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 14, 2019

Independent Auditors' Report

To the Shareholders of Inter Pipeline Ltd.

Opinion

We have audited the consolidated financial statements of Inter Pipeline Ltd. (Inter Pipeline), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of changes in equity, consolidated statements of net income, consolidated statements of comprehensive income and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Inter Pipeline as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis.
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

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

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

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

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Inter Pipeline's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Inter Pipeline's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Inter Pipeline to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Inter Pipeline to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of Inter Pipeline audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada

February 14, 2019

Consolidated Balance Sheets

(millions of Canadian dollars)	December 31 2018	As at December 31 2017
ASSETS		
Current Assets		
Cash and cash equivalents (note 23)	**$ 46.2**	$ 26.9
Accounts receivable	**242.2**	245.7
Prepaid expenses and other assets	**29.2**	22.4
Inventory	**10.1**	12.6
Total Current Assets	**327.7**	307.6
Non-Current Assets		
Property, plant and equipment (note 7)	**10,457.8**	9,394.8
Goodwill and intangible assets (note 8)	**676.0**	659.3
Total Assets	**$ 11,461.5**	$ 10,361.7
LIABILITIES AND EQUITY		
Current Liabilities		
Dividends payable (note 9)	**$ 57.5**	$ 53.2
Accounts payable, accrued liabilities and provisions	**467.8**	334.0
Current income taxes payable	**2.6**	3.1
Deferred revenue (note 20)	**16.6**	52.1
Current portion of long-term debt (note 10)	**21.1**	204.1
Commercial paper (note 10)	**1,241.0**	1,288.6
Total Current Liabilities	**1,806.6**	1,935.1
Non-Current Liabilities		
Long-term debt (note 10)	**4,397.3**	3,942.8
Provisions (note 11)	**228.1**	188.1
Employee benefits (note 12)	**25.4**	30.1
Long-term deferred revenue and other liabilities (note 20)	**55.3**	54.5
Deferred income taxes (note 13)	**983.5**	747.3
Total Liabilities	**7,496.2**	6,897.9
Commitments (notes 7 and 16)		
Equity		
Shareholders' equity (note 14)	**3,872.3**	3,413.7
Total reserves (note 14)	**93.0**	50.1
Total Equity	**3,965.3**	3,463.8
Total Liabilities and Equity	**$ 11,461.5**	$ 10,361.7

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)

	Share Capital	Earnings / (Deficit)	Contributed Surplus	Reserves	Total Equity
Balance, January 1, 2018	$ 4,019.7	$ (608.5)	$ 2.5	$ 50.1	**$ 3,463.8**
Net income for the year	-	592.5	-	-	**592.5**
Other comprehensive income	-	-	-	42.9	**42.9**
Dividends declared (note 9)	-	(655.4)	-	-	**(655.4)**
Issuance of common shares (note 14)					
Issued under Premium Dividend™ and Dividend Reinvestment Plan	327.6	-	-	-	**327.6**
Issued for cash (net of issue costs)	193.9	-	-	-	**193.9**
Balance, December 31, 2018	$ 4,541.2	$ (671.4)	$ 2.5	$ 93.0	**$ 3,965.3**
Balance, January 1, 2017	$ 3,712.3	$ (530.3)	$ 2.5	$ 3.4	$ 3,187.9
Net income for the year	-	526.7	-	-	526.7
Other comprehensive income	-	-	-	46.7	46.7
Dividends declared (note 9)	-	(609.9)	-	-	(609.9)
Issuance of common shares (note 14)					
Issued under Premium Dividend™ and Dividend Reinvestment Plan	307.4	-	-	-	307.4
Income tax recovery on long-term payable	-	5.0	-	-	5.0
Balance, December 31, 2017	$ 4,019.7	$ (608.5)	$ 2.5	$ 50.1	$ 3,463.8

See accompanying notes to the consolidated financial statements.

™ Denotes trademark of Canaccord Genuity Corp.

Consolidated Statements of Net Income

(millions of Canadian dollars)	Years Ended December 31 2018	2017
REVENUE		
Operating revenue (note 20)	**$ 2,592.9**	$ 2,260.6
EXPENSES		
Cost of sales	**675.1**	508.3
Operating (note 22)	**530.2**	474.9
Depreciation and amortization	**273.7**	255.7
Financing charges (note 21)	**163.4**	170.4
General and administrative (note 22)	**137.6**	129.8
Loss on disposal of assets	**4.9**	9.5
Total Expenses	**1,784.9**	1,548.6
INCOME BEFORE INCOME TAXES	**808.0**	712.0
Income tax expense (recovery) (note 13)		
Current	**2.4**	(3.0)
Deferred	**213.1**	188.3
Total Income Tax Expense	**215.5**	185.3
NET INCOME	**$ 592.5**	$ 526.7
Net income per share (note 14)		
Basic and diluted	**$ 1.53**	$ 1.41

Consolidated Statements of Comprehensive Income

(millions of Canadian dollars)	Years Ended December 31 2018	2017
NET INCOME	**$ 592.5**	$ 526.7
OTHER COMPREHENSIVE INCOME (LOSS) (note 14)		
Item that may be reclassified subsequently to net income		
Unrealized gain on translating financial statements of foreign operations	**41.7**	42.8
Items that will not be reclassified to net income		
Actuarial gain on defined benefit pension plan	**1.4**	4.6
Income tax relating to defined benefit pension reserve (note 13)	**(0.2)**	(0.7)
Other Comprehensive Income	**42.9**	46.7
COMPREHENSIVE INCOME	**$ 635.4**	$ 573.4

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years Ended December 31 2018	2017
OPERATING ACTIVITIES		
Net income	**$ 592.5**	$ 526.7
Items not involving cash:		
Depreciation and amortization	**273.7**	255.7
Loss on disposal of assets	**4.9**	9.5
Non-cash expense	**4.5**	4.1
Deferred income tax expense	**213.1**	188.3
Proceeds from long-term deferred revenue	**-**	6.3
Funds from operations	**1,088.7**	990.6
Net change in non-cash operating working capital (note 23)	**(10.6)**	37.8
Cash provided by operating activities	**1,078.1**	1,028.4
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(944.4)**	(378.8)
Proceeds on disposal of assets	**51.9**	0.3
Acquisition of the UK and Netherlands terminals (note 5)	**(371.8)**	-
Assumption of cash on acquisition of the UK and Netherlands terminals (note 5)	**8.0**	-
Net change in non-cash investing working capital (note 23)	**110.6**	29.0
Cash used in investing activities	**(1,145.7)**	(349.5)
FINANCING ACTIVITIES		
Cash dividends paid on common shares (note 9)	**(327.8)**	(302.5)
Increase (decrease) in debt	**221.2**	(371.6)
Transaction costs on debt	**(0.7)**	(3.2)
Issuance of common shares	**200.1**	-
Share issue costs	**(8.4)**	-
Net change in non-cash financing working capital (note 23)	**3.1**	4.4
Cash provided by (used in) financing activities	**87.5**	(672.9)
Effect of foreign currency translation on foreign currency denominated cash	**(0.6)**	(0.5)
Increase in cash and cash equivalents	**19.3**	5.5
Cash and cash equivalents, beginning of year	**26.9**	21.4
Cash and cash equivalents, end of year	**$ 46.2**	$ 26.9

Cash taxes paid	**$ 3.5**	$ 7.0
Cash interest paid	**$ 182.1**	$ 167.7

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2018

(millions of Canadian dollars, except as otherwise indicated)

1. STRUCTURE OF THE CORPORATION

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

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

These audited consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors of Inter Pipeline on February 14, 2019.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies that follow have been consistently applied to all years presented except as described in note 3c below. Certain prior year balances have been reclassified to match the current year presentation.

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 3d.

b) Basis of Consolidation

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

Subsidiaries

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

Interest in Joint Operation

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

Business Combinations

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

c) Accounting Policies Adopted in 2018

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

IFRS 15 Revenue from Contracts with Customers (IFRS 15)

IFRS 15 replaces IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. IFRS 15 establishes a control based revenue recognition model under which revenue is recognized when control of the underlying goods or services for the particular performance obligation is transferred to the customer. This is achieved by applying the following five steps:

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

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

IFRS 9 Financial Instruments (IFRS 9)

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

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

d) Critical Accounting Estimates and Judgments

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

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

Depreciation and Amortization

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

Impairment of Non-financial Assets

For the purposes of Inter Pipeline's impairment testing, 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 3t).

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 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 2018, Inter Pipeline calculated the recoverable value for all CGUs to which goodwill has been allocated, except for the UK and Netherlands terminals acquired on November 30, 2018.

Provisions

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

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

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

Deferred Income Taxes

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carried forward tax losses can be utilized. Assessing the recoverability of deferred taxes

requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted funds from operations and the application of existing tax laws.

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

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

Business Combinations

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

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

e) Segment Reporting

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

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

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

Industry Segments

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

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

Geographic Segments

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

f) Revenue Recognition

On January 1, 2018, Inter Pipeline adopted IFRS 15 which establishes a control-based revenue recognition model under which revenue is recognized when control of the underlying goods or services is transferred to the customer. The total consideration to which Inter Pipeline expects to be entitled can include both fixed and variable amounts. Payments from customers are generally due in the month following the delivery of the goods or services.

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

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

IFRS 15 requires revenue to be disaggregated to categories that depict how the nature, timing, and uncertainty of revenues and cash flows are affected by economic factors. To meet this requirement, Inter Pipeline has categorized its revenue into the following contract types: (i) cost-of-service; (ii) fee-based; (iii) commodity-based; and (iv) product margin.

Cost-of-Service Contracts

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

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

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

Fee-Based Contracts

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

Commodity-Based Contracts

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

Product Margin Contracts

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

g) 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.

h) Cash and Cash Equivalents

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

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i) Inventory

Inventory is measured at the lower of cost and net realizable value and consists primarily of NGLs, olefins and crude oil. The cost of inventories is determined using the weighted average costing method and includes direct purchase costs and when applicable, costs of production, extraction, fractionation, and transportation. Net realizable value is the estimated selling price in the ordinary course of business less the estimated selling costs. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventories.

j) Property, Plant and Equipment

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

Oil Sands Transportation Business

Property, plant and equipment in the oil sands transportation business consist of pipelines and related facilities. Depreciation of capital costs is calculated on a straight-line basis over the estimated service life of the assets, which is 80 years. The cost of pipelines and facilities includes all expenditures directly attributable to bringing the pipeline to the location and condition necessary for its intended use, including costs incurred for system construction, expansion and betterments until the assets are 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. Pipeline line fill for the Cold Lake and Polaris pipeline systems is owned by Inter Pipeline and the shippers directly. The cost of line fill owned by Inter Pipeline includes all direct expenditures for acquiring the petroleum based products. Any line fill that Inter Pipeline continues to own upon the ultimate retirement and decommissioning of the pipeline systems will be recovered under the terms of the agreements. Cold Lake and Polaris line fill is carried at cost and Corridor line fill is carried at cost less accumulated depreciation. Proceeds from the sale of Inter Pipeline's line fill on Cold Lake and Polaris will be fully available to Inter Pipeline, whereas proceeds from the sale of Corridor's line fill will be used to fund the cost of any decommissioning obligations and to the extent Corridor's decommissioning obligations exceed the value of the line fill, Inter Pipeline will be obligated to fund the excess. To the extent the value of the line fill exceeds the decommissioning obligation; the excess funds will be refunded to the Corridor shippers. Depreciation of Corridor line fill is calculated on the same basis as the related property, plant and equipment.

NGL Processing Business

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

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 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 cost of line fill includes all direct expenditures for acquiring the petroleum based products. These product volumes will be recovered upon the ultimate retirement and decommissioning of the pipeline systems and are carried at cost.

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.

k) Goodwill and Intangible Assets

Goodwill

Inter Pipeline has goodwill in five of its CGUs: The Corridor and Polaris pipeline systems in the oil sands transportation business; and Inter Terminals UK, Germany and Ireland (together as one CGU), Inter Terminals Denmark, and the newly acquired storage terminals in the UK and Netherlands (together as one CGU), in the bulk liquid storage business. Assets are grouped in CGUs 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 CGUs. 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 an 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 14 years.

Contracts and Relationships

The NGL processing business' intangible assets consist of customer contracts for the sales of ethane, ethane-ethylene 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 processing business customer contracts is approximately five years.

Within the bulk liquid storage business segment, intangible assets consist of contracts and relationships for the storage and handling of bulk liquid products, and for the use of leased land. The value of these intangible assets is being realized, on a straight-line basis, over the term of the customer or supplier contracts or the expected duration of the customer relationship. Should the term of the contracts or relationships change, the amortization of the remaining balance would change prospectively. The average remaining amortization period of the contracts and relationships is approximately 10 years.

l) 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 and 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.

m) Borrowing Costs

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

n) Provisions

A provision is recognized when it is determined that an obligation has arisen as a result of a past event, the obligation can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Inter Pipeline's provisions represent legal or constructive obligations associated with certain onerous office lease contracts;

decommissioning tangible long-lived assets at the end of their useful lives; environmental remediation costs; and loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources.

Provisions associated with onerous head office lease contracts are calculated as the present value of the difference between the minimum future lease payments that Inter Pipeline is obligated to make under the non-cancellable lease contracts and the estimated sublease recoveries. The onerous lease contracts are expected to be settled in periods up to February 2023.

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

o) Employee Benefits

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.

p) Government Grants

Government grants are initially recognized as deferred income at fair value when there is reasonable assurance that the grant will be received and any conditions attached to the grant will be fulfilled. Grants that compensate Inter Pipeline for expenses incurred are recognised as other income in the same periods in which the expenses are incurred.

q) Income Taxes

Current Income Taxes

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

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

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

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

Deferred Income Taxes

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

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

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

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

r) Foreign Currency Translation

Foreign Currency Transactions

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

Foreign Operations

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

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.

Inter Pipeline Europe Limited and its respective subsidiaries within the bulk liquid storage business, and Inter Pipeline US Marketing Ltd. within the NGL processing business, have functional currencies that differ from the Canadian dollar. None of Inter Pipeline's subsidiaries operate in hyperinflationary economies.

s) 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 CGUs, which are the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of a CGU's fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, the best evidence of fair value is the value obtained from recent market transactions or the value stated in a binding sale agreement. If no such transactions can be identified, an appropriate 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 CGUs, that are expected to benefit from the business combination. A group of CGUs represents the lowest level within the entity at which goodwill is monitored for internal management purposes, which may not be higher than an operating segment.

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

t) Financial Instruments

Inter Pipeline may utilize derivative financial instruments to manage its exposure to market risks relating to commodity prices, foreign exchange and interest rates. Inter Pipeline has a market risk management policy that defines and specifies the controls and responsibilities to manage market exposure to changing commodity prices (crude oil, butane, condensate, power, natural gas, NGLs, and olefins) and changes within the financial markets relating to interest rates and foreign exchange exposure. Inter Pipeline's market risk management policy prohibits the use of derivative financial instruments for speculative purposes.

Financial Instruments – Recognition and Measurement

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

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

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

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

Financial Instruments – Fair Value Hierarchy

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

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

u) Reserves

Foreign Currency Translation Reserve

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

Defined Benefit Pension Reserve

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

4. FUTURE ACCOUNTING PRONOUNCEMENT

IFRS 16 Leases (IFRS 16)

IFRS 16 replaces IAS 17 *Leases* and related interpretations and will be applied to annual periods beginning on January 1, 2019. IFRS 16 establishes a single, on-balance sheet accounting model for lessees which will result in the recognition of a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Lessors will continue with a dual lease classification model. Classification as a finance or operating lease will determine how and when a lessor will recognize lease revenue, and the type of assets to be recorded.

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

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

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

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

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

5. ACQUISITION OF THE UK AND NETHERLANDS TERMINALS

On November 30, 2018, Inter Pipeline completed the acquisition, and thereby obtained control, of six petroleum petrochemical storage terminals in the United Kingdom and one petrochemical storage terminal in the Netherlands, referred to collectively as the Acquired Terminals, from a subsidiary of NuStar Energy L.P., through the purchase of 100% of its share capital. The acquisition was valued at USD $270.0 (CAD $360.7) million, before closing adjustments for working capital and debt, for total cash consideration of USD $278.3 (CAD $371.8) million and was funded from the net proceeds of the November 7, 2018, $200.1 million common share offering and available capacity on Inter Pipeline's syndicated credit facility. The acquisition increases Inter Terminal's total storage capacity in Western Europe by approximately 33% and establishes it as the largest independent storage operator in the United Kingdom.

Operating results for the Acquired Terminals have been included in the consolidated financial statements since November 30, 2018. The Acquired Terminals contributed $8.4 million and $1.3 million to revenue and net income before tax, respectively from the date of acquisition to December 31, 2018. If the acquisition had taken place on January 1, 2018, for the year ended December 31, 2018, management estimates that the Acquired Terminals would have contributed an incremental $95.2 million to pro forma revenue and $6.0 million to pro forma net income before tax. The pro forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effective on the date indicated, or of future results.

The acquisition was accounted for by the acquisition method as at the closing date of November 30, 2018. 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	$ 8.0
Property, plant and equipment (note 7)	372.1
Goodwill and intangible assets (note 8)	42.6
Non-cash working capital (note 23)	(1.2)
Provisions (note 11)	(27.5)
Deferred income tax (note 13)	(22.2)
Purchase price	$ 371.8

6. SEGMENT REPORTING

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

	Year Ended December 31, 2018						
	Canada					Europe	
	Oil Sands Transportation	NGL Processing	Conventional Oil Pipelines	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
REVENUE							
Cost-of-service	$ 805.1	$ 57.5	$ 59.4	$ -	$ 922.0	$ 146.1	$ 1,068.1
Fee-based	-	195.9	163.2	-	359.1	56.5	415.6
Commodity-based	-	634.8	-	-	634.8	-	634.8
Product margin	-	-	474.4	-	474.4	-	474.4
TOTAL REVENUE[1]	$ 805.1	$ 888.2	$ 697.0	$ -	$ 2,390.3	$ 202.6	$ 2,592.9
EXPENSES							
Cost of sales	-	238.2	436.9	-	675.1	-	675.1
Operating	148.1	195.0	85.7	-	428.8	101.4	530.2
Depreciation and amortization	91.4	86.1	22.3	17.5	217.3	56.4	273.7
Financing charges	35.2	1.8	0.8	123.7	161.5	1.9	163.4
General and administrative	22.8	-	-	81.5	104.3	33.3	137.6
Loss on disposal of assets	0.5	2.1	0.1	0.2	2.9	2.0	4.9
TOTAL EXPENSES	298.0	523.2	545.8	222.9	1,589.9	195.0	1,784.9
INCOME (LOSS) BEFORE INCOME TAXES	507.1	365.0	151.2	(222.9)	800.4	7.6	808.0
Income tax expense (recovery)[2]	-	-	-	215.6	215.6	(0.1)	215.5
NET INCOME (LOSS)	$ 507.1	$ 365.0	$ 151.2	$ (438.5)	$ 584.8	$ 7.7	$ 592.5
Items not involving cash:							
Depreciation and amortization[3]	91.9	88.2	22.4	17.7	220.2	58.4	278.6
Non-cash expense (recovery)	1.0	1.6	4.0	(3.8)	2.8	1.7	4.5
Deferred income tax expense (recovery)[2]	-	-	-	215.0	215.0	(1.9)	213.1
FUNDS FROM (USED IN) OPERATIONS	$ 600.0	$ 454.8	$ 177.6	$ (209.6)	$ 1,022.8	$ 65.9	$ 1,088.7
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 61.6	$ 784.3	$ 43.1	$ 21.8	$ 910.8	$ 39.5	$ 950.3
							As at December 31, 2018
Property, plant and equipment - net book value	$ 6,034.5	$ 2,331.7	$ 708.2	$ 78.6	$ 9,153.0	$ 1,304.8	$ 10,457.8
Goodwill and intangible assets - net book value	$ 208.3	$ 229.1	$ -	$ -	$ 437.4	$ 238.6	$ 676.0
Other assets	$ 73.4	$ 131.3	$ 47.5	$ 2.5	$ 254.7	$ 73.0	$ 327.7
TOTAL ASSETS	$ 6,316.2	$ 2,692.1	$ 755.7	$ 81.1	$ 9,845.1	$ 1,616.4	$ 11,461.5

(1) NGL Processing revenue includes $220.7 million of sales to external customers located in the United States.

(2) From January 1, 2018, all income tax expense for Canadian operations has been allocated to the Corporate segment.

(3) Includes loss on disposal of assets.

	Year Ended December 31, 2017						
	Canada					Europe	
	Oil Sands Transportation	NGL Processing	Conventional Oil Pipelines	Corporate	Total Canadian Operations	Bulk Liquid Storage	Total Canadian and European Operations
REVENUE							
Cost-of-service	$ 802.2	$ 39.4	$ 61.5	$ -	$ 903.1	$ 166.0	$ 1,069.1
Fee-based	-	185.5	165.7	-	351.2	55.1	406.3
Commodity-based	-	495.1	-	-	495.1	-	495.1
Product margin	-	-	290.1	-	290.1	-	290.1
TOTAL REVENUE[1]	802.2	720.0	517.3	-	2,039.5	221.1	2,260.6
EXPENSES							
Cost of sales	-	270.1	238.2	-	508.3	-	508.3
Operating	147.4	170.3	64.8	-	382.5	92.4	474.9
Depreciation and amortization	88.2	85.0	18.8	12.2	204.2	51.5	255.7
Financing charges	29.6	1.7	0.7	136.0	168.0	2.4	170.4
General and administrative	23.7	-	-	78.4	102.1	27.7	129.8
Loss (gain) on disposal of assets	0.1	2.6	3.1	(0.1)	5.7	3.8	9.5
TOTAL EXPENSES	289.0	529.7	325.6	226.5	1,370.8	177.8	1,548.6
INCOME (LOSS) BEFORE INCOME TAXES	513.2	190.3	191.7	(226.5)	668.7	43.3	712.0
Income tax expense [2]	-	-	-	182.2	182.2	3.1	185.3
NET INCOME (LOSS)	$ 513.2	$ 190.3	$ 191.7	$ (408.7)	$ 486.5	$ 40.2	$ 526.7
Items not involving cash:							
Depreciation and amortization[3]	88.3	87.6	21.9	12.1	209.9	55.3	265.2
Non-cash expense	0.1	1.7	0.7	0.5	3.0	1.1	4.1
Deferred income tax expense [2]	-	-	-	187.3	187.3	1.0	188.3
Proceeds from long-term deferred revenue	6.3	-	-	-	6.3	-	6.3
FUNDS FROM (USED IN) OPERATIONS	$ 607.9	$ 279.6	$ 214.3	$ (208.8)	$ 893.0	$ 97.6	$ 990.6
PROPERTY, PLANT AND EQUIPMENT ADDITIONS	$ 48.6	$ 223.7	$ 32.7	$ 24.3	$ 329.3	$ 71.2	$ 400.5
							As at December 31, 2017
Property, plant and equipment - net book value	$ 6,061.0	$ 1,659.1	$ 687.9	$ 75.4	$ 8,483.4	$ 911.4	$ 9,394.8
Goodwill and intangible assets - net book value	$ 212.0	$ 259.1	$ -	$ -	$ 471.1	$ 188.2	$ 659.3
Other assets	$ 76.3	$ 108.7	$ 72.7	$ 0.6	$ 258.3	$ 49.3	$ 307.6
TOTAL ASSETS	$ 6,349.3	$ 2,026.9	$ 760.6	$ 76.0	$ 9,212.8	$ 1,148.9	$ 10,361.7

(1) NGL Processing revenue includes $ 145.2 million of sales to external customers located in the United States.

(2) From January 1, 2018, all income tax expense for Canadian operations has been allocated to the Corporate segment. Comparative amounts have been reclassified to match the current period presentation.

(3) Includes loss (gain) 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, 2017	$ 10,050.2	$ 314.2	$ 318.9	$ 10,683.3
Additions/transfers from construction[1]	193.4	1.2	394.8	589.4
Disposals/completed construction[1]	(15.6)	-	(190.7)	(206.3)
Foreign currency translation adjustments	50.3	-	(0.7)	49.6
Balance, December 31, 2017	10,278.3	315.4	522.3	11,116.0
Acquisition of the UK and Netherlands terminals (note 5)	344.6	-	27.5	372.1
Additions/transfers from construction[1]	159.3	-	947.0	1,106.3
Disposals/completed construction[1]	(55.5)	-	(209.5)	(265.0)
Foreign currency translation adjustments	48.5	-	0.7	49.2
Balance, December 31, 2018	**$ 10,775.2**	**$ 315.4**	**$ 1,288.0**	**$ 12,378.6**
ACCUMULATED DEPRECIATION				
Balance, January 1, 2017	$ 1,473.7	$ 23.6	$ -	$ 1,497.3
Depreciation	218.1	2.9	-	221.0
Disposals	(7.8)	-	-	(7.8)
Foreign currency translation adjustments	10.7	-	-	10.7
Balance, December 31, 2017	1,694.7	26.5	-	1,721.2
Depreciation	236.9	2.9	-	239.8
Disposals	(50.2)	-	-	(50.2)
Foreign currency translation adjustments	10.0	-	-	10.0
Balance, December 31, 2018	**$ 1,891.4**	**$ 29.4**	**$ -**	**$ 1,920.8**
NET BOOK VALUE				
At December 31, 2017	$ 8,583.6	$ 288.9	$ 522.3	$ 9,394.8
At December 31, 2018	**$ 8,883.8**	**$ 286.0**	**$ 1,288.0**	**$ 10,457.8**

(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.

On September 25, 2018, Inter Pipeline completed the divestiture of the Heartland Petrochemical Complex's Central Utility Block (CUB). The sale of the CUB resulted in the recovery of the entire $53.5 million of capital previously incurred by Inter Pipeline, therefore there was no gain or loss on disposal.

At December 31, 2018, Inter Pipeline has $848.6 million of contractually committed spending on property, plant and equipment.

The amount of borrowing costs capitalized during the year ended December 31, 2018, was $23.1 million (2017 - $9.0 million). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 3.6% (December 31, 2017 – 3.3%).

8. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible Assets	Total Goodwill and Intangible Assets
COST			
Balance, January 1, 2017	$ 334.0	$ 549.5	$ 883.5
Foreign currency translation adjustments	9.2	0.1	9.3
Balance, December 31, 2017	343.2	549.6	892.8
Acquisition of the UK and Netherlands terminals (note 5)	28.7	13.9	42.6
Foreign currency translation adjustments	7.7	0.4	8.1
Balance, December 31, 2018	**$ 379.6**	**$ 563.9**	**$ 943.5**
ACCUMULATED AMORTIZATION			
Balance, January 1, 2017	$ -	$ 198.8	$ 198.8
Amortization	-	34.7	34.7
Balance, December 31, 2017	-	233.5	233.5
Amortization	-	33.9	33.9
Foreign currency translation adjustments	-	0.1	0.1
Balance, December 31, 2018	**$ -**	**$ 267.5**	**$ 267.5**
NET BOOK VALUE			
At December 31, 2017	$ 343.2	$ 316.1	$ 659.3
At December 31, 2018	**$ 379.6**	**$ 296.4**	**$ 676.0**

Goodwill

The carrying amounts of goodwill allocated to the Corridor and Polaris pipeline CGUs are $52.6 million and $104.3 million, respectively, at December 31, 2018 and 2017. The carrying amounts of goodwill allocated to the Inter Terminals UK, Germany and Ireland, Inter Terminals Denmark, and the acquired UK and Netherlands terminals CGUs are $60.8 million, $132.5 million and $29.4 million, respectively (December 31, 2017 - $58.9 million for Inter Terminals UK, Germany and Ireland and $127.4 million for Inter Terminals Denmark).

Corridor and Polaris Pipeline Systems

In arriving at the fair value less costs of disposal, after-tax discount rates of 4.3% and 6.8% 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 1.5% 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. The recoverable amounts of the Corridor and Polaris CGUs are significantly higher than the carrying amounts.

Bulk Liquid Storage Business

Goodwill relating to the bulk liquid storage business has been assessed, applying after-tax discount rates of 7.3% and 6.8% to after-tax cash flows of the Inter Terminals UK, Germany and Ireland, and Inter Terminals Denmark CGUs, respectively. 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 3.0% for Inter Terminals UK, Germany and Ireland and an annual growth rate of 1.5% for Inter Terminals Denmark. The calculation of

fair value less costs of disposal is most sensitive to assumptions about discount rates and revenue. The recoverable amount of the Inter Terminals Denmark CGU exceeds its carrying value by $34.6 million or 7.0%. The recoverable amount of the Inter Terminals UK, Germany and Ireland CGU is significantly higher than its carrying amount.

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 debt and equity weightings based on observable market participant data. The cost of equity is derived from the expected risk-free rate of return plus an appropriate equity risk premium, and the after-tax cost of debt is based on expected borrowing rates for each CGU. Segment-specific risks are also considered and are evaluated annually based on publicly available market data.

Leaving all other variables constant, the WACC would need to increase by 0.4% (to 7.2%) to result in an impairment for the Inter Terminals Denmark CGU. Management does not believe that a reasonably possible change in the WACC for the Corridor, Polaris and Inter Terminals UK, Germany, and Ireland CGUs would result in the recoverable amounts being less than the carrying amounts.

Revenue

Revenue in the Corridor and Polaris CGUs is based on long-term contractual transportation agreements with shippers. Revenue in the Inter Terminals UK, Germany and Ireland and Inter Terminals Denmark CGUs is based on management's best estimates, taking into consideration existing contracts, timing of contract renewals, as well as relevant market factors. An average annual revenue inflation rate of 3.3% and an average utilization rate of 93% have been incorporated into the 10 year cash flow forecasts of Inter Terminals UK, Germany and Ireland. An average annual revenue inflation rate of 1.5% and an average utilization rate of 86% 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.

Leaving all other variables constant, a 0.6% decrease (to 0.9%) in the annual revenue inflation rate incorporated into the 10 year cash flow forecasts would result in an impairment for the Inter Terminals Denmark CGU. Management does not believe that a reasonably possible change in the average annual revenue inflation rate for the Inter Terminals UK, Germany, and Ireland CGU would result in the recoverable amounts being less than the carrying amount.

9. DIVIDENDS TO SHAREHOLDERS

	Years Ended December 31	
(millions, except per share amounts)	**2018**	2017
Dividends declared on common shares	**$ 655.4**	$ 609.9
Dividends settled with the issuance of shares under the Premium Dividend™ and Dividend Reinvestment Plan	**(327.6)**	(307.4)
Cash dividends paid on common shares	**$ 327.8**	$ 302.5
Dividends declared per share	**$ 1.685**	$ 1.630

As at December 31, 2018, dividends of $57.5 million were payable on 403.8 million outstanding common shares at $0.1425 per share (December 31, 2017 - $53.2 million payable on 379.8 million outstanding common shares at $0.14 per share).

On January 9, 2019, Inter Pipeline declared dividends of $0.1425 per share. The dividends will be paid on or about February 15, 2019, to shareholders of record on January 22, 2019. The total declared dividends were $57.8 million. On February 14, 2019, Inter Pipeline declared dividends of $0.1425 per share. The dividends will be paid on or about March 15, 2019, to shareholders of record on February 25, 2019. The total estimated declared dividends are approximately $58.0 million.

10. FINANCIAL DEBT

The following table summarizes Inter Pipeline's financial debt as at December 31, 2018 and December 31, 2017:

	Maturity Date	**December 31 2018**	December 31 2017
Corridor syndicated credit facility (a)	December 14, 2022	**$ 1,244.0**	$ 1,291.0
Inter Pipeline syndicated credit facility (b)	December 5, 2023	**940.0**	487.0
4.897% Corridor debentures	February 3, 2020	**150.0**	150.0
Inter Pipeline Senior Unsecured Medium-Term Notes			
4.967% Series 1	February 2, 2021	**325.0**	325.0
3.839% Series 2 (c)	July 30, 2018	**-**	200.0
3.776% Series 3	May 30, 2022	**400.0**	400.0
3.448% Series 4	July 20, 2020	**500.0**	500.0
4.637% Series 5	May 30, 2044	**500.0**	500.0
3.173% Series 7	March 24, 2025	**300.0**	300.0
2.608% Series 8	September 13, 2023	**350.0**	350.0
3.484% Series 9	December 16, 2026	**450.0**	450.0
2.734% Series 10	April 18, 2024	**500.0**	500.0
Demand Facilities			
Inter Pipeline demand facility[1](d)	Demand	**-**	-
Corridor demand facility (e)	Demand	**-**	-
Inter Terminals demand facility (f)	Demand	**21.1**	4.2
Long-term debt, short-term debt and commercial paper excluding transaction costs and discounts		**5,680.1**	5,457.2
Less: short-term debt, current portion of long-term debt and commercial paper[2]		**(1,265.1)**	(1,495.2)
Long-term debt excluding transaction costs and discounts		**4,415.0**	3,962.0
Transaction costs, net of accumulated amortization		**(17.9)**	(20.0)
Discount, net of accumulated amortization		**(2.8)**	(1.7)
Add: Current portion of transaction costs and discounts		**3.0**	2.5
Long-term debt		**4,397.3**	3,942.8
Short-term debt and current portion of long-term debt including transaction costs and discounts		**21.1**	204.1
Commercial paper including transaction costs and discounts[2]		**1,241.0**	1,288.6
Financial debt		**$ 5,659.4**	$ 5,435.5

(1) At December 31, 2018, letters of credit totaling $12.0 million (December 31, 2017 - $2.9 million) have been issued under Inter Pipeline's demand facility; however no amounts have been borrowed against the facility at December 31, 2018 (December 31, 2017 - $nil).

(2) Commercial paper issued by Corridor is fully supported and management expects that it will continue to be supported by the Corridor syndicated credit facility that has no repayment requirements until December 2022.

(a) Borrowings on the $1,550 million Corridor syndicated credit facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances or letters of credit. Fees on amounts borrowed at floating rates based on bankers' acceptances are 100 basis points, while fees on unborrowed amounts are 20 basis points (2017 – 100 basis points and 20 basis points, respectively). On December 14, 2018, Inter Pipeline extended the maturity date of the syndicated credit facility to December 14, 2022.

(b) Borrowings on the $1,500 million Inter Pipeline syndicated credit facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances or letters of credit. Fees on amounts borrowed at floating rates based on bankers'

acceptances are 120 basis points, while fees on unborrowed amounts are 24 basis points (2017 – 120 basis points and 24 basis points, respectively). On December 5, 2018, Inter Pipeline extended the maturity date of the syndicated credit facility to December 5, 2023.

(c) On July 30, 2018, the $200 million senior unsecured 3.839% Series 2 medium-term notes matured and were repaid with funds available under Inter Pipeline's syndicated credit facility.

(d) Fees on amounts borrowed under Inter Pipeline's $75 million demand facility are based on the prime rate plus 20 basis points, while undrawn amounts are not charged standby fees.

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

(f) Fees on amounts borrowed under Inter Terminals Pound Sterling 20 million demand facility 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. Undrawn amounts are not charged standby fees.

11. PROVISIONS

	Onerous Contracts	Decommissioning Obligations	Environmental Liabilities	Total
Balance, January 1, 2017	$ 8.4	$ 134.6	$ 19.6	$ 162.6
Revisions to estimated amount of liabilities	-	20.8	0.6	21.4
Obligations discharged	(2.7)	(0.6)	(0.2)	(3.5)
Accretion expense	0.3	3.5	0.4	4.2
Foreign currency adjustments	-	3.1	0.3	3.4
Balance, December 31, 2017	6.0	161.4	20.7	188.1
Acquisition of the UK and Netherlands terminals (note 5)	-	27.0	0.5	27.5
Revisions to estimated amount of liabilities	-	6.0	3.9	9.9
Obligations discharged	(3.3)	(2.0)	-	(5.3)
Accretion expense	0.2	4.1	0.5	4.8
Foreign currency adjustments	-	3.0	0.1	3.1
Balance, December 31, 2018	**$ 2.9**	**$ 199.5**	**$ 25.7**	**$ 228.1**

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

Business Segment	Expected Economic Life (years)[1]	Inflation Rate	Long-Term Risk-Free Discount Rate	5 to 10 Year Risk-Free Discount Rate
Oil sands transportation	80 to 300	1.8%	2.8%	n/a
NGL processing	25 to 40	1.8%	2.8%	n/a
Conventional oil pipelines	40 to 300	1.8%	2.8%	1.4% to 2.5%
Bulk liquid storage	30 to 40	1.2% to 2.3%	1.9% to 2.7%	0.0% to 1.3%

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

12. EMPLOYEE BENEFITS

	December 31 2018	December 31 2017
Long-term incentive plan liability	**$ 9.8**	$ 14.0
Pension liability	**15.6**	16.1
Employee benefits	**$ 25.4**	$ 30.1

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, 2018, the current portion of the liability included in accounts payable, accrued liabilities and provisions was $23.1 million (December 31, 2017 - $25.4 million). At December 31, 2018, 570.0 thousand RSUs are exercisable (December 31, 2017 – 580.1 thousand). Inter Pipeline's five day simple average closing share price at December 31, 2018, was $19.18 (December 31, 2017 - $25.76).

The total intrinsic value of RSUs vested and not exercised as at December 31, 2018 was $12.3 million (December 31, 2017 - $16.2 million).

The weighted average remaining contractual life of the outstanding RSUs as at December 31, 2018, was 1.6 years (December 31, 2017 - 1.5 years).

For the year ended December 31, 2018, RSU costs of $1.9 million were included in operating expenses and $9.2 million were included in general and administrative expenses (2017 - $5.1 million and $9.7 million, respectively).

The following table summarizes the status of Inter Pipeline's RSUs as at December 31, 2018, and December 31, 2017:

(thousands)	Number of RSUs
Balance, January 1, 2017	1,065.2
Granted	615.9
Exercised	(453.3)
Forfeitures	(33.5)
Balance, December 31, 2017	1,194.3
Granted	794.4
Exercised	(639.5)
Forfeitures	(90.1)
Balance, December 31, 2018	**1,259.1**

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

At December 31, 2018, the current portion of the liability included in accounts payable, accrued liabilities and provisions was $4.9 million (December 31, 2017 - $4.0 million). Inter Pipeline's 20 trading day volume weighted average share price at December 31, 2018, was $20.23 (December 31, 2017 - $26.81).

The weighted average remaining contractual life of the outstanding PSUs as at December 31, 2018, was 1.5 years (December 31, 2017 – 1.4 years).

For the year ended December 31, 2018, PSU costs of $1.3 million were included in general and administrative expenses (2017 - $5.7 million).

The following table summarizes the status of Inter Pipeline's PSUs as at December 31, 2018, and December 31, 2017:

(thousands)	Number of PSUs
Balance, January 1, 2017	254.0
Granted	112.8
Exercised	(109.5)
Balance, December 31, 2017	257.3
Granted	131.1
Exercised	(144.5)
Balance, December 31, 2018	**243.9**

13. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2018 and 2017 are as follows:

	Years Ended December 31	
	2018	2017
Current income taxes		
Current income tax charge	**$ 2.6**	$ 5.0
Adjustments in respect of current income tax of the previous year	**(0.2)**	(8.0)
Current income tax	**2.4**	(3.0)
Deferred income taxes		
Relating to the origination and reversal of temporary differences	**208.8**	180.9
Adjustments in respect of deferred income tax of the previous year	**4.3**	7.4
Deferred income tax	**213.1**	188.3
Total income tax expense	**$ 215.5**	$ 185.3

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

	Years Ended December 31	
	2018	2017
Income before income taxes	**$ 808.0**	$ 712.0
Tax rate	**27.0%**	27.0%
Income tax at statutory rate	**218.2**	192.2
Deductible intercompany interest expense	**(7.6)**	(10.1)
Other	**4.9**	3.2
Total income tax expense	**$ 215.5**	$ 185.3

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

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

	December 31	December 31
	2018	2017
Deferred income tax expense on defined benefit pension reserve	**$ (0.2)**	$ (0.7)
Deferred income tax recovery on share issue costs	**2.2**	-
Current income tax recovery on long-term payable	**-**	5.0
Income tax recognized in shareholders' equity	**$ 2.0**	$ 4.3

Deferred income taxes relate to the following temporary differences:

	Consolidated Balance Sheets		**Consolidated Statements of Net Income**	
	December 31	December 31	Years Ended December 31	
	2018	2017	**2018**	2017
Property, plant and equipment	**$ (1,133.4)**	$ (950.6)	**$ (156.2)**	$ (244.0)
Non-capital losses	**175.4**	272.3	**(97.5)**	38.4
Goodwill and intangible assets	**(79.0)**	(113.8)	**37.6**	10.3
Provisions	**50.8**	41.9	**2.9**	6.4
Other	**2.7**	2.9	**0.1**	0.6
Deferred income tax expense			**(213.1)**	(188.3)
Net deferred tax liability	**$ (983.5)**	$ (747.3)		

Reconciliation of net deferred income tax liabilities:

	2018	2017
Balance, January 1	**$ (747.3)**	$ (555.5)
Tax expense recognized in net income	**(213.1)**	(188.3)
Tax recovery recognized in equity	**2.0**	-
Acquisition of the UK and Netherlands terminals (note 5)	**(22.2)**	-
Revaluation of foreign deferred income tax liabilities and other	**(2.9)**	(3.5)
Balance, December 31	**$ (983.5)**	$ (747.3)

14. SHAREHOLDERS' EQUITY

a) Authorized

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

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

b) Premium Dividend™ and Dividend Reinvestment Plan

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

c) Issued, Fully Paid and Outstanding

(millions)	Number of Common Shares	Share Capital
Balance, January 1, 2017	367.9	$ 3,712.3
Issued under Premium Dividend™ and Dividend Reinvestment Plan	11.9	307.4
Balance, December 31, 2017	379.8	4,019.7
Issued under Premium Dividend™ and Dividend Reinvestment Plan	14.4	327.6
Issued for cash (net of issue costs)	9.6	193.9
Balance, December 31, 2018	**403.8**	**$ 4,541.2**

On November 7, 2018, Inter Pipeline issued 9,620,000 common shares at $20.80 per share for gross proceeds of $200.1 million. Share issue costs of $8.4 million were incurred and a decrease in the deferred tax liability of $2.2 million was recognized, resulting in net proceeds of $193.9 million. Proceeds from the share issuance were used to partially fund the acquisition of the UK and Netherlands terminals.

d) Calculation of Net Income per Common Share

	Years Ended December 31	
(millions, except per share amounts)	**2018**	2017
Net income – basic and diluted	**$ 592.5**	$ 526.7
Weighted average shares outstanding – basic	**388.2**	373.7
Effect of Premium Dividend™ and Dividend Reinvestment Plan	**0.9**	0.8
Weighted average shares outstanding – diluted	**389.1**	374.5
Net income per common share – basic and diluted	**$ 1.53**	$ 1.41

e) Reserves

Reserves are summarized as follows:

	Foreign Currency Translation Reserve	Defined Benefit Pension Reserve	Total Reserves
Balance, January 1, 2017	$ 29.4	$ (26.0)	$ 3.4
Other comprehensive income	42.8	3.9	46.7
Balance, December 31, 2017	72.2	(22.1)	50.1
Other comprehensive income	41.7	1.2	42.9
Balance, December 31, 2018	**$ 113.9**	**$ (20.9)**	**$ 93.0**

™ Denotes trademark of Canaccord Genuity Corp.

15. RELATED PARTY TRANSACTIONS

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

No revenue was earned from related parties for the years ended December 31, 2018 and 2017.

Key Management Personnel

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

	Years Ended December 31	
	2018	2017
Short-term employee benefits[1]	**$ 3.8**	$ 3.5
Share-based payments[2]	**2.1**	4.3
Total compensation[3]	**$ 5.9**	$ 7.8

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

(2) Share-based payments consist of the compensation expense recognized for RSUs and PSUs outstanding at the year end and RSUs and PSUs exercised by key management personnel during the year (see note 12 for a discussion of the RSUP and PSUP).

(3) Post employment benefits, other long-term benefits and termination benefits are not applicable for Inter Pipeline's key management personnel in the years ended December 31, 2018 and 2017.

16. COMMITMENTS AND CONTINGENCIES

a) Minimum Lease Payments and Purchase Obligations

Inter Pipeline has lease agreements for office space, storage, rail cars, property, plant and equipment and land for periods ranging from 2019 to 2115. Certain leases contain extension and renewal options. The future minimum annual lease payments for these lease commitments are:

Less than one year	$ 24.8
One to five years	92.0
After five years	190.5
Total future minimum lease payments	$ 307.3

Inter Pipeline has operating purchase obligation commitments totaling approximately $207.0 million at December 31, 2018.

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

b) Royalty Credits

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

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

17. CAPITAL DISCLOSURES

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

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

Inter Pipeline maintains flexibility in its capital structure to fund growth capital and acquisitions through market and industry cycles. Inter Pipeline projects its funding requirements to ensure appropriate sources of financing are available to meet future financial obligations and capital expenditure programs. Inter Pipeline generally relies on committed credit facilities and funds from operations in excess of dividends to fund capital requirements. At December 31, 2018, Inter Pipeline had access to committed credit facilities totaling $3,050.0 million, of which $866.0 million remained unutilized. Inter Pipeline also had access to demand facilities of $134.9 million, of which $101.8 million remained unutilized. Certain facilities are available to specific subsidiaries of Inter Pipeline.

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

18. FINANCIAL INSTRUMENTS

a) Classification of Financial Assets and Financial Liabilities

The carrying value of Inter Pipeline's financial assets and liabilities recorded at December 31, 2018, are classified as follows:

	Amortized Cost	Non-Financial Asset or Liability[1]	Carrying Value of Asset or Liability
Assets[2]			
Cash and cash equivalents	$ 46.2	$ -	$ 46.2
Accounts receivable	227.3	14.9	242.2
Prepaid expenses and other assets	0.1	29.1	29.2
Liabilities			
Dividends payable	$ 57.5	$ -	$ 57.5
Accounts payable, accrued liabilities and provisions	404.5	63.3	467.8
Deferred revenue and other liabilities	9.3	62.6	71.9
Long-term debt, short-term debt and commercial paper (note 10)[3]	5,680.1	-	5,680.1

(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" or "fair value through other comprehensive income".

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

b) Fair Value of Fixed Rate Debt

At December 31, 2018, the carrying values of fixed rate debt compared to fair values are as follows:

	Carrying Value[1]	Fair Value
Corridor debentures	$ 150.0	$ 153.2
Medium-term notes	$ 3,325.0	$ 3,237.9

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

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

19. 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.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on net income and are based on long-term debt, short-term debt and commercial paper outstanding at December 31, 2018. The analyses are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated based on one variable because the relationship with other variables may not be linear. In reality, changes in one variable may magnify or counteract the impact of another variable which may result in a significantly different conclusion.

Power Price Risk Management

Inter Pipeline may enter into electricity price swap agreements and heat rate price swap agreements to manage power price risk exposure in the conventional oil pipelines business and NGL processing business, respectively. As at December 31, 2018, there were no electricity price swap or heat rate price swap agreements outstanding.

Frac-spread Risk Management

Inter Pipeline is exposed to frac-spread risk being the difference between the selling prices for NGL, parafinic and olefinic products and the input cost of the natural gas required to produce the respective products, including shrinkage gas. Inter Pipeline may enter into natural gas liquids, AECO natural gas, and foreign exchange swap contracts to manage frac-spread risk exposure in the NGL processing business. As at December 31, 2018, there were no frac-spread hedges outstanding.

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 or cross currency swap agreements to manage its interest rate price risk exposure. As at December 31, 2018, there were no interest rate or cross-currency swap agreements outstanding.

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

Based on the variable rate debt obligations outstanding at December 31, 2018, a 1% change in interest rates at this date would have changed interest expense for the year ended December 31, 2018, by approximately $22.0 million assuming all other variables remain constant. Of this amount, $12.4 million for the year ended December 31, 2018, relates to the Corridor syndicated credit facility (note 10) and is recoverable through the terms of the Corridor Firm Service Agreement; therefore, the after-tax income impact for the year ended December 31, 2018, would be $7.0 million.

Foreign Exchange Risk Management

Inter Pipeline is exposed to currency risk resulting from the translation of assets and liabilities of its United States and European based subsidiaries and transactional currency exposures arising from purchases in currencies other than Inter Pipeline's functional currency, the Canadian dollar. Transactional foreign currency risk exposures have not been significant historically, therefore are generally not hedged; however, Inter Pipeline may decide to hedge this risk in the future. As at December 31, 2018, there were no foreign exchange hedges outstanding.

b) Credit Risk

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

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

At December 31, 2018, Inter Pipeline considers that the risk of non-performance of its customers is minimal based on Inter Pipeline's credit approval, ongoing monitoring procedures and historical experience. The creditworthiness assessment takes into account available qualitative and quantitative information about the counterparty including, but not limited to, business performance, financial status and external credit ratings. Depending on the outcome of each assessment, guarantees, letters of credit, prepayments, or some other form of credit enhancement may be requested as security. Inter Pipeline attempts to mitigate its exposure by entering into contracts with customers that may permit netting or entitle Inter Pipeline to rely on indemnification provisions, lien or take product in kind and/or allow for termination of the contract on the occurrence of certain events of default. Each business segment monitors outstanding accounts receivable on an ongoing basis.

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

Concentrations of credit risk associated with accounts receivable relate to a limited number of principal customers in the oil sands transportation and NGL processing business segments, the majority of which are affiliated with investment grade corporations in the energy and chemical industry sectors. At December 31, 2018, accounts receivable associated with these two business segments were $161.9 million or 66.8% of total accounts receivable outstanding. Inter Pipeline believes the credit risk associated with the remainder of accounts receivable is minimized due to diversity across business segments and customers.

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 16 for commitments and contingencies and note 17 for capital disclosures). The table below summarizes the contractual maturity profile of Inter Pipeline's financial liabilities at December 31, 2018, on an undiscounted basis:

	Total	Less Than One Year	One to Five Years	After Five Years
Dividends payable	$ 57.5	$ 57.5	$ -	$ -
Accounts payable, accrued liabilities and provisions	467.8	467.8	-	-
Deferred revenue and other liabilities	71.9	16.6	35.5	19.8
Long-term debt, short-term debt and commercial paper[1]	5,680.1	1,265.1	2,665.0	1,750.0
Total	$ 6,277.3	$ 1,807.0	$ 2,700.5	$ 1,769.8

(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 2022.

20. REVENUE

a) Revenue Allocated to Remaining Performance Obligations

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

b) Deferred Revenue

	Current	Long-term	Total Deferred Revenue
Balance, January 1, 2018	$ 52.1	$ 13.7	$ 65.8
Additions	79.7	3.2	82.9
Reclassifications [1]	(48.4)	(2.0)	(50.4)
Revenue recognized	(67.1)	-	(67.1)
Foreign currency translation adjusments	0.3	0.2	0.5
Balance, December 31, 2018	**$ 16.6**	**$ 15.1**	**$ 31.7**

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

c) Major Customers

In 2018, two major customers of the oil sands transportation business and two major customers of the NGL processing business accounted for 49.3% (2017 - one major customer of the oil sands transportation business and one major customer of the NGL processing business accounted for 28%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

21. FINANCING CHARGES

	Years Ended December 31	
	2018	2017
Interest expense on credit facilities	**$ 45.8**	$ 37.5
Interest on Corridor debentures	**7.3**	7.4
Interest on medium-term notes	**124.2**	125.6
Total Interest	**177.3**	170.5
Capitalized interest	**(23.1)**	(9.0)
Amortization of transaction costs on financial debt	**4.0**	4.2
Accretion of provisions and pension plan funding charges	**5.2**	4.7
Financing charges	**$ 163.4**	$ 170.4

22. EXPENSES BY NATURE

	Years Ended December 31	
	2018	2017
Employee costs	**$ 190.2**	$ 194.8
External services	**159.6**	126.3
Fuel and power	**148.1**	111.0
Materials and supplies	**86.0**	98.8
Property taxes	**50.0**	44.9
Other	**33.9**	28.9
Total expenses by nature	**$ 667.8**	$ 604.7
Allocated to:		
Operating	**530.2**	474.9
General and administrative	**137.6**	129.8
Total operating and general and administrative expenses	**$ 667.8**	$ 604.7

23. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in Non-Cash Working Capital

	December 31	December 31
	2018	2017
Accounts receivable	**$ 3.5**	$ (19.6)
Prepaid expenses and other assets	**(7.5)**	(1.3)
Inventory	**2.5**	0.7
Dividends payable	**4.3**	3.5
Accounts payable, accrued liabilities and provisions	**137.1**	56.7
Current income taxes payable	**(0.7)**	(10.6)
Deferred revenue	**(35.5)**	42.0
Non-cash working capital acquired (note 5)	**(1.2)**	-
Impact of foreign exchange rate differences and other	**0.6**	(0.2)
Changes in non-cash working capital	**$ 103.1**	$ 71.2
These changes relate to the following activities:		
Operating	**$ (10.6)**	$ 37.8
Investing	**110.6**	29.0
Financing	**3.1**	4.4
Changes in non-cash working capital	**$ 103.1**	$ 71.2

b) Cash and Cash Equivalents

	December 31 2018	December 31 2017
Cash on hand and at banks	$ 41.0	$ 22.1
Short-term deposits	5.2	4.8
Cash and cash equivalents	$ 46.2	$ 26.9

c) Changes in Liabilities Arising from Financing Activities

	Dividends Payable	Financial Debt	Total Liabilites From Financing Activities
Balance, January 1, 2017	$ 49.7	$ 5,806.3	$ 5,856.0
Cash flows	(302.5)	(374.8)	(677.3)
Non-cash changes	306.0	4.0	310.0
Balance, December 31, 2017	$ 53.2	$ 5,435.5	$ 5,488.7
Cash flows	(327.8)	220.5	(107.3)
Non-cash changes	332.1	3.4	335.5
Balance, December 31, 2018	**$ 57.5**	**$ 5,659.4**	**$ 5,716.9**

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 2018	December 31 2017
Current assets	$ 10.0	$ 8.8
Non-current assets	64.6	70.5
Current liabilities	(9.5)	(6.7)
Non-current liabilities	(1.1)	(1.1)
Proportionate share of net assets	$ 64.0	$ 71.5

	Years Ended December 31 2018	2017
Revenues	$ 59.5	$ 75.5
Expenses	(57.6)	(72.2)
Proportionate share of net income and comprehensive income	$ 1.9	$ 3.3

The principal place of business of this joint operation is Alberta, Canada. At December 31, 2018, 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.