

Management's Discussion and Analysis

For the second quarter ended June 30, 2007

The following Management's Discussion and Analysis (MD&A) provides a detailed explanation of Inter Pipeline Fund's (Inter Pipeline) operating results for the three and six month periods ended June 30, 2007 as compared to the three and six month periods ended June 30, 2006. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and MD&A of Inter Pipeline for the quarterly periods ended March 31, June 30, September 30, 2006 and March 31, 2007, the audited consolidated financial statements and MD&A for the years ended December 31, 2006 and 2005, the Annual Information Form (AIF) and other information filed by Inter Pipeline at www.sedar.com.

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SECOND QUARTER 2007 HIGHLIGHTS

- Completed acquisition of the Corridor pipeline system from an affiliate of Kinder Morgan Inc. (Kinder) for approximately \$1.1 billion, including the assumption of debt. Inter Pipeline is now the largest oil sands gathering business in Canada transporting more than 40% of Canada's oil sands production
- Generated funds from operations* of \$45.0 million during the second quarter. Excluding a \$10.9 million acquisition fee associated with the Corridor acquisition, funds from operations would have increased by \$7.1 million or 14.5% to \$55.9 million over the same period of 2006
- Quarterly and year-to-date payout ratio before sustaining capital* of 94.5%, and 85.1%, respectively

- Due to the substantive enactment of Bill C-52 Budget Implementation Act, 2007, associated with the Federal Government's Tax Fairness Plan, Inter Pipeline recorded a \$236.2 million, non-cash, future income tax expense in the quarter. This contributed to a net loss of \$207.9 million, down from net income of \$30.8 million in the same quarter a year ago
- Cash distributions* to unitholders during the quarter totalled \$42.6 million, or \$0.210 per unit compared to \$39.2 million or \$0.195 per unit in Q2 2006
- Transportation volumes on the oil sands transportation and conventional oil pipeline systems averaged approximately 800,000 barrels per day (b/d) during the quarter.
- Announced agreement to connect Shell Canada Energy's Orion oil sands project to the Cold Lake pipeline system under a 10-year ship-or-pay contract

* Please refer to the "Non-GAAP Financial Measures" section

PERFORMANCE OVERVIEW

Three Months Ended June 30, 2007

| (\$ millions) | Three Months Ended June 30 | |
|------------------------------|-------------------------------|----------------|
| | 2007 | 2006 |
| Funds from operations | | |
| NGL extraction | \$ 29.7 | \$ 25.4 |
| Conventional oil pipelines | 20.5 | 18.3 |
| Oil sands transportation | 11.0 | 10.6 |
| Bulk liquid storage | 11.4 | 9.4 |
| Corporate costs | (27.6) | (14.9) |
| | \$ 45.0 | \$ 48.8 |

For the three months ended June 30, 2007, Inter Pipeline's funds from operations decreased \$3.8 million primarily due to a \$10.9 million acquisition fee related to the Corridor acquisition paid to the General Partner pursuant to its Partnership agreement with Inter Pipeline. The \$12.7 million increase in corporate costs was substantially offset by an approximate \$8.9 million increase in funds from operations generated by the four operating business segments. Favourable commodity prices and volume increases in the natural gas liquids (NGL) extraction business, increased volumes shipped on the conventional pipeline systems and increased utilization and additional storage in the bulk liquid storage business contributed to the majority of the increase in funds from operations.

Inter Pipeline paid monthly cash distributions of \$0.070 per unit to unitholders in each of April, May and June 2007 for a total of \$0.210 per unit. This compares with monthly cash distributions of \$0.065 per unit for the months April to June 2006 for a total of \$0.195 per unit. Total cash distributed to unitholders in the second quarter of 2007 increased \$3.4 million or 8.7% to \$42.6 million compared to \$39.2 million distributed in the second quarter ended June 30, 2006. The increase in total cash distributed is primarily attributable to a cash distribution per unit increase effective September 2006.

A 94.5% payout ratio before sustaining capital of funds from operations was realized in the second quarter of 2007, as compared to 80.2% realized in the second quarter of 2006.

Inter Pipeline's outstanding long-term debt, excluding the 10% Convertible Extendible Unsecured Subordinated Debentures (Convertible Debentures), increased by \$1,080.0 million to \$1,754.8 million from \$674.8 million outstanding as at December 31, 2006. The increase in long-term debt is a result of financing the cash consideration of \$302.2 million and the assumption of non-recourse debt of \$777.0 million related

to the Corridor acquisition. At June 30, 2007, Inter Pipeline's consolidated debt to total capitalization ratio is 66.1%. Removing the impact of Corridor's non-recourse debt, Inter Pipeline's adjusted debt to adjusted capitalization ratio is 52.1%.

Net income for the second quarter of 2007 decreased approximately \$238.7 million to a net loss of \$207.9 million from net income of \$30.8 million in 2006. This is primarily due to the recognition of a \$236.2 non-cash expense for future income taxes recognized as a result of the substantive enactment of Bill C-52 Budget Implementation Act, 2007, associated with the Federal Government's Tax Fairness Plan (Plan) effective June 2007. Excluding non-cash future tax expense of \$236.2 million, net income for the second quarter would have been \$28.3 million or \$0.14 per unit. See **RESULTS OF OPERATIONS – Corporate** for further discussion on the increase in future income taxes.

Six Months Ended June 30, 2007

| (\$ millions) | Six Months Ended June 30 | |
|------------------------------|-----------------------------|----------------|
| | 2007 | 2006 |
| Funds from operations | | |
| NGL extraction | \$ 56.6 | \$ 49.3 |
| Conventional oil pipelines | 43.5 | 39.1 |
| Oil sands transportation | 20.3 | 20.2 |
| Bulk liquid storage | 23.5 | 18.3 |
| Corporate costs | (44.1) | (30.2) |
| | \$ 99.8 | \$ 96.7 |

The increase in funds from operations for the six months ended June 30, 2007 was primarily due to favourable commodity prices and volume increases in the NGL extraction business, increased volumes shipped on the conventional pipeline systems, increased utilization and additional biofuels storage in the bulk liquid storage business. These increases were offset by the \$10.9 million acquisition fee paid to the General Partner related to the Corridor acquisition. See **RESULTS OF OPERATIONS** section for further discussion on each business segment's operating results.

Total cash distributed to unitholders in the first six months of 2007 increased by \$6.8 million or 8.7% to \$85.0 million compared to \$78.2 million distributed in the six months ended June 30, 2006. This represents a favourable 85.1% payout ratio before sustaining capital for the six month period ended June 30, 2007, compared to a payout ratio before sustaining capital of 80.8% realized in the same period of 2006.

Net income for the six months ended June 30, 2007 decreased approximately \$243.3 million to a net loss of \$183.4 million from net income of \$59.9 million in 2006. This is primarily due to the recognition of a \$236.2 million non-cash expense for future income taxes as discussed above as well as a \$8.8 million unrealized loss recorded on Inter Pipeline's derivative financial instruments. Excluding non-cash future tax expense of \$236.2 million, net income year to date would have been \$52.8 million or \$0.26 per unit. See **RESULTS OF OPERATIONS – Corporate** for further discussion on the increase in future income taxes.

OUTLOOK

On June 15, 2007, Inter Pipeline announced that it had completed the purchase of the Corridor pipeline system and work-in-progress related to a \$1.8 billion expansion of that pipeline system from an affiliate of Kinder. The acquisition was made through the purchase of 100% of the share capital of Terasen Pipelines (Corridor) Inc., renamed Inter Pipeline (Corridor) Inc. (Corridor), from Kinder for cash consideration of approximately \$302.2 million, subject to final closing adjustments, and the assumption of approximately \$777.0 million of existing debt. The Corridor pipeline system is the sole transporter of diluted bitumen produced by the Athabasca Oil Sands Project (AOSP).

This acquisition, when combined with Inter Pipeline's 85% interest in the Cold Lake pipeline system, makes Inter Pipeline the largest transporter of Canada's oil sands production. Corridor will provide stable and predictable cash flows stemming from a long-term cost of service contract with high credit quality shippers. The shippers on the Corridor pipeline system are Shell Canada Energy (Shell) (60%), Chevron Canada Limited (20%) and Western Oil Sands L.P. (20%). It is anticipated that by 2011, the majority of Inter Pipeline's cash available for distribution will be generated from its oil sands transportation business segment. This large proportion of low risk, stable and predictable cash flow that will be derived from Inter Pipeline's oil sands transportation business segment is illustrative of Corridor's contribution to improving Inter Pipeline's overall risk profile.

During the quarter, Inter Pipeline also announced that its 85% owned subsidiary, Cold Lake Pipeline Limited Partnership (Cold Lake L.P.), entered into a 10 year transportation service agreement with Shell related to Shell's Orion oil sands project. This is the first non-founding shipper on the Cold Lake pipeline system since it commenced operations in December 2001. Cold Lake L.P. will spend approximately \$11 million to construct a new pipeline lateral and associated facilities, which will transport approximately 13,500 b/d of blended bitumen during the first phase of this project. Shell has the option to transport up to 30,000 b/d of blended bitumen through the phased expansion of their Orion project. Inter Pipeline continues to pursue other business opportunities to further increase throughput volumes on the Cold Lake pipeline system.

It is anticipated that, upon completion of the previously mentioned Corridor pipeline system expansion (Corridor Expansion), Inter Pipeline expects to realize approximately 25% accretion to cash available for distribution. This expected increase in cash available for distribution could be used to substantially mitigate the negative impact of the tax on flow-through entities as outlined in the Federal government's Tax Fairness Plan announced in October 2006 and enacted as new legislation in their 2007 budget. At present, Inter Pipeline has no intention of making any immediate structural changes that would change its status as a flow-through entity prior to 2011.

It is important for investors to recognize that the operations of Inter Pipeline's four business segments will not be affected by the Plan. It is expected that Inter Pipeline's earnings before interest, taxes, depreciation and amortization will be similar to current earnings regardless of the business structure that may be employed in response to the Plan.

As recorded in the second quarter of 2007, the new legislation gives rise to a change in Inter Pipeline's estimated future tax liability. The additional liability is accounted for prospectively in the period and an additional \$236.2 million of non-cash future income tax expense has been recorded. This estimate may change from period to period as the estimated tax rate may change in the future, or technical interpretations of the legislation could occur which may materially affect management's estimate of the future income tax liability. As well, the future tax liability will also depend on Inter Pipeline's future operating results, acquisitions and disposition of assets and liabilities, and cash distribution policy. A significant change in any of the preceding assumptions could materially affect Inter Pipeline's estimate of the future tax liability.

On June 5, 2007, the Alberta Energy and Utilities Board (EUB) approved Inter Pipeline's application for the Cochrane Ethane Recovery Project (CERP). The project is anticipated to increase the ethane extraction capacity of the Cochrane plant by approximately 15,000 barrels per day. On June 4, 2007, the EUB issued a notice of its intent to hold the "Inquiry into NGL Extraction Matters" (Inquiry) during the first quarter of 2008. Included in the scope and desired outcomes of the Inquiry is the development of conditions,

guidelines and criteria that the EUB will use in assessing the merits of new NGL extraction facilities in Alberta, as well as policy direction for NGL extraction. Inter Pipeline will likely defer decisions on constructing CERP until after the Inquiry has issued its final report in order to determine what impact the Inquiry might have on the timing and viability of all new NGL extraction infrastructure projects including CERP.

Inter Pipeline's four business segments continue to perform as expected, with particular emphasis on future growth in the oil sands transportation business segment. Recent higher than historical levels of frac-spreads in the NGL extraction business segment have contributed to higher than expected results from this business segment.

With respect to capital expenditures, the 2007 capital expenditure program has been updated to incorporate the Corridor Expansion and to revise earlier estimates. Inter Pipeline currently expects to invest approximately \$400 million on organic growth capital projects including approximately \$300 million on the Corridor Expansion and \$12 million on sustaining capital projects in 2007. Engineering and construction activities are underway on the Corridor Expansion which is currently expected to be in service in 2010.

Both Standard & Poor's and DBRS credit rating agencies have assigned an investment grade, long term corporate credit rating of BBB on Inter Pipeline.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

| (\$ millions, except per unit and % amounts) | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|------------|
| | June 30 | | June 30 | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| NGL extraction | \$ 178.5 | \$ 133.0 | \$ 375.3 | \$ 328.6 |
| Conventional oil pipelines | \$ 29.8 | \$ 27.1 | \$ 60.8 | \$ 55.8 |
| Oil sands transportation | \$ 17.8 | \$ 15.3 | \$ 31.8 | \$ 29.2 |
| Bulk liquid storage | \$ 39.4 | \$ 34.3 | \$ 81.9 | \$ 65.9 |
| Net (loss) income ⁽¹⁾ | \$ (207.9) | \$ 30.8 | \$ (183.4) | \$ 59.9 |
| Per unit – basic ⁽¹⁾ | \$ (1.03) | \$ 0.15 | \$ (0.91) | \$ 0.30 |
| Per unit – diluted ⁽¹⁾ | \$ (1.03) | \$ 0.15 | \$ (0.91) | \$ 0.30 |
| Funds from operations ⁽²⁾ | \$ 45.0 | \$ 48.8 | \$ 99.8 | \$ 96.7 |
| Per unit ⁽²⁾ | \$ 0.22 | \$ 0.24 | \$ 0.49 | \$ 0.49 |
| Cash distributions ⁽³⁾ | \$ 42.6 | \$ 39.2 | \$ 85.0 | \$ 78.2 |
| Per unit ⁽³⁾ | \$ 0.210 | \$ 0.195 | \$ 0.420 | \$ 0.390 |
| Payout ratio before sustaining capital ⁽²⁾ | 94.5% | 80.2% | 85.1% | 80.8% |
| Payout ratio after sustaining capital ⁽²⁾ | 101.5% | 84.6% | 89.3% | 84.5% |
| Total assets ⁽¹⁾ | | | \$ 3,248.1 | \$ 2,070.9 |
| Long-term debt | | | \$ 1,754.8 | \$ 656.8 |
| Debentures | | | \$ 10.2 | \$ 13.2 |
| Total partners' equity ⁽¹⁾ | | | \$ 910.5 | \$ 1,172.7 |
| Units outstanding end of period ⁽³⁾ | | | 202.8 | 200.9 |
| Total enterprise value ⁽²⁾ | | | \$ 3,678.5 | \$ 2,661.4 |

(1) The net loss is primarily a result of the substantive enactment of Bill C-52 Budget Implementation Act, 2007, associated with the Federal Government's Tax Fairness Plan effective June 2007, which required approximately \$236.2 million of non-cash future income tax expense to be recorded in the second quarter of 2007. In addition, January 1, 2007, Inter Pipeline determined it would be appropriate to discontinue hedge accounting and prospectively adopt the CICA's new Financial Instruments accounting standard for its derivative financial instruments. As a result, approximately \$15.3 million of unrealized fair value of derivatives has been recorded year to date 2007.

(2) Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

(3) Cash distributions are calculated based on the number of units outstanding at each record date.

RESULTS OF OPERATIONS

NGL Extraction Business Segment

| | 2007 | | | | Three Months Ended June 30 2006 | | | |
|---------------------------|--------------|-------------|-----------------|--------------|------------------------------------|-------------|-----------------|--------------|
| | Mmcf/d | (000s b/d) | | | Mmcf/d | (000s b/d) | | |
| | Throughput | Ethane | Propane plus | Total | Throughput | Ethane | Propane plus | Total |
| Cochrane | 1,633 | 48.7 | 27.2 | 75.9 | 1,359 | 42.3 | 20.4 | 62.7 |
| Empress V (100% basis) | 1,009 | 14.9 | 11.5 | 26.4 | 866 | 12.6 | 9.9 | 22.5 |
| Empress II | 1,620 | 29.5 | 18.6 | 48.1 | 1,325 | 24.1 | 15.1 | 39.2 |
| Total | 4,262 | 93.1 | 57.3 | 150.4 | 3,550 | 79.0 | 45.4 | 124.4 |

| | 2007 | | | | Six Months Ended June 30 2006 | | | |
|---------------------------|--------------|-------------|-----------------|--------------|----------------------------------|-------------|-----------------|--------------|
| | Mmcf/d | (000s b/d) | | | Mmcf/d | (000s b/d) | | |
| | Throughput | Ethane | Propane plus | Total | Throughput | Ethane | Propane plus | Total |
| Cochrane | 1,807 | 50.2 | 28.9 | 79.1 | 1,496 | 46.9 | 22.5 | 69.4 |
| Empress V (100% basis) | 1,034 | 15.1 | 11.9 | 27.0 | 965 | 14.3 | 11.0 | 25.3 |
| Empress II | 1,618 | 29.6 | 18.6 | 48.2 | 1,539 | 28.5 | 17.3 | 45.8 |
| Total | 4,459 | 94.9 | 59.4 | 154.3 | 4,000 | 89.7 | 50.8 | 140.5 |

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|-------------------------------------|-------------------------------|---------------|----------|-----------------------------|---------------|----------|
| | 2007 | 2006 | % change | 2007 | 2006 | % change |
| (\$ millions, except % amounts) | | | | | | |
| Revenue ⁽¹⁾ | \$ 178.5 | \$ 133.0 | 34.2 | \$ 375.3 | \$ 328.6 | 14.2 |
| Shrinkage gas ⁽¹⁾ | \$ 115.0 | \$ 78.3 | 46.9 | \$ 245.8 | \$ 211.7 | 16.1 |
| Operating expenses ⁽¹⁾ | \$ 33.9 | \$ 29.3 | 15.7 | \$ 73.0 | \$ 67.6 | 8.0 |
| Capital expenditures ⁽¹⁾ | | | | | | |
| Growth ⁽²⁾ | \$ (0.2) | \$ 1.3 | | \$ 0.6 | \$ 2.2 | |
| Sustaining ⁽²⁾ | 0.8 | 0.1 | | 1.4 | 0.4 | |
| Total capital expenditures | \$ 0.6 | \$ 1.4 | | \$ 2.0 | \$ 2.6 | |

(1) Revenue, shrinkage, operating expenses and capital expenditures of the Empress V NGL extraction facility are recorded on a 50% ownership basis.

(2) Please refer to the "Non-GAAP Financial Measures" section.

Volumes

Inter Pipeline's three NGL extraction plants processed a combined 4,262 million cubic feet per day (Mmcf/d) of natural gas for the three months ended June 30, 2007, which is 712 Mmcf/d higher than in the comparative period of 2006. As a result, the NGL extraction facilities produced an average of 150,400 b/d of NGLs in the second quarter of 2007 due to increased gas throughput at the Cochrane and Empress II plants. Increased demand for Alberta natural gas due to a period of hot weather in the western United States resulted in higher gas throughput volumes at the Cochrane plant when compared to the same period in 2006. Cochrane's annual maintenance shutdown, normally scheduled in June, was deferred until the third quarter of 2007 which also contributed to the increase in throughput volumes when compared to 2006. The Empress II plant gas throughput volumes increased due to a six week maintenance shutdown of third party plants in the Empress area resulting in a portion of the third party plants' gas supply being processed at Empress II.

Total year to date 2007 gas throughput volumes increased 459 Mmcfd and NGL production increased by 13,800 b/d over the same period in 2006. The increased volumes are primarily due to weather driven natural gas demand increases in California and the U.S. Pacific Northwest resulting in higher gas throughputs at the Cochrane plant.

Frac-spread

| (\$ actual) | Three Months Ended June 30 | | | |
|----------------------|-------------------------------|----------|----------|----------|
| | 2007 | | 2006 | |
| | USD/USG | CDN/USG | USD/USG | CDN/USG |
| Market frac-spread | \$ 0.576 | \$ 0.631 | \$ 0.610 | \$ 0.684 |
| Realized frac-spread | \$ 0.530 | \$ 0.580 | \$ 0.529 | \$ 0.594 |

| (\$ actual) | Six Months Ended June 30 | | | |
|----------------------|-----------------------------|----------|----------|----------|
| | 2007 | | 2006 | |
| | USD/USG | CDN/USG | USD/USG | CDN/USG |
| Market frac-spread | \$ 0.500 | \$ 0.565 | \$ 0.444 | \$ 0.504 |
| Realized frac-spread | \$ 0.447 | \$ 0.505 | \$ 0.407 | \$ 0.462 |

The NGL extraction business segment earns revenue from a combination of cost-of-service, fee based and commodity based contracts. Under cost-of-service and fee based contracts, there is no exposure to commodity price risk. Inter Pipeline's only commodity price exposure or frac-spread risk and volume risk applies to its commodity based contract for propane plus volumes at the Cochrane plant.

Market frac-spread is defined as the difference between the weighted average propane plus price at Mont Belvieu, Texas and the price of AECO natural gas purchased for shrinkage calculated in US dollars per US gallon (USD/USG). This price is translated to Canadian dollars per USG (CDN/USG) based on the average monthly Bank of Canada CDN/USD rate. Inter Pipeline hedges a portion of its cash flow to mitigate exposure to frac-spread volatility. The realized frac-spread is defined in a similar manner and is calculated on a weighted average basis using the market frac-spread for unhedged production and the fixed-priced frac spread for hedged production. See the "FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS" section for further discussion of the hedged frac-spreads as at June 30, 2007.

For the three months ended June 30, 2007, Inter Pipeline's realized frac-spread of \$0.530 USD/USG, including hedged and unhedged production, was consistent with the \$0.529 USD/USG frac-spread realized in 2006. Similarly, Inter Pipeline's realized frac-spread of \$0.447 USD/USG for the six months ended June 30, 2007, was approximately 9.8% higher than the \$0.407 USD/USG frac-spread realized in 2006. This is primarily due to lower year to date natural gas prices as discussed in the *Shrinkage* section below. These realized prices are significantly higher than the 15-year annual historical simple average market frac-spread to December 31, 2006 of \$0.246 USD/USG.

Revenue

Overall, in the second quarter of 2007, the NGL extraction business generated \$45.5 million in additional revenue as compared to the quarter ended June 30, 2006. The increase in revenue is primarily due to increases in average propane plus prices and volumes at the Cochrane plant, which were offset by lower cost recoveries under the cost-of-service, and fee based contracts.

Inter Pipeline recovers a significant portion of its shrinkage and fuel gas costs through its cost-of-service or fee based product sale contracts, which is recognized as revenue. In the second quarter of 2007, as the cost of shrinkage and fuel gas increased over the same period in 2006, the associated revenue also increased.

Year to date 2007, the NGL extraction business generated \$46.7 million of additional revenue as compared to the same period in 2006. The majority of this increase occurred in the second quarter of 2007 and is due primarily to increases in volumes and propane-plus prices as described above.

Shrinkage

Shrinkage gas expense increased \$36.7 million in the second quarter of 2007 compared to the same period in 2006. Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of the liquids extracted from the natural gas processed at the NGL extraction plants. The increase in cost is directly associated with the increased volumes of shrinkage gas purchased due to the increased production of NGLs. An increase in the price of Alberta natural gas purchased for shrinkage gas at the NGL extraction plants also contributed to the increase in shrinkage gas expense during the second quarter. The price for shrinkage gas is based on a combination of daily and monthly index AECO prices for natural gas. The weighted average monthly AECO price was \$6.99 per gigajoule (GJ) in the second quarter of 2007, which is approximately 17.5% higher than the weighted average price of \$5.95 per GJ in the second quarter ended June 30, 2006.

Year to date 2007, shrinkage gas expense increased \$34.1 million when compared to the same period in 2006. The majority of this increase is attributable to the second quarter of 2007 and is the result of higher NGL production. This increase was partially offset by an overall decline in AECO prices year to date. The weighted average monthly AECO price of \$7.03 per GJ in the first half of 2007 was approximately 4.6% lower than the weighted average price of \$7.37 per GJ in 2006.

Operating Expenses

Fuel and power costs, which accounted for 72.6% of operating costs, were \$24.6 million in the second quarter of 2007 compared to \$19.6 million for the same period in 2006. The increase in costs is primarily due to the increased volume of gas processed and NGL produced at the NGL extraction facilities and the increase in natural gas prices as described in the *Shrinkage* section above. Natural gas cost increases were offset by a decrease in the average Alberta power pool price. The power pool price for the second quarter of 2007 was \$49.95 per megawatt hour (MWh) as compared to \$53.62/MWh in the second quarter of 2006.

Year to date 2007, fuel and power costs, which accounted for 76.1% of operating costs, were \$55.6 million for the first half of 2007 compared to \$51.1 million for the same period in 2006. This increase in costs is primarily due to the increased volume of gas processed and NGL produced at the NGL extraction facilities and increase in Alberta power pool prices partially offset by a year to date decrease in natural gas prices. The average Alberta power pool price for the first half of 2007 was \$56.58/MWh as compared to \$55.23/MWh in the first half of 2006.

Capital Expenditures

The net growth capital recovery of \$0.2 million results from the receipt of an insurance claim settlement for \$0.8 million offset by capital expenditures of \$0.6 million. Insurance proceeds related to property damage incurred during the June, 2005 wind storm at the Empress II plant. Growth capital expenditures of \$0.6 million are related to the Empress V and Cochrane plants' ethane recovery improvement projects. Sustaining capital expenditures of \$0.8 million for the second quarter of 2007 are related to the installation of updated process controls at the Cochrane plant.

Conventional Oil Pipelines Business Segment

| | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|---------|----------|------------------|---------|----------|
| | June 30 | | | June 30 | | |
| Volumes (000s b/d) | 2007 | 2006 | % change | 2007 | 2006 | % change |
| Bow River | 139.0 | 139.9 | (0.6) | 143.5 | 140.8 | 1.9 |
| Central/Valley/Mid Saskatchewan | 72.4 | 60.4 | 19.9 | 72.8 | 64.4 | 13.0 |
| | 211.4 | 200.3 | 5.5 | 216.3 | 205.2 | 5.4 |
| (\$ millions, except per barrel and % amounts) | | | | | | |
| Revenue | \$ 29.8 | \$ 27.1 | 10.0 | \$ 60.8 | \$ 55.8 | 9.0 |
| Operating expenses | \$ 9.4 | \$ 8.9 | 5.6 | \$ 18.7 | \$ 16.9 | 10.7 |
| Revenue per barrel | \$ 1.55 | \$ 1.49 | 4.0 | \$ 1.55 | \$ 1.50 | 3.3 |
| Capital expenditures | | | | | | |
| Growth ⁽¹⁾ | \$ 1.2 | \$ 4.5 | | \$ 4.1 | \$ 10.5 | |
| Sustaining ⁽¹⁾ | 1.6 | 0.2 | | 1.9 | 0.7 | |
| Total capital expenditures | \$ 2.8 | \$ 4.7 | | \$ 6.0 | \$ 11.2 | |

(1) Please refer to the "Non-GAAP Financial Measures" section.

Volumes

Volumes in 2007 were approximately 11,100 b/d higher than in the comparable period of 2006. A 17,900 b/d increase in Hardisty South volumes resulting from the recently expanded Bow River system and new Cactus Lake interconnection facilities more than offset natural volume declines of approximately 4.0%.

Similarly, year to date volumes in 2007 were also approximately 11,100 b/d higher than in the comparable period of 2006. As noted above, a 19,400 b/d increase in Hardisty South volumes resulting from the recently expanded Bow River system and new Cactus Lake interconnection facilities more than offset year to date natural volume declines of approximately 4.7%.

Revenue

The \$2.7 million increase in revenues was primarily a result of volume increases described above and mainline toll increases averaging 7.5% and 6% effective July 1, 2006 and January 1, 2007, respectively. Year to date revenues for 2007 increased approximately \$5.0 million when compared to 2006 also due to volume and toll rate increases.

Operating Expenses

Operating expenses in the second quarter of 2007 increased approximately \$0.5 million primarily due to increases in field operating costs and fuel and power expenses. Field operating costs include approximately \$0.7 million of remediation expenditures. These costs were offset by other small variances in tank maintenance, salary and other field operating costs when compared to the second quarter of 2006.

Fuel and power expenses, which account for approximately 13.8% of the conventional pipeline systems' operating expense, increased marginally in the second quarter of 2007. The average Alberta power pool price for the second quarter of 2007 was \$49.95/MWh compared to \$53.62/MWh for the same period in 2006. The lower Alberta market power prices were partially offset by Inter Pipeline's conventional pipeline system power hedging program. The 2007 hedging program fixes 5.0 megawatts (MW) of power at an average price of \$52.75/MWh throughout 2007 (2006 – 5.0 MW of power at an average price of \$49.50/MWh).

Year to date operating expenses increased approximately \$1.8 million compared to the same period in 2006. This is primarily due to a \$1.4 million increase in a long-term environmental remediation accrual in the first quarter of 2007 and the second quarter operating expense variances as discussed above.

Capital Expenditures

Growth capital expenditures of \$1.2 million in the second quarter of 2007 for the conventional oil pipelines segment primarily relate to the construction of new blending facilities on the Bow River system and the development of additional system expansions. Sustaining capital expenditures of \$1.6 million in the second quarter consisted of a number of small projects on three of the conventional pipeline systems.

Oil Sands Transportation Business Segment

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|--|-------------------------------|---------|----------|-----------------------------|---------|----------|
| Volumes (000s b/d) | 2007 | 2006 | % change | 2007 | 2006 | % change |
| Cold Lake (100% basis) | 336.9 | 334.0 | 0.9 | 331.0 | 323.1 | 2.4 |
| Corridor ⁽¹⁾ | 41.7 | – | – | 21.0 | – | – |
| | 378.6 | 334.0 | 13.4 | 352.0 | 323.1 | 8.9 |
| (\$ millions, except % amounts) | | | | | | |
| Revenue ⁽¹⁾⁽²⁾ | \$ 17.8 | \$ 15.3 | 16.3 | \$ 31.8 | \$ 29.2 | 8.9 |
| Operating expenses ⁽¹⁾⁽²⁾ | \$ 5.9 | \$ 4.7 | 25.5 | \$ 10.5 | \$ 9.0 | 16.7 |
| Capital expenditures ⁽¹⁾⁽²⁾ | | | | | | |
| Growth ⁽³⁾ | \$ 8.7 | \$ 6.8 | | \$ 16.3 | \$ 9.7 | |
| Sustaining ⁽³⁾ | (0.1) | – | | – | – | |
| Total capital expenditures | \$ 8.6 | \$ 6.8 | | \$ 16.3 | \$ 9.7 | |

(1) The Corridor pipeline system was acquired on June 15, 2007, therefore only 15 days of revenues and operating expenses were recognized and there are no comparable figures. Average volumes represent 15 days of operations and have been prorated over the three and six month periods.

(2) The proportion of the Cold Lake pipeline system's revenue, operating expenses and capital expenditures are recorded on the basis of Inter Pipeline's 85% ownership interest.

(3) Please refer to the "Non-GAAP Financial Measures" section.

Volumes

Total volumes (100% basis) in the oil sands transportation business increased significantly with the acquisition of the Corridor pipeline system. Volumes on the Cold Lake pipeline system increased by 2,900 b/d in the second quarter of 2007 over the comparable period in 2006. The increase was primarily a result of increased production from EnCana's Foster Creek project and Canadian Natural Resources' Wolf Lake project. During the second quarter of 2007, both Imperial Oil and Canadian Natural Resources transported bitumen blend volumes below their respective minimum ship-or-pay commitments, while EnCana shipped in excess of its minimum ship-or-pay commitment. During the 15 day period since acquiring Corridor, transportation volumes averaged approximately 252,800 b/d.

Revenue

Revenues in the oil sands transportation business segment increased approximately \$2.5 million in the second quarter of 2007 compared to 2006 revenues, primarily due to the Corridor acquisition effective June 15, 2007. Revenues attributable to the Cold Lake pipeline system declined approximately \$1.0 million in the second quarter of 2007 compared to 2006 due to slight declines in each of the capital fee, operating cost recovery and additional facilities revenues.

Similarly, year to date oil sands transportation revenues increased approximately \$2.6 million over the comparable period primarily due to the Corridor acquisition. Cold Lake pipeline system revenues declined approximately \$1.0 million year to date in 2007 primarily as a result of the annual minimum ship-or-pay commitment and recoverable operating expense terms of the Cold Lake Transportation Services Agreement (Cold Lake TSA). The annual minimum ship-or-pay commitment for the founding shippers is \$27.8 million (\$32.7 million – 100% basis) annually to the end of December 2011. Capital fees under this commitment are collected in excess of actual volumes shipped until certain volume thresholds are achieved.

The Cold Lake TSA also provides for the recovery of substantially all of the Cold Lake pipeline system's operating costs. As such, \$4.5 million (Q2 2006 - \$4.8 million) of operating costs recovered were included in revenue during the quarter. Year to date 2007, approximately \$9.1 million (YTD 2006 - \$9.1 million) of additional revenue was earned.

Pursuant to the Cold Lake TSA, additional facilities have been constructed and added to the Cold Lake system by the Cold Lake L.P. providing for a return on the capital invested and recovery of operating costs. During the second quarter, approximately \$2.3 million (Q2 2006 - \$2.7 million) of additional revenue was earned from these projects. Year to date 2007, these additional facilities contributed approximately \$4.6 million (YTD 2006 - \$4.5 million) of additional revenue.

Operating Expenses

Similar to above, operating expenses for the oil sands transportation business increased due to the Corridor acquisition. Cold Lake operating expenses for the second quarter ended June 30, 2007 increased approximately \$0.3 million compared to the same period last year. As noted above, substantially all of the operating costs are flowed through to the shippers; therefore, most of these costs have no substantial impact on Inter Pipeline's earnings.

Capital Expenditures

During the second quarter of 2007, capital expenditures incurred in the oil sands transportation business totalled approximately \$8.6 million. Approximately \$2.4 million was expended on the Corridor Expansion since its acquisition. Development and construction of the recently announced Shell Orion connection to the Cold Lake pipeline system accounted for approximately \$1.7 million of the total expenditures. Expansions of pumping facilities on the diluent pipeline, La Corey Terminal, and the EnCana Foster Creek facility accounted for an additional \$3.3 million of the total expenditures. The remaining expenditures related to various meter upgrades and preliminary engineering work for the expansion of the south leg of the Cold Lake pipeline system.

Terasen Pipelines (Corridor) Inc. Acquisition

On June 15, 2007, Inter Pipeline acquired the Corridor pipeline system and work-in progress related to a \$1.8 billion expansion of that pipeline system from an affiliate of Kinder. The acquisition was made through the purchase of 100% of the share capital of Corridor from Kinder for cash consideration of approximately \$302.2 million and the assumption of \$777.0 million of existing in-service and expansion debt which is subject to closing adjustments. Inter Pipeline allocated the purchase price as follows:

| | | |
|--|-----------|--------------|
| Cash | \$ | 3.0 |
| Non-cash working capital deficiency | | (15.2) |
| Regulatory asset | | 10.2 |
| Property, plant and equipment | | 975.7 |
| Goodwill | | 136.4 |
| Long-term debt (net of \$3.6 million of deferred debt transaction costs and discounts) | | (773.4) |
| Fair value of derivative financial instruments | | (10.2) |
| Future income taxes liability | | (24.3) |
| | \$ | 302.2 |

Cash consideration of approximately \$302.2 million was provided from Inter Pipeline's existing bank credit facilities. The \$777.0 million of existing debt within Corridor is non-recourse to Inter Pipeline.

Description of the Assets

Corridor pipeline system provides the transportation link between the AOSP Muskeg River bitumen mining operation near Fort McMurray, Alberta and its Scotford upgrading facility near Edmonton, Alberta. Corridor's assets are comprised of approximately 1,000 kilometres of pipeline and over two million barrels of storage. The system has two primary components: the diluted bitumen (Dilbit) system and the upgrader system.

Inter Pipeline also assumed responsibility for the completion of an estimated \$1.8 billion expansion of the Corridor pipeline system. This project, currently under construction, will allow Dilbit capacity on the Corridor pipeline system to increase from its current capacity of approximately 300,000 b/d to a capacity of approximately 465,000 b/d. The Corridor Expansion was requested by the shippers to accommodate planned increases in AOSP production volumes. Construction activity includes the installation of a new 42-inch diameter pipeline to transport Dilbit between AOSP's Muskeg River mine and the Scotford upgrader. Inter Pipeline expects that the Corridor Expansion will be in service in 2010.

Description of the Contract with Shippers

Corridor is the sole transporter of Dilbit produced by the AOSP owned by Shell, Chevron Canada Limited and Western Oil Sands L.P. Cash flow from the pipeline system is supported by a long-term ship-or-pay contract with the shippers. The shippers are bound under the terms of the Firm Service Agreement (FSA), which includes an initial contract term of 25 years, extending through 2028 with options for further extensions. The FSA is based on traditional cost-of-service principles and includes the recovery of all operating costs, depreciation, taxes, debt financing costs, and provides a structured return on the equity component of the rate base.

Bulk Liquid Storage Business Segment

| | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---------------------------------|-------------------------------|-------|----------|-----------------------------|-------|----------|
| | 2007 | 2006 | % change | 2007 | 2006 | % change |
| Utilization | 96.3% | 94.3% | 2.1 | 96.6% | 94.7% | 2.0 |
| (\$ millions, except % amounts) | | | | | | |
| Revenue | \$ 39.4 | 34.3 | 14.9 | \$ 81.9 | 65.9 | 24.3 |
| Operating expenses | \$ 24.9 | 22.0 | 13.2 | \$ 52.1 | 41.9 | 24.3 |
| Capital expenditures | | | | | | |
| Growth ⁽¹⁾ | \$ 6.4 | 2.6 | | \$ 10.8 | 3.4 | |
| Sustaining ⁽¹⁾ | 0.8 | 2.2 | | 1.2 | 3.1 | |
| Total capital expenditures | \$ 7.2 | 4.8 | | \$ 12.0 | 6.5 | |

(1) Please refer to the "Non-GAAP Financial Measures" section.

Utilization

Utilization rates continued to be strong, in both the three and six month periods ended June 2007, benefiting partially from continued high demand in the biofuels market and across the European terminal network. The Immingham storage terminals, which are the largest terminals in this business segment, continued to benefit from close proximity to and pipeline links with ConocoPhillips and Total refineries.

Revenue

Revenue in the second quarter of 2007 increased \$5.1 million when compared to the same period in 2006. Revenue of approximately \$2.1 million was generated from increased utilization and additional biofuels storage from the Greenergy project. Engineering project and facilities management revenue, through which certain project costs are recoverable from customers, increased approximately \$0.5 million. Translation of the bulk liquid storage operations into Canadian currency for financial reporting purposes increased revenues by approximately \$2.2 million compared to 2006. The average foreign exchange rate from British pounds to the Canadian dollar for the quarter rose from approximately £1 to \$2.05 in 2006 to £1 to \$2.18 in 2007.

Year to date 2007 revenue increased approximately \$16.0 million when compared to 2006, primarily due to the reasons discussed above. Approximately \$6.0 million of the increase related to engineering project and facilities management revenue from recoverable customer contracts. An additional \$3.4 million resulted from increased utilization and additional storage revenue from the Greenergy project. Translation of the

bulk liquid storage operations into Canadian currency increased revenues by approximately \$6.4 million compared to 2006. The average foreign exchange rate from British pounds to the Canadian dollar for the year to date rose from approximately £1 to \$2.04 in 2006 to £1 to \$2.24 in 2007.

Operating Expenses

Operating expenses in the quarter increased approximately \$2.9 million compared to the same quarter of 2006 primarily due to an increase of approximately \$1.4 million in foreign currency translation as discussed above. Other variances included approximately \$0.8 million in additional transportation expenses and \$0.3 million increase in engineering projects and facilities management costs.

Year to date 2007 operating expenses increased approximately \$10.2 million compared to 2006. Approximately \$4.1 million of the increase is due to foreign currency translation; \$4.0 million is related to increased engineering project and facilities management costs from recoverable customer contracts and a further \$2.2 million due to increased salary costs.

Capital Expenditures

Approximately \$5.8 million of the \$10.8 million of growth capital expenditures relate primarily to the Greenergy biofuels project at the Immingham West terminal. The remaining growth capital expenditures primarily relate to the construction of new tanks and pipelines and other smaller modification projects. The first Greenergy plant was commissioned in April 2007.

Corporate

| (\$ millions, except % amounts) | Three Months Ended June 30 | | | Six Months Ended June 30 | | |
|---|-------------------------------|---------|----------|-----------------------------|---------|----------|
| | 2007 | 2006 | % change | 2007 | 2006 | % change |
| Depreciation and amortization | \$ 19.1 | \$ 17.8 | 7.3 | \$ 37.4 | \$ 35.1 | 6.6 |
| Financing charges | 11.5 | 9.7 | 18.6 | 21.2 | 19.8 | 7.0 |
| General and administrative | 8.0 | 6.3 | 27.0 | 16.1 | 12.7 | 26.8 |
| Unrealized change in fair value of derivative financial instruments | 6.5 | – | – | 15.3 | – | – |
| Management and acquisition fees to General Partner | 12.3 | 1.3 | 846.2 | 13.6 | 2.9 | 369.0 |
| Unit incentive options | – | – | – | – | 0.1 | 100.0 |
| Income taxes | 227.2 | – | – | 229.4 | 2.0 | – |

Depreciation and Amortization

Increases in depreciation and amortization of its operating and intangible assets are primarily attributable to Inter Pipeline's 2006 capital expenditures of \$65.6 million and the Corridor acquisition in June 2007.

Financing Charges

| (\$ millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------|-----------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Credit facility interest expense | \$ 4.8 | \$ 3.6 | \$ 8.4 | \$ 7.5 |
| Interest on loan payable to General Partner | 5.7 | 5.7 | 11.5 | 11.5 |
| Debentures interest expense | 0.9 | 0.3 | 1.2 | 0.7 |
| Cash related financing charges | 11.4 | 9.6 | 21.1 | 19.7 |
| Amortization of deferred financing costs | 0.1 | 0.1 | 0.1 | 0.1 |
| Total financing charges | \$ 11.5 | \$ 9.7 | \$ 21.2 | \$ 19.8 |

Short-term interest rates for the quarter ranged from a weighted average commercial paper rate, including commissions, of 4.63% (Q2 2006 – bankers acceptances, including stamping fees of 4.83%) to a weighted

average prime rate of 6.0% (Q2 2006 – 5.58%). The weighted average principal outstanding on these credit facilities and the Corridor debentures was \$471.4 million for the second quarter of 2007 (2006 – \$278.8 million). This weighted average debt was higher in the second quarter of 2007 compared to the same quarter in 2006 primarily due to the Corridor acquisition. On June 15, 2007, Inter Pipeline assumed \$477.0 million of Corridor debt outstanding under its revolving credit facility and \$300.0 million of Corridor debentures. Inter Pipeline financed the cash consideration of \$302.2 million through its expanded revolving credit facility. All of the debt assumed upon closing of the acquisition is non-recourse to Inter Pipeline.

In accordance with the terms of the FSA, approximately \$0.6 million of interest expense incurred to finance the Corridor Expansion, was capitalized as part of the project costs.

Interest expense on the \$379.8 million loan payable to Pipeline Management Inc., Inter Pipeline’s General Partner, is consistent with the same period in 2006 due to the fixed rate of interest on the loan and no change in the principal balance during the period.

General and Administrative

| (\$ millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------|-----------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Canada | \$ 5.2 | \$ 3.8 | \$ 10.3 | \$ 7.8 |
| Europe | 2.8 | 2.5 | 5.8 | 4.9 |
| Total general and administrative expenses | \$ 8.0 | \$ 6.3 | \$ 16.1 | \$ 12.7 |

In Canada, general and administrative expenses increased approximately \$1.4 million during the second quarter of 2007 and approximately \$2.5 million year to date primarily due to an increase in employee costs and incentives including the Long Term Incentive Plan (LTIP) compared to the same periods in 2006.

In Europe, second quarter 2007 general and administrative expenses increased \$0.3 million over the comparative period in 2006; however, \$0.2 million of the increase related to the foreign currency translation to Canadian dollars for financial reporting purposes. Year to date, general and administrative expenses increased \$0.9 million compared to 2006 of which \$0.5 million related to a foreign currency translation adjustment.

Unrealized Change in Fair Value of Derivative Financial Instruments

Effective January 1, 2007, Inter Pipeline elected to discontinue hedge accounting for its derivative financial instruments outstanding at January 1, 2007. Concurrently, Inter Pipeline prospectively adopted the CICA’s new handbook section 3855: Financial Instruments, whereby all derivative financial instruments are required to be measured at fair value each reporting period. As a result, any unrealized gains or losses resulting from this remeasurement of Inter Pipeline’s derivative financial instruments were reported as an unrealized gain or loss in net income. See the “NEW ACCOUNTING POLICIES” section for further discussion of these changes in accounting policies.

Management and Acquisition Fees

During the second quarter of 2007, the General Partner was paid a management fee of \$1.4 million (Q2 2006 - \$1.3 million) equivalent to 2% of “Operating Cash,” as defined in the Limited Partnership Agreement (LPA). Year to date 2007, management fees of \$2.7 million (YTD 2006 - \$2.5 million) were paid to the General Partner.

Pursuant to the terms of the LPA, an acquisition fee of \$10.9 million was paid in the second quarter of 2007 (Q2 2006 - nil) related to the Corridor acquisition. On a year to date basis, an acquisition fee of \$10.9 million (YTD 2006 - \$0.4 million) was paid to the General Partner.

Income Taxes

In June 2007, the Government of Canada substantively enacted new legislation imposing additional income taxes upon publicly traded income trusts and limited partnerships, including Inter Pipeline effective January 1, 2011. Prior to June 2007, Inter Pipeline estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate, related to the consolidated entities that were not corporations. Under the legislation, Inter Pipeline now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.5%. Temporary differences reversing before 2011 still give rise to nil future income taxes. Based on its consolidated assets and liabilities as at June 30, 2007, Inter Pipeline estimated the amount of its temporary differences, which were previously not subject to tax and has estimated the periods in which these differences will reverse. Inter Pipeline estimates that \$749.8 million of net taxable temporary differences, not previously subject to tax, will reverse after January 1, 2011, resulting in an additional \$236.2 million future income tax liability. The taxable temporary differences relate principally to the excess of net book value of property, plant and equipment and intangible assets over the remaining tax values attributable thereto.

Since the legislation gives rise to a change in Inter Pipeline's estimated future income tax liability in the current period, the recognition of the additional liability is accounted for prospectively in the period and an additional \$236.2 million of future income tax expense has been recorded.

While Inter Pipeline believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on Inter Pipeline's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect Inter Pipeline's estimate of the future tax liability.

In the bulk liquid storage business segment, the second quarter results recognize recent tax legislative changes which have impacted future income taxes. In Germany, tax legislation has been passed which aligns German income tax rates more closely with the other European Union members, reducing the effective income tax rate from 39.00% to 30.35%, effective January 1, 2008. The effect of recognizing this change in German income tax rates is a \$4.7 million reduction in future income tax liabilities. Similarly, in the United Kingdom, recent legislative changes will result in income tax rates declining from 30.0% to 28.0% effective April 1, 2008. The effect of recognizing this income tax rate change is a \$4.1 million reduction in future income tax liabilities. Therefore, the overall impact of these reduced tax rates is an \$8.8 million decrease in the future income tax liabilities.

SUMMARY OF QUARTERLY RESULTS

| (\$ millions, except per unit and % amounts) | 2005 | | | 2006 | | | 2007 | |
|---|-------------------|--------------------|-------------------|----------------|---------------|----------------|---------------|----------------|
| | Third Quarter (1) | Fourth Quarter (1) | First Quarter (1) | Second Quarter | Third Quarter | Fourth Quarter | First Quarter | Second Quarter |
| Revenue | | | | | | | | |
| NGL extraction | \$ 174.8 | \$ 233.8 | \$ 195.5 | \$ 133.0 | \$ 177.1 | \$ 186.1 | \$ 196.8 | \$ 178.5 |
| Conventional oil pipelines | \$ 28.1 | \$ 28.2 | \$ 28.7 | \$ 27.1 | \$ 30.2 | \$ 30.7 | \$ 30.9 | \$ 29.8 |
| Oil sands transportation ⁽²⁾ | \$ 15.4 | \$ 17.2 | \$ 13.9 | \$ 15.3 | \$ 14.9 | \$ 14.7 | \$ 14.0 | \$ 17.8 |
| Bulk liquid storage ⁽³⁾ | n/a | \$ 30.4 | \$ 31.6 | \$ 34.3 | \$ 34.1 | \$ 43.7 | \$ 42.4 | \$ 39.4 |
| Net (loss) income ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ | \$ 24.5 | \$ 20.9 | \$ 29.1 | \$ 30.8 | \$ 42.4 | \$ 28.3 | \$ 24.5 | \$ (207.9) |
| Per unit – basic ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ | \$ 0.14 | \$ 0.11 | \$ 0.15 | \$ 0.15 | \$ 0.21 | \$ 0.14 | \$ 0.12 | \$ (1.03) |
| Per unit – diluted ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ | \$ 0.13 | \$ 0.11 | \$ 0.15 | \$ 0.15 | \$ 0.21 | \$ 0.14 | \$ 0.12 | \$ (1.03) |
| Funds from operations⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾ | \$ 40.0 | \$ 38.1 | \$ 47.9 | \$ 48.8 | \$ 61.5 | \$ 47.2 | \$ 54.8 | \$ 45.0 |
| Per unit ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾ | \$ 0.22 | \$ 0.21 | \$ 0.25 | \$ 0.24 | \$ 0.31 | \$ 0.24 | \$ 0.27 | \$ 0.22 |
| Cash distributions⁽⁷⁾ | \$ 34.4 | \$ 35.0 | \$ 39.0 | \$ 39.2 | \$ 40.3 | \$ 42.3 | \$ 42.4 | \$ 42.6 |
| Per unit ⁽⁷⁾ | \$ 0.1875 | \$ 0.1900 | \$ 0.1950 | \$ 0.1950 | \$ 0.2000 | \$ 0.2100 | \$ 0.2100 | \$ 0.2100 |
| Payout ratio before sustaining capital⁽²⁾⁽³⁾⁽⁶⁾ | 86.2% | 91.8% | 81.5% | 80.2% | 65.4% | 89.7% | 77.4% | 94.5% |
| Payout ratio after sustaining capital⁽²⁾⁽³⁾⁽⁶⁾ | 87.6% | 101.3% | 84.4% | 84.6% | 69.7% | 101.7% | 79.6% | 101.5% |
| Units outstanding | | | | | | | | |
| Weighted average | 183.4 | 184.2 | 194.7 | 200.7 | 201.2 | 201.6 | 202.0 | 202.6 |
| End of period | 183.9 | 184.6 | 200.4 | 200.9 | 201.4 | 201.7 | 202.3 | 202.8 |

(1) Restated for change in segment reporting policy.

(2) Inter Pipeline acquired Corridor on June 15, 2007.

(3) The incremental change in the fourth quarter of 2005 is due to the acquisition of the Simon Storage bulk liquid storage business on October 4, 2005.

(4) Restated comparative periods due to change in accounting policy regarding Unit Incentive Option Plan.

(5) Net income for the second quarter of 2007 decreased approximately \$238.8 million to a net loss of \$207.9 million primarily due to the recognition of an \$236.2 non-cash expense for future income taxes recognized as a result of the substantive enactment of Bill C-52 Budget Implementation Act, 2007, associated with the Federal Government's Tax Fairness Plan effective June 2007.

(6) Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

(7) Cash distributions are calculated based on the number of units outstanding at each record date.

LIQUIDITY AND CAPITAL RESOURCES

| | As at June 30 | |
|--|---------------|-----------|
| (\$ millions, except for % amounts) | 2007 | 2006 |
| Cash | \$ 28.4 | \$ 20.7 |
| Working capital deficiency excluding cash, current portion of Convertible Debentures and fair value of derivative financial instruments ⁽¹⁾ | \$ (42.1) | \$ (22.0) |
| Variable rate debt | | |
| Inter Pipeline revolving credit facility available | \$ 750.0 | \$ 500.0 |
| Corridor revolving credit facility available ⁽²⁾ | 520.0 | – |
| Inter Pipeline and Corridor revolving demand loan facilities available ⁽²⁾ | 40.0 | 20.0 |
| Total credit facilities available | 1,310.0 | 520.0 |
| Less unutilized revolving credit facility | (226.0) | (243.0) |
| Total outstanding revolving credit facility ⁽³⁾ | 1,084.0 | 277.0 |
| Less variable rate debt swapped to fixed | (45.0) | (61.0) |
| Corridor debentures ⁽²⁾⁽³⁾ | 300.0 | – |
| Total outstanding variable rate debt | 1,339.0 | 216.0 |
| Fixed rate long-term debt | | |
| Loan payable to General Partner ⁽³⁾ | 379.8 | 379.8 |
| Convertible Debentures | 10.6 | 13.8 |
| Add variable rate debt swapped to fixed | 45.0 | 61.0 |
| Total outstanding fixed rate long-term debt | 435.4 | 454.6 |
| Total debt and Debentures outstanding (before deferred debt transaction costs) | 1,774.4 | 670.6 |
| Less deferred debt transaction costs and equity portion of Convertible Debentures ⁽³⁾ | (9.4) | (0.6) |
| Total debt and Debentures outstanding (net of deferred debt transaction costs) | \$ 1,765.0 | \$ 670.0 |
| Total debt to total capitalization ⁽¹⁾ | 66.1% | 36.4% |

(1) Please refer to the “Non-GAAP Financial Measures” section of this MD&A.

(2) Upon closing the Corridor acquisition, Inter Pipeline assumed a total of \$777.0 million of non-recourse debt. This is comprised of \$300.0 million of debentures and \$477.0 million of debt under Corridor’s revolving credit facility. Inter Pipeline assumed interest rate hedges that swap the Corridor fixed rate debentures to variable rates.

(3) Long term debt in the June 30, 2007 financial statements is \$1,754.8, which consists of debt of \$1,763.8 net of deferred debt transaction costs of \$9.0 million. Convertible Debentures of \$10.6 million outstanding consist of \$10.2 million allocated to debt and \$0.4 million allocated to equity.

At June 30, 2007, Inter Pipeline’s consolidated debt balance, including non-recourse debt, was \$1,765 million. To acquire Corridor, Inter Pipeline assumed \$777 million of debt and financed the remaining cash consideration of \$302.2 million from its revolving credit facility, which was expanded by \$250 million to \$750 million on June 15, 2007. With this increase in debt, Inter Pipeline’s total debt to capitalization ratio on a consolidated basis as at June 30, 2007, is 66.1%. Removing the impact of Corridor’s non-recourse debt of \$783.0 million, Inter Pipeline’s adjusted debt to adjusted capitalization ratio is 52.1%.

To finance Corridor’s \$1.8 billion expansion, Inter Pipeline has been in negotiations with a syndicate of lenders to raise sufficient debt funding to complete the expansion. This Corridor expansion financing is expected to close in the third quarter.

Of the \$1,774.4 million of total debt outstanding at June 30, 2007, \$1,339.0 million or 75.5% was exposed to a period ending variable interest rate, including stamping fees and commissions, of 4.79% with the remaining \$435.4 million or 24.5% of fixed term debt with rates ranging from 5.85% to 6.31% (excluding Convertible Debentures).

Inter Pipeline's contractual obligations due for the next five years and thereafter are as follows:

| (\$ millions) | Payments Due by Period | | | | |
|------------------------------------|------------------------|-----------------------|-----------------|-----------------|-----------------|
| | Total | Less than one year | 1 to 3 years | 4 to 5 years | After 5 years |
| Credit facilities | \$ 1,084.0 | \$ 483.0 | \$ – | \$ 601.0 | \$ – |
| Loan payable to General Partner | 379.8 | – | – | – | 379.8 |
| Convertible Debentures | 10.6 | 10.6 | – | – | – |
| Corridor debentures | 300.0 | – | 150.0 | – | 150.0 |
| Operating leases | 58.5 | 6.9 | 15.3 | 7.4 | 28.9 |
| Total obligations | \$ 1,832.9 | \$ 500.5 | \$ 165.3 | \$ 608.4 | \$ 558.7 |

Inter Pipeline increased its capital expenditure plans for the balance of 2007 to reflect the Corridor Expansion, and now forecasts to invest approximately \$368.0 million in organic growth and \$8.0 million in sustaining capital projects during the remainder of 2007. As a result of the Corridor acquisition, Inter Pipeline assumed the commitment to complete the \$1.8 billion Corridor Expansion.

As announced in October 2006, the NGL extraction business segment committed to spending approximately \$18.5 million on its ethane production optimization project at the Empress V NGL extraction plant of which \$11.6 million is included in the projected 2007 organic growth capital.

On June 15, 2007, Inter Pipeline entered into an agreement with the shippers to guarantee the payment and performance of all obligations of Corridor, the General Partner or the operator (if the operator was not Inter Pipeline) in favour of the shippers under the FSA and other related agreements. The guarantee may be exercised in the event that Corridor, the General Partner or the operator (if the operator was not Inter Pipeline) fails to pay or perform such obligations for any reason. Inter Pipeline was appointed operator of the Corridor pipeline system.

CASH DISTRIBUTIONS TO UNITHOLDERS

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|----------|-----------------------------|----------|
| (\$ millions, except per unit and % amounts) | 2007 | 2006 | 2007 | 2006 |
| Cash provided by operating activities | \$ 34.4 | \$ 38.3 | \$ 114.1 | \$ 105.6 |
| Net change in non-cash working capital | 10.6 | 10.5 | (14.3) | (8.9) |
| Less sustaining capital expenditures ⁽¹⁾ | (3.1) | (2.5) | (4.5) | (4.2) |
| Cash available for distribution ⁽¹⁾ | 41.9 | 46.3 | 95.3 | 92.5 |
| Change in discretionary reserves | 0.7 | (7.1) | (10.3) | (14.3) |
| Cash distributions | \$ 42.6 | \$ 39.2 | \$ 85.0 | \$ 78.2 |
| Cash distributions per unit ⁽²⁾ | \$ 0.210 | \$ 0.195 | \$ 0.420 | \$ 0.390 |
| Payout ratio before sustaining capital ⁽¹⁾ | 94.5% | 80.2% | 85.1% | 80.8% |
| Payout ratio after sustaining capital ⁽¹⁾ | 101.5% | 84.6% | 89.3% | 84.5% |
| Growth capital expenditures ⁽¹⁾ | \$ 16.1 | \$ 15.2 | \$ 31.8 | \$ 25.8 |
| Sustaining capital expenditures ⁽¹⁾ | 3.1 | 2.5 | 4.5 | 4.2 |
| Total capital expenditures | \$ 19.2 | \$ 17.7 | \$ 36.3 | \$ 30.0 |

(1) Please refer to the “Non-GAAP Financial Measures” section of this MD&A.

(2) Cash distributions are calculated based on the number of units outstanding at each record date.

It is the policy of the General Partner of Inter Pipeline to provide unitholders with stable cash distributions over time. As a result, not all cash available for distribution is distributed to unitholders. Rather, a portion of cash available for distribution is reserved and reinvested in the business to effectively manage its capital, and in particular, debt levels. Annually, the General Partner makes its cash distribution decisions based on the underlying assumptions in each year’s annual operating and capital budget and the long term forecast, consistent with its policy to provide unitholders with stable cash distributions.

“Cash available for distribution” is a non-GAAP financial measure that the General Partner uses in managing Inter Pipeline’s business and in assessing future cash requirements that impact the determination of future distributions to unitholders. Inter Pipeline defines cash available for distribution as cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. The impact of net change in non-cash working capital is excluded in the calculation of “Cash available for distribution” primarily to compensate for the seasonality of working capital throughout the year. Certain of Inter Pipeline’s revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the generation of revenue. Within a 12 month calendar year there is no variation between revenue generated and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of cash available for distribution to mitigate the quarterly impact this difference has on cash available for distribution. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, and to focus the results on cash that is generated in any reporting period.

In addition, in determining actual cash distributions, Inter Pipeline applies a discretionary reserve to cash available for distribution, which is designed to ensure stability of distributions over economic and industry cycles and to enable Inter Pipeline to absorb the impact of material one-time events. Therefore, not all cash available for distribution is necessarily distributed to unitholders.

In the second quarter of 2007, the discretionary reserve decreased approximately \$0.7 million, however increased approximately \$10.3 million year to date due to the positive 2007 business performance, primarily driven by favourable commodity prices and increased volumes in the NGL extraction business, increased volumes shipped on the conventional pipeline system, increased utilization and additional storage in the bulk liquid storage business. These prices were more favourable than anticipated and as such, did not

form part of Management's 2007 distribution decision. Inter Pipeline will continue to manage the discretionary reserve and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

The table below shows Inter Pipeline's cash distributions paid relative to cash provided by operating activities for the periods indicated. See also the "Outlook" and "Risk Factors" sections for further information regarding the sustainability of cash distributions.

| | Three Months Ended June 30 | Six Months Ended June 30 | Years Ended December 31 | | |
|---|----------------------------------|--------------------------------|----------------------------|----------|----------|
| (\$ millions, except per unit and % amounts) | 2007 | 2007 | 2006 | 2005 | 2004 |
| Cash provided by operating activities | \$ 34.4 | \$ 114.1 | \$ 201.6 | \$ 171.8 | \$ 133.8 |
| Cash distributions | (42.6) | (85.0) | (160.8) | (137.7) | (115.6) |
| Excess (shortfall) | \$ (8.2) | \$ 29.1 | \$ 40.8 | \$ 34.1 | \$ 18.2 |

Section 5.2 of the LPA requires that Inter Pipeline make distributions of cash as defined in the LPA (LPA Distributable Cash) on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). LPA Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash. The shortfall of \$8.2 million of cash provided by operating activities over cash distributions is primarily due to additional costs related to the Corridor acquisition during the second quarter of 2007. On a year to date basis, there is an excess of \$29.1 million of cash provided by operating activities over cash distributions to unitholders.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units as at June 30, 2007 are as follows:

| (millions) | Class A | Class B | Total |
|--|---------|---------|-------|
| Units outstanding | 202.6 | 0.2 | 202.8 |
| Units reserved for issuance upon exercise of vested Unit Incentive Options | 1.8 | — | 1.8 |
| Units reserved for issuance upon conversion of Debentures | 1.7 | — | 1.7 |

As at August 7, 2007, Inter Pipeline had 202.8 million Class A units outstanding and 0.2 million Class B units outstanding, for a total of 203.0 million units outstanding.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Inter Pipeline utilizes derivative financial instruments to manage its exposure to changes in power costs, interest rates, foreign currencies and commodity prices. Risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price and foreign exchange risk and to assist with stabilizing funds from operations. Inter Pipeline attempts to accomplish this primarily through the use of financial instruments. Inter Pipeline is prohibited from using financial instruments for speculative purposes. All hedging policies are authorized and approved by the Board of Directors through Inter Pipeline's risk management policy.

Inter Pipeline has four types of financial instruments: power price swap agreements, commodity price swap agreements, foreign currency exchange contracts and interest rate swap agreements. All contracts outstanding at June 30, 2006 were being accounted for as hedges; however effective January 1, 2007, Inter Pipeline discontinued accounting for these financial instruments as hedges.

NGL Extraction Business

The following commodity and foreign currency swaps are used collectively to mitigate the frac-spread risk on propane plus volumes at the Cochrane extraction facility. As at June 30, 2007, Inter Pipeline had hedged approximately 47% of forecast propane plus volumes for the period July 1 to December 31, 2007 and 27% for the period January 1 to December 31, 2008 at the Cochrane NGL extraction plant at average prices of \$0.42 CDN/USG in both periods. These average prices would approximate \$0.40 USD/USG in both periods based on the average USD/CDN forward curve as at June 30, 2007.

Commodity Prices

NGLs

Inter Pipeline established a hedging program to sell certain quantities of NGL products at fixed prices to third party counter parties and buy related quantities of natural gas at fixed prices from third party counter parties in order to manage frac-spread risk in its NGL extraction business. Contracts outstanding at June 30, 2007 to hedge NGL revenues fixed NGL prices at average prices for the following periods:

| Hedge Period | July to December 2007 | | January to December 2008 | |
|---------------|------------------------|------------------------|--------------------------|------------------------|
| | Average Price(USD/USG) | Average Quantity (b/d) | Average Price (USD/USG) | Average Quantity (b/d) |
| Propane | 0.993 | 4,079 | 1.054 | 2,497 |
| Normal butane | 1.155 | 699 | 1.217 | 430 |
| Iso butane | 1.169 | 433 | 1.254 | 266 |
| Pentanes plus | 1.692 | 346 | 1.645 | 213 |

The mark-to-market value of these contracts resulted in an unrealized loss of CDN \$14.0 million (USD \$13.1 million) at June 30, 2007.

Contracts outstanding at June 30, 2006 to hedge NGL revenues fixed NGL prices at average prices for the following periods:

| Hedge Period | July to December 2006 | | January to September 2007 | |
|---------------|-------------------------|------------------------|---------------------------|------------------------|
| | Average Price (USD/USG) | Average Quantity (b/d) | Average Price (USD/USG) | Average Quantity (b/d) |
| Propane | 0.951 | 4,500 | 1.048 | 1,659 |
| Normal butane | 1.134 | 770 | 1.194 | 288 |
| Iso butane | 1.155 | 477 | 1.206 | 179 |
| Pentanes plus | 1.616 | 382 | 1.772 | 143 |

The mark-to-market value of these contracts resulted in an unrealized loss of USD \$7.5 million at June 30, 2006.

Natural Gas

Contracts outstanding at June 30, 2007 to hedge natural gas purchases fixed natural gas prices at average prices for the following periods:

| Hedge Period | July to December 2007 | | January to December 2008 | |
|------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Average Price (CDN/ GJ) | Average Quantity (GJ/day) | Average Price (CDN/ GJ) | Average Quantity (GJ/day) |
| AECO natural gas | 7.79 | 23,478 | 8.05 | 13,115 |

The mark-to-market value of the natural gas contracts at June 30, 2007 resulted in an unrealized loss of \$8.9 million.

Contracts outstanding at June 30, 2006 to hedge natural gas purchases fixed natural gas prices at average prices for the following periods:

| Hedge Period | July to December 2006 | | January to September 2007 | |
|------------------|---------------------------|---------------------------------|---------------------------|---------------------------------|
| | Average Price (CDN/GJ) | Average Quantity (GJ/day) | Average Price (CDN/GJ) | Average Quantity (GJ/day) |
| AECO natural gas | 7.33 | 28,261 | 8.77 | 8,791 |

The mark-to-market value of the natural gas contracts at June 30, 2006 resulted in an unrealized loss of \$6.4 million.

Foreign Currency

The NGL price swap agreements are calculated based on US dollar prices. As at June 30, 2007, Inter Pipeline had the following foreign exchange contracts outstanding:

| Hedge Period | July to December 2007 | | January to December 2008 | |
|------------------|----------------------------|---|----------------------------|---|
| | Average Price (USD/CDN) | Average Monthly Notional Amount (USD thousands) | Average Price (USD/CDN) | Average Monthly Notional Amount (USD thousands) |
| Foreign exchange | 0.887 | 7,662 | 0.913 | 4,920 |

The mark-to-market value of these contracts at June 30, 2007 resulted in an unrealized gain of \$4.8 million.

As at June 30, 2006, Inter Pipeline had the following foreign exchange contracts outstanding:

| Hedge Period | July to December 2006 | | January to September 2007 | |
|------------------|----------------------------|---|----------------------------|---|
| | Average Price (USD/CDN) | Average Monthly Notional Amount (USD thousands) | Average Price (USD/CDN) | Average Monthly Notional Amount (USD thousands) |
| Foreign exchange | 0.880 | 8,143 | 0.912 | 3,252 |

The mark-to-market value of these contracts at June 30, 2006 resulted in an unrealized gain of \$0.8 million.

Power Prices

To manage its electricity price exposure at the Cochrane plant, Inter Pipeline entered into a heat rate swap contract in 2007 for 13.0 MW of electric power per hour for the period May 1, 2007 to May 31, 2007, at a price equal to 7.90 GJ/MWh multiplied by the AECO monthly index price.

In 2006, Inter Pipeline entered into a heat rate swap contract for the entire 2006 year for 14.0 MW of electric power per hour at a price equal to \$6.90 GJ/MWh multiplied by the AECO monthly index price.

Conventional Oil Pipelines Business

Power Prices

Inter Pipeline entered into the following electricity price swap agreements:

| Hedge Period | 2007 | | 2006 | |
|--------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | Average Price (CDN/MWh) | Average Quantity (MW) | Average Price (CDN/MWh) | Average Quantity (MW) |
| 2006 | – | – | 49.50 | 5.0 |
| 2007 | 52.75 | 5.0 | 52.75 | 5.0 |
| 2008 | 54.00 | 2.5 | 54.00 | 2.5 |

The mark-to-market value of these contracts at June 30, 2007 is an unrealized gain of \$1.6 million compared to an unrealized gain of \$1.0 million at June 30, 2006.

Corporate

Interest Rates

A portion of the outstanding variable rate debt at June 30, 2007 is subject to a continuing swap agreement, in which the floating rate bank debt has been exchanged for an average fixed rate as follows:

| Maturity date | 2007 | | 2006 | |
|--------------------|--|---------------------------------|--|---------------------------------|
| | Fixed Rate Per Annum (excluding applicable margin) | Notional Balance (CDN millions) | Fixed Rate Per Annum (excluding applicable margin) | Notional Balance (CDN millions) |
| September 30, 2006 | – | – | 5.41% | \$ 15.0 |
| December 30, 2011 | 6.30% | \$ 30.0 | 6.30% | \$ 31.0 |
| December 31, 2011 | 6.31% | \$ 15.0 | 6.31% | \$ 15.0 |

The fair market value of the remaining portion of the interest rate swap agreements aggregates to an unrealized loss of \$2.3 million at June 30, 2007 compared to an unrealized loss of \$3.0 million at June 30, 2006. Two interest rate swaps outstanding totalling \$45.0 million are set to expire in December 2011. The notional principal balance of the \$30.0 million interest rate swap is reduced by \$1.0 million on December 31 of each year for the term of the arrangement.

The following Corridor debentures at June 30, 2007 are also subject to interest rate swap agreements, in which the fixed rate debentures have been exchanged for an average variable rate.

| Maturity date | 2007 | | 2006 | |
|------------------|--|---------------------------------|--|---------------------------------|
| | Fixed Rate Per Annum (excluding applicable margin) | Notional Balance (CDN millions) | Fixed Rate Per Annum (excluding applicable margin) | Notional Balance (CDN millions) |
| February 2, 2010 | 4.240% | \$ 150.0 | – | – |
| February 2, 2015 | 5.033% | \$ 150.0 | – | – |

The fair market value of the remaining portion of the Corridor interest rate swap agreements aggregates to an unrealized loss of \$9.9 million at June 30, 2007.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the quarter ended June 30, 2007 or 2006.

Upon acquisition of the General Partner in 2002, Pipeline Assets Corp. (PAC), the sole shareholder of the General Partner, assumed the obligations of the former general partner of Inter Pipeline under a support agreement. The support agreement obligates the affiliates controlled by PAC to provide certain personnel and services if requested by the General Partner, to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts have been paid under the terms of the support agreement since PAC acquired its interests in the General Partner.

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain of the officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied, in part, to the continuing employment or service as a director or officer of the General Partner. These certain officers and directors of the General Partner received a total of \$1.6 million in dividends during the quarter from PAC pursuant to their ownership of non-voting shares (2006 – \$0.2 million). Year to date dividends paid by PAC in 2007 were \$1.9 million (YTD 2006 - \$0.4 million)

Management fees of \$1.4 million (Q2 2006 – \$1.3 million) were earned by the General Partner in the quarter ended June 30, 2007. An acquisition fee of \$10.9 million was paid to the General Partner in the second quarter of 2007 (Q2 2006 – nil) related to the Corridor acquisition.

Inter Pipeline entered into a loan agreement with the General Partner for \$379.8 million. At June 30, 2007, interest payable to the General Partner on the loan was \$4.1 million (2006 - \$4.1 million).

Amounts due to/from the General Partner and its affiliates related to services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner. At June 30, 2007, there were amounts owed to the General Partner by Inter Pipeline of \$0.9 million (June 30, 2006 – \$0.5 million).

INTERNAL CONTROLS OVER FINANCIAL REPORTING

With the exception of the internal controls related to Corridor, Management has made no material changes to the design of Inter Pipeline's internal controls over financial reporting in Inter Pipeline's existing business segments during the second quarter of the 2007 fiscal year.

During the second quarter, Inter Pipeline acquired Corridor effective June 15, 2007. Where possible, Corridor has adopted Inter Pipeline's existing business processes and internal controls over financial reporting. However, given the short period between the closing date and the quarter end, there was insufficient time to design internal controls over financial reporting for those business processes unique to Corridor.

Management is committed to completing the design of internal controls and integrating the accounting and reporting systems unique to Corridor with that of Inter Pipeline before the end of the year.

CRITICAL ACCOUNTING ESTIMATES

With the exception of new accounting estimates related to Corridor discussed below, there were no changes in Inter Pipeline's critical accounting estimates as disclosed in its annual 2006 MD&A that affected the disclosure or the accounting for its operations for the quarter ended June 30, 2007.

Property, Plant and Equipment (PP&E)

Cost of Corridor pipeline facilities and equipment includes all direct expenditures for system construction, expansion and betterments, and an allocation of overhead costs. Depreciation of regulated assets is recorded on a straight line basis on plant in service at rates set out in the terms of the FSA with shippers. Depreciation rates require the use of management estimates of the useful lives of assets. The cost of depreciable property retired, together with removal costs, less salvage, is charged to accumulated depreciation.

Asset Retirement Obligation

The accounting for asset retirement obligations represents the legal obligation associated with the retirement of a tangible long-lived asset resulting from the acquisition, construction or development and/or the normal operation of this long-lived asset. The retirement of a long-lived asset includes its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, an amount equal to the discounted asset retirement cost is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's useful life.

The PP&E of Corridor consist primarily of underground pipelines and above ground equipment and facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded at that time. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline, to removal of the pipeline and reclamation of the right-of-way.

Goodwill

Goodwill was created upon the acquisition of Corridor which represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any future write-down for impairment. If the carrying value of Corridor exceeds its fair value, an impairment loss would be recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management will review the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value. Inter Pipeline intends to assess the fair value of this goodwill amount for impairment at least annually by discounting the projected future cash flows generated by these assets at Inter Pipeline's cost of capital. If it is determined that the fair value of the future cash flows is less than the book value of the assets at the time of assessment, an impairment amount will be determined by deducting the fair value of the cash flows from the book values and applying it against the book balance of goodwill.

NEW ACCOUNTING POLICIES

Future

International Financial Reporting Standards (IFRS)

In January 2007, the Accounting Standards Board (AcSB) adopted a new strategic plan for financial reporting in Canada, "Accounting Standards in Canada: New Directions." For publicly reported enterprises, the AcSB will converge Canadian GAAP with IFRS over a period from 2007 to 2011. After this time

period, Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises. Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve.

Capital Disclosures

Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 “Capital Disclosures”, Handbook Section 3862 “Financial Instruments – Disclosures” and Handbook Section 3863 “Financial Instruments – Presentation”. Inter Pipeline will adopt these standards on January 1, 2008. The new standards require the disclosure of quantitative and qualitative information that is intended to provide users of the financial statements with additional disclosures on Inter Pipeline’s management of capital and on the risks associated with financial instruments. Inter Pipeline will be reviewing the impact of these standards on its financial statements in the coming months.

2007

Corridor Accounting Policies

Regulation

Inter Pipeline’s Corridor pipeline operations are governed by contractual arrangements with shippers, and are regulated by the EUB, an independent regulatory authority. Inter Pipeline’s rates are cost-of-service based and are determined using formulas embedded in the FSA with shippers.

In accordance with GAAP, certain assets and liabilities, revenues and expenses of Inter Pipeline’s Corridor pipeline operations qualify for selected accounting treatments that differ from those used by entities not subject to rate regulation. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods that are expected to be recovered from customers in future periods in accordance with the FSA. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers in accordance with the FSA.

The timing of the recognition of the following items, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation: The regulatory asset of \$9.9 million may not be recorded as an asset, but would be charged to the income statement as an unrealized change in the fair value of derivative instruments; the regulatory liability of \$2.7 million may be recorded as revenue instead of a liability; and Inter Pipeline has not recognized future income taxes of approximately \$17.0 million as a result of using the taxes payable method for its regulated operations, while this would be recognized under GAAP in the absence of rate regulation.

Regulatory Asset

Corridor utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are recoverable from the shippers, therefore the unrealized portion has been recorded as a regulatory asset.

Property, Plant and Equipment

Pipeline linefill and tank working inventory for the Corridor pipeline system represents the petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with appropriate volume of petroleum products to enable commercial operation of the facilities and pipeline. These volumes of petroleum product will be recovered upon the ultimate retirement and decommissioning of the pipeline system at which time the proceeds from the sale of the linefill will be used to fund the cost of any asset retirement obligations. To the extent the asset retirement obligations exceed the value of the linefill, Inter Pipeline and its affiliates will be obligated to fund the excess. To the extent the value of the linefill exceeds the asset retirement obligation; the funds shall be refunded to the shippers.

Linefill is carried at cost less accumulated depreciation. Cost includes all direct expenditures for acquiring the petroleum based products. Depreciation is calculated on the same basis as property, plant and equipment.

Revenue Recognition

Revenues are recorded when products are delivered and adjusted according to terms prescribed by the FSA with the shippers. Under the terms of the FSA, Inter Pipeline's revenues are determined by an agreed upon annual revenue requirement formula which allows for the recovery of prescribed expenditures and costs associated with the operation of the Corridor pipeline system, as well as a rate of return on the Rate Base (as defined in the FSA) determined with reference to the long-term bond yield reported by the Bank of Canada. For the purposes of periodic interim reporting, Inter Pipeline and the shippers have agreed to estimate the annual revenue requirements to be invoiced by Inter Pipeline and paid by the shippers. To the extent these estimates are different from the annual revenue requirement Inter Pipeline records a surplus or deficiency charge to adjust its net income to match the returns allowed for in the annual revenue requirement formula. At June 30, 2007, \$2.7 million is included in deferred revenue as a revenue surplus.

Income Taxes

In accordance with the terms of the FSA and consistent with generally accepted accounting principles for rate-regulated entities, Inter Pipeline accounts for income taxes using the taxes payable method and therefore future income taxes related to temporary differences are not recorded. The taxes payable method is followed as there is reasonable expectation that all future income taxes will be recovered in rates when they become payable.

Changes in Accounting Policies

Concurrent with the adoption of section 3865, Inter Pipeline elected to discontinue hedge accounting for derivative financial instruments outstanding at January 1, 2007 that had qualified as effective cash flow hedges in prior periods. Accordingly, for the three months ended June 30, 2007, Inter Pipeline has recognized the change in fair value of the related derivative financial instruments in net income and has transferred unrealized gains and losses from accumulated other comprehensive income (AOCI) to net income related to contracts settled in the period.

Comprehensive Income

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income (OCI). OCI comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income, but excluded from net income. Inter Pipeline's consolidated financial statements now include a Statement of Comprehensive Income, which includes the components of comprehensive income.

The cumulative changes in OCI are included in AOCI, which is presented as a new category within partners' equity in the Consolidated Balance Sheet. The cumulative foreign currency translation balance, formerly presented as a separate category within partners' equity, is now included in AOCI. Inter Pipeline's consolidated financial statements now include a Statement of Accumulated Other Comprehensive Income, which provides the continuity of the AOCI balance.

Effective January 1, 2007, AOCI was comprised of the changes in the cumulative foreign currency translation balance and the unrealized gains and losses on derivatives previously designated as cash flow hedges.

The adoption of comprehensive income resulted in an opening adjustment to AOCI of \$8.0 million at January 1, 2007 to record the effective portion of the fair value of derivative financial instruments previously designated as cash flow hedges.

The December 31, 2006 year end accumulated foreign currency translation adjustment balance of \$30.8 million was reclassified to AOCI.

Financial Instruments – Recognition and Measurement

CICA handbook section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, financial derivatives and certain non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives and certain non-financial derivatives, be recognized on the consolidated balance sheet when a contract or certain contractual provisions meet the definition of a financial instrument. Under this standard, all financial instruments, including derivatives, are required to be measured at fair value upon initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities”, as defined by the standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net income. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in OCI. Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as “available-for-sale” that do not have a quoted market price in an active market are measured at cost. Section 3855 also provides an entity the option to designate a financial instrument as held-for-trading (the fair value option) on its initial recognition or upon adoption of the standard, provided certain criteria are met.

Financial and non-financial derivative instruments are classified as “held-for-trading” and recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of the effective portion of derivatives designated as cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation, which are recognized in OCI.

Section 3855 requires the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost. In addition, an entity must select an accounting policy of either expensing transaction issue costs as incurred or applying them against the carrying value of the related asset or liability.

Inter Pipeline classified its financial instruments as follows. Cash is designated as “held-for-trading” and is measured at carrying value, which approximates fair value due to the short-term nature of these instruments. The majority of accounts receivable are designated as “loans and receivables”. Cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue and long-term debt are designated as “other liabilities”. Derivative financial instruments are classified as “held-for-trading” unless designated for hedge accounting.

Accordingly, at January 1, 2007, Inter Pipeline recognized a net liability of \$8.0 million representing the fair market value of derivative financial instruments that qualified as effective cash flow hedges in prior periods, with the offset to AOCI. There were no other opening transition adjustments to financial assets and financial liabilities as a result of these classifications with the exception of those made to long-term debt and debt transaction costs, as outlined in the paragraph below. The estimated fair values of financial instruments have been determined based on Inter Pipeline’s assessment of available market information, appropriate valuation methodologies and third party indications. Fair values are generally based on observable market prices with the exception of the NGL swaps. Obtaining market prices for NGL swaps is difficult as these are relatively inactive markets. However, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and the differences may be material.

Inter Pipeline adopted a policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. Accordingly, at January 1, 2007, \$1.5 million of deferred financing charges were reclassified to long-term debt. These costs capitalized within long-term debt will be amortized using the effective interest method. Previously, Inter Pipeline deferred these costs and amortized straight-line over

the life of the related long-term debt. The adoption of the effective interest method of amortization resulted in a \$0.1 million credit to opening retained earnings.

Impact Upon Adoption of Sections 1530, 3855 and 3865

The net effect to Inter Pipeline’s financial statements at January 1, 2007 resulting from the above-mentioned changes is as follows:

| | January 1 2007 |
|--|-------------------|
| Deferred financing charges | \$ (1,541) |
| Fair value of derivative financial instruments (net) | (7,971) |
| Long-term debt | 1,628 |
| Accumulated other comprehensive income | 7,971 |
| Partners’ equity | (87) |
| | \$ - |

BUSINESS RISKS

Risks Associated with Corridor

Corridor is subject to a number of risks, including, without limitation, risks associated with: Inter Pipeline failing to achieve the full benefits of the acquisition, including the Corridor Expansion; competition from other pipelines; an inability to market excess capacity on the Corridor pipeline system; the operations of Corridor being substantially dependent upon three principal shippers; Inter Pipeline’s operations being subject to common hazards of the oil transportation business, including disruption by natural disasters or other events; regulatory intervention and changes in legislation; environmental costs and liabilities; the effect of the legislation or proposed legislation developed to limit or reduce greenhouse gas emissions; the costs of abandonment of Corridor; risks associated with illiquidity or failure of the market for commercial paper; risks associated with fluctuations in interest rates as a result of the use of floating rate debt and certain interest rate swap contracts entered into by Corridor; and various other risks which are common to Inter Pipeline’s other pipeline systems, as disclosed in Inter Pipeline’s December 31, 2006 Annual Information Form (AIF) and MD&A. See the **BUSINESS RISKS** section of Inter Pipeline’s December 31, 2006 annual MD&A or AIF for further discussion on risks common to Inter Pipeline’s pipeline systems, including Corridor.

The Corridor Expansion is subject to a number of risks, including, without limitation, risks associated with the costs to complete the Corridor Expansion varying considerably from the current and forecast costs; the success of the Corridor Expansion being dependent upon the retention of key project execution and construction personnel; risks associated with potential labour disturbances and strikes of the construction labour force; risks associated with natural disasters, inclement weather, design issues or other events affecting construction schedules; risks associated with contractor and key supplier financial stability; the occurrence of any major environmental or safety incidents during construction of the Corridor Expansion; the lack of availability of sufficient capital, whether through borrowings or equity issuances, to fund the Corridor Expansion or other required expenditures.

Inter Pipeline’s pipeline systems, including Corridor, have risks common to all of Inter Pipeline’s business segments as disclosed in Inter Pipeline’s December 31, 2006 AIF and MD&A. See the **BUSINESS RISKS** section of Inter Pipeline’s December 31, 2006 annual MD&A or Inter Pipeline’s AIF for further discussion on risks common to all of Inter Pipeline’s business segments.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A, namely “cash available for distribution”, “enterprise value”, “funds from operations”, “funds from operations per unit”, “payout ratio after sustaining capital”, “payout ratio before sustaining capital”, “growth capital expenditures”, “sustaining capital expenditures”, “total debt to total capitalization” and “working capital” are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may

not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

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

Cash available for distribution includes cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. This measure is used by the investment community to calculate the annualized yield of the units.

Enterprise value is calculated by multiplying the period-end closing unit price by the total number of units outstanding and adding debt before deferred transaction costs related to debt plus the debt portion of the Debentures. This measure, in combination with other measures, is used by the investment community to assess the overall market value of the business. Enterprise value is calculated as follows:

| | As at June 30 | |
|--|---------------|------------|
| (\$ millions, except per unit amounts) | 2007 | 2006 |
| Closing unit price | \$ 9.39 | \$ 9.91 |
| Total number of units outstanding | 202.8 | 200.9 |
| Long-term debt | 1,904.5 | 1,991.4 |
| Convertible Debentures | 1,763.8 | 656.8 |
| Enterprise value | 10.2 | 13.2 |
| | \$ 3,678.5 | \$ 2,661.4 |

Funds from operations are reconciled from the components of net income as noted below and are expressed before changes in non-cash working capital. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions.

| (\$ millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | June 30 | | June 30 | |
| | 2007 | 2006 | 2007 | 2006 |
| Operating revenue | \$ 265.6 | \$ 209.8 | \$ 549.8 | \$ 479.5 |
| Shrinkage gas expense | (115.0) | (78.3) | (245.8) | (211.7) |
| Cash operating expense | (73.9) | (64.7) | (152.8) | (135.2) |
| Cash general and administrative expense | (7.6) | (6.4) | (15.9) | (12.2) |
| Management and acquisition fees expense | (12.3) | (1.3) | (13.6) | (2.9) |
| Credit facility interest expense | (4.8) | (3.6) | (8.4) | (7.5) |
| Loan payable to General Partner interest expense | (5.7) | (5.7) | (11.5) | (11.5) |
| Interest on Debentures | (0.9) | (0.3) | (1.2) | (0.7) |
| Current income taxes | (0.4) | (0.7) | (0.8) | (1.1) |
| Funds from operations | \$ 45.0 | \$ 48.8 | \$ 99.8 | \$ 96.7 |

Funds from operations per unit are calculated on a weighted average basis using basic units outstanding during the period.

Growth capital expenditures are generally defined as expenditures that are related to system capacity expansions, business growth, volume or revenue increases and/or sustainable operating efficiencies. This measure is used by the investment community to assess the extent of discretionary capital spending.

Sustaining capital expenditures are generally defined as new assets that provide support to operations and/or expenditures that involve an enhancement to existing assets without the associated benefits

characteristic of growth capital expenditures. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

| (\$ millions) | Three Months Ended June 30 | | | |
|----------------------------|----------------------------|---------------|----------------|----------------|
| | Growth | Sustaining | 2007 | 2006 |
| NGL extraction | \$ (0.2) | \$ 0.8 | \$ 0.6 | \$ 1.4 |
| Conventional oil pipelines | 1.2 | 1.6 | 2.8 | 4.7 |
| Oil sands transportation | 8.7 | (0.1) | 8.6 | 6.8 |
| Bulk liquid storage | 6.4 | 0.8 | 7.2 | 4.8 |
| Total | \$ 16.1 | \$ 3.1 | \$ 19.2 | \$ 17.7 |

| (\$ millions) | Six Months Ended June 30 | | | |
|----------------------------|--------------------------|---------------|----------------|----------------|
| | Growth | Sustaining | 2007 | 2006 |
| NGL extraction | \$ 0.6 | \$ 1.4 | \$ 2.0 | \$ 2.6 |
| Conventional oil pipelines | 4.1 | 1.9 | 6.0 | 11.2 |
| Oil sands transportation | 16.3 | – | 16.3 | 9.7 |
| Bulk liquid storage | 10.8 | 1.2 | 12.0 | 6.5 |
| Total | \$ 31.8 | \$ 4.5 | \$ 36.3 | \$ 30.0 |

Payout ratio after sustaining capital is calculated by expressing cash distributions declared for the period as a percentage of cash available for distribution after deducting sustaining capital expenditures for the period. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

Payout ratio before sustaining capital is calculated by expressing cash distributions paid for the period as a percentage of cash available for distribution before deducting sustaining capital. These measures, in combination with other measures, are used by the investment community to assess the sustainability of the current cash distributions.

Total debt to total capitalization is calculated by dividing the sum of long-term debt, Convertible Debentures and the conversion feature on Convertible Debentures by the sum of long-term debt, Convertible Debentures and total partners' equity. This measure, in combination with other measures, is used by the investment community to assess the financial strength of the entity.

Working capital is calculated by subtracting current liabilities from current assets excluding cash, fair value of derivative financial instruments and current portion of Convertible Debentures.

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's AIF, is available on SEDAR at www.sedar.com.

Dated at Calgary, Alberta this 9th day of August, 2007.

Disclaimer

This MD&A highlights significant business results and statistics for Inter Pipeline's three and six month periods ended June 30, 2007. This MD&A contains certain forward-looking statements or information (collectively referred to in this note as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", and similar words suggesting future

outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the expectations, plans or intentions upon which they are based will occur. Inter Pipeline in no manner represents that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by the General Partner of Inter Pipeline at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements made. By their nature, forward-looking statements are subject to various risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its subsidiaries; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and NGL extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; the ability to access sufficient capital from internal and external sources; product supply and demand; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection and instability affecting countries in which Inter Pipeline and its subsidiaries operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; the timing and costs of construction projects; Inter Pipeline's ability to make capital investments and the amounts of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its subsidiaries; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; political and economic conditions in the countries in which Inter Pipeline and its subsidiaries operate; difficulty in obtaining necessary regulatory approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled "Risk Factors" in this MD&A.

Except to the extent required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary note.

Only persons who are residents of Canada, or if partnerships, are Canadian partnerships, in each case for purpose of the Income Tax Act (Canada) are entitled to purchase and own Class A units and 10% Convertible Extendible Unsecured Subordinated Debentures of Inter Pipeline.

Inter Pipeline's Statement of Corporate Governance is included in Inter Pipeline's Annual Information Form, which can be reviewed at www.sedar.com.

The MD&A has been reviewed and approved by the Audit Committee and the Board of Directors of the General Partner. All amounts are stated in Canadian dollars unless otherwise specified.

Inter Pipeline Fund

Consolidated Balance Sheets

| (unaudited) (thousands of dollars) | As at June 30 2007 | As at December 31 2006 |
|--|--------------------------|------------------------------|
| | | (restated - see note 2) |
| ASSETS | | |
| Current Assets | | |
| Cash (note 16) | \$ 28,441 | \$ 16,294 |
| Accounts receivable | 113,999 | 131,520 |
| Fair value of derivative financial instruments (note 15) | 5,031 | - |
| Prepaid expenses and other deposits | 8,102 | 13,032 |
| Total Current Assets | 155,573 | 160,846 |
| Fair value of derivative financial instruments (note 15) | 1,333 | - |
| Regulatory asset (notes 2 and 3) | 9,907 | - |
| Intangible assets (note 5) | 366,048 | 374,583 |
| Property, plant and equipment (note 6) | 2,508,838 | 1,545,341 |
| Deferred financing charges (note 2) | - | 1,541 |
| Goodwill (note 3) | 206,367 | 74,803 |
| Total Assets | \$ 3,248,066 | \$ 2,157,114 |
| LIABILITIES AND PARTNERS' EQUITY | | |
| Current Liabilities | | |
| Cash distributions payable (note 7) | \$ 14,198 | \$ 14,121 |
| Accounts payable and accrued liabilities | 135,567 | 123,593 |
| Fair value of derivative financial instruments (note 15) | 19,761 | - |
| Deferred revenue | 14,400 | 10,108 |
| Current portion of Convertible Debentures | 10,211 | 11,697 |
| Total Current Liabilities | 194,137 | 159,519 |
| Long-term debt (note 8) | 1,754,836 | 674,800 |
| Fair value of derivative financial instruments (note 15) | 15,373 | - |
| Asset retirement obligation (note 9) | 22,106 | 20,530 |
| Environmental liabilities | 10,302 | 10,259 |
| Pension liabilities | 3,215 | 3,442 |
| Long-term incentive plan (note 12) | 1,700 | 1,337 |
| Future income taxes (note 10) | 335,926 | 88,839 |
| Total Liabilities | 2,337,595 | 958,726 |
| Commitments (notes 3 and 15) | | |
| Partners' Equity | | |
| Conversion feature on Convertible Debentures | 449 | 516 |
| Partners' equity (note 11) | 905,446 | 1,167,093 |
| Accumulated other comprehensive income (note 2) | 4,576 | 30,779 |
| Total Partners' Equity | 910,471 | 1,198,388 |
| Total Liabilities and Partners' Equity | \$ 3,248,066 | \$ 2,157,114 |

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Consolidated Statements of Partners' Equity

| (unaudited) (thousands of dollars) | Six Months Ended June 30 | | | |
|---|---|---|-------------------|---------------------|
| | 2007 | | 2006 | |
| | Class A Limited Liability Partnership Units | Class B Unlimited Liability Partnership Units | Total | Total |
| Balance, beginning of period | \$ 1,165,928 | \$ 1,165 | \$ 1,167,093 | \$ 1,042,074 |
| Opening adjustment on adoption of new accounting standards (note 2) | 87 | - | 87 | - |
| Net (loss) income for the period | (183,215) | (183) | (183,398) | 59,902 |
| Cash distributions declared | (84,914) | (85) | (84,999) | (78,171) |
| Issuance of Partnership units (notes 11 and 12) | | | | |
| Conversion of Debentures | 1,553 | 1 | 1,554 | 2,862 |
| Issued under Distribution Reinvestment and Optional Unit Purchase Plan | 4,061 | 4 | 4,065 | 2,658 |
| Issued under Unit Incentive Option Plan | 1,036 | 1 | 1,037 | 1,741 |
| Equity issuances, net of issue costs | - | - | - | 142,231 |
| Unit incentive options (note 12) | 7 | - | 7 | 131 |
| Balance, end of period | \$ 904,543 | \$ 903 | \$ 905,446 | \$ 1,173,428 |

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

| (unaudited) (thousands of dollars) | Six Months Ended June 30 | |
|--|--------------------------|-------------------|
| | 2007 | 2006 |
| Balance, beginning of period | \$ 30,779 | \$ (9,706) |
| Opening adjustment on adoption of new accounting standards (note 2) | (7,971) | - |
| Other comprehensive (loss) income for the period | (18,232) | 8,350 |
| Balance, end of period | \$ 4,576 | \$ (1,356) |

(restated -
see note 2)

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Consolidated Statements of Net (Loss) Income

| (unaudited) (thousands of dollars) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|------------|--------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| REVENUES | | | | |
| Operating revenue | \$ 265,618 | \$ 209,772 | \$ 549,756 | \$ 479,520 |
| EXPENSES | | | | |
| Shrinkage gas | 114,989 | 78,331 | 245,781 | 211,686 |
| Operating | 74,069 | 64,952 | 154,317 | 135,413 |
| Depreciation and amortization (note 13) | 19,067 | 17,764 | 37,380 | 35,074 |
| Financing charges (note 14) | 11,501 | 9,737 | 21,237 | 19,809 |
| General and administrative | 7,967 | 6,335 | 16,146 | 12,659 |
| Unrealized change in fair value of derivative financial instruments (note 15) | 6,501 | - | 15,266 | - |
| Management fee to General Partner | 1,395 | 1,296 | 2,702 | 2,484 |
| Acquisition fee to General Partner (note 3) | 10,883 | - | 10,883 | 376 |
| Unit incentive options (note 12) | (3) | 48 | 7 | 131 |
| | 246,369 | 178,463 | 503,719 | 417,632 |
| INCOME BEFORE INCOME TAXES | | | | |
| | 19,249 | 31,309 | 46,037 | 61,888 |
| Provision for income taxes (note 10) | | | | |
| Current income tax expense | 417 | 684 | 792 | 1,076 |
| Future income tax expense (recovery) | 226,742 | (216) | 228,643 | 910 |
| | 227,159 | 468 | 229,435 | 1,986 |
| NET (LOSS) INCOME | | | | |
| | \$ (207,910) | \$ 30,841 | \$ (183,398) | \$ 59,902 |
| Net (loss) income per unit (note 11) | | | | |
| Basic and Diluted | \$ (1.03) | \$ 0.15 | \$ (0.91) | \$ 0.30 |

Consolidated Statements of Comprehensive (Loss) Income

| (unaudited) (thousands of dollars) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|-----------|--------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| NET (LOSS) INCOME | | | | |
| | \$ (207,910) | \$ 30,841 | \$ (183,398) | \$ 59,902 |
| OTHER COMPREHENSIVE (LOSS) INCOME | | | | |
| Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations | (21,059) | 4,509 | (22,606) | 8,350 |
| Transfer of gains and losses on derivatives previously designated as cash flow hedges to net income | 711 | - | 4,374 | - |
| | (20,348) | 4,509 | (18,232) | 8,350 |
| COMPREHENSIVE (LOSS) INCOME | | | | |
| | \$ (228,258) | \$ 35,350 | \$ (201,630) | \$ 68,252 |

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

Consolidated Statements of Cash Flows

| (unaudited) (thousands of dollars) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|-----------|--------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| OPERATING ACTIVITIES | | | | |
| Net (loss) income | \$ (207,910) | \$ 30,841 | \$ (183,398) | \$ 59,902 |
| Depreciation and amortization | 19,067 | 17,764 | 37,380 | 35,074 |
| Amortization of deferred financing charges | - | 53 | - | 106 |
| Amortization of transaction costs on long-term debt | 125 | - | 170 | - |
| Unit incentive options | (3) | 48 | 7 | 131 |
| Non-cash operating expense | 159 | 252 | 1,483 | 200 |
| Non-cash general and administrative expense | 352 | 74 | 280 | 366 |
| Unrealized change in fair value of derivative financial instruments | 6,501 | - | 15,266 | - |
| Future income tax expense | 226,742 | (216) | 228,643 | 910 |
| Funds from operations | 45,033 | 48,816 | 99,831 | 96,689 |
| Net change in non-cash working capital (note 16) | (10,602) | (10,477) | 14,278 | 8,902 |
| Cash provided by operating activities | 34,431 | 38,339 | 114,109 | 105,591 |
| INVESTING ACTIVITIES | | | | |
| Expenditures on property, plant and equipment | (19,174) | (17,750) | (36,259) | (29,995) |
| Proceeds on sale of assets | 31 | 13 | 41 | 28 |
| Acquisition of Corridor pipeline system (note 3) | (302,202) | - | (302,202) | - |
| Assumption of cash on the acquisition of Corridor pipeline system (note 3) | 3,012 | - | 3,012 | - |
| Decrease in funds held in trust | - | - | - | 37,851 |
| Acquisition of TLG | - | 10 | - | (37,726) |
| Assumption of cash on the acquisition of TLG | - | - | - | 303 |
| Acquisition of Simon Storage | - | - | - | (187) |
| Net change in non-cash investing working capital (note 16) | 3,631 | 6,124 | 4,520 | 6,354 |
| Cash used in investing activities | (314,702) | (11,603) | (330,888) | (23,372) |
| FINANCING ACTIVITIES | | | | |
| Cash distributions declared | (42,559) | (39,159) | (84,999) | (78,171) |
| Increase (repayment) of long-term debt | 330,858 | 8,000 | 310,858 | (149,000) |
| Transaction costs on long-term debt | (1,258) | - | (1,258) | - |
| Issuance of Partnership units, net of issue costs | - | 33 | - | 142,231 |
| Cash received under Distribution Reinvestment and Optional Unit Purchase Plan | 2,164 | 1,386 | 4,065 | 2,658 |
| Issuance of units under Unit Incentive Option Plan | 409 | 639 | 1,037 | 1,741 |
| Issuance of Class B units upon Debenture conversions | - | 1 | 1 | 3 |
| Net change in non-cash financing working capital (note 16) | 34 | 38 | 77 | 1,064 |
| Cash provided by (used in) financing activities | 289,648 | (29,062) | 229,781 | (79,474) |
| Effect of foreign currency translation on foreign denominated cash | (845) | 143 | (855) | 479 |
| Increase (decrease) in cash | 8,532 | (2,183) | 12,147 | 3,224 |
| Cash, beginning of period | 19,909 | 22,932 | 16,294 | 17,525 |
| Cash, end of period | \$ 28,441 | \$ 20,749 | \$ 28,441 | \$ 20,749 |

See accompanying notes to the consolidated financial statements.

Notes To Interim Consolidated Financial Statements

(unaudited)

June 30, 2007

(tabular amounts in thousands of dollars, except per unit amounts)

1. Summary of Significant Accounting Policies

These unaudited interim consolidated financial statements are presented in accordance with Canadian generally accepted accounting principles ("GAAP") and have been prepared by management following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2006, except as discussed in note 2 below. The disclosures provided in these interim consolidated financial statements are incremental to those included with the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in Inter Pipeline Fund's ("Inter Pipeline") annual report for the year ended December 31, 2006. The second quarter for the NGL extraction business is typically a time when there is lower demand for natural gas and thus results in lower input volumes and related NGL production at Inter Pipeline's NGL extraction plants. The conventional pipeline business normally experiences lower second quarter throughput caused by lower overall crude oil production due to seasonal road bans and production facility maintenance.

2. Changes in Accounting Policy

On January 1, 2007, Inter Pipeline adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". Inter Pipeline adopted these standards by adjusting opening partners' equity and accumulated other comprehensive income ("AOCI"). As required by the new standards, prior periods have not been restated, except to reclassify cumulative foreign currency translation balances of prior periods to AOCI.

Comprehensive Income

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income, but excluded from net income. Inter Pipeline's consolidated financial statements now include a Statement of Comprehensive Income, which includes the components of comprehensive income.

The cumulative changes in OCI are included in AOCI, which is presented as a new category within partners' equity in the Consolidated Balance Sheet. The cumulative foreign currency translation balance, formerly presented as a separate category within partners' equity, is now included in AOCI. Inter Pipeline's consolidated financial statements now include a Statement of Accumulated Other Comprehensive Income, which provides the continuity of the AOCI balance.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, financial derivatives and certain non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives and certain non-financial derivatives, be recognized on the consolidated balance sheet when a contract or certain contractual provisions meet the definition of a financial instrument. Under this standard, all financial instruments, including derivatives, are required to be measured at fair value upon initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities", as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as "available-for-sale" that do not have a quoted market price in an active market are measured at cost. Section 3855 also provides an entity the option to designate a financial instrument as held-for-trading (the fair value option) on its initial recognition or upon adoption of the standard, provided certain criteria are met.

Inter Pipeline Fund

Notes To Interim Consolidated Financial Statements

(unaudited)

June 30, 2007

(tabular amounts in thousands of dollars, except per unit amounts)

Financial and non-financial derivative instruments are classified as “held-for-trading” and recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in net income with the exception of the effective portion of derivatives designated as cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation, which are recognized in OCI.

Section 3855 requires the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost. In addition, an entity must select an accounting policy of either expensing transaction issue costs as incurred or applying them against the carrying value of the related asset or liability.

Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the hedging relationship ceases to satisfy the conditions for hedge accounting.

Impact Upon Adoption of Sections 1530, 3855 and 3865

The net effect to Inter Pipeline’s financial statements at January 1, 2007 resulting from the above-mentioned changes is as follows:

| | January 1 2007 |
|--|-------------------|
| Deferred financing charges | \$ (1,541) |
| Fair value of derivative financial instruments (net) | (7,971) |
| Long-term debt | 1,628 |
| Accumulated other comprehensive income | 7,971 |
| Partners’ equity | (87) |
| | \$ - |

Other comprehensive income

For Inter Pipeline, OCI is currently comprised of the changes in the cumulative foreign currency translation balance and the transfer of unrealized gains and losses on derivatives previously designated as cash flow hedges to net income.

The adoption of comprehensive income resulted in an opening adjustment to AOCI of \$8.0 million at January 1, 2007 to record the effective portion of the fair value of derivative financial instruments designated as cash flow hedges in prior periods.

The June 30, 2007 period end accumulated foreign currency translation adjustment balance of \$8.2 million has been reclassified to AOCI (December 31, 2006 - \$30.8 million; June 30, 2006 – loss of \$1.4 million; December 31, 2005 – loss of \$9.7 million). The decrease of \$21.1 million and \$22.6 million respectively in the accumulated foreign currency translation adjustment balance for the three and six months ended June 30, 2007 is now included in OCI in the Statement of Comprehensive Income (three and six months ended June 30, 2006 – increase of \$4.5 million and \$8.4 million respectively). In addition, in the three and six months ended June 30, 2007, \$0.7 million and \$4.4 million respectively of unrealized gains and losses on derivatives designated as cash flow hedges in prior periods have been transferred to net income.

Inter Pipeline Fund

Notes To Interim Consolidated Financial Statements

(unaudited)

June 30, 2007

(tabular amounts in thousands of dollars, except per unit amounts)

Financial instruments

Inter Pipeline has classified its financial instruments as follows. Cash is designated as “held-for-trading” and is measured at carrying value, which approximates fair value due to the short-term nature of these instruments. The majority of accounts receivable are designated as “loans and receivables”. Cash distributions payable, the majority of accounts payable and accrued liabilities, certain components of deferred revenue and long-term debt are designated as “other liabilities”. Derivative financial instruments are classified as “held-for-trading” unless designated for hedge accounting.

Accordingly, at January 1, 2007, Inter Pipeline recognized a net liability of \$8.0 million representing the fair market value of derivative financial instruments that qualified as effective cash flow hedges in prior periods, with the offset to AOCI. There were no other opening transition adjustments to financial assets and financial liabilities as a result of these classifications with the exception of those made to long-term debt and debt transaction costs, as outlined in the paragraph below. The estimated fair values of financial instruments have been determined based on Inter Pipeline’s assessment of available market information, appropriate valuation methodologies and third party indications. However, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction and the differences may be material. Fair values are generally based on observable market prices with the exception of NGL swaps. Obtaining market prices for NGL swaps is difficult as these markets are not very liquid.

Inter Pipeline has adopted a policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. Accordingly, at January 1, 2007, \$1.5 million of deferred financing charges were reclassified to long-term debt. These costs capitalized within long-term debt will be amortized using the effective interest method. Previously, Inter Pipeline deferred these costs and amortized straight-line over the life of the related long-term debt. The adoption of the effective interest method of amortization resulted in a \$0.1 million credit to opening partners’ equity.

In accordance with transitional provisions, Inter Pipeline chose to review all agreements acquired, substantially modified, or entered into on or after January 1, 2003 for embedded derivatives.

Hedges

Concurrent with the adoption of section 3865, Inter Pipeline elected to discontinue hedge accounting for derivative financial instruments outstanding at January 1, 2007 that had qualified as effective cash flow hedges in prior periods. Accordingly, for the three and six months ended June 30, 2007, Inter Pipeline has recognized the change in fair value of the related derivative financial instruments in net income and has transferred unrealized gains and losses from AOCI to net income related to contracts settled in the period.

New Accounting Policies due to Acquisition of Corridor Pipeline System

Regulation

Inter Pipeline’s Corridor pipeline operations are governed by contractual arrangements with shippers, and are regulated by the Alberta Energy and Utilities Board (the “AEUB”), an independent regulatory authority. Inter Pipeline’s rates are cost-of-service based and are determined using formulas embedded in the Firm Service Agreement (the “FSA”) with shippers.

In accordance with GAAP, certain assets and liabilities, revenues and expenses of Inter Pipeline’s Corridor pipeline operations qualify for selected accounting treatments that differ from those used by entities not subject to rate regulation. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, that are expected to be recovered from customers in future periods in accordance with the FSA. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers in accordance with the FSA.

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The timing of the recognition of the following items, as a result of regulation, may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation: The regulatory asset of \$9.9 million may not be recorded as an asset, but would be charged to the income statement as an unrealized change in fair value of derivative instruments; the regulatory liability of \$2.7 million may be recorded as revenue instead of a liability; and Inter Pipeline has not recognized future income taxes of approximately \$17.0 million as a result of using the taxes payable method for its regulated operations, while this would be recognized under GAAP in the absence of rate regulation

Regulatory Asset

Corridor utilizes interest rate derivatives to manage its interest rate risk. Gains or losses arising on the interest rate swap contracts are recoverable from the shippers, therefore the unrealized portion has been recorded as a regulatory asset.

Property, Plant and Equipment

Cost of Corridor pipeline facilities and equipment includes all direct expenditures for system construction, expansion, and betterments, and an allocation of overhead costs. Depreciation of regulated assets is recorded on a straight line basis on plant in service at rates set out in the terms of the FSA with shippers. Depreciation rates require the use of management estimates of the useful lives of assets. The cost of depreciable property retired, together with removal costs, less salvage, is charged to accumulated depreciation.

Pipeline linefill and tank working inventory for the Corridor pipeline system represents the petroleum based product purchased for the purpose of charging the pipeline system and partially filling the petroleum product storage tanks with appropriate volume of petroleum products to enable commercial operation of the facilities and pipeline. These volumes of petroleum product will be recovered upon the ultimate retirement and decommissioning of the pipeline system at which time the proceeds from the sale of the linefill will be used to fund the cost of any asset retirement obligations. To the extent the asset retirement obligations exceed the value of the linefill, Inter Pipeline and its affiliates will be obligated to fund the excess. To the extent the value of the linefill exceeds the asset retirement obligation, the funds shall be refunded to the shippers.

Linefill is carried at cost less accumulated depreciation. Cost includes all direct expenditures for acquiring the petroleum based products. Depreciation is calculated on the same basis as property, plant and equipment.

Interest costs relating to the Corridor expansion project are capitalized as part of property, plant and equipment. Capitalization of interest ceases when the capital asset is substantially complete and ready for its intended productive use.

Revenue Recognition

Revenues are recorded when products are delivered and adjusted according to terms prescribed by the FSA with the shippers. Under the terms of the FSA, Inter Pipeline's revenues are determined by an agreed upon annual revenue requirement formula which allows for the recovery of prescribed expenditures and costs associated with the operation of the Corridor pipeline system, as well as a rate of return on the Rate Base (as defined in the FSA) determined with reference to the long-term bond yield reported by the Bank of Canada. For the purposes of periodic interim reporting, Inter Pipeline and the shippers have agreed to estimate the annual revenue requirements to be invoiced by Inter Pipeline and paid by the shippers. To the extent these estimates are different from the annual revenue requirement Inter Pipeline records a surplus or deficiency charge to adjust its net income to match the returns allowed for in the annual revenue requirement formula. At June 30, 2007, \$2.7 million is included in deferred revenue as a revenue surplus.

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Income Taxes

In accordance with the terms of the FSA, Inter Pipeline accounts for income taxes using the taxes payable method and therefore future income taxes related to temporary differences are not recorded. The taxes payable method is followed as there is reasonable expectation that all future income taxes will be recovered in rates when they become payable.

Guarantee

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

Future Accounting Changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 “Capital Disclosures”, Handbook Section 3862 “Financial Instruments – Disclosures” and Handbook Section 3863 “Financial Instruments – Presentation”. Inter Pipeline will adopt these standards on January 1, 2008. The new standards require the disclosure of quantitative and qualitative information that is intended to provide users of the financial statements with additional disclosures on Inter Pipeline’s management of capital and on the risks associated with financial instruments. Inter Pipeline will be reviewing the impact of these standards on its financial statements in the coming months.

3. Acquisition of Corridor Pipeline System

On June 15, 2007, Inter Pipeline completed the acquisition of the Corridor pipeline system through the purchase of 100% of the share capital of Terasen Pipelines (Corridor) Inc. (“Corridor”) for cash consideration of \$302.2 million, including \$777.0 million of long-term debt. The acquisition was funded through an existing revolving credit facility (see note 8). Concurrent with this transaction, an acquisition fee of \$10.9 million was paid to the General Partner, pursuant to the terms of the Limited Partnership Agreement (“LPA”). Inter Pipeline began consolidating Corridor in the Oil Sands Transportation Business segment subsequent to the acquisition date. As a result of the Corridor acquisition, Inter Pipeline assumed the commitment to complete the \$1.8 billion expansion to the Corridor pipeline system.

The acquisition was accounted for by the purchase method as at the closing date of June 15, 2007. The preliminary allocation of the purchase price was as follows:

| | | |
|--|----|----------------|
| Cash | \$ | 3,012 |
| Non-cash working capital deficiency | | (15,243) |
| Regulatory asset | | 10,234 |
| Property, plant and equipment (note 6) | | 975,715 |
| Goodwill | | 136,467 |
| Long-term debt, net of debt transaction costs and discount of \$3.6 million (note 8) | | (773,438) |
| Fair value of derivative financial instruments (note 15) | | (10,234) |
| Future income taxes liability (note 10) | | (24,311) |
| | \$ | 302,202 |

Inter Pipeline Fund

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4. Segment Reporting

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

| | Three Months Ended June 30, 2007 | | | | | | | |
|---|---|---|--|------------------|--------------------------------------|---|--------------|---|
| | Canada | | | | | Europe | | Total Canadian and European Operations |
| | NGL Extraction Business | Conventional Oil Pipeline Business | Oil Sands Transportation Business | Corporate | Total Canadian Operations | Bulk Liquid Storage Business | | |
| Revenues | \$ 178,520 | \$ 29,839 | \$ 17,828 | \$ - | \$ 226,187 | \$ 39,431 | \$ 265,618 | |
| Expenses | | | | | | | | |
| Shrinkage gas | 114,989 | - | - | - | 114,989 | - | 114,989 | |
| Operating | 33,881 | 9,424 | 5,868 | - | 49,173 | 24,896 | 74,069 | |
| Depreciation and amortization | 6,382 | 4,673 | 4,893 | - | 15,948 | 3,119 | 19,067 | |
| Financing charges | - | - | 980 | 10,659 | 11,639 | (138) | 11,501 | |
| General and administrative | - | - | - | 5,174 | 5,174 | 2,793 | 7,967 | |
| Unrealized change in fair value of derivative financial instruments | 8,065 | (368) | - | (1,196) | 6,501 | - | 6,501 | |
| Management fee to General Partner | - | - | - | 1,395 | 1,395 | - | 1,395 | |
| Acquisition fee to General Partner | - | - | - | 10,883 | 10,883 | - | 10,883 | |
| Unit incentive options | - | - | - | (3) | (3) | - | (3) | |
| Total expenses | 163,317 | 13,729 | 11,741 | 26,912 | 215,699 | 30,670 | 246,369 | |
| Income before income taxes | 15,203 | 16,110 | 6,087 | (26,912) | 10,488 | 8,761 | 19,249 | |
| Provision for income taxes | - | - | 47 | 236,169 | 236,216 | (9,057) | 227,159 | |
| Net income (loss) | \$ 15,203 | \$ 16,110 | \$ 6,040 | \$ (263,081) | \$ (225,728) | \$ 17,818 | \$ (207,910) | |
| Expenditures on property, plant and equipment | \$ (633) | \$ (2,784) | \$ (8,588) | \$ - | \$ (12,005) | \$ (7,169) | \$ (19,174) | |
| | As at June 30, 2007 | | | | | | | |
| Total assets | \$ 741,155 | \$ 466,499 | \$ 1,591,747 | \$ - | \$ 2,799,401 | \$ 448,665 | \$ 3,248,066 | |
| Property, plant and equipment | \$ 408,508 | \$ 443,315 | \$ 1,338,038 | \$ - | \$ 2,189,861 | \$ 318,977 | \$ 2,508,838 | |
| Goodwill | \$ - | \$ - | \$ 136,467 | \$ - | \$ 136,467 | \$ 69,900 | \$ 206,367 | |

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| | Canada | | | | | Europe | | Total Canadian and European Operations |
|---|-------------------------|------------------------------------|-----------------------------------|-------------|---------------------------|------------------------------|--|--|
| | NGL Extraction Business | Conventional Oil Pipeline Business | Oil Sands Transportation Business | Corporate | Total Canadian Operations | Bulk Liquid Storage Business | | |
| Three Months Ended June 30, 2006 | | | | | | | | |
| Revenues | \$ 133,028 | \$ 27,077 | \$ 15,330 | \$ - | \$ 175,435 | \$ 34,337 | | \$ 209,772 |
| Expenses | | | | | | | | |
| Shrinkage gas | 78,331 | - | - | - | 78,331 | - | | 78,331 |
| Operating | 29,340 | 8,945 | 4,708 | - | 42,993 | 21,959 | | 64,952 |
| Depreciation and amortization | 6,291 | 4,628 | 4,015 | - | 14,934 | 2,830 | | 17,764 |
| Financing charges | - | - | - | 9,871 | 9,871 | (134) | | 9,737 |
| General and administrative | - | - | - | 3,839 | 3,839 | 2,496 | | 6,335 |
| Management fee to General Partner | - | - | - | 1,296 | 1,296 | - | | 1,296 |
| Acquisition fee to General Partner | - | - | - | - | - | - | | - |
| Unit incentive options | - | - | - | 48 | 48 | - | | 48 |
| Total expenses | 113,962 | 13,573 | 8,723 | 15,054 | 151,312 | 27,151 | | 178,463 |
| Income before income taxes | 19,066 | 13,504 | 6,607 | (15,054) | 24,123 | 7,186 | | 31,309 |
| Provision for income taxes | - | - | 56 | - | 56 | 412 | | 468 |
| Net income (loss) | \$ 19,066 | \$ 13,504 | \$ 6,551 | \$ (15,054) | \$ 24,067 | \$ 6,774 | | \$ 30,841 |
| Expenditures on property, plant and equipment | \$ (1,445) | \$ (4,692) | \$ (6,837) | \$ - | \$ (12,974) | \$ (4,776) | | \$ (17,750) |
| As at December 31, 2006 | | | | | | | | |
| Total assets | \$ 766,923 | \$ 469,192 | \$ 453,867 | \$ - | \$ 1,689,982 | \$ 467,132 | | \$ 2,157,114 |
| Property, plant and equipment | \$ 413,627 | \$ 446,748 | \$ 349,871 | \$ - | \$ 1,210,246 | \$ 335,095 | | \$ 1,545,341 |
| Goodwill | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 74,803 | | \$ 74,803 |

Inter Pipeline Fund

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| | Six Months Ended June 30, 2007 | | | | | | | |
|---|--------------------------------|---------------------------------------|---|--------------|------------------------------|------------------------------------|--|--|
| | Canada | | | | | Europe | | |
| | NGL Extraction Business | Conventional Oil Pipeline Business | Oil Sands Transportation Business | Corporate | Total Canadian Operations | Bulk Liquid Storage Business | Total Canadian and European Operations | |
| Revenues | \$ 375,314 | \$ 60,768 | \$ 31,806 | \$ - | \$ 467,888 | \$ 81,868 | \$ 549,756 | |
| Expenses | | | | | | | | |
| Shrinkage gas | 245,781 | - | - | - | 245,781 | - | 245,781 | |
| Operating | 72,990 | 18,718 | 10,500 | - | 102,208 | 52,109 | 154,317 | |
| Depreciation and amortization | 12,757 | 9,317 | 8,947 | - | 31,021 | 6,359 | 37,380 | |
| Financing charges | - | - | 980 | 20,609 | 21,589 | (352) | 21,237 | |
| General and administrative | - | - | - | 10,359 | 10,359 | 5,787 | 16,146 | |
| Unrealized change in fair value of derivative financial instruments | 17,236 | (664) | - | (1,306) | 15,266 | - | 15,266 | |
| Management fee to General Partner | - | - | - | 2,702 | 2,702 | - | 2,702 | |
| Acquisition fee to General Partner | - | - | - | 10,883 | 10,883 | - | 10,883 | |
| Unit incentive options | - | - | - | 7 | 7 | - | 7 | |
| Total expenses | 348,764 | 27,371 | 20,427 | 43,254 | 439,816 | 63,903 | 503,719 | |
| Income before income taxes | 26,550 | 33,397 | 11,379 | (43,254) | 28,072 | 17,965 | 46,037 | |
| Provision for income taxes | - | - | 91 | 236,169 | 236,260 | (6,825) | 229,435 | |
| Net income (loss) | \$ 26,550 | \$ 33,397 | \$ 11,288 | \$ (279,423) | \$ (208,188) | \$ 24,790 | \$ (183,398) | |
| Expenditures on property, plant and equipment | \$ (1,985) | \$ (5,934) | \$ (16,321) | \$ - | \$ (24,240) | \$ (12,019) | \$ (36,259) | |

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| | Six Months Ended June 30, 2006 | | | | | | | |
|--|--------------------------------|---------------------------------------|---|-------------|---------------------------------|------------------------------------|-------------|---|
| | Canada | | | | Europe | | | Total Canadian and European Operations |
| | NGL Extraction Business | Conventional Oil Pipeline Business | Oil Sands Transportation Business | Corporate | Total Canadian Operations | Bulk Liquid Storage Business | | |
| Revenues | \$ 328,575 | \$ 55,799 | \$ 29,225 | \$ - | \$ 413,599 | \$ 65,921 | \$ 479,520 | |
| Expenses | | | | | | | | |
| Shrinkage gas | 211,686 | - | - | - | 211,686 | - | 211,686 | |
| Operating | 67,608 | 16,869 | 9,013 | - | 93,490 | 41,923 | 135,413 | |
| Depreciation and amortization | 12,581 | 9,202 | 8,031 | - | 29,814 | 5,260 | 35,074 | |
| Financing charges | - | - | - | 20,082 | 20,082 | (273) | 19,809 | |
| General and administrative | - | - | - | 7,779 | 7,779 | 4,880 | 12,659 | |
| Management fee to General Partner | - | - | - | 2,484 | 2,484 | - | 2,484 | |
| Acquisition fee to General Partner | - | - | - | 376 | 376 | - | 376 | |
| Unit incentive options | - | - | - | 131 | 131 | - | 131 | |
| Total expenses | 291,875 | 26,071 | 17,044 | 30,852 | 365,842 | 51,790 | 417,632 | |
| Income before income taxes | 36,700 | 29,728 | 12,181 | (30,852) | 47,757 | 14,131 | 61,888 | |
| Provision for income taxes | - | - | 104 | - | 104 | 1,882 | 1,986 | |
| Net income (loss) | \$ 36,700 | \$ 29,728 | \$ 12,077 | \$ (30,852) | \$ 47,653 | \$ 12,249 | \$ 59,902 | |
| Expenditures on property, plant and equipment | \$ (2,520) | \$ (11,224) | \$ (9,705) | \$ - | \$ (23,449) | \$ (6,546) | \$ (29,995) | |

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5. Intangible Assets

| | | | June 30 2007 | December 31 2006 |
|--------------------------------------|------------|-----------------------------|-------------------|---------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| NGL extraction business | | | | |
| Customer contracts | \$ 287,612 | \$ (27,968) | \$ 259,644 | \$ 264,438 |
| Patent | 8,727 | (1,818) | 6,909 | 7,220 |
| Oil sands transportation business | | | | |
| Transportation Services Agreement | 93,548 | (14,505) | 79,043 | 80,656 |
| Bulk liquid storage business | | | | |
| Customer contracts and relationships | 16,213 | (945) | 15,268 | 16,624 |
| Tradename | 5,504 | (320) | 5,184 | 5,645 |
| | \$ 411,604 | \$ (45,556) | \$ 366,048 | \$ 374,583 |

6. Property, Plant and Equipment

| | | | June 30 2007 | December 31 2006 |
|--|--------------|---|-------------------|---------------------|
| | Cost | Accumulated Depreciation & Amortization | Net Book Value | Net Book Value |
| NGL extraction business | | | | |
| Facilities and equipment | \$ 445,549 | \$ (40,704) | \$ 404,845 | \$ 410,010 |
| Spare parts | 3,663 | - | 3,663 | 3,617 |
| Conventional oil pipeline business | | | | |
| Facilities and equipment | 781,007 | (337,976) | 443,031 | 446,322 |
| Deferred receipt facilities expenditures | 6,138 | (5,854) | 284 | 426 |
| Oil sands transportation business | | | | |
| Facilities and equipment | 966,925 | (57,201) | 909,724 | 339,487 |
| Construction work in progress | 354,354 | - | 354,354 | - |
| Pipeline linefill | 74,033 | (73) | 73,960 | 10,384 |
| Bulk liquid storage business | | | | |
| Facilities and equipment | 331,406 | (12,429) | 318,977 | 335,095 |
| | \$ 2,963,075 | \$ (454,237) | \$ 2,508,838 | \$ 1,545,341 |

7. Cash Distributions Payable

Section 5.2 of the LPA requires that Inter Pipeline make distributions of LPA Distributable Cash on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). LPA Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash.

For the three and six months ended June 30, 2007, Inter Pipeline declared cash distributions totaling \$42.6 million and \$85.0 million, respectively (three and six months ended June 30, 2006 - \$39.2 million and \$78.2 million). As at June 30, 2007, distributions of \$14.2 million are payable to 202.6 million outstanding Class A units and 0.2 million outstanding Class B units at \$0.07 per unit (December 31, 2006 - \$14.1 million payable to 201.5 million outstanding Class A units and 0.2 million outstanding Class B units at \$0.07 per unit).

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8. Long-Term Debt

The following amounts have been drawn under Inter Pipeline's credit facilities:

| | June 30 2007 | December 31 2006 |
|---|--------------------|---------------------|
| Loan Payable to General Partner | \$ 379,800 | \$ 379,800 |
| \$750 million Unsecured Revolving Credit Facility (a,b) | 601,000 | 295,000 |
| \$520 million Unsecured Revolving Credit Facility (a,c) | 483,000 | - |
| Corridor Debentures (a,d) | 300,000 | - |
| Transaction Costs (note 2) | (5,342) | - |
| Accumulated amortization of transaction costs | 1,228 | - |
| Discount | (6,499) | - |
| Accumulated amortization of discount | 1,649 | - |
| | \$1,754,836 | \$ 674,800 |

- (a) During the six months ended June 30, 2007, Inter Pipeline had a net increase of \$1,099 million in its long-term debt. \$306 million of the increase was drawn on the \$750 million Unsecured Revolving Credit Facility, \$300 million relates to the Corridor debentures assumed, and \$483 million was drawn on the Corridor credit facility.
- (b) On June 15, 2007, Inter Pipeline amended certain terms and increased the size of its revolving credit facility by \$250 million to \$750 million. The increased facility was used to partially finance the Corridor acquisition (see note 3).
- (c) A credit agreement with a banking syndicate was also assumed as a result of the acquisition of Corridor, consisting of a \$520 million revolving loan facility and a \$20 million demand operating loan facility. All of the \$483 million drawn at June 30, 2007 was on the revolving loan facility. The revolving period currently extends to January 30, 2008 and may be extended for an additional 364 day period on an annual basis with the agreement of the lenders. If the revolving period is not extended, the facility converts to a non-revolving facility with a three year maturity. The demand operating loan may be called on demand by the operating lender.
- (d) As a result of the acquisition of Corridor, Inter Pipeline assumed \$150 million of 4.240% Series A Debentures due February 2, 2010 and \$150 million 5.033% Series B Debentures due February 2, 2015 ("Corridor Debentures"). The Corridor Debentures are unsecured obligations subject to the terms and conditions of a trust indenture dated February 1, 2005. Interest is payable semi-annually in equal installments in arrears on February 2 and August 2 of each year. Corridor uses derivative instruments to exchange its fixed rate of interest to floating rates of interest (see note 15).

The Series A and B Debentures are redeemable in whole, or in part, at the option of Corridor at a price equal to the principal amount to be redeemed, plus accrued and unpaid interest including a premium above the implied yield to maturity.

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9. Asset Retirement Obligation

The following table shows the movement in the liability for asset retirement obligations:

| | Six Months Ended June 30 | Year ended December 31 |
|---------------------------------|--------------------------------|---------------------------|
| | 2007 | 2006 |
| Obligation at beginning of year | \$ 20,530 | \$ 16,715 |
| Additions to liabilities | 1,058 | 2,577 |
| Accretion expense | 614 | 1,063 |
| Foreign currency adjustments | (96) | 175 |
| Obligation at end of period | \$ 22,106 | \$ 20,530 |

There were no liabilities settled during the six months ended June 30, 2007 and 2006.

At June 30, 2007, \$0.8 million is included in accounts payable and accrued liabilities for asset retirement obligations related to the retirement of property, plant and equipment in the conventional oil pipeline business (December 31, 2006 - \$0.8 million).

10. Income Taxes

In June 2007, the Government of Canada substantively enacted new legislation imposing additional income taxes upon publicly traded income trusts and limited partnerships, including Inter Pipeline effective January 1, 2011. Prior to June 2007, Inter Pipeline estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate, related to the consolidated entities that were not corporations. Under the legislation, Inter Pipeline now estimates the effective tax rate on the post 2010 reversal of these temporary differences to be 31.5%. Temporary differences reversing before 2011 still give rise to nil future income taxes. Based on its consolidated assets and liabilities as at June 30, 2007, Inter Pipeline has estimated the amount of its temporary differences, which were previously not subject to tax and has estimated the periods in which these differences will reverse.

Inter Pipeline estimates that \$749.8 million net taxable temporary differences, not previously subject to tax, will reverse after January 1, 2011, resulting in an additional \$236.2 million future income tax liability. The taxable temporary differences relate principally to the excess of net book value of property, plant and equipment and intangible assets over the remaining tax values attributable thereto.

Since the legislation gives rise to a change in Inter Pipeline's estimated future income tax liability in the period, the recognition of the additional liability is accounted for prospectively and an additional \$236.2 million of future income tax expense has been recorded.

While Inter Pipeline believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods. As the legislation is new, future technical interpretations of the legislation could occur and could materially affect management's estimate of the future income tax liability. The amount and timing of reversals of temporary differences will also depend on Inter Pipeline's future operating results, acquisitions and dispositions of assets and liabilities, and distribution policy. A significant change in any of the preceding assumptions could materially affect Inter Pipeline's estimate of the future tax liability.

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In the bulk liquid storage business, the second quarter results recognize recent tax legislative changes which have impacted future income taxes. In Germany, tax legislation has been passed which aligns German income tax rates more closely with the other European Union members, reducing the effective income tax rate from 39% to 30.35%, effective January 1, 2008. The effect of recognizing this change in German income tax rates is a \$4.7 million reduction in future income tax liabilities. Similarly, in the United Kingdom, recent legislative changes will result in income tax rates declining from 30% to 28% effective April 1, 2008. The effect of recognizing this income tax rate change is a \$4.1 million reduction in future income tax liabilities. Therefore, the overall impact of these reduced tax rates is an \$8.8 million decrease in the future income tax liabilities.

At June 30, 2007, current income taxes payable of \$1.9 million (December 31, 2006 - \$1.9 million) are included in accounts payable and accrued liabilities.

11. Partners' Equity***Number of Units Issued and Outstanding******Issued and outstanding***

| | Class A Units | Class B Units | Total |
|---|---------------|---------------|-------------|
| Balance as at December 31, 2006 | 201,526,608 | 201,754 | 201,728,362 |
| Issued on conversion of Debentures | 258,824 | 273 | 259,097 |
| Issued under Distribution Reinvestment and Optional Unit Purchase Plan | 461,151 | 468 | 461,619 |
| Issued under Unit Incentive Option Plan (note 12) | 376,170 | 394 | 376,564 |
| Balance as at June 30, 2007 | 202,622,753 | 202,889 | 202,825,642 |

Calculation of Net (Loss) Income per unit

Units share equally on a pro rata basis in the allocation of net income. The number of diluted units outstanding is calculated using the Treasury Stock method based on the weighted-average number of units outstanding for the period as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|-------------|--------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net (loss) income attributable to unitholders – Basic | \$ (207,910) | \$ 30,841 | \$ (183,398) | \$ 59,902 |
| Interest on Debentures | - | 349 | - | 729 |
| Net (loss) income attributable to unitholders – Diluted* | \$ (207,910) | \$ 31,190 | \$ (183,398) | \$ 60,631 |
| Weighted-average units outstanding – Basic | 202,571,839 | 200,701,266 | 202,280,051 | 197,731,231 |
| Effect of debenture conversions | - | 2,339,104 | - | 2,455,869 |
| Effect of unit options | - | 1,230,472 | - | 1,416,445 |
| Weighted-average units outstanding – Diluted* | 202,571,839 | 204,270,842 | 202,280,051 | 201,603,545 |
| Net (loss) income per unit – Basic and diluted | \$ (1.03) | \$ 0.15 | \$ (0.91) | \$ 0.30 |

* The debenture conversions and unit option exercises have an anti-dilutive impact for the three and six months ended June 30, 2007; therefore, they are not included in the calculation of diluted net income per unit.

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12. Long-Term Incentive Plan and Unit Incentive Options

The following table summarizes changes in the outstanding unit options and DURs:

| | Unit Options | | | DURs |
|--|--------------|----------------------------------|--|-----------|
| | Numbers | Weighted-Average Exercise Price* | Weighted-Average Adjusted Exercise Price** | Numbers |
| Balance outstanding, December 31, 2006 | 2,253,258 | \$ 7.56 | \$ 5.06 | 1,047,228 |
| Granted | - | \$ - | \$ - | 31,797 |
| Exercised | (376,170) | \$ 6.53 | \$ 2.80 | (24,623) |
| Cancelled | (13,000) | \$ 10.22 | \$ 10.08 | (64,559) |
| Balance outstanding, June 30, 2007 | 1,864,088 | \$ 7.75 | \$ 5.48 | 989,843 |

* The weighted-average exercise price based on the exercise price on the date of grant.

** The weighted-average exercise price adjusted for the incentive reduction.

13. Depreciation and Amortization

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | 2007 | June 30 2006 | 2007 | June 30 2006 |
| Amortization of intangible assets | \$ 3,544 | \$ 3,533 | \$ 7,098 | \$ 7,064 |
| Depreciation of facilities and equipment | 15,070 | 13,724 | 29,459 | 27,003 |
| Depreciation of pipeline linefill | 73 | - | 73 | - |
| Amortization of deferred receipt facilities expenditures | 71 | 251 | 142 | 501 |
| Loss (gain) on sale of property, plant and equipment | 1 | (1) | (6) | (1) |
| Accretion of asset retirement obligation | 308 | 257 | 614 | 507 |
| Total depreciation and amortization | \$ 19,067 | \$ 17,764 | \$ 37,380 | \$ 35,074 |

14. Financing Charges

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | 2007 | June 30 2006 | 2007 | June 30 2006 |
| Interest on Loan Payable to General Partner (note 8) | \$ 5,771 | \$ 5,771 | \$ 11,542 | \$ 11,542 |
| Interest expense | 5,335 | 3,564 | 8,974 | 7,432 |
| Interest on Debentures | 266 | 349 | 547 | 729 |
| Interest on Corridor Debentures | 615 | - | 615 | - |
| Capitalized interest | (611) | - | (611) | - |
| Amortization of transaction costs on long-term debt (notes 2 and 8) | 125 | - | 170 | - |
| Amortization of deferred financing charges (note 2) | - | 53 | - | 106 |
| Total financing charges | \$ 11,501 | \$ 9,737 | \$ 21,237 | \$ 19,809 |

At June 30, 2007, \$4.1 million in interest payable was included in accounts payable and accrued liabilities related to the Loan Payable to the General Partner (December 31, 2006 - \$4.1 million).

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15. Financial Instruments and Risk Management***Financial Instruments***

At June 30, 2007, the carrying values of cash, accounts receivable, cash distributions payable, accounts payable and accrued liabilities, and long-term debt with variable interest rates approximate their fair value. The estimated fair values of derivative financial instruments are disclosed in the "Risk Management" section below.

Risk Management

As discussed in note 2, concurrent with the adoption of CICA Handbook section 3865, Inter Pipeline elected to discontinue hedge accounting for derivative financial instruments outstanding at January 1, 2007 that had qualified as effective cash flow hedges in prior periods. Inter Pipeline has recognized assets or liabilities for derivative contracts outstanding at June 30, 2007 and has recorded the change in fair value for the three and six months ended June 30, 2007 in net income.

Fair values of outstanding derivative financial instruments

The following table presents a reconciliation of the change in the fair market value of derivative financial instruments used for risk management activities from January 1, 2007 to June 30, 2007:

| | Six Months Ended June 30 | |
|--|--------------------------|------|
| | 2007 | 2006 |
| Fair value of derivative financial instruments, beginning of period | \$ - | \$ - |
| Fair value recognized on adoption of new accounting standards (note 2) | (7,971) | - |
| Fair value of contracts acquired (note 3) | (10,234) | - |
| Change in fair value of contracts in place at beginning of year and contracts entered into during the period | (14,939) | - |
| Change in fair value of contracts in place at beginning of year that settled during the period | 4,374 | - |
| Fair value of derivative financial instruments, end of period | \$ (28,770) | \$ - |

At June 30, 2007, the fair values of derivative financial instruments used for risk management activities are recorded in the consolidated balance sheet as follows:

| | June 30 2007 | December 31 2006 |
|---------------------|-----------------|---------------------|
| Current asset | \$ 5,031 | \$ - |
| Long-term asset | 1,333 | - |
| Current liability | (19,761) | - |
| Long-term liability | (15,373) | - |
| | \$ (28,770) | \$ - |

Inter Pipeline Fund

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(tabular amounts in thousands of dollars, except per unit amounts)

A summary of the estimated fair values of derivative financial instruments used for risk management activities is as follows:

| | June 30 2007 | December 31 2006* |
|-------------------------------|-----------------|----------------------|
| Frac-spread risk management | | |
| NGL swaps | \$ (14,000) | \$ 8,596 |
| Natural gas swaps | (8,896) | (10,016) |
| Foreign exchange swaps | 4,810 | (3,829) |
| | (18,086) | (5,249) |
| Interest rate risk management | | |
| Interest rate swaps | (12,238) | (4,041) |
| | (12,238) | (4,041) |
| Power price risk management | | |
| Electricity price swaps | 1,554 | 1,319 |
| | 1,554 | 1,319 |
| | \$ (28,770) | \$ (7,971) |

* Comparative amounts were not recognized on the balance sheet at December 31, 2006, as this was prior to the adoption of CICA Handbook sections 1530, 3855 and 3865 (see note 2).

Realized and unrealized gain (loss) on risk management activities

The realized gains (losses) on derivative financial instruments used for risk management activities recognized in income were:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|-----------------|
| | 2007 | June 30 2006 | 2007 | June 30 2006 |
| Revenues | | | | |
| NGL swaps | \$ (3,106) | \$ (2,768) | \$ (1,195) | \$ (1,716) |
| Foreign exchange swaps | 539 | 484 | (1,258) | 581 |
| | (2,567) | (2,284) | (2,453) | (1,135) |
| Shrinkage gas expense | | | | |
| Natural gas swaps | (1,175) | (1,503) | (4,819) | (5,005) |
| | (1,175) | (1,503) | (4,819) | (5,005) |
| Operating expenses | | | | |
| Electricity price swaps | (13) | 45 | 83 | 124 |
| Heat rate swaps | (74) | 350 | (74) | 264 |
| | (87) | 395 | 9 | 388 |
| Financing charges | | | | |
| Interest rate swaps | (270) | (313) | (490) | (696) |
| | (270) | (313) | (490) | (696) |
| Net realized loss on derivative financial instruments | \$ (4,099) | \$ (3,705) | \$ (7,753) | \$ (6,448) |

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(tabular amounts in thousands of dollars, except per unit amounts)

The unrealized change in fair value related to derivative financial instruments used for risk management activities recognized in income was:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|------------------|
| | 2007 | June 30 2006 | 2007 | June 30 2006* |
| Frac-spread risk management | | | | |
| NGL swaps | \$ (3,026) | \$ - | \$ (22,595) | \$ - |
| Natural gas swaps | (10,771) | - | 1,119 | - |
| Foreign exchange swaps | 6,400 | - | 8,639 | - |
| | (7,397) | - | (12,837) | - |
| Interest rate risk management | | | | |
| Interest rate swaps | 1,398 | - | 1,710 | - |
| | 1,398 | - | 1,710 | - |
| Power price risk management | | | | |
| Electricity price swaps | 154 | - | 235 | - |
| Heat rate swaps | 55 | - | - | - |
| | 209 | - | 235 | - |
| Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income | (711) | - | (4,374) | - |
| Unrealized change in fair value of derivative financial instruments | \$ (6,501) | \$ - | \$ (15,266) | \$ - |

* No comparative amounts were included in net income in the three and six months ended June 30, 2006, as this was prior to the adoption of CICA Handbook sections 1530, 3855 and 3865 (see note 2).

Frac-spread risk management

Contracts outstanding at June 30, 2007 represent approximately 47% of forecast propane plus volumes at the Cochrane extraction plant for the period July to December 2007 at average prices of approximately \$0.42 Cdn/US gallon and 27% of forecast volumes for the period January to December 2008 at average prices of approximately \$0.42 Cdn/US gallon. These average prices would both approximate \$0.40 US/US gallon based on the average US\$/Cdn\$ forward curve as at June 30, 2007. Contracts outstanding at June 30, 2007 were as follows:

| Hedged Period | As at June 30, 2007 | | | |
|------------------|-----------------------------|------------------|--------------------------------|------------------|
| | July 1 to December 31, 2007 | | January 1 to December 31, 2008 | |
| | Average Price | Average Quantity | Average Price | Average Quantity |
| NGLs | (US\$/US gallon) | (b/d) | (US\$/US gallon) | (b/d) |
| Propane | 0.993 | 4,079 | 1.054 | 2,497 |
| Normal butane | 1.155 | 699 | 1.217 | 430 |
| Iso butane | 1.169 | 433 | 1.254 | 266 |
| Pentanes plus | 1.692 | 346 | 1.645 | 213 |
| | Average Price | Average Quantity | Average Price | Average Quantity |
| | (Cdn\$/GJ) | (GJ/day) | (Cdn\$/GJ) | (GJ/day) |
| AECO natural gas | 7.79 | 23,478 | 8.05 | 13,115 |

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| | Average Price (US\$/Cdn\$) | Average Monthly Notional Amount (US\$ thousands) | Average Price (US\$/Cdn\$) | Average Monthly Notional Amount (US\$ thousands) |
|------------------|-------------------------------|---|-------------------------------|---|
| Foreign exchange | 0.887 | 7,662 | 0.913 | 4,920 |

Contracts outstanding at December 31, 2006 represented approximately 45% of forecast propane plus volumes at the Cochrane extraction plant for the period January to December 2007 at average prices of approximately \$0.41 Cdn/US gallon. These average prices approximated \$0.35 US/US gallon based on the average US\$/Cdn\$ forward curve as at December 31, 2006. Contracts outstanding at December 31, 2006 were as follows:

| Hedged Period | As at December 31, 2006 | |
|---------------|-----------------------------------|---------------------------|
| | January 1 to December 31, 2007 | |
| NGLs | Average Price (US\$/US gallon) | Average Quantity (b/d) |
| Propane | 1.000 | 4,247 |
| Normal butane | 1.156 | 734 |
| Iso butane | 1.169 | 454 |
| Pentanes plus | 1.693 | 363 |

| | Average Price (Cdn\$/GJ) | Average Quantity (GJ/day) |
|------------------|-----------------------------|------------------------------|
| AECO natural gas | 7.89 | 22,356 |

| | Average Price (US\$/Cdn\$) | Average Monthly Notional Amount (US\$ thousands) |
|------------------|-------------------------------|---|
| Foreign exchange | 0.893 | 7,971 |

Interest rate risk management

As a result of the acquisition of Corridor (note 3), Inter Pipeline assumed two fixed-to-floating interest rate swap agreements:

| Maturity date | Fixed Rate Per Annum | Floating Rate Per Annum | Notional Balance |
|------------------|-------------------------|-------------------------------|---------------------|
| February 2, 2010 | 4.240% | CAD 3 month BA plus margin | \$ 150,000 |
| February 2, 2015 | 5.033% | CAD 3 month BA plus margin | 150,000 |
| | | | \$ 300,000 |

Inter Pipeline believes the credit risk associated with these interest rate swaps is minimal as the counter-party is a major financial institution.

Information with respect to interest rate swaps outstanding at December 31, 2006 is disclosed in note 23 to the consolidated financial statements included in Inter Pipeline's annual report for the year ended December 31, 2006.

Inter Pipeline Fund**Notes To Interim Consolidated Financial Statements**

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Power price risk management**Electricity price swap contracts**

No new electricity price swap agreements were entered into during the three and six months ended June 30, 2007. Information with respect to electricity price swaps outstanding at December 31, 2006 is disclosed in note 23 to the consolidated financial statements included in Inter Pipeline's annual report for the year ended December 31, 2006.

Heat rate swap contracts

During the six months ended June 30, 2007, Inter Pipeline entered into a financial heat rate swap contract to manage electricity price risk exposure in the NGL extraction business. The contract was for a notional quantity of 13.0 MW of electric power per hour for the period May 1, 2007 to May 31, 2007 at a price equal to 7.90 GJ/MWh multiplied by the AECO monthly index price.

16. Supplemental Cash Flow Information**Restricted Cash**

At December 31, 2006, cash included \$1.7 million that was restricted as a customs bond for the Office of the Revenue Commissioners in Ireland. No similar amounts were restricted at June 30, 2007.

Changes in Non-Cash Working Capital

Non-cash working capital includes accounts receivable, prepaid expenses and other deposits, cash distributions payable, accounts payable and accrued liabilities, and deferred revenue.

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|------------------|------------------|
| | 2007 | June 30 2006 | 2007 | June 30 2006 |
| Accounts receivable | \$ 2,240 | \$ 11,348 | \$ 17,521 | \$ 37,578 |
| Prepaid expense and other deposits | 3,320 | 692 | 4,930 | 2,929 |
| Cash distributions payable | 34 | 37 | 77 | 1,064 |
| Accounts payable and accrued liabilities | 15,025 | (13,305) | 11,974 | (34,157) |
| Deferred revenue | (7,665) | (3,870) | 4,292 | 9,760 |
| Working capital deficiency assumed on acquisitions | (15,243) | - | (15,243) | (1,609) |
| Impact of foreign exchange rate differences and other | (4,648) | 783 | (4,676) | 755 |
| Changes in non-cash working capital | \$ (6,937) | \$ (4,315) | \$ 18,875 | \$ 16,320 |
| These changes relate to the following activities: | | | | |
| Operating | \$ (10,602) | \$ (10,477) | \$ 14,278 | \$ 8,902 |
| Investing | 3,631 | 6,124 | 4,520 | 6,354 |
| Financing | 34 | 38 | 77 | 1,064 |
| Decrease in non-cash working capital | \$ (6,937) | \$ (4,315) | \$ 18,875 | \$ 16,320 |

Other Cash Flow Information

| | Three Months Ended | | Six Months Ended | |
|--------------------|--------------------|-----------------|------------------|-----------------|
| | 2007 | June 30 2006 | 2007 | June 30 2006 |
| Cash taxes paid | \$ 301 | \$ 27 | \$ 675 | \$ 27 |
| Cash interest paid | \$ 19,530 | \$ 16,283 | \$ 22,611 | \$ 20,001 |

17. Comparative Figures

Certain prior period comparative figures have been reclassified to conform to the current period's presentation.