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 18, 2016

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, 2015 and 2014 and the consolidated statements of changes in equity, net income, 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, 2015 and 2014 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Calgary, Canada
February 18, 2016

Chartered Professional Accountants

Consolidated Balance Sheets

(millions of Canadian dollars)	December 31 2015	As at December 31 2014
ASSETS		
Current Assets		
Cash and cash equivalents (note 23)	**$ 40.3**	$ 61.1
Accounts receivable	**183.1**	156.8
Current income taxes receivable (note 13)	**-**	11.5
Derivative financial instruments (note 19)	**-**	0.4
Prepaid expenses and other deposits	**26.9**	27.0
Total Current Assets	**250.3**	256.8
Non-Current Assets		
Property, plant and equipment (note 7)	**8,183.9**	7,793.7
Goodwill and intangible assets (note 8)	**595.2**	596.7
Total Assets	**$ 9,029.4**	$ 8,647.2
LIABILITIES AND EQUITY		
Current Liabilities		
Dividends payable (note 9)	**$ 43.8**	$ 39.9
Accounts payable, accrued liabilities and provisions (notes 11 and 12)	**220.6**	390.2
Current income taxes payable (note 13)	**29.6**	-
Derivative financial instruments (note 19)	**-**	0.2
Deferred revenue	**7.5**	18.8
Convertible shares (note 14)	**-**	170.0
Demand facility (note 10)	**26.4**	-
Current portion of long-term debt (note 10)	**-**	150.0
Commercial paper (note 10)	**1,384.4**	1,277.5
Total Current Liabilities	**1,712.3**	2,046.6
Non-Current Liabilities		
Long-term debt (note 10)	**3,421.9**	3,144.0
Provisions (note 11)	**89.6**	66.7
Employee benefits (note 12)	**20.3**	20.1
Long-term deferred revenue and other liabilities	**10.7**	13.9
Deferred income taxes (note 13)	**618.0**	481.3
Total Liabilities	**5,872.8**	5,772.6
Commitments (notes 7 and 17)		
Shareholders' Equity		
Shareholders' equity (note 14)	**2,707.2**	2,513.4
Total reserves (note 14)	**113.9**	34.7
Total Shareholders' Equity	**2,821.1**	2,548.1
Non-Controlling Interest (note 15)	**335.5**	326.5
Total Equity	**3,156.6**	2,874.6
Total Liabilities and Equity	**$ 9,029.4**	$ 8,647.2

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

(millions of Canadian dollars)

	Attributable to Shareholders of Inter Pipeline Ltd.						
	Share Capital (note 14)	Earnings / (Deficit)	Contributed Surplus	Reserves (note 14)	Total Shareholders' Equity	Non-Controlling Interest (note 15)	Total Equity
Balance, January 1, 2015	$ 2,625.9	$ (115.0)	$ 2.5	$ 34.7	$ 2,548.1	$ 326.5	**$ 2,874.6**
Net income for the year	-	427.4	-	-	427.4	35.6	**463.0**
Other comprehensive income	-	-	-	79.2	79.2	-	**79.2**
Dividends declared (note 9)	-	(497.1)	-	-	(497.1)	-	**(497.1)**
Issuance of common shares (note 14)							
Issued under Premium Dividend™ and Dividend Reinvestment Plan	93.5	-	-	-	93.5	-	**93.5**
Exchanged from convertible shares	170.0	-	-	-	170.0	-	**170.0**
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	(39.5)	**(39.5)**
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	12.9	**12.9**
Balance, December 31, 2015	$ 2,889.4	$ (184.7)	$ 2.5	$ 113.9	$ 2,821.1	$ 335.5	**$ 3,156.6**
Balance, January 1, 2014	$ 3,096.7	$ (1,053.2)	$ 2.5	$ 54.3	$ 2,100.3	$ 284.0	$ 2,384.3
Net income for the year	-	334.8	-	-	334.8	14.7	349.5
Other comprehensive loss	-	-	-	(19.6)	(19.6)	-	(19.6)
Dividends declared (note 9)	-	(423.1)	-	-	(423.1)	-	(423.1)
Issuance of common shares (note 14)							
Issued under Premium Dividend™ and Dividend Reinvestment Plan	264.5	-	-	-	264.5	-	264.5
Issued for cash (net of issue costs)	291.2	-	-	-	291.2	-	291.2
Stated capital adjustment	(1,026.5)	1,026.5	-	-	-	-	-
Cash distributions paid by Cold Lake to non-controlling interest	-	-	-	-	-	(16.5)	(16.5)
Capital contributions received from Cold Lake non-controlling interest	-	-	-	-	-	44.3	44.3
Balance, December 31, 2014	$ 2,625.9	$ (115.0)	$ 2.5	$ 34.7	$ 2,548.1	$ 326.5	$ 2,874.6

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Genuity Corp.

Consolidated Statements of Net Income

(millions of Canadian dollars)	2015	2014
	Years Ended December 31	
REVENUES		
Operating revenues (note 25)	**$ 1,676.3**	$ 1,556.3
EXPENSES		
Shrinkage gas	**183.1**	297.0
Midstream product purchases	**62.6**	107.7
Operating (note 22)	**381.3**	367.9
Depreciation and amortization	**188.4**	142.8
Financing charges (note 21)	**142.1**	93.6
General and administrative (note 22)	**63.0**	85.9
Unrealized change in fair value of derivative financial instruments	**(0.2)**	(1.0)
Loss (gain) on disposal of assets	**5.6**	(2.1)
	1,025.9	1,091.8
INCOME BEFORE INCOME TAXES	**650.4**	464.5
Provision for income taxes (note 13)		
Current	**70.0**	45.4
Deferred	**117.4**	69.6
	187.4	115.0
NET INCOME	**$ 463.0**	$ 349.5
Net income attributable to		
Shareholders of Inter Pipeline Ltd.	**$ 427.4**	$ 334.8
Non-controlling interest (note 15)	**35.6**	14.7
	$ 463.0	$ 349.5
Net income per share attributable to shareholders of Inter Pipeline Ltd. (note 14)		
Basic	**$ 1.28**	$ 1.05
Diluted	**$ 1.28**	$ 1.02

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

(millions of Canadian dollars)		Years Ended December 31 2015		2014
NET INCOME	**$**	**463.0**	$	349.5
OTHER COMPREHENSIVE INCOME (LOSS) (note 14)				
Item that may be reclassified subsequently to net income				
Unrealized gain (loss) on translating financial statements of foreign operations		**81.0**		(15.2)
Items that will not be reclassified to net income				
Actuarial loss on defined benefit pension plan (note 12)		**(1.6)**		(5.5)
Income tax relating to defined benefit pension reserve (note 13)		**(0.2)**		1.1
		79.2		(19.6)
COMPREHENSIVE INCOME	**$**	**542.2**	$	329.9
Comprehensive income attributable to				
Shareholders of Inter Pipeline Ltd.	**$**	**506.6**	$	315.2
Non-controlling interest (note 15)		**35.6**		14.7
	$	**542.2**	$	329.9

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years Ended December 31 2015	2014
OPERATING ACTIVITIES		
Net income	**$ 463.0**	$ 349.5
Items not involving cash:		
Depreciation and amortization	**188.4**	142.8
Loss (gain) on disposal of assets	**5.6**	(2.1)
Non-cash (recovery) expense	**(0.1)**	5.2
Unrealized change in fair value of derivative financial instruments	**(0.2)**	(1.0)
Deferred income tax expense	**117.4**	69.6
Funds from operations	**774.1**	564.0
Net change in non-cash operating working capital (note 23)	**(13.6)**	7.7
Cash provided by operating activities	**760.5**	571.7
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(341.6)**	(1,236.1)
Proceeds on disposal of assets	**4.0**	7.5
Acquisition of Inter Terminals Sweden (note 5)	**(128.3)**	-
Assumption of cash on acquisition of Inter Terminals Sweden (note 5)	**0.6**	-
Net change in non-cash investing working capital (note 23)	**(151.0)**	(118.8)
Cash used in investing activities	**(616.3)**	(1,347.4)
FINANCING ACTIVITIES		
Cash dividends paid to shareholders of Inter Pipeline Ltd. (note 9)	**(403.6)**	(158.6)
Cash distributions paid by Cold Lake to non-controlling interest	**(39.5)**	(16.5)
Cash contributions received from Cold Lake non-controlling interest	**12.9**	44.3
Increase in debt	**261.7**	629.9
Transaction costs on debt	**(3.2)**	(4.6)
Issuance of common shares	**-**	300.6
Share issue costs	**-**	(11.9)
Net change in non-cash financing working capital (note 23)	**4.4**	7.1
Cash (used in) provided by financing activities	**(167.3)**	790.3
Effect of foreign currency translation on foreign currency denominated cash	**2.3**	(0.7)
(Decrease) increase in cash and cash equivalents	**(20.8)**	13.9
Cash and cash equivalents, beginning of year	**61.1**	47.2
Cash and cash equivalents, end of year	**$ 40.3**	$ 61.1
Cash taxes paid	**$ 27.4**	$ 87.4
Cash interest paid	**$ 134.5**	$ 137.8

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2015

(millions 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 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.

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 18, 2016.

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 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 3c.

b) Basis of Consolidation

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

Subsidiaries

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Inter Pipeline obtained control, and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions, and unrealized gains and losses from intercompany transactions, are eliminated on consolidation. 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. Cold Lake is governed by a Unanimous Shareholder Agreement (USA) which establishes the decision making abilities of the Cold Lake shareholders in relation to the Cold Lake pipeline system. Inter Pipeline has the ability to unilaterally approve those activities determined by management to most significantly impact returns without the consent of the unrelated third party, such as 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 Transportation Service Agreement (TSA) capital projects, where a feasibility study has been undertaken. Accordingly, the results of Cold Lake are fully consolidated by Inter Pipeline and 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) 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 consolidation of non-controlling interest; impairment of non-financial assets; depreciation and amortization; revenue from oil sands transportation service agreements; 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.

Consolidation of Non-controlling Interest

Management is required to exercise significant judgment in its assessment of control including, but not limited to, the determination of the activities of the investee that significantly affect the investee's returns, the investor's ability to direct those activities, the investor's exposure to returns of the investee, as well as the rights of other parties.

Cold Lake's USA establishes the decision-making abilities of Cold Lake's shareholders in relation to the Cold Lake pipeline system. Inter Pipeline has the ability to unilaterally approve those activities determined by management to most significantly impact Cold Lake's returns and to proceed with significant capital projects, on a negotiated basis, without the approval or consent of the other third party owner. As a result, Inter Pipeline continues to have 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 agreements with customers. Observable market data is used to develop discount rates for each business, which approximate the discount rate from a market participant's perspective. The fair value measurement is classified within level 3 of the fair value hierarchy (note 3p).

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

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 2015, Inter Pipeline calculated the recoverable value of the Inter Terminals

Denmark GCU. The recoverable values calculated in 2014 were used by the Corridor, Polaris, and Inter Terminals United Kingdom (UK), Germany and Ireland CGU's.

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.

Revenue from Oil Sands Transportation Services Agreements

Inter Pipeline conducts most of its oil sands transportation business under long-term transportation service agreements. Judgment is required when assessing whether the deliverables within an agreement are separately identifiable services. A service is considered separately identifiable if a shipper can benefit from the service on its own, independent from other services in the contract. Separately identifiable services may include, but are not limited to, ship-or-pay transportation services utilizing dedicated capacity and spot transportation services where capacity is not reserved for the shipper.

Revenue is allocated between the separately identifiable services based on their relative estimated stand-alone selling prices, determined at contract inception. In the absence of available market prices, the determination of stand-alone fair value for each identifiable service requires the use of estimates and assumptions including, but not limited to, volume and capital requirements, length of contract, location, and competitive environment. Forecasting volumes involves the use of estimates, assumptions and judgments on highly uncertain matters, such as when a shipper's production facility will commence operations, speed and magnitude of production ramp-up, timing of additional capital projects and the ultimate production capacity of the shipper's production facilities.

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 diameter and length of the pipeline and the pipeline's location. Decommissioning requirements can vary considerably, ranging from purging product from the pipeline, refilling with inert gas and capping all open ends to removal of the pipeline and reclamation of the right-of-way. Under current regulations, the estimated cost for the decommissioning obligation includes such activities as: purging product from the pipeline, refilling with inert gas and capping all open ends and removal of surface facilities and reclamation of the surface facility sites.

NGL Extraction Business and Bulk Liquid Storage Business

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction straddle plants and sixteen 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 straddle plants and leased bulk liquid storage sites. The estimated costs for decommissioning obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the sites.

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.

d) 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 after income taxes.

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

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 the Cold Lake, Corridor and Polaris pipeline systems that transport petroleum products and provide related blending and handling services in Alberta. 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 involves the primary storage and handling of bulk liquid products through the operation of sixteen bulk liquid storage terminals.

Geographic Segments

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

e) Revenue Recognition

Oil Sands Transportation Business

Revenue is recorded when services have been performed, the amount of revenue and associated costs can be reliably measured and when it is probable that consideration will be collected.

The Cold Lake and Polaris pipeline systems revenue is determined by the nature of the contract and is either recognized ratably over the term of fixed fee arrangements, or as volumes are transported and services are provided to each shipper. Where transportation agreements involve separately identifiable services, consideration is allocated amongst the services based on their relative estimated stand-alone selling prices. Long term ship-or-pay agreements, under which shippers are obligated to pay fixed amounts ratably over the life of the agreement regardless of volumes shipped, may contain make-up rights. Make-up rights are earned by the shippers when minimum volume commitments are not utilized during the period but under certain circumstances can be used to offset excess volumes in future periods, subject to expiry periods. Inter Pipeline recognizes

revenues associated with make-up rights at the earlier of when the make-up volume is shipped, the make-up right expires, or when it is determined that the likelihood that the shipper will utilize the make-up rights is remote.

Revenue 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.

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.

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.

NGL Extraction Business

Revenue for the NGL extraction straddle plants is recognized when the earnings process is complete. This occurs when 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 commodity based arrangements 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.

Deferred Revenue

Deferred revenue represents cash received in excess of revenues recognized.

f) Net Income per Common Share

Basic net income per common share is calculated by dividing the net income for the year attributable to common shareholders of Inter Pipeline by the weighted average number of common shares outstanding during the period. Diluted net income per common share is determined by adjusting the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares, using the treasury stock method. Outstanding shares issued under the Premium

Dividend™ and Dividend Reinvestment Plan are assumed to have been converted to common shares at the date of record, 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.

g) Cash and Cash Equivalents

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

h) 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 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

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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.

Bulk Liquid Storage Business

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

NGL Extraction Business

Property, plant and equipment of the NGL extraction business are comprised primarily of three NGL extraction straddle plants 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 straddle plants 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.

i) 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. The term of the Cold Lake TSA extends until Cold Lake LP gives notice that it forecasts it will earn less than $1.0 million of capital fees in the year. This intangible asset is being amortized on a straight-line basis over 30 years. The remaining amortization period of the Cold Lake TSA is approximately 17 years.

Customer Contracts and Relationships

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 20 years.

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 is realized over the term of each agreement, which is the period over which amortization is being charged using the straight-line method. Should the term of a customer contract change, the amortization of the remaining balance would change prospectively. The average remaining amortization period of the NGL extraction business customer contracts is approximately eight years.

Patent

A patented operational process utilized in one of the NGL extraction straddle plants 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 three years.

j) 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.

k) 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.

l) Employee Benefits

Long-term Incentive Plans

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

Pension Plans

The cost of pension benefits earned by certain employees in the UK, Germany and Ireland 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.

m) 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.

n) 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.

o) 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.

p) 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

"Cash, loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

Inter Pipeline has classified its financial instruments as follows: 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, long-term debt, short-term debt and commercial paper are classified as "other financial liabilities".

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

Financial Instruments – Fair Value Hierarchy

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

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

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

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

q) 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. As at December 31, 2015, there were no financial guarantee liabilities recognized.

r) 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.

s) 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, 2016 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, 2018, 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.

IFRS 16 *Leases* (IFRS 16)

IFRS 16 replaces IAS 17 *Leases* and shall be applied to annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Inter Pipeline is currently assessing the impact of IFRS 16; however, the extent of the impact has not yet been determined.

5. ACQUISITION OF INTER TERMINALS SWEDEN

On June 10, 2015, Inter Pipeline completed the acquisition, and thereby obtained control, of four petroleum and petrochemical storage terminals in Sweden, referred to collectively as Inter Terminals Sweden, from a subsidiary of Koninklijke Vopak N.V., through the purchase of 100% of its share capital. The acquisition was valued at $130.9 million, less closing adjustments for working capital and debt, for total cash consideration of $128.3 million and was funded from Inter Pipeline's existing credit facility. The acquisition increases Inter Pipeline's total storage capacity in Europe by approximately 40% and establishes Inter Pipeline as the largest independent bulk liquid storage provider in Scandinavia.

Operating results for Inter Terminals Sweden have been included in the consolidated financial statements since June 11, 2015. Inter Terminals Sweden contributed $30.6 million and $5.4 million to revenue and net income, respectively, from the date of acquisition to December 31, 2015. If the acquisition had taken place on January 1, 2015, management estimates that Inter Terminals Sweden would have contributed $50.8 million and $6.7 million to revenue and net income, respectively.

The acquisition was accounted for by the acquisition method as at the closing date of June 10, 2015. Determinations of fair value often require management to make assumptions and estimates about future events. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the carrying amounts assigned. Inter Pipeline has provisionally allocated the consideration transferred, subject to changes in estimates, as follows:

Cash	$	0.6
Property, plant and equipment (note 7)		150.4
Non-cash working capital (note 23)		(2.5)
Decommissioning obligation (note 11)		(7.9)
Deferred income tax liability (note 13)		(12.3)
	$	128.3

6. SEGMENT REPORTING

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

Year Ended December 31, 2015	Canada					Europe	
	Oil Sands Transportation	Conventional Oil Pipelines	NGL Extraction	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
REVENUES	$ 768.7	$ 322.4	$ 370.8	$ -	$ 1,461.9	$ 214.4	$ 1,676.3
EXPENSES							
Shrinkage gas	-	-	183.1	-	183.1	-	183.1
Midstream product purchases	-	62.6	-	-	62.6	-	62.6
Operating	132.1	65.2	86.8	-	284.1	97.2	381.3
Depreciation and amortization	89.6	13.8	33.9	6.3	143.6	44.8	188.4
Financing charges	28.0	1.0	0.3	111.0	140.3	1.8	142.1
General and administrative	17.4	-	-	35.0	52.4	10.6	63.0
Unrealized change in fair value of derivative financial instruments	-	(0.2)	-	-	(0.2)	-	(0.2)
Loss (gain) on disposal of assets	3.9	0.1	1.7	-	5.7	(0.1)	5.6
	271.0	142.5	305.8	152.3	871.6	154.3	1,025.9
INCOME (LOSS) BEFORE INCOME TAXES	497.7	179.9	65.0	(152.3)	590.3	60.1	650.4
Provision for income taxes	87.5	-	-	97.5	185.0	2.4	187.4
NET INCOME (LOSS)	$ 410.2	$ 179.9	$ 65.0	$ (249.8)	$ 405.3	$ 57.7	$ 463.0
Items not involving cash:							
Depreciation and amortization[1]	93.5	13.9	35.6	6.3	149.3	44.7	194.0
Non-cash expense (recovery)	0.6	1.0	0.2	0.3	2.1	(2.2)	(0.1)
Unrealized change in fair value of derivative financial instruments	-	(0.2)	-	-	(0.2)	-	(0.2)
Deferred income tax expense (recovery)	64.8	-	-	54.5	119.3	(1.9)	117.4
FUNDS FROM (USED IN) OPERATIONS	$ 569.1	$ 194.6	$ 100.8	$ (188.7)	$ 675.8	$ 98.3	$ 774.1
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 147.5	$ 130.5	$ 7.7	$ 29.9	$ 315.6	$ 40.3	$ 355.9
As at December 31, 2015							
Property, plant and equipment - net book value	$ 6,163.7	$ 639.0	$ 390.0	$ 42.6	$ 7,235.3	$ 948.6	$ 8,183.9
Goodwill and intangible assets - net book value	$ 219.3	$ -	$ 177.4	$ -	$ 396.7	$ 198.5	$ 595.2
Other assets	$ 109.5	$ 38.4	$ 53.1	$ 0.7	$ 201.7	$ 48.6	$ 250.3
TOTAL ASSETS	$ 6,492.5	$ 677.4	$ 620.5	$ 43.3	$ 7,833.7	$ 1,195.7	$ 9,029.4

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

Year Ended December 31, 2014							
	Canada					Europe	
	Oil Sands Transportation	Conventional Oil Pipelines	NGL Extraction	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
REVENUES	$ 476.7	$ 363.9	$ 548.6	$ -	$ 1,389.2	$ 167.1	$ 1,556.3
EXPENSES							
Shrinkage gas	-	-	297.0	-	297.0	-	297.0
Midstream product purchases	-	107.7	-	-	107.7	-	107.7
Operating	117.0	65.5	109.4	-	291.9	76.0	367.9
Depreciation and amortization	57.0	10.7	30.1	3.8	101.6	41.2	142.8
Financing charges	33.9	0.4	0.3	57.1	91.7	1.9	93.6
General and administrative	11.8	-	-	62.7	74.5	11.4	85.9
Unrealized change in fair value of derivative financial instruments	-	0.3	(1.3)	-	(1.0)	-	(1.0)
(Gain) loss on disposal of assets	-	(0.1)	2.3	-	2.2	(4.3)	(2.1)
	219.7	184.5	437.8	123.6	965.6	126.2	1,091.8
INCOME (LOSS) BEFORE INCOME TAXES	257.0	179.4	110.8	(123.6)	423.6	40.9	464.5
Provision for (recovery of) income taxes	52.2	-	-	63.0	115.2	(0.2)	115.0
NET INCOME (LOSS)	$ 204.8	$ 179.4	$ 110.8	$ (186.6)	$ 308.4	$ 41.1	$ 349.5
Items not involving cash:							
Depreciation and amortization[1]	57.0	10.6	32.4	3.8	103.8	36.9	140.7
Non-cash expense (recovery)	0.3	0.8	0.4	4.5	6.0	(0.8)	5.2
Unrealized change in fair value of derivative financial instruments	-	0.3	(1.3)	-	(1.0)	-	(1.0)
Deferred income tax expense (recovery)	44.0	-	-	27.4	71.4	(1.8)	69.6
FUNDS FROM (USED IN) OPERATIONS	$ 306.1	$ 191.1	$ 142.3	$ (150.9)	$ 488.6	$ 75.4	$ 564.0
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 1,128.5	$ 52.7	$ 11.9	$ 9.2	$ 1,202.3	$ 33.9	$ 1,236.2

							As at December 31, 2014
Property, plant and equipment - net book value	$ 6,112.9	$ 522.6	$ 412.2	$ 19.0	$ 7,066.7	$ 727.0	$ 7,793.7
Goodwill and intangible assets - net book value	$ 223.0	$ -	$ 190.0	$ -	$ 413.0	$ 183.7	$ 596.7
Other assets	$ 101.7	$ 43.6	$ 49.4	$ 13.0	$ 207.7	$ 49.1	$ 256.8
TOTAL ASSETS	$ 6,437.6	$ 566.2	$ 651.6	$ 32.0	$ 7,687.4	$ 959.8	$ 8,647.2

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

7. PROPERTY, PLANT AND EQUIPMENT

	Pipelines, Facilities and Equipment	Pipeline Line Fill	Construction Work in Progress	Total
COST				
Balance, January 1, 2014	$ 5,802.9	$ 273.8	$ 1,656.8	$ 7,733.5
Additions/transfers from construction[1]	1,384.4	14.1	1,220.3	2,618.8
Disposals/completed construction[1]	(8.7)	-	(1,382.6)	(1,391.3)
Foreign currency translation adjustments	(11.2)	-	0.4	(10.8)
Balance, December 31, 2014	7,167.4	287.9	1,494.9	8,950.2
Acquisition of Inter Terminals Sweden (note 5)	148.7	-	1.7	150.4
Additions/transfers from construction[1]	1,657.4	27.2	332.8	2,017.4
Disposals/completed construction[1]	(21.4)	(6.5)	(1,662.0)	(1,689.9)
Foreign currency translation adjustments	99.2	-	0.5	99.7
Balance, December 31, 2015	**$ 9,051.3**	**$ 308.6**	**$ 167.9**	**$ 9,527.8**
ACCUMULATED DEPRECIATION				
Balance, January 1, 2014	$ 1,019.0	$ 14.9	$ -	$ 1,033.9
Depreciation	122.9	2.9	-	125.8
Disposals	(3.3)	-	-	(3.3)
Foreign currency translation adjustments	0.1	-	-	0.1
Balance, December 31, 2014	1,138.7	17.8	-	1,156.5
Depreciation	169.1	2.9	-	172.0
Disposals	(7.2)	-	-	(7.2)
Foreign currency translation adjustments	22.6	-	-	22.6
Balance, December 31, 2015	**$ 1,323.2**	**$ 20.7**	**$ -**	**$ 1,343.9**
NET BOOK VALUE				
At December 31, 2014	$ 6,028.7	$ 270.1	$ 1,494.9	$ 7,793.7
At December 31, 2015	**$ 7,728.1**	**$ 287.9**	**$ 167.9**	**$ 8,183.9**

(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, 2015, Inter Pipeline expects to spend $555.4 million on property, plant and equipment, of which $261.7 million is due within one year, $249.9 million is due in one to five years, and $43.8 million is due after five years. These amounts do not include capital expenditures related to the 15% non-controlling interest in Cold Lake.

During the year ended December 31, 2015, $0.7 million of previously capitalized borrowing costs were reversed (December 31, 2014 – $49.3 million of borrowing costs were capitalized). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 3.27% (December 31, 2014 – 3.73%).

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets: Customer Contracts and Relationships	Intangible Assets: Patent	Intangible Assets: Tradename	Intangible Assets: Total Intangible Assets	Total Goodwill and Intangible Assets
COST						
Balance, January 1, 2014	$ 341.8	$ 425.4	$ 8.7	$ 4.5	$ 438.6	$ 780.4
Additions	-	0.8	-	-	0.8	0.8
Disposals	-	(23.6)	-	(4.6)	(28.2)	(28.2)
Foreign currency translation adjustments	(4.2)	(0.5)	-	0.1	(0.4)	(4.6)
Balance, December 31, 2014	337.6	402.1	8.7	-	410.8	748.4
Foreign currency translation adjustments	14.6	0.6	-	-	0.6	15.2
Balance, December 31, 2015	**$ 352.2**	**$ 402.7**	**$ 8.7**	**$ -**	**$ 411.4**	**$ 763.6**
ACCUMULATED AMORTIZATION						
Balance, January 1, 2014	$ -	$ 155.5	$ 5.9	$ 1.3	$ 162.7	$ 162.7
Amortization	-	13.9	0.6	2.5	17.0	17.0
Disposals	-	(23.6)	-	(3.8)	(27.4)	(27.4)
Foreign currency translation adjustments	-	(0.6)	-	-	(0.6)	(0.6)
Balance, December 31, 2014	-	145.2	6.5	-	151.7	151.7
Amortization	-	15.8	0.6	-	16.4	16.4
Foreign currency translation adjustments	-	0.3	-	-	0.3	0.3
Balance, December 31, 2015	**$ -**	**$ 161.3**	**$ 7.1**	**$ -**	**$ 168.4**	**$ 168.4**
NET BOOK VALUE						
At December 31, 2014	$ 337.6	$ 256.9	$ 2.2	$ -	$ 259.1	$ 596.7
At December 31, 2015	**$ 352.2**	**$ 241.4**	**$ 1.6**	**$ -**	**$ 243.0**	**$ 595.2**

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 2015 and 2014. 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 $68.2 million and $127.1 million, respectively (December 31, 2014 - $61.0 million and $119.7 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 cost-of-service contracts with shippers that are not impacted by throughput volume or commodity price fluctuations. These cash flows are then aggregated with a 'terminal value'. 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. Management performed a sensitivity analysis by increasing the WACC to 9.0% for Inter Terminals Denmark while leaving all other variables constant. As a result, the recoverable amount of the CGU is still above the carrying amount. Management did not perform a sensitivity analysis for the Corridor, Polaris, and Inter Terminals UK, Germany, and Ireland CGUs as the recoverable amounts calculated were significantly higher than the carrying amounts.

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. Average annual revenue inflation and utilization rates of 1.7% and 94% have been incorporated into the 10 year cash flow forecasts of Inter Terminals UK, Germany and Ireland, respectively. An average annual revenue inflation rate of 2.2% and an average utilization rate of 87% have been incorporated into the 10 year cash flow forecasts of Inter Terminals Denmark. The average utilization rate for the Inter Terminals Denmark CGU incorporates both periods of contango and backwardation based on historical trends.

Management believes, at December 31, 2015, 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 November 1, 2015, Inter Pipeline revised the estimated useful life of the NGL extraction business' customer contract intangible assets from 30 years to a useful life that matches the term of the existing customer contracts. The revised estimated useful life is more reflective of the evolving industry and economic environment.

The change in estimated useful life increased amortization expense by $2.4 million in 2015 and is expected to increase amortization expense by approximately $12.2 million for 2016.

9. DIVIDENDS TO SHAREHOLDERS

	Years Ended December 31	
	2015	2014
Dividends declared to shareholders of Inter Pipeline	**$ 497.1**	$ 423.1
Dividends settled with the issuance of shares under the Premium Dividend™ and Dividend Reinvestment Plan	**(93.5)**	(264.5)
Cash dividends paid to shareholders of Inter Pipeline	**$ 403.6**	$ 158.6
Dividends declared ($ per share)	**$ 1.4850**	$ 1.3200

As at December 31, 2015, dividends of $43.8 million were payable on 336.4 million outstanding common shares at $0.13 per share (December 31, 2014 - $39.9 million payable on 326.2 million outstanding common shares at $0.1225 per share).

On January 11, 2016, Inter Pipeline declared dividends of $0.13 per share. The dividends were paid on or about February 16, 2016, to all shareholders of record on January 22, 2016. The total declared dividends were approximately $43.8 million. On February 9, 2016, Inter Pipeline declared dividends of $0.13 per share. The dividends will be paid on or about March 15, 2016, to all shareholders of record on February 23, 2016. The total estimated declared dividends are approximately $43.8 million.

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

	December 31 2015	December 31 2014
Corridor syndicated credit facility (a)	**$ 1,386.2**	$ 1,279.7
Inter Pipeline syndicated credit facility (b)	**664.0**	686.0
Corridor Debentures (c)	**150.0**	300.0
Medium-term notes (d)	**2,625.0**	2,325.0
Demand facility (e)	**26.5**	-
Long-term debt, short-term debt and commercial paper (excluding transaction costs and discounts)	**4,851.7**	4,590.7
Less: short-term debt, current portion of long-term debt and commercial paper[(1)]	**(1,412.7)**	(1,429.7)
Long-term debt (excluding transaction costs and discounts)	**3,439.0**	3,161.0
Transaction costs, net of accumulated amortization	**(17.5)**	(17.0)
Discount, net of accumulated amortization	**(1.5)**	(2.2)
Add: Current portion of transaction costs and discounts	**1.9**	2.2
Long-term debt	**3,421.9**	3,144.0
Short-term debt and current portion of long-term debt including transaction costs and discounts	**26.4**	150.0
Commercial paper including transaction costs and discounts[(1)] (a)	**1,384.4**	1,277.5
	$ 4,832.7	$ 4,571.5

(1) Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Corridor syndicated credit facility that has no repayment requirements until December 2019.

a) On December 14, 2015, Corridor extended the maturity date of the $1,550 million syndicated credit facility to December 13, 2019, which can be extended again under certain conditions.

Fees on amounts borrowed at floating rates based on bankers' acceptances are 85 basis points, while fees on unborrowed amounts are 34 basis points (2014 – 85 basis points and 35 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 24 basis points and decrease by up to 4 basis points. The effective rate of interest incurred in 2015 was 1.01% (2014 – 1.28%) for the Corridor syndicated credit facility.

TM Denotes trademark of Canaccord Genuity Corp.

Fees on amounts borrowed under the $25.0 million demand facility match the Corridor syndicated credit facility while undrawn amounts are not charged standby fees. No amounts were drawn on this facility at December 31, 2015 or 2014.

At December 31, 2015, no letters of credit were issued under the demand facility (2014 - $0.2 million).

b) On December 4, 2015, Inter Pipeline extended the maturity date of its $1,250 million syndicated credit facility to December 4, 2020, 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 (2014 – 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 2015 was 2.12% (2014 – 2.44%).

Fees on amounts borrowed under the $40 million demand 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, 2015 or 2014.

At December 31, 2015, letters of credit of $0.3 million were issued by Inter Pipeline under its demand facility (2014 - $0.4 million).

c) 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 syndicated 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 20). 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 1.67% (2014 – 1.81%). 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.

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.

d) On December 11, 2015, 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 Inter Pipeline on December 9, 2013.

Inter Pipeline has issued the following medium-term notes:

i) On February 2, 2011, Inter Pipeline issued $325 million of 4.967% 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% 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% 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% 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 medium-term notes in the Canadian public debt market. The $500 million Series 5 due May 30, 2044, bear interest at the rate of 4.637% per annum, payable semi-annually in equal instalments in arrears. The $400 million floating rate 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.

vi) On March 23, 2015, Inter Pipeline issued $300 million of medium-term notes in the Canadian public debt market. The $300 million Series 7 due March 24, 2025, bear interest at the rate of 3.173% per annum, payable semi-annually in equal instalments in arrears.

e) On March 10, 2015, Inter Pipeline's subsidiaries Inter Terminals Limited and Inter Terminals EOT ApS entered into a Pound Sterling 20 million demand facility for general corporate and working capital purposes. The facility has no fixed term and repayments are due on demand. Funds drawn in Pound Sterling bear interest at the London Interbank Offered Rate plus 100 basis points and funds drawn in Euro bear interest at the Euro Interbank Offered Rate plus 100 basis points.

11. PROVISIONS

		Decommissioning Obligations		Environmental Liabilities		Total
Balance, January 1, 2014	$	46.5	$	18.6	$	65.1
Revisions to estimated amount of liabilities		0.1		(0.1)		-
Accretion expense		2.3		0.3		2.6
Foreign currency adjustments		(0.8)		(0.2)		(1.0)
Balance, December 31, 2014		48.1		18.6		66.7
Acquisition of Inter Terminals Sweden (note 5)		7.9		-		7.9
Revisions to estimated amount of liabilities		7.6		0.7		8.3
Accretion expense		2.1		0.7		2.8
Foreign currency adjustments		3.6		0.3		3.9
Balance, December 31, 2015	**$**	**69.3**	**$**	**20.3**	**$**	**89.6**

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, leased bulk liquid storage sites and NGL extraction straddle plants and remediation of known environmental liabilities. The long-term risk-free rates were used to discount the future cash flows for decommissioning obligations and the 5 to 10 year risk-free rates were used to discount the future cash flows for environmental liabilities:

Business Segment	Expected Economic Life (years)[1]	Inflation Rate	Long-Term Risk-Free Discount Rate	5 to 10 Year Risk-Free Discount Rate
Oil sands transportation	80 to 500[2]	1.8%	3.1%	n/a
Conventional oil pipelines	40 to 500[2]	1.8%	3.1%	1.6% to 2.5%
Bulk liquid storage	30 to 40	1.2% to 2.4%	3.0% to 3.7%	0.6% to 1.85%
NGL extraction	40	1.8%	3.1%	n/a

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

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

In addition to the above provisions, $10.3 million is included in accounts payable, accrued liabilities and provisions related to construction reclamation work at December 31, 2015 (December 31, 2014 - $50.1 million).

12. EMPLOYEE BENEFITS

		December 31 2015		December 31 2014
Long-term incentive plan liability	**$**	**5.7**	$	8.5
Pension liability		**14.6**		11.6
Employee benefits	**$**	**20.3**	$	20.1

a) Long-Term Incentive Plan Liability

Restricted Share Units

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

At December 31, 2015, the current portion of the liability included in accounts payable, accrued liabilities and provisions was $12.8 million (December 31, 2014 - $22.9 million). At December 31, 2015, 490.7 thousand RSUs are exercisable. Inter Pipeline's five day simple average closing share price at December 31, 2015, was $22.46.

The total intrinsic value of RSUs vested and not exercised as at December 31, 2015 was $12.1 million (December 31, 2014 - $21.1 million).

The weighted average remaining contractual life of the outstanding RSUs as at December 31, 2015, was 1.5 years (December 31, 2014 - 1.5 years).

For the year ended December 31, 2015, RSU costs of $1.4 million were included in operating expenses and $1.0 million were included in general and administrative expenses (2014 - $7.6 million and $22.7 million, respectively).

The following table summarizes the status of Inter Pipeline's RSUs as at December 31, 2015, and December 31, 2014:

(thousands)	Number of RSUs
Balance, January 1, 2014	1,132.2
Granted	637.2
Exercised	(580.1)
Forfeitures	(46.9)
Balance, December 31, 2014	1,142.4
Granted	459.6
Exercised	(580.9)
Forfeitures	(35.3)
Balance, December 31, 2015	**985.8**

Performance Share Units

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

A PSU is valued based on the 20 trading day volume weighted average price of Inter Pipeline's common shares, plus an amount equivalent to cash dividends paid to date, and a performance multiplier. The performance multiplier is determined based on the achievement of two equally weighted, pre-determined, Board approved performance criteria as follows:

a) Total relative shareholder return which is measured by Inter Pipeline's share price performance, including dividends paid to shareholders, relative to the performance of Inter Pipeline's Canadian infrastructure peer group; and

b) Funds from operations attributable to shareholders after sustaining capital per share which is measured based on Inter Pipeline's performance relative to a pre-determined target.

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

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

Inter Pipeline's 20 trading day volume weighted average share price at December 31, 2015, was $21.65.

The weighted average remaining contractual life of the outstanding PSUs as at December 31, 2015, was 2.0 years.

For the year ended December 31, 2015, PSU costs of $0.8 million were included in general and administrative expenses.

The following table summarizes the status of Inter Pipeline's PSU's as at December 31, 2015, and December 31, 2014:

(thousands)	Number of PSUs
Balance, December 31, 2014	-
Granted	113.1
Exercised	(3.6)
Balance, December 31, 2015	**109.5**

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.

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, 2015, 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.

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 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.

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 Asset Category	UK		Ireland	
	2015	2014	**2015**	2014
Equity securities	**41.6%**	42.0%	**-**	-
Debt securities	**36.6%**	37.4%	**-**	-
Real estate	**21.4%**	19.9%	**-**	-
Deferred annuity contract	**0.4%**	0.7%	**100.0%**	100.0%
Total	**100.0%**	100.0%	**100.0%**	100.0%

Actuarial Assumptions

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

Weighted Average Assumptions for Expense	UK		Germany		Ireland	
	2015	2014	**2015**	2014	**2015**	2014
Discount rate	**3.8%**	3.7%	**2.2%**	1.8%	**2.6%**	2.3%
Rate of price inflation	**3.0%**	3.1%	**2.0%**	2.0%	**1.8%**	2.0%
Compensation increase	**2.9%**	3.0%	**n/a**	n/a	**n/a**	n/a
Rate of pension payment increase	**2.9%**	3.0%	**1.5%**	1.5%	**2.8%**	2.8%

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, 2015				December 31, 2014			
Change in Accrued Benefit Obligation	UK	Germany	Ireland	Total	UK	Germany	Ireland	Total
Accrued benefit obligation, beginning of year	**$ 118.8**	**$ 1.6**	**$ 1.1**	**$ 121.5**	$ 100.0	$ 1.2	$ 1.0	$ 102.2
Current service cost	**2.4**	**-**	**-**	**2.4**	2.0	-	-	2.0
Employee contributions	**0.3**	**-**	**-**	**0.3**	0.3	-	-	0.3
Interest cost	**4.7**	**-**	**-**	**4.7**	4.7	0.1	-	4.8
Benefits paid	**(2.5)**	**(0.1)**	**-**	**(2.6)**	(2.7)	(0.1)	-	(2.8)
Actuarial loss (gain) due to:								
Changes in financial assumptions	**0.3**	**(0.1)**	**-**	**0.2**	12.0	0.5	0.1	12.6
Changes in demographic assumptions	**-**	**-**	**-**	**-**	-	-	-	-
Experience adjustments	**-**	**0.2**	**-**	**0.2**	-	-	-	-
Curtailments and settlements	**-**	**-**	**(0.9)**	**(0.9)**	-	-	-	-
Foreign currency adjustments	**15.7**	**0.1**	**-**	**15.8**	2.5	(0.1)	-	2.4
Accrued benefit obligation, end of year	**$ 139.7**	**$ 1.7**	**$ 0.2**	**$ 141.6**	$ 118.8	$ 1.6	$ 1.1	$ 121.5

Change in Pension Plan Assets	December 31, 2015 UK	Germany	Ireland	Total	December 31, 2014 UK	Germany	Ireland	Total
Fair value of pension plan assets, beginning of year	**$ 108.7**	**$ -**	**$ 1.2**	**$ 109.9**	$ 94.8	$ -	$ 1.2	$ 96.0
Interest on plan assets	**4.3**	**-**	**-**	**4.3**	4.5	-	0.1	4.6
Actual return less interest on plan assets	**(1.2)**	**-**	**-**	**(1.2)**	7.1	-	-	7.1
Running costs	**(0.4)**	**-**		**(0.4)**	(0.4)	-	-	(0.4)
Employer contributions	**3.0**	**0.1**	**-**	**3.1**	2.8	0.1	-	2.9
Employee contributions	**0.3**	**-**	**-**	**0.3**	0.3	-	-	0.3
Benefits paid	**(2.5)**	**(0.1)**	**-**	**(2.6)**	(2.8)	(0.1)	-	(2.9)
Assets distributed on curtailments and settlements	**-**	**-**	**(0.7)**	**(0.7)**	-	-	-	-
Foreign currency adjustments	**14.3**	**-**	**-**	**14.3**	2.4	-	(0.1)	2.3
Fair value of pension plan assets, end of year	**$ 126.5**	**$ -**	**$ 0.5**	**$ 127.0**	$ 108.7	$ -	$ 1.2	$ 109.9

	December 31, 2015 UK	Germany	Ireland	Total	December 31, 2014 UK	Germany	Ireland	Total
Pension (liability) asset	**$ (13.2)**	**$ (1.7)**	**$ 0.3**	**$ (14.6)**	$ (10.1)	$ (1.6)	$ 0.1	$ (11.6)

13. INCOME TAXES

On June 18, 2015, the Government of Alberta announced legislation which increased the general provincial corporate income tax rate from 10% to 12%, effective July 1, 2015. The result of this increase in tax rate is a $35.9 million increase in deferred income tax liabilities.

On October 26, 2015, tax legislation was substantively enacted in the UK which will reduce the statutory income tax rate from 20% to 19%, effective April 1, 2017, and from 19% to 18%, effective April 1, 2020. The effect of recognizing these UK income tax rate changes was a $2.8 million reduction in deferred income tax liabilities.

The major components of income tax expense for the years ended December 31, 2015 and 2014 are as follows:

	December 31 2015	December 31 2014
Current income taxes		
Current income tax charge	**$ 71.5**	$ 41.4
Adjustments in respect of current income tax of the previous year	**(1.5)**	4.0
Current income tax	**70.0**	45.4
Deferred income taxes		
Relating to the origination and reversal of temporary differences	**83.1**	73.1
Adjustments in respect of deferred income tax of the previous year	**1.2**	(3.5)
Adjustments to deferred tax attributable to changes in tax rates and laws	**33.1**	-
Deferred income tax	**117.4**	69.6
Provision for income taxes	**$ 187.4**	$ 115.0

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

	December 31 2015	December 31 2014
Deferred income tax (expense) recovery on defined benefit pension reserve	**$ (0.2)**	$ 1.1
Deferred income tax recovery on share issue costs	**-**	2.5
Current income tax recovery on share issue costs	**-**	0.6
Income tax recognized in Shareholders' Equity	**$ (0.2)**	$ 4.2

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

	December 31 2015	December 31 2014
Current income taxes		
Canada	$ 65.7	$ 43.8
Europe	4.3	1.6
	70.0	45.4
Deferred income taxes		
Canada	119.3	71.4
Europe	(1.9)	(1.8)
	117.4	69.6
	$ 187.4	$ 115.0

The components of income before income taxes are summarized below:

	December 31 2015	December 31 2014
Canada	$ 590.3	$ 423.6
Europe	60.1	40.9
	$ 650.4	$ 464.5

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 2015	December 31 2014
Income before income taxes per consolidated financial statements	$ 650.4	$ 464.5
Income before income taxes attributable to non-controlling interest	(35.7)	(14.7)
Adjusted income before income taxes	614.7	449.8
Tax rate	26.0%	25.0%
	159.8	112.5
Deductible intercompany interest expense	(7.9)	(4.4)
Impact of tax rate changes	33.1	-
Other	2.4	6.9
Provision for income taxes	$ 187.4	$ 115.0

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

Deferred income taxes relate to the following temporary differences:

	Consolidated Balance Sheets		Consolidated Statements of Net Income	
	December 31 2015	December 31 2014	December 31 2015	December 31 2014
Property, plant and equipment	$ (660.0)	$ (522.4)	$ (117.1)	$ (82.9)
Non-capital losses	102.1	103.7	(2.3)	7.8
Goodwill and intangible assets	(84.4)	(89.8)	5.2	(4.5)
Provisions	21.4	24.7	(2.9)	10.8
Other	2.9	2.5	(0.3)	(0.8)
Deferred income tax expense			$ (117.4)	$ (69.6)
Net deferred tax liability	$ (618.0)	$ (481.3)		

Reconciliation of net deferred income tax liabilities:

		2015		2014
Balance, January 1	$	(481.3)	$	(415.4)
Tax expense recognized in net income		(117.4)		(69.6)
Tax recovery recognized in equity		-		2.5
Tax recovery recognized in OCI		(0.2)		1.1
Acquisition of Inter Terminals Sweden (note 5)		(12.3)		-
Revaluation of foreign deferred income tax liabilities and other		(6.8)		0.1
Balance, December 31	$	(618.0)	$	(481.3)

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, 2015 is $6.8 million (2014 - $8.3 million).

14. 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

(millions)	Number of Common Shares		Share Capital
Balance, January 1, 2014	306.8	$	3,096.7
Issued under Premium Dividend™ and Dividend Reinvestment Plan	9.0		264.5
Common shares issued, net of issue costs	10.4		291.2
Stated capital adjustment	-		(1,026.5)
Balance, December 31, 2014	326.2		2,625.9
Issued under Premium Dividend™ and Dividend Reinvestment Plan	3.1		93.5
Exchanged from convertible shares	7.1		170.0
Balance, December 31, 2015	**336.4**	**$**	**2,889.4**

Convertible Shares

In January 2015, as a result of successful completion of transportation infrastructure related to the Foster Creek and Christina Lake expansion projects, the $170 million second instalment, recorded as a current liability at December 31, 2014, and consisting of 7.1 million convertible shares, was satisfied when the convertible shares were converted on a one-for-one basis into common shares of Inter Pipeline. The common shares were recorded as shareholders' equity in January 2015.

Premium Dividend™ and Dividend Reinvestment Plan

Effective August 6, 2015, Inter Pipeline reduced the dividend reinvestment discount of the Premium Dividend™ and Dividend Reinvestment Plan from 2% to 0%.

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Calculation of Net Income per Common Share

(millions, except per share amounts)	Years ended December 31 **2015**	2014
Net income attributable to shareholders - basic and diluted	**$ 427.4**	$ 334.8
Weighted average shares outstanding – basic	**334.6**	320.2
Effect of Premium Dividend™ and Dividend Reinvestment Plan	**0.2**	0.5
Effect of convertible shares	**-**	7.1
Weighted average shares outstanding – diluted	**334.8**	327.8
Net income per common share attributable to shareholders –		
Basic	**$ 1.28**	$ 1.05
Diluted	**$ 1.28**	$ 1.02

Reserves

Reserves are summarized as follows:

	Foreign Currency Translation Reserve	Defined Benefit Pension Reserve	Total Reserves
Balance, January 1, 2014	$ 67.5	$ (13.2)	$ 54.3
Other comprehensive loss	(15.2)	(4.4)	(19.6)
Balance, December 31, 2014	52.3	(17.6)	34.7
Other comprehensive income (loss)	81.0	(1.8)	79.2
Balance, December 31, 2015	**$ 133.3**	**$ (19.4)**	**$ 113.9**

15. NON-CONTROLLING INTEREST

Summarized information on the consolidated 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 as follows:

	December 31 2015	December 31 2014
Current assets	**$ 6.7**	$ 7.0
Non-current assets	**331.6**	328.7
Current liabilities	**(2.7)**	(9.2)
Non-current liabilities	**(0.1)**	-
Proportionate share of net assets	**$ 335.5**	$ 326.5

	December 31 2015	December 31 2014
Revenues	**$ 51.5**	$ 25.6
Expenses	**(15.8)**	(10.9)
Current income tax	**(0.1)**	-
Proportionate share of net income and comprehensive income	**$ 35.6**	$ 14.7

At December 31, 2015, purchase obligations related to Cold Lake totalled $66.7 million. In addition, there were $217.7 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 7 and 17.

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16. 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 (2014 – 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, 2015 and 2014.

Key Management Personnel

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

		December 31 2015		December 31 2014
Short-term employee benefits[1]	**$**	**4.0**	$	9.6
Share-based payments[2]		**(0.6)**		12.3
Total compensation[3]	**$**	**3.4**	$	21.9

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

(2) Share-based payments consist of the compensation (recovery) expense recognized for RSUs and PSUs outstanding at the year end and RSUs exercised by key management personnel during the year (see note 12a for a discussion of the RSUP and PSUP). The $0.6 million recovery in 2015 is primarily due to a decrease in Inter Pipeline's share price.

(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, 2015 and 2014.

17. 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 $185.1 million at December 31, 2015.

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage, property, plant and equipment and land for periods ranging from 2016 to 2094. Certain leases contain extension and renewal options. The future minimum annual lease payments for these lease commitments are:

Less than one year	$	25.5
One to five years		97.9
After five years		216.4
	$	339.8

18. CAPITAL DISCLOSURES

Inter Pipeline's capital management objectives are aligned with its commercial strategies and its long-term outlook for the business. The primary objectives are to maintain (i) stable cash dividends to shareholders over economic and industry cycles; (ii) a flexible capital structure which optimizes the cost of capital within an acceptable level of risk; and (iii) an investment grade credit rating.

Capital under management includes long-term debt, short-term debt and commercial paper (excluding discounts and transaction costs) and shareholders' equity. 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 or preferred shares, issue new debt, renegotiate existing debt terms, or repay existing debt.

Inter Pipeline maintains flexibility in its capital structure to fund growth capital 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, 2015, Inter Pipeline had access to committed credit facilities totaling $2,800.0 million, of which $749.8 million remained unutilized. Inter Pipeline also had access to demand facilities of $105.8 million, of which $79.0 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.

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

19. 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, 2015, are classified as follows:

	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	$ 40.3	$ -	$ 40.3	$ -	$ 40.3
Accounts receivable	173.7	-	173.7	9.4	183.1
Prepaid expenses and other deposits	2.1	-	2.1	24.8	26.9
Liabilities					
Dividends payable	$ -	$ 43.8	$ 43.8	$ -	$ 43.8
Accounts payable, accrued liabilities and provisions	-	166.1	166.1	54.5	220.6
Deferred revenue and other liabilities	-	-	-	18.2	18.2
Long-term debt, short-term debt and commercial paper (note 10)[3]	-	4,851.7	4,851.7	-	4,851.7

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

(2) Inter Pipeline does not have any assets that meet the definition of "fair value through profit or loss", "available-for-sale" or "held-to-maturity."

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

b) Fair Value of Fixed Rate Debt

At December 31, 2015, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value[1]	Fair Value
Corridor Series C debentures	$ 150.0	$ 164.9
Medium-term notes Series 1, 2, 3, 4, 5 and 7	$ 2,225.0	$ 2,242.3

(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.

20. RISK MANAGEMENT

Inter Pipeline is exposed to a number of inherent financial risks arising in the normal course of operations which include market risk related to interest rates, commodity prices 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 long-term debt, short-term debt and commercial paper outstanding at December 31, 2015. 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. 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, 2015, there are no electricity price swap or heat rate price swap agreements outstanding.

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, 2015, 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 may enter into interest rate swap agreements to manage its interest rate price risk exposure.

Inter Pipeline's fixed-to-floating interest rate swap on the $150 million 5.033% Series B Corridor debenture was 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, 2015, a 1% change in interest rates at this date would have changed interest expense for the year ended December 31, 2015, by approximately $24.8 million assuming all other variables remain constant. Of this amount, $13.9 million for the year ended December 31, 2015, relates to the Corridor syndicated credit facility (note 10) and is recoverable through the terms of the Corridor FSA; therefore, the after-tax income impact for the year ended December 31, 2015 would be $8.1 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, 2015, 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, 2015, 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.

Accounts receivable are deemed past due if they are aged greater than 60 days and are considered to be impaired if one or more events have occurred that would impact the estimated future cash flows of that asset. At December 31, 2015, accounts receivable outstanding meeting the definition of either past due or 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, 2015, accounts receivable associated with these two business segments were $130.7 million or 71.4 % 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 commitments and contingencies and note 18 for capital disclosures).The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at December 31, 2015, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Dividends payable	$ 43.8	$ 43.8	$ -	$ -
Accounts payable, accrued liabilities and provisions	220.6	220.6	-	-
Deferred revenue and other liabilities	18.2	7.5	6.3	4.4
Long-term debt, short-term debt and commercial paper[(1)]	4,851.7	1,412.7	1,914.0	1,525.0
	$ 5,134.3	$ 1,684.6	$ 1,920.3	$ 1,529.4

(1) Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Corridor syndicated credit facility that has no repayment requirements until December 2019.

21. FINANCING CHARGES

	December 31 2015	December 31 2014
Interest expense on credit facilities	**$ 35.0**	$ 37.9
Interest on loan payable to Private Placement noteholders	**-**	14.5
Interest on Corridor Debentures	**7.6**	10.1
Interest on medium-term notes	**92.3**	73.9
Total Interest	**134.9**	136.4
Capitalized interest	**0.7**	(49.3)
Amortization of transaction costs on long-term debt, short- term debt and commercial paper	**3.3**	3.8
Accretion of provisions and pension plan funding charges	**3.2**	2.7
Financing charges	**$ 142.1**	$ 93.6

22. EXPENSES BY NATURE

		December 31 2015		December 31 2014
Fuel and power	$	99.4	$	111.4
External services		83.2		79.2
Employee costs		95.7		116.0
Property taxes		35.5		30.1
Materials and supplies		38.0		34.1
Transportation and storage		79.2		67.4
Other		13.3		15.6
Total expenses by nature	$	444.3	$	453.8
Allocated to:				
Operating		381.3		367.9
General and administrative		63.0		85.9
	$	444.3	$	453.8

23. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-Cash Working Capital

		December 31 2015		December 31 2014
Accounts receivable	$	(26.3)	$	89.5
Current income taxes receivable		11.5		(11.5)
Prepaid expense and other deposits		4.4		14.3
Dividends payable		3.9		7.0
Accounts payable, accrued liabilities and provisions		(169.2)		(184.1)
Current income taxes payable		29.6		(31.2)
Deferred revenue		(11.3)		12.0
Working capital acquired (note 5)		(2.5)		-
Impact of foreign exchange rate differences and other		(0.3)		-
Changes in non-cash working capital	$	(160.2)	$	(104.0)
These changes relate to the following activities:				
Operating	$	(13.6)	$	7.7
Investing		(151.0)		(118.8)
Financing		4.4		7.1
Changes in non-cash working capital	$	(160.2)	$	(104.0)

Cash and Cash Equivalents

		December 31 2015		December 31 2014
Cash on hand and at banks	$	35.3	$	56.5
Short-term deposits		5.0		4.6
	$	40.3	$	61.1

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 2015		December 31 2014
Current assets	$	8.9	$	13.9
Non-current assets		87.5		91.9
Current liabilities		(6.6)		(12.8)
Non-current liabilities		(0.8)		(0.8)
Proportionate share of net assets	$	89.0	$	92.2

		December 31 2015		December 31 2014
Revenues	$	82.7	$	127.0
Expenses		(75.3)		(119.3)
Proportionate share of net income and comprehensive income	$	7.4	$	7.7

The principal place of business of this joint operation is Calgary, Alberta. At December 31, 2015, 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. MAJOR CUSTOMERS

In 2015, one major customer of the oil sands transportation business and one major customer of the NGL extraction business accounted for 30% (2014 - two of the major 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.