments in this category include non-exchange traded derivatives such as over-the-counter commodity forwards, interest rate swaps, and fixed rate debt. 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 derivative financial instruments, convertible shares and fixed rate debt 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 derivative financial instruments and fixed rate debt fair value measurements.

s) Financial Guarantees

Financial guarantees are issued contracts that require a payment to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial

guarantees are initially recognized as a liability at their fair value and subsequently measured at the higher of the unamortized balance of the related fees received and the amount expected to settle at the balance sheet date.

t) Reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve includes exchange differences arising from the translation of the financial statements of foreign operations.

Defined Benefit Pension Reserve

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

u) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use an asset. Leases which transfer substantially all the risks and benefits of ownership to Inter Pipeline are classified as finance leases. The leased asset is recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. Finance lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. Other leases are classified as operating leases and payments are amortized on a straight-line basis over the lease term.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards were issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2015 or later periods with early adoption permitted. The standards impacted are as follows:

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

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and shall be applied to annual periods beginning on or after January 1, 2017, with early adoption permitted. IFRS 15 establishes a control based revenue recognition model under which revenue is recognized when control of the underlying goods or services for the particular performance obligation is transferred to the customer. Inter Pipeline is currently assessing the impact of IFRS 15; however the extent of the impact has not yet been determined.

IFRS 9 *Financial Instruments* (IFRS 9)

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and shall be applied to annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. Inter Pipeline is currently assessing the impact of IFRS 9; however the extent of the impact has not yet been determined.

5. SEGMENT REPORTING

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

Year Ended December 31, 2014	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 476,669	$ 363,942	$ 548,601	$ -	$ 1,389,212	$ 167,049	$ 1,556,261
EXPENSES							
Shrinkage gas	-	-	296,987	-	296,987	-	296,987
Midstream product purchases	-	107,319	-	-	107,319	-	107,319
Operating	117,011	65,861	109,424	-	292,296	76,028	368,324
Depreciation and amortization	57,035	10,734	30,045	3,797	101,611	41,166	142,777
Financing charges	33,919	427	275	57,077	91,698	1,932	93,630
General and administrative	11,757	-	-	62,729	74,486	11,389	85,875
Unrealized change in fair value of derivative financial instruments	-	262	(1,247)	-	(985)	-	(985)
(Gain) loss on disposal of assets	(35)	(114)	2,331	-	2,182	(4,308)	(2,126)
	219,687	184,489	437,815	123,603	965,594	126,207	1,091,801
INCOME (LOSS) BEFORE INCOME TAXES	256,982	179,453	110,786	(123,603)	423,618	40,842	464,460
Provision (recovery) for income taxes	52,207	-	-	62,996	115,203	(224)	114,979
NET INCOME (LOSS)	$ 204,775	$ 179,453	$ 110,786	$ (186,599)	$ 308,415	$ 41,066	$ 349,481
Items not involving cash:							
Depreciation and amortization[1]	57,000	10,620	32,376	3,797	103,793	36,858	140,651
Non-cash expense (recovery)	318	784	408	4,485	5,995	(745)	5,250
Unrealized change in fair value of derivative financial instruments	-	262	(1,247)	-	(985)	-	(985)
Deferred income tax expense (recovery)	44,037	-	-	27,386	71,423	(1,796)	69,627
FUNDS FROM (USED IN) OPERATIONS	$ 306,130	$ 191,119	$ 142,323	$ (150,931)	$ 488,641	$ 75,383	$ 564,024
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 1,128,456	$ 52,629	$ 11,910	$ 9,180	$ 1,202,175	$ 33,977	$ 1,236,152
							As at December 31, 2014
Property, plant and equipment - net book value	$ 6,112,960	$ 522,587	$ 412,179	$ 19,003	$ 7,066,729	$ 726,964	$ 7,793,693
Goodwill and intangible assets - net book value	$ 222,985	$ -	$ 189,975	$ -	$ 412,960	$ 183,703	$ 596,663
Other assets	$ 101,638	$ 43,649	$ 49,394	$ 13,042	$ 207,723	$ 49,107	$ 256,830
TOTAL ASSETS	$ 6,437,583	$ 566,236	$ 651,548	$ 32,045	$ 7,687,412	$ 959,774	$ 8,647,186

(1) Includes (gain) loss on disposal of assets

Year Ended December 31, 2013	Canada					Europe	
	Oil Sands Transportation Business	Conventional Oil Pipelines Business	NGL Extraction Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business	Total Canadian and European Operations
REVENUES	$ 388,463	$ 302,177	$ 520,721	$ -	$ 1,211,361	$ 151,352	$ 1,362,713
EXPENSES							
Shrinkage gas	-	-	235,652	-	235,652	-	235,652
Midstream product purchases	-	75,820	-	-	75,820	-	75,820
Operating	112,768	51,176	114,349	-	278,293	68,359	346,652
Depreciation and amortization	46,609	10,034	28,624	2,645	87,912	38,774	126,686
Financing charges	34,948	619	253	54,758	90,578	1,304	91,882
General and administrative	11,958	-	-	56,273	68,231	8,839	77,070
Unrealized change in fair value of derivative financial instruments	-	(117)	9,182	-	9,065	-	9,065
Management fees to general partner	-	-	-	7,971	7,971	-	7,971
General partner internalization	-	-	-	348,584	348,584	-	348,584
(Gain) loss on disposal of assets	(129)	365	1,787	-	2,023	1,706	3,729
	206,154	137,897	389,847	470,231	1,204,129	118,982	1,323,111
INCOME (LOSS) BEFORE INCOME TAXES	182,309	164,280	130,874	(470,231)	7,232	32,370	39,602
Provision for (recovery of) income taxes	31,427	-	-	61,987	93,414	(6,817)	86,597
NET INCOME (LOSS)	$ 150,882	$ 164,280	$ 130,874	$ (532,218)	$ (86,182)	$ 39,187	$ (46,995)
Items not involving cash:							
Depreciation and amortization[(1)]	46,480	10,399	30,411	2,645	89,935	40,480	130,415
Non-cash (recovery) expense	(42)	338	251	338	885	1,119	2,004
Unrealized change in fair value of derivative financial instruments	-	(117)	9,182	-	9,065	-	9,065
General partner internalization	-	-	-	348,584	348,584	-	348,584
Deferred income tax expense (recovery)	22,316	-	-	14,770	37,086	(7,603)	29,483
FUNDS FROM (USED IN) OPERATIONS	$ 219,636	$ 174,900	$ 170,718	$ (165,881)	$ 399,373	$ 73,183	$ 472,556
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 1,855,408	$ 17,150	$ 35,049	$ 6,933	$ 1,914,540	$ 34,417	$ 1,948,957
							As at December 31, 2013
Property, plant and equipment - net book value	$ 5,039,268	$ 479,761	$ 422,890	$ 14,546	$ 5,956,465	$ 743,237	$ 6,699,702
Goodwill and intangible assets - net book value	$ 225,262	$ -	$ 200,186	$ -	$ 425,448	$ 192,256	$ 617,704
Other assets	$ 153,737	$ 65,048	$ 73,014	$ 405	$ 292,204	$ 48,090	$ 340,294
TOTAL ASSETS	$ 5,418,267	$ 544,809	$ 696,090	$ 14,951	$ 6,674,117	$ 983,583	$ 7,657,700

(1) Includes (gain) loss on disposal of assets

6. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities and Equipment	Pipeline Line Fill	Construction Work in Progress	Total
COST				
Balance, January 1, 2013	$ 5,092,910	$ 273,829	$ 343,398	$ 5,710,137
Additions/transfers from construction[1]	635,497	-	1,946,788	2,582,285
Disposals/completed construction[1]	(7,914)	-	(633,328)	(641,242)
Foreign currency translation adjustments	82,445	-	(68)	82,377
Balance, December 31, 2013	5,802,938	273,829	1,656,790	7,733,557
Additions/transfers from construction[1]	1,384,382	14,141	1,220,291	2,618,814
Disposals/completed construction[1]	(8,661)	-	(1,382,662)	(1,391,323)
Foreign currency translation adjustments	(11,218)	-	383	(10,835)
Balance, December 31, 2014	**$ 7,167,441**	**$ 287,970**	**$ 1,494,802**	**$ 8,950,213**
ACCUMULATED DEPRECIATION				
Balance, January 1, 2013	$ 904,631	$ 11,998	$ -	$ 916,629
Depreciation	102,770	2,905	-	105,675
Disposals	(1,500)	-	-	(1,500)
Foreign currency translation adjustments	13,051	-	-	13,051
Balance, December 31, 2013	1,018,952	14,903	-	1,033,855
Depreciation	122,931	2,905	-	125,836
Disposals	(3,318)	-	-	(3,318)
Foreign currency translation adjustments	147	-	-	147
Balance, December 31, 2014	**$ 1,138,712**	**$ 17,808**	**$ -**	**$ 1,156,520**
NET BOOK VALUE				
At December 31, 2013	$ 4,783,986	$ 258,926	$ 1,656,790	$ 6,699,702
At December 31, 2014	**$ 6,028,729**	**$ 270,162**	**$ 1,494,802**	**$ 7,793,693**

(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 pipeline line fill when the related asset is available for use.

At December 31, 2014, Inter Pipeline expects to spend $711.6 million on property, plant and equipment, of which $401.9 million is due within one year and $309.7 million is due in one to five years. These amounts do not include capital expenditures related to the 15% non-controlling interest in Cold Lake.

The amount of borrowing costs capitalized during the year ended December 31, 2014, was $49.3 million (December 31, 2013 – $26.3 million). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 3.73% (December 31, 2013 – 3.90%).

7. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets Customer Contracts and Relationships	Patent	Tradename	Total Intangible Assets	Total Goodwill and Intangible Assets
COST						
Balance, January 1, 2013	$ 324,077	$ 422,605	$ 8,727	$ 4,174	$ 435,506	$ 759,583
Foreign currency translation adjustments	17,727	2,690	-	374	3,064	20,791
Balance, December 31, 2013	341,804	425,295	8,727	4,548	438,570	780,374
Additions	-	812	-	-	812	812
Disposals	-	(23,572)	-	(4,616)	(28,188)	(28,188)
Foreign currency translation adjustments	(4,223)	(439)	-	68	(371)	(4,594)
Balance, December 31, 2014	**$ 337,581**	**$ 402,096**	**$ 8,727**	**$ -**	**$ 410,823**	**$ 748,404**
ACCUMULATED AMORTIZATION						
Balance, January 1, 2013	$ -	$ 133,125	$ 5,247	$ 1,009	$ 139,381	$ 139,381
Amortization	-	20,249	623	139	21,011	21,011
Foreign currency translation adjustments	-	2,174	-	104	2,278	2,278
Balance, December 31, 2013	-	155,548	5,870	1,252	162,670	162,670
Amortization	-	13,781	623	2,537	16,941	16,941
Disposals	-	(23,572)	-	(3,804)	(27,376)	(27,376)
Foreign currency translation adjustments	-	(509)	-	15	(494)	(494)
Balance, December 31, 2014	**$ -**	**$ 145,248**	**$ 6,493**	**$ -**	**$ 151,741**	**$ 151,741**
NET BOOK VALUE						
At December 31, 2013	$ 341,804	$ 269,747	$ 2,857	$ 3,296	$ 275,900	$ 617,704
At December 31, 2014	**$ 337,581**	**$ 256,848**	**$ 2,234**	**$ -**	**$ 259,082**	**$ 596,663**

a) Goodwill

The carrying amounts of goodwill allocated to the Corridor and Polaris pipeline systems in the oil sands transportation business are $52.6 million and $104.3 million, respectively, in both 2014 and 2013. Goodwill was originally assigned to the Corridor and Polaris CGU's, respectively, upon original acquisition. The carrying amounts of goodwill allocated to the Inter Terminals UK, Germany and Ireland and Inter Terminals Denmark bulk liquid storage business CGU's are $61.0 million and $119.7 million, respectively (December 31, 2013 - $60.5 million and $124.4 million, respectively).

Corridor and Polaris Pipeline Systems

In arriving at the fair value less costs of disposal, after-tax discount rates of 3.5% and 6.5% were applied to after-tax cash flows from the Corridor and Polaris pipeline systems, respectively. Cash flow projections are based on long-term contractual transportation agreements with shippers. These cash flows are then aggregated with a 'terminal value'. The terminal value represents the value of cash flows beyond the tenth year, incorporating a declining growth rate of 1.7% for Corridor and no growth rate for Polaris. The key assumption to which the calculation of fair value less costs of disposal for the Corridor and Polaris pipeline systems are most sensitive is the discount rate used to present value cash flow projections.

Bulk Liquid Storage Business

Goodwill relating to the bulk liquid storage business has been assessed, applying an after-tax discount rate of 7.5% to after-tax cash flows of both the Inter Terminals UK, Germany and Ireland and Inter Terminals Denmark CGU's. Valuations are based on cash flow projections that 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 2.5% for Inter Terminals UK, Germany and Ireland and an annual growth rate of 2.0% for Inter Terminals Denmark. The calculation of fair value less costs of disposal is most sensitive to assumptions about discount rates and revenue.

The key assumptions used by Inter Pipeline in calculating fair value less costs of disposal 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 weighted average cost of capital (WACC) is based on the specific circumstances of each CGU. The WACC calculation takes into account appropriate debt and equity weightings. 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.

Revenues

Revenues in the Corridor and Polaris CGU's are based on long-term contractual transportation agreements with shippers. Revenues in the Inter Terminals UK, Germany and Ireland and Inter Terminals Denmark CGU's are based on management's best estimates, taking into consideration existing contracts, timing of contract renewals, as well as relevant market factors. The market in which Inter Terminals Denmark operates transitioned from backwardation to contango during the second half of 2014 and management's cash flow estimates assume periods of continuation of contango during the ten year forecast period.

Management believes, at December 31, 2014, that there are no reasonably possible changes in any of the key assumptions that would lead to the recoverable amounts being less than the carrying amounts.

b) Intangible Assets

On January 1, 2015, Simon Storage was rebranded as Inter Terminals. As a result, the Simon Storage tradename intangible asset was fully written down during 2014.

8. DIVIDENDS TO SHAREHOLDERS

		December 31 2014		December 31 2013
Dividends declared to shareholders of Inter Pipeline	**$**	**423,070**	$	338,184
Dividends settled with the issuance of shares under the Premium Dividend™ and Dividend Reinvestment Plan		**(264,472)**		(246,691)
Cash dividends paid to shareholders of Inter Pipeline	**$**	**158,598**	$	91,493
Declared amount ($ per share)	**$**	**1.3200**	$	1.1775

TM Denotes trademark of Canaccord Genuity Corp.

As at December 31, 2014, dividends of $40.0 million were payable on 326.2 million outstanding common shares at $0.1225 per share (December 31, 2013 - $33.0 million payable on 306.8 million outstanding common shares at $0.1075 per share).

On January 8, 2015, Inter Pipeline declared dividends of $0.1225 per share. The dividends were paid on February 17, 2015, to all shareholders of record on January 22, 2015. The total declared dividends were approximately $40.0 million. On February 10, 2015, Inter Pipeline declared dividends of $0.1225 per share. The dividends will be paid on or about March 16, 2015, to all shareholders of record on February 24, 2015. The total estimated declared dividends are approximately $40.9 million.

9. LONG-TERM DEBT, SHORT-TERM DEBT AND COMMERCIAL PAPER

		December 31 2014		December 31 2013
$1,550 million Unsecured Revolving Credit Facility (a)	$	1,279,700	$	1,312,200
$1,250 million Unsecured Revolving Credit Facility (b)		686,000		635,000
Loan payable to Private Placement noteholders (c)		-		288,648
Corridor Debentures (d)		300,000		300,000
Senior Unsecured MTN (e)		2,325,000		1,425,000
Long-term debt, short term debt and commercial paper (excluding transaction costs and discounts)		4,590,700		3,960,848
Less: current portion of long-term debt and commercial paper[(1)]		(1,429,700)		(1,600,848)
Long-term debt (excluding transaction costs and discounts)		3,161,000		2,360,000
Transaction costs, net of accumulated amortization		(17,022)		(15,588)
Discount, net of accumulated amortization		(2,217)		(2,234)
Add: Current portion of transaction costs and discounts		2,180		3,413
Long-term debt		3,143,941		2,345,591
Current portion of long-term debt including transaction costs and discounts		149,990		287,983
Commercial paper including transaction costs and discounts[(1)] (a)		1,277,530		1,309,452
	$	4,571,461	$	3,943,026

(1) Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the $1,550 million Unsecured Revolving Credit Facility that has no repayment requirements until December 2018.

a) On December 15, 2014, Corridor extended the maturity date of the $1,550 million Unsecured Revolving Credit Facility to December 14, 2018, which can be extended again under certain conditions. No amounts were outstanding on the $25.0 million demand facility at December 31, 2014 (2013 - $nil), with the exception of letters of credit valued at $0.2 million (2013 – $0.2 million).

   Fees on amounts borrowed at floating rates based on bankers' acceptances are 85 basis points, while fees on unborrowed amounts are 35 basis points (2013 – 100 basis points and 40 basis points, respectively). If Corridor's credit rating changes, the fees on floating rate amounts could increase by up to 60 basis points or reduce by up to 10 basis points, while fees on undrawn amounts could increase by up to 23 basis points and decrease by up to 5 basis points. The effective rate of interest incurred in 2014 was 1.28% (2013 – 1.32%) for the $1,550 million Unsecured Revolving Credit Facility. Fees on amounts borrowed under the demand facility match the $1,550 million Unsecured Revolving Credit Facility while undrawn amounts are not charged standby fees.

b) On April 19, 2013, Inter Pipeline increased the size of its Unsecured Revolving Credit Facility from $750 million to $1,250 million. On September 2, 2013, as a result of Corporate Conversion, Inter Pipeline restated its $1,250 million Unsecured Revolving Credit Facility on terms similar to the previous facility. On December 5, 2014, Inter Pipeline extended the

maturity date of its $1,250 million Unsecured Revolving Credit Facility to December 5, 2019, which can be extended again under certain conditions.

Fees on amounts borrowed at floating rates based on bankers' acceptances are 120 basis points, while fees on unborrowed amounts are 24 basis points (2013 – 120 basis points and 24 basis points, respectively). If Inter Pipeline's credit rating changes, fees on floating rate amounts could increase by up to 105 basis points or be reduced by up to 35 basis points, while fees on undrawn amounts could increase by up to 21 basis points and decrease by up to 7 basis points. The effective rate of interest incurred in 2014 was 2.44% (2013 – 2.42%).

Inter Pipeline increased the size of its demand facility from $20 million to $40 million on May 14, 2013. Inter Pipeline replaced this $40 million demand line with a new $40 million demand facility on September 2, 2013, as a result of the Corporate Conversion. Fees on amounts borrowed under the facility are based on the prime rate plus 20 basis points, while unborrowed amounts are not charged standby fees. No amounts were drawn on this facility at December 31, 2014 or 2013.

At December 31, 2014, letters of credit of $0.4 million were issued by Inter Pipeline under its demand facility (2013 - $0.5 million).

c) On October 28, 2014, the loan payable to Private Placement noteholders of $288.6 million matured and was repaid with funds available under Inter Pipeline's $1,250 million Unsecured Revolving Credit Facility.

d) Corridor Debentures are defined as the $150 million 5.033% Series B debentures and the $150 million 4.897% Series C debentures.

On February 2, 2015, the $150 million 5.033% Series B debentures matured and were repaid with funds available under Corridor's $1,550 million Unsecured Revolving Credit Facility.

Corridor used a derivative instrument to exchange its fixed rate of interest to floating rates of interest on the $150 million 5.033% Series B debentures (note 19). This resulted in an average effective interest rate that is different from the stated interest rate on the $150 million 5.033% Series B debentures of 1.81% (2013 – 1.84%). The interest rate swap terminated on February 2, 2015, concurrent with the maturity of the $150 million 5.033% Series B debentures.

The $150 million 4.897% Series C debentures due February 3, 2020, are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005 and a supplemental indenture dated February 2, 2010. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year, except for 2020 in which case interest is payable on February 3, 2020 for interest accrued for the period from and including August 2, 2019 to and including February 2, 2020.

The $150 million 4.897% Series C debentures are redeemable in whole, or in part, at the option of Corridor at a price equal to the principal amount to be redeemed, plus accrued and unpaid interest including a premium above the implied yield to maturity.

e) On December 9, 2013, Inter Pipeline filed a short form base shelf prospectus with Canadian regulatory authorities. Under provisions detailed in the short form base shelf prospectus, Inter Pipeline may offer and issue, from time to time: (i) common shares; (ii) preferred shares; (iii) debt securities and (iv) subscription receipts (collectively, the "Securities") of up to $3.0 billion aggregate initial offering price of Securities during the 25 month period that the short form base shelf prospectus is valid. Securities may be offered separately or together, in amounts, at prices and on terms to be

determined based on market conditions at the time of sale and set forth in one or more prospectus supplements. This short form base shelf prospectus replaced the previous one filed by the Fund on November 30, 2012.

The Senior Unsecured Medium-Term Notes (MTN) are comprised of the following:

i) On February 2, 2011, Inter Pipeline issued $325 million of 4.967% Unsecured MTN Series 1 (MTN Series 1) due February 2, 2021, in the Canadian public debt market. The MTN Series 1 bear interest at the rate of 4.967% per annum, payable semi-annually in equal instalments in arrears.

ii) On July 29, 2011, Inter Pipeline issued $200 million of 3.839% Unsecured MTN, Series 2 (MTN Series 2) due July 30, 2018, in the Canadian public debt market. The MTN Series 2 bear interest at a rate of 3.839% per annum, payable semi-annually in equal instalments in arrears.

iii) On May 28, 2012, Inter Pipeline issued $400 million of 3.776% Senior Unsecured MTN, Series 3 (MTN Series 3) due May 30, 2022, in the Canadian public debt market. The MTN Series 3 bear interest at the rate of 3.776% per annum, payable semi-annually in equal instalments in arrears.

iv) On July 19, 2013, Inter Pipeline issued $500 million of 3.448% Senior Unsecured MTN, Series 4 (MTN Series 4) due July 20, 2020, in the Canadian public debt market. The MTN Series 4 bear interest at the rate of 3.448% per annum, payable semi-annually in equal instalments in arrears.

v) On May 30, 2014, Inter Pipeline issued $500 million and $400 million of Senior Unsecured MTN in the Canadian public debt market. The $500 million MTN series 5 (MTN Series 5), due May 30, 2044, bear interest at the rate of 4.637% per annum, payable semi-annually in equal instalments in arrears on May 30 and November 30 of each year. The $400 million floating rate MTN series 6 (MTN Series 6), due May 30, 2017, bear interest at the three month Canadian Dealer Offered Rate plus 49 basis points, payable and reset quarterly in arrears on February 28, May 30, August 30 and November 30 in each year. The proceeds from these issuances were used to repay bank indebtedness incurred through funding Inter Pipeline’s capital expenditure program and for other general corporate purposes.

10. PROVISIONS

	Decommissioning Obligations	Environmental Liabilities	Total
Balance, January 1, 2013	$ 41,914	$ 18,039	$ 59,953
Revisions to estimated amount of liabilities	70	(357)	(287)
Obligations discharged	-	(22)	(22)
Accretion expense	1,469	435	1,904
Foreign currency adjustments	3,020	534	3,554
Balance, December 31, 2013	46,473	18,629	65,102
Revisions to estimated amount of liabilities	134	(103)	31
Obligations discharged	-	(21)	(21)
Accretion expense	2,263	277	2,540
Foreign currency adjustments	(781)	(169)	(950)
Balance, December 31, 2014	**$ 48,089**	**$ 18,613**	**$ 66,702**

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 active pipeline systems, NGL extraction facilities and

leased 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:

	Expected Economic Life (years)[1]	Inflation Rate	Long-Term Risk-Free Discount Rate	5 to 10 Year Risk-Free Discount Rate
Oil sands transportation business	80 to 500[2]	1.8%	3.4%	n/a
Conventional oil pipelines business	40 to 500[2]	1.8%	3.4%	2.05% to 3.0%
NGL extraction business	40	1.8%	3.4%	n/a
Bulk liquid storage business	40	1.7% to 2.4%	3.2% to 3.95%	0.75% to 2.7%

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

(2) The expected economic life of the Corridor, Cold Lake, Polaris and Bow River pipeline systems is 80 to 500 years. The mid-point value of 290 years is used in the decommissioning obligation assessment.

In addition to the above provisions, $50.1 million is included in accounts payable, accrued liabilities and provisions related to construction reclamation work at December 31, 2014 (December 31, 2013 - $41.2 million).

11. EMPLOYEE BENEFITS

	December 31 2014	December 31 2013
Long-term incentive plan liability	**$ 8,541**	$ 5,632
Pension liability	**11,547**	6,254
Employee benefits	**$ 20,088**	$ 11,886

a) Long-Term Incentive Plan

Effective January 1, 2006, Inter Pipeline implemented an LTIP for its employees, officers, and directors. The LTIP is governed by a Restricted Share Unit (RSUP) document that defines how awards made under the RSUP will be determined and administered. An 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.

At December 31, 2014, the current portion of the liability included in accounts payable, accrued liabilities and provisions was $22.9 million (December 31, 2013 - $18.5 million). At December 31, 2014, 573,984 RSUs are exercisable. Inter Pipeline’s closing share price at December 31, 2014, was $35.94.

The total intrinsic value of RSUs vested and not exercised as at December 31, 2014 was $21.1 million (December 31, 2013 - $17.6 million).

The weighted average remaining contractual life of the outstanding RSUs as at December 31, 2014, was 1.5 years (December 31, 2013 - 1.5 years).

For the year ended December 31, 2014, RSU costs of $7.6 million were included in operating expenses and $22.7 million were included in general and administrative expenses (2013 - $4.4 million and $19.4 million, respectively).

The following table summarizes the status of Inter Pipeline's RSUs as at December 31, 2014, and December 31, 2013:

	Number of RSUs
Balance, January 1, 2013	1,294,485
Granted	663,635
Exercised	(794,226)
Forfeitures	(31,651)
Balance, December 31, 2013	1,132,243
Granted	637,164
Exercised	(580,099)
Forfeitures	(46,955)
Balance, December 31, 2014	**1,142,353**

b) Pension Liability

Inter Pipeline acquired Inter Terminals UK and Ireland on October 4, 2005 and Inter Terminals Germany on January 1, 2006. At the time of acquisitions, the fair values of the pension plan liabilities were recognized on Inter Pipeline's consolidated balance sheet and there were no unrecognized gains or losses.

UK

Inter Pipeline operates a defined benefit funded pension plan (Pension Fund), providing benefits for its employees based primarily on years of service and final pensionable salary. The Pension Fund is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Pension Fund was carried out as at April 6, 2013. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the reporting date, with the obligation measured using the projected unit method. The Pension Fund was closed to new entrants from September 30, 2010. At the same time, a change was made to the Pension Fund's rules, which restricts the level of future increases in pensionable salaries to the lower of price inflation and 5.0% each year. This change came into effect on April 6, 2011. The next valuation date for funding purposes is April 6, 2016.

Ireland

Inter Pipeline operates a defined benefit funded pension plan (Pension Scheme), which provides benefits for its employees based on years of service and final pensionable salary. The Pension Scheme is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Pension Scheme was carried out as at September 1, 2013. Professionally qualified actuaries performed the actuarial valuation and then adjusted the results to the reporting date, with the obligation measured using the projected unit method. With effect from September 1, 2010, the Pension Scheme was closed to future benefit accrual. The next valuation date for funding purposes is September 1, 2016.

Germany

The German benefit plans included in Inter Pipeline's financial reporting relate to defined benefit retirement pensions and long-service awards. The German arrangements are unfunded and therefore have no assets. The most recent actuarial valuation of the long-term employee and post-retirement benefits under local tax and accounting rules was carried out as at December 31, 2014, by professionally qualified actuaries. For Inter Pipeline's financial reporting purposes the defined benefit obligations are calculated on a triennial basis by independent actuaries using the projected unit credit method, with approximate updates in interim years.

Plan Assets

The pension plans' assets are not Inter Pipeline's assets and therefore are not included in the consolidated balance sheets. Assets are shown at market value using the bid price. The actual distribution of the respective pension plan assets as of December 31 is as follows:

Pension Plan Assets by	UK		Ireland	
Asset Category	**2014**	2013	**2014**	2013
Equity securities	**42%**	47%	**-**	-
Debt securities	**37%**	41%	**-**	-
Real estate	**20%**	12%	**-**	-
Deferred annuity contract	**1%**	-	**100%**	100%
Total	**100%**	100%	**100%**	100%

Actuarial Assumptions

The significant actuarial assumptions adopted in measuring Inter Pipeline's accrued benefit obligations are as follows:

Weighted Average Assumptions	UK		Ireland		Germany	
for Expense	**2014**	2013	**2014**	2013	**2014**	2013
Discount rate	**3.7%**	4.6%	**2.3%**	4.0%	**1.8%**	3.6%
Rate of price inflation	**3.1%**	3.5%	**2.0%**	2.0%	**2.0%**	2.0%
Compensation increase	**3.0%**	3.4%	**n/a**	n/a	**n/a**	n/a
Rate of pension payment increase	**3.0%**	3.4%	**2.8%**	2.8%	**1.5%**	1.5%

Funded Status and Defined Benefit Obligations

The following tables set forth the respective pension plans' funded status and amount included in the accrued liability on Inter Pipeline's consolidated balance sheets.

	December 31, 2014				December 31, 2013			
Change in Accrued Benefit Obligation	UK	Ireland	Germany	Total	UK	Ireland	Germany	Total
Accrued benefit obligation, beginning of year	**$ 100,074**	**$ 929**	**$ 1,209**	**$ 102,212**	$ 80,346	$ 838	$ 1,105	$ 82,289
Current service cost	**1,956**	**-**	**7**	**1,963**	1,830	-	6	1,836
Employee contributions	**293**	**-**	**-**	**293**	454	-	-	454
Interest cost	**4,686**	**36**	**42**	**4,764**	3,428	32	35	3,495
Benefits paid	**(2,743)**	**-**	**(87)**	**(2,830)**	(3,376)	(3)	(95)	(3,474)
Actuarial loss (gain) due to:								
Changes in financial assumptions	**12,039**	**145**	**439**	**12,623**	2,331	(35)	-	2,296
Changes in demographic assumptions	**-**	**-**	**-**	**-**	3,728	-	-	3,728
Experience adjustments	**-**	**(13)**	**-**	**(13)**	3,921	-	37	3,958
Foreign currency adjustments	**2,518**	**(42)**	**(60)**	**2,416**	7,412	97	121	7,630
Accrued benefit obligation, end of year	**$ 118,823**	**$ 1,055**	**$ 1,550**	**$ 121,428**	$ 100,074	$ 929	$ 1,209	$ 102,212

Change in Pension Plan Assets	December 31, 2014 UK	Ireland	Germany	Total	December 31, 2013 UK	Ireland	Germany	Total
Fair value of pension plan assets, beginning of year	**$ 94,713**	**$ 1,245**	**$ -**	**$ 95,958**	$ 78,848	$ 1,045	$ -	$ 79,893
Interest on plan assets	**4,504**	**49**	**-**	**4,553**	3,079	40	-	3,119
Actual return less interest on plan assets	**7,144**	**(29)**	**-**	**7,115**	6,507	(17)	-	6,490
Running costs	**(377)**	**(6)**		**(383)**	(379)	(3)	-	(382)
Employer contributions	**2,781**	**-**	**87**	**2,868**	2,220	56	95	2,371
Employee contributions	**293**	**-**	**-**	**293**	454	-	-	454
Benefits paid	**(2,743)**	**-**	**(87)**	**(2,830)**	(3,376)	(3)	(95)	(3,474)
Foreign currency adjustments	**2,357**	**(50)**	**-**	**2,307**	7,360	127	-	7,487
Fair value of pension plan assets, end of year	**$ 108,672**	**$ 1,209**	**$ -**	**$ 109,881**	$ 94,713	$ 1,245	$ -	$ 95,958

	December 31, 2014				December 31, 2013			
Pension (liability) asset	**$ (10,151)**	**$ 154**	**$ (1,550)**	**$ (11,547)**	$ (5,361)	$ 316	$ (1,209)	$ (6,254)

12. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2014 and 2013 are as follows:

	December 31 2014	December 31 2013
Current income taxes		
Current income tax charge	**$ 41,416**	$ 56,983
Adjustments in respect of current income tax of the previous year	**3,936**	131
Current income tax	**45,352**	57,114
Deferred income taxes		
Relating to the origination and reversal of temporary differences	**73,107**	36,513
Adjustments in respect of deferred income tax of the previous year	**(3,480)**	(700)
Adjustments to deferred tax attributable to changes in tax rates and laws	**-**	(6,330)
Deferred income tax	**69,627**	29,483
Provision for income taxes	**$ 114,979**	$ 86,597

Income taxes recognized directly in shareholders' equity are as follows:

	December 31 2014	December 31 2013
Deferred income tax recovery on defined benefit pension reserve	**$ 1,109**	$ 314
Deferred income tax recovery on share issue costs	**2,507**	3,532
Current income tax recovery on share issue costs	**627**	-
Income tax credited to Shareholders' Equity	**$ 4,243**	$ 3,846

The provision for income taxes is summarized by jurisdiction as follows:

		December 31 2014		December 31 2013
Current income taxes				
Canada	**$**	**43,780**	$	56,328
Europe		**1,572**		786
		45,352		57,114
Deferred income taxes				
Canada		**71,423**		37,086
Europe		**(1,796)**		(7,603)
		69,627		29,483
	$	**114,979**	$	86,597

The components of income before income taxes are summarized below:

		December 31 2014		December 31 2013
Canada	**$**	**423,618**	$	7,232
Europe		**40,842**		32,370
	$	**464,460**	$	39,602

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:

		December 31 2014		December 31 2013
Income before income taxes per consolidated financial statements	**$**	**464,460**	$	39,602
Income before income taxes attributable to non-controlling interest		**(14,656)**		(11,135)
Adjusted income before income taxes		**449,804**		28,467
Tax rate		**25.0%**		25.0%
		112,451		7,117
General partner internalization		**-**		87,369
Deductible intercompany interest expense		**(4,393)**		(3,698)
Impact of rate reductions		**-**		(6,330)
Other		**6,921**		2,139
Provision for income taxes	**$**	**114,979**	$	86,597

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 (Loss)**			
		December 31 2014		December 31 2013		**December 31 2014**		December 31 2013
Property, plant and equipment	**$**	**(522,442)**	$	(439,875)	**$**	**(82,928)**	$	(38,836)
Non-capital losses		**103,690**		95,541		**7,769**		7,182
Goodwill and intangible assets		**(89,772)**		(86,299)		**(4,480)**		(2,059)
Employee benefits		**2,203**		1,081		**(5)**		(91)
Working capital		**296**		317		**(529)**		453
Provisions		**24,650**		13,500		**10,793**		1,598
Derivative financial instruments		**42**		289		**(247)**		2,270
Deferred income tax expense					**$**	**(69,627)**	$	(29,483)
Net deferred tax liability	**$**	**(481,333)**	$	(415,446)				

Reconciliation of net deferred income tax liabilities:

	2014	2013
Balance, January 1	$ (415,446)	$ (384,531)
Tax expense recognized in net income	(69,627)	(29,483)
Tax recovery recognized in equity	2,507	3,532
Tax recovery recognized in OCI	1,109	314
Revaluation of foreign deferred income tax liabilities and other	124	(5,278)
Balance, December 31	$ (481,333)	$ (415,446)

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying amount of the consolidated balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized. The amount of unrecognized losses at December 31, 2014 is $8.3 million (2013 - $5.5 million).

13. SHAREHOLDERS' EQUITY

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.

Issued, Fully Paid and Outstanding

	Number of Class A Units	Number of Class B Units	Number of Common Shares	Total Number	Share Capital
Balance, January 1, 2013	274,880,318	275,422	-	275,155,740	$ 2,339,745
Issued under Premium Dividend™ and Dividend Reinvestment Plan	6,639,917	6,657	4,143,952	10,790,526	246,691
Exchanged on Corporate Conversion	(281,520,235)	-	281,520,235	-	-
Cancellation of Class B units	-	(282,079)	-	(282,079)	(2,489)
Common shares issued on Corporate Conversion, net of issue costs (note 25)	-	-	7,411,683	7,411,683	178,584
Common shares issued, net of issue costs	-	-	13,719,500	13,719,500	334,221
Balance, December 31, 2013	-	-	306,795,370	306,795,370	$ 3,096,752
Issued under Premium Dividend™ and Dividend Reinvestment Plan	-	-	9,016,871	9,016,871	$ 264,472
Common shares issued, net of issue costs	-	-	10,400,000	10,400,000	291,218
Stated capital adjustment	-	-	-	-	(1,026,500)
Balance, December 31, 2014	**-**	**-**	**326,212,241**	**326,212,241**	**$ 2,625,942**

Contributed Surplus

Upon completion of the Corporate Conversion, Inter Pipeline reclassified $2.5 million to contributed surplus, which was previously recorded as partners' equity attributable to Class A and Class B partnership units.

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Deficit

Upon completion of the Corporate Conversion, Inter Pipeline reclassified $659.2 million to deficit, which was previously recorded as partners' equity attributable to Class A and Class B partnership units.

Common Share Issuance

On March 26, 2014, Inter Pipeline closed an equity offering to sell 10,400,000 common shares at $28.90 per share for gross proceeds of $300.6 million. Share issue costs of $11.9 million were incurred and a decrease in the deferred tax liability of $2.5 million was recognized, resulting in net proceeds of $291.2 million.

Stated Capital Adjustment

On May 12, 2014, Inter Pipeline's Board of Directors approved a legal stated capital amount of $1,636.6 million for Inter Pipeline's common shares on the date of Corporate Conversion pursuant to the Arrangement. As a result, Inter Pipeline's share capital was reduced by $1,026.5 million to correspond with the revised legal stated capital amount of the common shares and Inter Pipeline's deficit on the date of Corporate Conversion was eliminated. This stated capital adjustment did not result in any changes to Inter Pipeline's total shareholders' equity, only the components therein.

Premium Dividend™ and Dividend Reinvestment Plan

Effective September 16, 2014, Inter Pipeline suspended the Premium Dividend™ component of the Premium Dividend™ and Dividend Reinvestment Plan. Concurrently, the dividend reinvestment discount was reduced from 5% to 2%.

Calculation of Net Income (Loss) per Common Share

	December 2014	December 31 2013
Net income (loss) attributable to shareholders – basic and diluted	**$ 334,834**	$ (58,095)
Weighted average shares outstanding – basic	**320,210,398**	285,942,828
Effect of Premium Dividend™ and Dividend Reinvestment Plan (1)	**546,464**	-
Effect of convertible shares (1)	**7,055,406**	-
Weighted average shares outstanding – diluted	**327,812,268**	285,942,828
Net income (loss) per common share attributable to shareholders –		
Basic	**$ 1.05**	$ (0.20)
Diluted	**$ 1.02**	$ (0.20)

(1) The effect of 689,706 shares issued under the Premium Dividend™ and Dividend Reinvestment Plan and 2,338,915 convertible shares was not included in the calculation of diluted net loss per common share attributable to shareholders for the year ended December 31, 2013, as they are anti dilutive.

Convertible Shares

The convertible shares issued on September 1, 2013, following Corporate Conversion, were partially contingent on the outcome of certain organic growth projects in the Foster Creek and Christina Lake areas. These projects had not been completed prior to December 31, 2014. As a result, the convertible shares were classified as a current liability at December 31, 2014.

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In January 2015, as a result of successful completion of transportation infrastructure related to the FCCL Foster Creek and Christina Lake expansion projects, the $170 million second instalment, recorded as a current liability at December 31, 2014, and consisting of 7,055,406 convertible shares was satisfied when the convertible shares were converted on a one-for-one basis into common shares of Inter Pipeline. Subsequently, the common shares were recorded as shareholders` equity in January 2015.

Reserves

Reserves are summarized as follows:

		Foreign Currency Translation Reserve		Defined Benefit Pension Reserve		Total Reserves
Balance, January 1, 2013	$	(13,437)	$	(10,067)	$	(23,504)
Other comprehensive income (loss)		80,978		(3,178)		77,800
Balance, December 31, 2013	$	67,541	$	(13,245)	$	54,296
Balance, January 1, 2014	$	67,541	$	(13,245)	$	54,296
Other comprehensive loss		(15,179)		(4,386)		(19,565)
Balance, December 31, 2014	**$**	**52,362**	**$**	**(17,631)**	**$**	**34,731**

14. NON-CONTROLLING INTEREST

Summarized information on the balance sheets and results of operations relating to the 15% non-controlling interest in Cold Lake, which has its principal place of business in Calgary, Alberta, are:

		December 31 2014		December 31 2013
Current assets	**$**	**7,023**	$	21,703
Non-current assets		**328,734**		273,229
Current liabilities		**(9,220)**		(10,884)
Non-current liabilities		**(42)**		(31)
Proportionate share of net assets	**$**	**326,495**	$	284,017

		December 31 2014		December 31 2013
Revenues	**$**	**25,632**	$	21,024
Expenses		**(10,976)**		(9,889)
Current income tax		**(9)**		(35)
Proportionate share of net income and comprehensive income	**$**	**14,647**	$	11,100

At December 31, 2014, purchase obligations related to Cold Lake totalled $67.4 million. In addition, there were $276.7 million of commitments to purchase property, plant and equipment related to Inter Pipeline's 85% interest in the Cold Lake entity. These commitments and purchase obligations are included in total commitments and contingencies disclosed in notes 6 and 16.

15. RELATED PARTY TRANSACTIONS

Inter Pipeline wholly owns a number of subsidiaries located in Canada and Europe and owns an 85% interest in two subsidiaries located in Canada (2013 – 100% interests in Canada and Europe and an 85% interest in two subsidiaries located in Canada).

No revenue was earned from related parties for the years ended December 31, 2014 and 2013.

On June 1, 2013, Inter Pipeline recognized a non-cash general partner internalization expense of $348.6 million related to the indirect purchase of its general partner (note 25).

Following Corporate Conversion on September 1, 2013, Inter Pipeline is no longer required to pay management, acquisition, divestiture and incentive fees to a general partner, which were previously required under the Fund's Limited Partnership Agreement (LPA). Management fees of $8.0 million were earned by the general partner in the year ended December 31, 2013. As a result of Corporate Conversion, no incentive fees were earned by the general partner for the year ended December 31, 2013, as the annual distributable cash threshold of the LPA was not met prior to Corporate Conversion when the LPA was terminated.

Key Management Personnel

Total compensation of the Board of Directors and top three officers consisted of the following for the years ended:

	December 31 2014	December 31 2013
Short-term employee benefits [(1)]	**$ 9,645**	$ 9,023
Share-based payments [(2)]	**12,285**	10,688
Total compensation [(3)]	**$ 21,930**	$ 19,711

(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 expense recognized for RSUs outstanding at the year end and RSUs exercised by key management personnel during the year (see note 11a for a discussion of the RSUP).

(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, 2014 and 2013.

16. COMMITMENTS AND CONTINGENCIES

On June 15, 2007, Inter Pipeline entered into an agreement with the Corridor shippers to guarantee the payment and performance of all obligations, other than repayment of borrowed amounts or similar financial obligations, of Corridor or the operator (if the operator is not Inter Pipeline) in favour of the shippers under the Corridor FSA and other related agreements. The guarantee may be exercised in the event that Corridor, Inter Pipeline, or the operator (if the operator is not Inter Pipeline) fails to pay or perform such obligations for any reason.

Inter Pipeline has purchase obligation commitments totaling approximately $190.9 million at December 31, 2014. Inter Pipeline is also committed to investing capital in the bulk liquid storage business to comply with the UK's post Buncefield regulations. Potential solutions are being evaluated and expenditures are estimated to be in the range of $5.0 million to $7.0 million over the next seven years. Refer to note 6 for expected property, plant and equipment expenditures.

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage, property, plant and equipment and land for periods ranging from 2015 to 2094. Certain leases contain extension and renewal options. The future minimum annual lease payments for these lease commitments are:

Less than one year	$	11,870
One to five years		77,126
After five years		187,935
	$	276,931

17. CAPITAL DISCLOSURES

Financial objectives are aligned with Inter Pipeline's commercial strategies and its long-term outlook for the business. Inter Pipeline's capital management 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. Management manages the capital structure and makes adjustments based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or modify the capital structure, Inter Pipeline may adjust the level of cash dividends paid to shareholders, issue new common shares or new debt, renegotiate new debt terms or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund growth capital and acquisition programs throughout 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 programs. Inter Pipeline generally relies on committed credit facilities and funds from operations in excess of dividends to finance ongoing capital requirements. At December 31, 2014, Inter Pipeline had access to committed credit facilities totaling $2,800.0 million, of which $834.3 million remained unutilized. Inter Pipeline also had access to demand facilities of $65.0 million, of which $64.4 million remained unutilized. Certain unutilized amounts under these facilities are available to specific subsidiaries of Inter Pipeline.

Taking future market trends into consideration, Inter Pipeline regularly forecasts its operational requirements and expected funds from operations to ensure that sufficient funding is available for future sustaining capital programs and dividends to shareholders.

Capital under management includes long-term debt, short-term debt and commercial paper (excluding discounts and transaction costs) and shareholders' equity. Capital management objectives are to provide access to capital at a reasonable cost while maintaining an investment grade long-term corporate credit rating and ensuring compliance with all debt covenants.

Management's long-term objective is to remain well below its maximum permitted ratio of 65% recourse debt to capitalization[*]. The recourse debt to capitalization[*] measure below is similar to the coverage ratio terms contained in Inter Pipeline's credit agreement.

[*] Recourse debt to capitalization is an additional GAAP measure and is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline.

	December 31 2014	December 31 2013
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts, per note 9)		
Recourse debt	$ 3,011,000	$ 2,348,648
Non-recourse debt	1,579,700	1,612,200
	4,590,700	3,960,848
Total shareholders' equity	2,548,139	2,100,250
Total capitalization	$ 7,138,839	$ 6,061,098
Capitalization (excluding non-recourse debt)	$ 5,559,139	$ 4,448,898
Recourse debt to capitalization[(1)]	54.2%	52.8%

(1) Recourse debt to capitalization is an additional GAAP measure and is calculated by dividing the sum of debt facilities outstanding with recourse to Inter Pipeline (excluding discounts and debt transaction costs) by total capitalization excluding outstanding debt facilities with no recourse to Inter Pipeline.

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

18. 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, 2014, are classified as follows:

	Fair Value Through Profit or Loss	Cash, Loans and Receivables	Other Financial Liabilities	Carrying Value of Financial Asset or Liability	Non-Financial Asset or Liability[(1)]	Carrying Value of Asset or Liability
Assets[(2)]						
Cash and cash equivalents	$ -	$ 61,098	$ -	$ 61,098	$ -	$ 61,098
Accounts receivable	-	140,586	-	140,586	16,241	156,827
Derivative financial instruments[(3)]	424	-	-	424	-	424
Prepaid expenses and other deposits	-	2,771	-	2,771	24,236	27,007
Liabilities						
Dividends payable	$ -	$ -	$ 39,961	$ 39,961	$ -	$ 39,961
Accounts payable, accrued liabilities and provisions	424	-	277,617	278,041	112,187	390,228
Derivative financial instruments[(3)]	169	-	-	169	-	169
Deferred revenue and other liabilities	-	-	8,993	8,993	23,617	32,610
Convertible shares (note 13)	-	-	170,000	170,000	-	170,000
Long-term debt, short-term debt and commercial paper (note 9)[(4)]	-	-	4,590,700	4,590,700	-	4,590,700

(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 "available-for-sale" or "held-to-maturity."

(3) Financial instruments measured at FVTPL are recorded at fair value using a discounted cash flow methodology.

(4) Carrying values include commercial paper and exclude discounts and transaction costs with the respective accumulated amortization.

b) Fair Value of Financial Instruments

The fair values of long-term debt, convertible shares and derivative financial instruments are discussed in the following paragraphs.

At December 31, 2014, the carrying values of fixed rate debt and convertible shares compared to fair values are as follows:

	Carrying Value[(1)]	Fair Value
Corridor Debentures	$ 300,000	$ 317,575
Senior Unsecured MTN Series 1 to 5	$ 1,925,000	$ 1,999,059
Convertible shares	$ 170,000	$ 221,540

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

The estimated fair value of the 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.

The estimated fair value of the convertible common shares is calculated as the 20 day volume adjusted weighted average price of Inter Pipeline's shares.

The fair values of derivative financial instruments are calculated by Inter Pipeline using a discounted cash flow methodology with reference to actively quoted forward prices and/or published price quotations in an observable market and market valuations provided by counterparties. Forward prices for NGL swaps are less transparent because they are less actively traded. These forward prices are assessed based on available market information for the time frame for which there are derivative instruments in place. These fair values are discounted using a risk-free rate plus a credit premium that takes into account the credit quality of the instrument.

The fair values of derivatives and other financial instruments used for risk management activities are recorded in the consolidated balance sheets as follows:

	December 31 2014	December 31 2013
Current asset	**$ 424**	$ 5,051
Non-current asset	**-**	395
Current liability	**(169)**	(1,394)
	$ 255	$ 4,052

Derivative financial instruments carried at fair value are as follows:

	December 31 2014	December 31 2013
Power price risk management		
Electricity price swaps	**$ (169)**	$ 93
	(169)	93
Frac-spread risk management		
NGL swaps	**-**	(1,287)
AECO natural gas swaps	**-**	147
Foreign exchange swaps	**-**	(107)
	-	(1,247)
Interest rate risk management		
Interest rate swaps	**424**	5,206
	424	5,206
	$ 255	$ 4,052

c) Net Gains or Losses

Realized and Unrealized Gain (Loss) on Derivative Instruments – Fair Value Through Profit or Loss

Realized gains (losses) represent actual settlements under derivative contracts during the year. The realized gains (losses) on derivative financial instruments recognized in net income (loss) were:

	December 31 2014	December 31 2013
Revenues		
NGL swaps	$ 537	$ 17,133
Foreign exchange swaps (frac-spread)	(329)	(4,585)
	208	12,548
Shrinkage gas expense		
Natural gas swaps	(1,721)	(7,600)
	(1,721)	(7,600)
Operating expenses		
Electricity price swaps	(9)	363
	(9)	363
Financing charges		
Interest rate swap	4,832	4,784
	4,832	4,784
Net realized gain on derivative financial instruments	$ 3,310	$ 10,095

The unrealized change in fair value related to derivative financial instruments recognized in net income (loss) was:

	December 31 2014	December 31 2013
Power price risk management		
Electricity price swaps	$ (262)	$ 118
	(262)	118
Frac-spread risk management		
NGL swaps	1,287	(17,533)
Natural gas swaps	(147)	6,922
Foreign exchange swaps	107	1,428
	1,247	(9,183)
Unrealized change in fair value of derivative financial instruments	$ 985	$ (9,065)

Realized and Unrealized Gain (Loss) on Other Classes of Financial Instruments

Inter Pipeline had no significant gains (losses) or impairment losses on other classes of financial instruments.

19. RISK MANAGEMENT

Inter Pipeline is exposed to a number of inherent financial risks arising in the normal course of operations which include market price 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, interest rates and foreign exchange. Inter Pipeline has a risk management policy in place that defines and specifies the controls and responsibilities associated with those activities managing market exposure to changing commodity prices (power, crude oil, natural gas, and NGLs) as well as changes within

financial markets relating to interest rates and foreign exchange exposure for Inter Pipeline. Inter Pipeline's risk management policy prohibits the use of derivative financial instruments for speculative purposes.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on derivative financial instruments and long-term debt, short-term debt and commercial paper outstanding at December 31, 2014. 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.

Power Price Risk Management

Inter Pipeline may enter into electricity price swap contracts to manage power price risk exposure in the conventional oil pipelines business. During the year ended December 31, 2014, Inter Pipeline entered into an electricity price swap agreement in addition to the existing electricity price swap agreement entered into in 2013. Inter Pipeline may also enter into financial heat rate swap contracts to manage power price risk exposure in the NGL extraction business. As at December 31, 2014, there are no heat rate price swap agreements outstanding.

At December 31, 2014, a 10% change in Alberta power pool commodity prices in isolation with all other variables held constant would have changed the mark-to-market valuation of Inter Pipeline's derivative financial instruments used to manage power price risk, and consequently after-tax income, by approximately $0.1 million.

Frac-spread Risk Management

Inter Pipeline is exposed to frac-spread risk which is the relative price differential between the sale of NGL produced and the purchase of shrinkage gas used to replace the heat content removed during the extraction of the NGL from the natural gas stream. Derivative financial instruments are utilized to manage frac-spread risk.

Inter Pipeline may enter into NGL, AECO natural gas, and foreign exchange swap contracts to manage frac-spread risk exposure in the NGL extraction business. As at December 31, 2014, there were no frac-spread hedges outstanding, however, Inter Pipeline may decide to hedge this risk in the future.

Interest Rate Risk Management

Interest rate risk is the risk that the fair value or 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 enters into interest rate swap agreements to manage its interest rate price risk exposure.

At December 31, 2014, Inter Pipeline had a fixed-to-floating interest rate swap on the $150 million 5.033% Series B Corridor debenture. The interest rate swap terminated on February 2, 2015, concurrent with the maturity of the $150 million 5.033% Series B debentures.

Inter Pipeline's exposure to interest rate risk primarily relates to its long-term debt obligations and fair valuation of floating-to-fixed interest rate swap agreements. 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. Since the fair value gains and losses on the fixed-to-floating

interest rate swap agreements are offset by the long-term payable or long-term receivable, there is no interest rate risk on these agreements.

Based on the variable rate debt obligations outstanding at December 31, 2014, a 1% change in interest rates at this date would have changed interest expense for the year ended December 31, 2014, by approximately $22.0 million assuming all other variables remain constant. Of this amount, $12.8 million for the year ended December 31, 2014, relates to the $1,550 million Unsecured Revolving Credit Facility (note 9) and is recoverable through the terms of the Corridor FSA; therefore, the after-tax income impact for the year ended December 31, 2014 would be $6.9 million.

Foreign Exchange Risk Management

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its European based subsidiaries and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at December 31, 2014, there are 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 credit approval and monitoring procedures.

With respect to credit risk arising from cash, deposits and derivative financial instruments, Inter Pipeline believes the risks of non-performance of counterparties are minimal as cash, deposits and derivative financial instruments outstanding are predominantly held with major financial institutions or investment grade corporations.

At December 31, 2014, 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, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees 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 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.

At December 31, 2014, accounts receivable outstanding meeting the definition of past due and impaired are insignificant.

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL extraction business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2014, accounts receivable associated with these two business segments were $105.5 million or 67.3% 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 17 for capital disclosures and note 16 for commitments and contingencies). The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at December 31, 2014, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Dividends payable	$ 39,961	$ 39,961	$ -	$ -
Accounts payable, accrued liabilities and provisions	390,228	390,228	-	-
Derivative financial instruments[(1)]	171	171	-	-
Deferred revenue and other liabilities	32,610	18,762	8,667	5,181
Convertible shares[(2)]	170,000	170,000	-	-
Long-term debt, short-term debt and commercial paper[(3)]	4,590,700	1,429,700	1,286,000	1,875,000
	$ 5,223,670	$ 2,048,822	$ 1,294,667	$ 1,880,181

(1) Derivative financial instruments are shown on a net basis. Derivative financial instruments represent an estimate of the fair value liability on an undiscounted basis for financially net settled derivative contracts outstanding at December 31, 2014, based upon contractual maturity dates. Fair values of derivative financial instruments reported on the consolidated balance sheets are shown on a discounted basis.

(2) Convertible shares were converted to equity in January 2015 and were not settled in cash (note 13).

(3) Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the $1,550 million Unsecured Revolving Credit Facility that has no repayment requirements until December 2018.

20. FINANCING CHARGES

	December 31 2014	December 31 2013
Interest expense on credit facilities	**$ 37,854**	$ 38,004
Interest on loan payable to Private Placement noteholders	**14,540**	17,692
Interest on Corridor Debentures	**10,063**	10,111
Interest on Senior Unsecured MTN	**73,945**	46,634
Total Interest	**136,402**	112,441
Capitalized interest	**(49,332)**	(26,323)
Amortization of transaction costs on long-term debt, short- term debt and commercial paper	**3,809**	3,483
Accretion of provisions and pension plan funding charges	**2,751**	2,281
Financing charges	**$ 93,630**	$ 91,882

21. EXPENSES BY NATURE

	December 31 2014	December 31 2013
Fuel and power	**$ 111,446**	$ 116,082
External services	**79,208**	79,579
Employee costs	**115,980**	95,227
Property taxes	**30,054**	26,862
Materials and supplies	**34,065**	28,644
Transportation and storage	**67,783**	61,082
Other	**15,663**	16,246
Total expenses by nature	**$ 454,199**	$ 423,722
Allocated to:		
Operating	**368,324**	346,652
General and administrative	**85,875**	77,070
	$ 454,199	$ 423,722

22. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-cash Working Capital

	December 31 2014		December 31 2013
Accounts receivable	$	89,483	$ (99,564)
Current income taxes receivable		(11,474)	-
Prepaid expense and other deposits		14,295	(10,023)
Dividends payable		6,981	7,528
Accounts payable, accrued liabilities and provisions		(184,134)	285,508
Current income taxes payable		(31,232)	620
Deferred revenue		11,999	22,547
Impact of foreign exchange rate differences and other		2	(374)
Changes in non-cash working capital	$	(104,080)	$ 206,242
These changes relate to the following activities:			
Operating	$	7,650	$ (3,882)
Investing		(118,797)	201,385
Financing		7,067	8,739
Changes in non-cash working capital	$	(104,080)	$ 206,242

Cash and Cash Equivalents

	December 31 2014		December 31 2013
Cash on hand and at banks	$	56,537	$ 36,984
Short-term deposits		4,561	10,252
	$	61,098	$ 47,236

23. MAJOR CUSTOMERS

In 2014, two of the principal customers of the NGL extraction business accounted for 30% (2013 – two of the principal customers of the NGL extraction business accounted for 30%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

24. JOINT OPERATION

50% Interest in Empress V Extraction Facility

Summarized information on the results of financial position and operations relating to Inter Pipeline's 50% interest in the Empress V extraction facility are:

	December 31 2014		December 31 2013
Current assets	$	13,924	$ 14,108
Non-current assets		91,945	96,241
Current liabilities		(12,838)	(10,266)
Non-current liabilities		(853)	(802)
Proportionate share of net assets	$	92,178	$ 99,281

		December 31 2014		December 31 2013
Revenues	$	127,035	$	110,644
Expenses		(119,287)		(100,094)
Proportionate share of net income and comprehensive income	$	7,748	$	10,550

The principal place of business of this joint operation is Calgary, Alberta. At December 31, 2014, there were no commitments to purchase property, plant and equipment and no purchase obligations related to Inter Pipeline's interest in the jointly controlled Empress V extraction facility.

25. CORPORATE RESTRUCTURING

On June 1, 2013, the Fund completed several internal transactions (Internalization Transactions) related to the restructuring of its limited partnership structure to position the business for a planned conversion to corporate form, which eliminated all management, acquisition, divestiture and incentive fees payable to the general partner (note 15). The Fund indirectly purchased its general partner, Pipeline Management Inc., which was a wholly owned subsidiary of Pipeline Assets Corp. (PAC), for initial consideration of $170 million, plus adjustments of $8.6 million, and a second instalment of up to $170 million, which was partially contingent on the outcome of certain organic growth projects in the Foster Creek and Christina Lake areas (note 13). As a result, the Fund recognized a $348.6 million non-cash expense on June 1, 2013.

As a result of the Internalization Transactions, the PAC shareholders agreed to accept consideration in the form of Class A and Class B preferred shares in Inter Pipeline GP Corp., a new corporation established for the purpose of the Internalization Transactions, rather than cash. Initial consideration of $178.6 million, including adjustments of $8.6 million, was satisfied with the issuance of 7,411,683 Class A preferred shares in Inter Pipeline GP Corp. on June 1, 2013. On September 1, 2013, the Class A preferred shares were exchanged on a one-for-one basis for common shares in Inter Pipeline upon successful completion of Corporate Conversion.

Consideration transferred to the PAC shareholders for the second instalment of $170 million was in the form of 7,055,406 Class B preferred shares in Inter Pipeline GP Corp., which were exchanged on a one-for-one basis for convertible shares of Inter Pipeline on September 1, 2013, as a result of Corporate Conversion. In connection with these internalization transactions, each of the PAC shareholders agreed to indemnify Inter Pipeline in certain instances and pledged its convertible shares, and any common shares received upon conversion of the convertible shares, to secure its obligations under such indemnity. The convertible shares were converted to common shares of Inter Pipeline in January 2015 (note 13). The common shares that were issued in place of the convertible shares are held by Computershare Trust Company of Canada, as collateral agent, until the date that is 27 months after completion of the Corporate Conversion.

The Internalization Transactions were accounted for as transactions between entities under common control. On June 1, 2013, Inter Pipeline GP Corp. and PAC amalgamated as one corporate entity, Inter Pipeline GP Corp.

On September 1, 2013, the Fund was dissolved, the general partner assumed all assets and liabilities of the Fund and then on September 2, 2013, Pipeline Management Inc., Inter Pipeline GP Corp., Inter Pipeline Putco Corp. and Inter Pipeline amalgamated as one corporate entity, and continued carrying on the business of the Fund as Inter Pipeline.

These audited consolidated financial statements of Inter Pipeline follow the continuity of interests at book value basis of accounting for the amalgamation. As a result, Inter Pipeline's consolidated statements of net (loss) income, comprehensive income and cash flows for the year ended December 31, 2013, are a combination of the Fund's statements of net (loss) income, comprehensive income and cash flows for the period January 1, 2013 to August 31, 2013, plus the statements of net income,

comprehensive income and cash flows of the amalgamated entities from September 1, 2013 to December 31, 2013. Inter Pipeline's balance sheet at December 31, 2013, is an amalgamation of the balance sheets of the Funds and the amalgamating entities, after eliminating inter company transactions.

On amalgamation, the following assets and liabilities of the amalgamated companies were transferred to Inter Pipeline:

Cash	$	8,955
Working capital		(9,173)
Deficit	$	(218)

As a result of Corporate Conversion, the LPA was terminated and Inter Pipeline is no longer required to pay management, acquisition, divestiture or incentive fees (note 15). The general and administrative costs previously incurred by the general partner for all matters relating to the operation of the Fund had historically been recorded in the financial statements of the Fund as operating or general and administrative expenses.