

# Management's Discussion and Analysis

For the third quarter ended September 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 nine month periods ended September 30, 2007 as compared to the three and nine month periods ended September 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 and June 30, 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](http://www.sedar.com).

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## THIRD QUARTER 2007 HIGHLIGHTS

- Announced that Inter Pipeline expects to maintain its current level of cash distributions through 2010 and beyond
- Funds from operations\* increased \$6.1 million or 9.9% to \$67.6 million compared to the same quarter last year
- Payout ratios before sustaining capital\* for the three and nine month periods ended September 30, 2007 were 63.1% and 76.2%, respectively
- Cash distributions to unitholders totaled \$42.7 million, or \$0.21 per unit during the quarter

- Oil sands transportation and conventional crude oil pipeline systems transported a quarterly record 795,300 barrels per day (b/d)
- Corridor pipeline expansion project remains on schedule and on budget with approximately 240 kilometres, or 52% of total line pipe installed
- Successfully closed a \$2.2 billion syndicated credit facility to finance the development and expansion of the Corridor pipeline system

## SUBSEQUENT EVENT

- Shell Canada Energy's Orion oil sands project began transporting volumes on the Cold Lake pipeline system

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

## PERFORMANCE OVERVIEW

### Three Months Ended September 30, 2007

(\$ millions)	Three Months Ended September 30	
	2007	2006
<b>Funds from operations</b>		
NGL extraction	\$ 38.4	\$ 36.4
Conventional oil pipelines	20.7	21.1
Oil sands transportation	18.2	9.2
Bulk liquid storage	11.5	10.2
Corporate costs	(21.2)	(15.4)
	<b>\$ 67.6</b>	<b>\$ 61.5</b>

For the three months ended September 30, 2007, Inter Pipeline's funds from operations increased \$6.1 million or 9.9% from \$61.5 million in 2006 to \$67.6 million in 2007. The acquisition of Terasen Pipelines (Corridor) Inc. (subsequently renamed Inter Pipeline (Corridor) Inc.) (Corridor) in June 2007 and favourable commodity prices in the natural gas liquids (NGL) extraction business contributed to the majority of the increase in funds from operations. Corporate costs also increased primarily due to financing and general and administrative costs associated with the Corridor acquisition.

Inter Pipeline paid monthly cash distributions of \$0.070 per unit to unitholders in each of July, August and September 2007 for a total of \$0.210 per unit. This compares with monthly cash distributions of \$0.065 per unit for the months July and August 2006 and \$0.070 per unit in September 2006 for a total of \$0.200 per unit. Total cash distributed to unitholders in the third quarter of 2007 increased \$2.4 million or 6.0% to \$42.7 million compared to \$40.3 million distributed in the third quarter ended September 30, 2006. The increase in total cash distributed is attributable to a cash distribution per unit increase effective September 2006 and an increase in the number of units outstanding.

A 63.1% payout ratio before sustaining capital of funds from operations was realized in the third quarter of 2007, as compared to 65.4% realized in the third quarter of 2006.

Inter Pipeline's outstanding long-term debt, excluding the 10% Convertible Extendible Unsecured Subordinated Debentures (Convertible Debentures), increased by \$1,206.0 million to \$1,880.8 million from \$674.8 million outstanding as at December 31, 2006. The increase in long-term debt is a result of the Corridor acquisition and continued construction on the Corridor Expansion project (Corridor Expansion). At September 30, 2007, Inter Pipeline's consolidated debt to total capitalization ratio was 68.0%.

Removing the impact of Corridor's non-recourse debt of \$888.0 million, Inter Pipeline's debt to capitalization ratio was 53.0%.

Net income for the third quarter of 2007 decreased approximately \$7.3 million to \$35.1 million from net income of \$42.4 million in 2006. The decline in net income is primarily due to increases in financing charges and general administrative expenditures as a result of the acquisition of Corridor, and the recognition of an \$8.9 million unrealized loss on Inter Pipeline's derivative financial instruments as a result of prospective accounting policy changes.

### Nine Months Ended September 30, 2007

(\$ millions)	Nine Months Ended September 30	
	2007	2006
<b>Funds from operations</b>		
NGL extraction	\$ 95.0	\$ 85.7
Conventional oil pipelines	64.1	60.3
Oil sands transportation	38.5	29.4
Bulk liquid storage	35.1	28.5
Corporate costs	(65.3)	(45.7)
	<b>\$ 167.4</b>	<b>\$ 158.2</b>

The increase in funds from operations for the nine months ended September 30, 2007 was primarily due to the acquisition of Corridor in June 2007, favourable commodity prices and volume increases in the NGL extraction business and higher margins in the bulk liquid storage business. These increases were offset by the \$10.9 million acquisition fee paid to Pipeline Management Inc., Inter Pipeline's General Partner (General Partner) related to the Corridor acquisition in the second quarter of 2007 and an increase in financing charges and general and administrative expenses as a result of acquiring Corridor. See **RESULTS OF OPERATIONS** section for further discussion on each business segment's operating results.

Total cash distributions to unitholders in the first nine months of 2007 increased by \$9.3 million or 7.9% to \$127.7 million compared to \$118.4 million of cash distributions in the nine months ended September 30, 2006. This results in a favourable 76.2% payout ratio before sustaining capital for the nine month period ended September 30, 2007, compared to a payout ratio before sustaining capital of 74.9% realized in the same period of 2006.

Net income for the nine months ended September 30, 2007 decreased approximately \$250.7 million to a net loss of \$148.3 million from net income of \$102.4 million in 2006. This is primarily due to the recognition of a \$234.6 million non-cash expense for future income taxes 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 \$234.6 million, net income year to date would have been \$86.3 million or \$0.43 per unit. See **RESULTS OF OPERATIONS – Corporate** for further discussion on the increase in future income taxes.

## **OUTLOOK**

Inter Pipeline's four business segments continue to perform very well, with exceptional results from the NGL extraction business segment. The continuation of higher than historical frac-spread levels has contributed to the stronger than anticipated results from this business segment. With the recent price of crude oil approximating USD \$90 per barrel and the price of natural gas approximating \$5 per gigajoule (GJ), Inter Pipeline continues to enjoy a period of record breaking frac-spreads. Should this trend of high oil prices and low gas prices continue, Inter Pipeline is very well positioned to benefit economically from this frac-spread environment into the future.

The acquisition of the Corridor pipeline system in June 2007, when combined with Inter Pipeline's 85% interest in the Cold Lake pipeline system, makes Inter Pipeline the largest oil sands gathering business in Canada transporting more than 40% of Canada's oil sands production. Both Corridor and Cold Lake will provide stable and predictable cash flows into the future, stemming from long-term cost-of-service contracts with high credit quality shippers. The shippers on the Corridor pipeline system are Shell Canada Energy (Shell), Chevron Canada Limited (Chevron) and Marathon Oil Corporation (Marathon, formerly Western Oil Sands L.P). The shippers on the Cold Lake pipeline system are Imperial Oil Ltd., EnCana Corporation (EnCana), Canadian Natural Resources Ltd. and Shell. 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 increase in expected contribution from the oil sands transportation business segment illustrates how Inter Pipeline's overall risk profile will be reduced due to this large proportion of low risk, stable and predictable cash flow.

The major expansion of the Corridor pipeline system is currently on schedule and on budget with approximately 52% of the 42-inch pipeline being successfully constructed. Upon successful completion of the Corridor expansion project, the resultant increase in cash available for distribution should firmly position Inter Pipeline to maintain its current cash distribution level beyond 2010. In 2011, Inter Pipeline will become taxable as result of the Federal Government's Tax Fairness Plan announced in October 2006 and enacted as new legislation in the 2007 Federal Budget. The strong positioning to maintain cash distributions beyond 2010, along with the generally more favourable tax treatment of Inter Pipeline's distributions, which will be treated for tax purposes substantially similar to dividends from Canadian public corporations, speaks well to the after tax return a taxable Canadian investor will receive from owning Inter Pipeline units post 2010.

The Alberta provincial government has recently announced its new Oil and Gas Royalty Plan (Royalty Plan) framework modifying the manner in which royalties will be charged on oil and gas producing properties in Alberta. The Royalty Plan does not directly impact Inter Pipeline as it has no producing properties. However, the Royalty Plan may indirectly impact Inter Pipeline's results should the producers and shippers operating in areas serviced by Inter Pipeline decide to take actions, such as reduced capital programs or curtailment of volumes shipped, as a result of the new Royalty Plan. This impact is tempered substantially by the cost-of-service contracts that are in place in the oil sands transportation business segment.

Inter Pipeline currently expects to invest approximately \$455 million on organic growth capital projects including approximately \$360 million on the Corridor Expansion and \$12 million on sustaining capital projects in 2007. The forecast accumulated construction cost for the Corridor expansion as at December 31, 2007 will be approximately \$695 million; the expansion is expected to be in service in 2010.

The Alberta Energy and Utilities Board (EUB) is conducting an inquiry into matters related to NGL extraction from the common natural gas streams transported through EUB regulated pipeline transmission systems. Of significance to Inter Pipeline, is the review of business and regulatory practices relating to the acquisition of NGL extraction rights from the common stream, public interest criteria used to determine the need and timing of NGL processing capacity additions and the potential for NGL content dilution of the common stream caused by increases in non-conventional gas production. The oral portion of the inquiry will be held in Calgary beginning February 5, 2008. Inter Pipeline has been and will continue to be an active participant in the process.

Both Standard & Poor's and DBRS credit rating agencies have assigned an investment grade, long term corporate investment grade credit rating of BBB on Inter Pipeline. Inter Pipeline's 100% owned subsidiary, Corridor has been assigned investment grade credit ratings of A (low), BBB+, and A3 from DBRS, Standard & Poor's and Moody's respectively.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

(\$ millions, except per unit and % amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Revenues				
NGL extraction	\$ 176.2	\$ 177.1	\$ 551.5	\$ 505.7
Conventional oil pipelines	\$ 30.2	\$ 30.2	\$ 90.9	\$ 86.0
Oil sands transportation <sup>(1)</sup>	\$ 39.2	\$ 14.9	\$ 71.0	\$ 44.1
Bulk liquid storage	\$ 38.9	\$ 34.1	\$ 120.8	\$ 100.1
Net income (loss) <sup>(1)(2)</sup>	\$ 35.1	\$ 42.4	\$ (148.3)	\$ 102.4
Per unit – basic <sup>(1)(2)</sup>	\$ 0.18	\$ 0.21	\$ (0.73)	\$ 0.51
Per unit – diluted <sup>(1)(2)</sup>	\$ 0.18	\$ 0.21	\$ (0.73)	\$ 0.51
Funds from operations <sup>(3)</sup>	\$ 67.6	\$ 61.5	\$ 167.4	\$ 158.2
Per unit <sup>(3)</sup>	\$ 0.34	\$ 0.31	\$ 0.83	\$ 0.80
Cash distributions <sup>(4)</sup>	\$ 42.7	\$ 40.3	\$ 127.7	\$ 118.4
Per unit <sup>(4)</sup>	\$ 0.21	\$ 0.20	\$ 0.63	\$ 0.59
Payout ratio before sustaining capital <sup>(3)</sup>	63.1%	65.4%	76.2%	74.9%
Payout ratio after sustaining capital <sup>(3)</sup>	65.5%	69.7%	79.6%	78.8%
Total assets <sup>(1)</sup>			\$ 3,390.2	\$ 2,116.7
Long-term debt <sup>(1)</sup>			\$ 1,880.8	\$ 671.8
Convertible Debentures			\$ 10.2	\$ 12.1
Total partners' equity <sup>(2)</sup>			\$ 892.5	\$ 1,181.3
Units outstanding end of period <sup>(4)</sup>			203.3	201.4
Total enterprise value <sup>(1)(2)</sup>			\$ 3,822.1	\$ 2,745.9

(1) Corridor was acquired on June 15, 2007, therefore only 107 days of revenues and operating expenses were recognized year to date in 2007.

(2) The net loss for the nine months ended September 30, 2007 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 September 2007. Inter Pipeline estimates that \$744.8 million of net taxable temporary differences, not previously subject to tax, will reverse after January 1, 2011, resulting in an additional \$234.6 million future income tax liability. In addition, on 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, Inter Pipeline recorded an unrealized loss of approximately \$24.1 million for the nine months ended September 30, 2007, to record the net change in the fair value of these derivative financial instruments.

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

(4) 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 September 30 2006			
	Mmcfd	(000s b/d)			Mmcfd	(000s b/d)		
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	1,771	45.4	28.5	73.9	1,986	48.9	28.6	77.5
Empress V (100% basis)	1,063	14.9	12.1	27.0	1,035	14.6	11.6	26.2
Empress II	1,287	23.3	14.7	38.0	1,426	25.1	15.9	41.0
<b>Total</b>	<b>4,121</b>	<b>83.6</b>	<b>55.3</b>	<b>138.9</b>	<b>4,447</b>	<b>88.6</b>	<b>56.1</b>	<b>144.7</b>

	2007				Nine Months Ended September 30 2006			
	Mmcfd	(000s b/d)			Mmcfd	(000s b/d)		
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	1,795	48.6	28.8	77.4	1,662	47.5	24.6	72.1
Empress V (100% basis)	1,044	15.0	11.9	26.9	988	14.4	11.2	25.6
Empress II	1,506	27.5	17.3	44.8	1,501	27.4	16.8	44.2
<b>Total</b>	<b>4,345</b>	<b>91.1</b>	<b>58.0</b>	<b>149.1</b>	<b>4,151</b>	<b>89.3</b>	<b>52.6</b>	<b>141.9</b>

(\$ millions, except % amounts)	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	% change	2007	2006	% change
Revenue <sup>(1)</sup>	\$ 176.2	\$ 177.1	(0.5)	\$ 551.5	\$ 505.7	9.1
Shrinkage gas <sup>(1)</sup>	\$ 96.1	\$ 100.3	(4.2)	\$ 341.9	\$ 311.9	9.6
Operating expenses <sup>(1)</sup>	\$ 41.7	\$ 40.5	3.0	\$ 114.7	\$ 108.1	6.1
Capital expenditures <sup>(1)</sup>						
Growth <sup>(2)</sup>	\$ 2.3	\$ 2.3		\$ 2.8	\$ 4.5	
Sustaining <sup>(2)</sup>	0.8	0.7		2.3	1.0	
<b>Total capital expenditures</b>	<b>\$ 3.1</b>	<b>\$ 3.0</b>		<b>\$ 5.1</b>	<b>\$ 5.5</b>	

(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 4,121 million cubic feet per day (Mmcfd) of natural gas for the three months ended September 30, 2007, which is 326 Mmcfd lower than in the comparative period of 2006, due to decreased gas throughput at the Cochrane and Empress II plants. As a result, the NGL extraction facilities produced an average of 138,900 b/d of NGLs in the third quarter of 2007, a decrease of 5,800 b/d relative to the third quarter of 2006. The Cochrane facility's annual maintenance shutdown, normally scheduled in June, was deferred until the third quarter of 2007 which contributed to a decrease in throughput volumes when compared to 2006. Throughput volumes at the Empress II gas plant decreased due to a decline in overall volumes of Alberta gas exported to eastern Canada.

Total year to date 2007 gas throughput volumes increased 194 Mmcfd and NGL production increased by 7,200 b/d over the same period in 2006. The increased volumes are primarily due to weather and electrical

generation 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 September 30			
	2007		2006	
	USD/USG	CDN/USG	USD/USG	CDN/USG
Market frac-spread	\$ 0.782	\$ 0.819	\$ 0.686	\$ 0.769
Realized frac-spread	\$ 0.676	\$ 0.709	\$ 0.598	\$ 0.671

(\$ actual)	Nine Months Ended September 30			
	2007		2006	
	USD/USG	CDN/USG	USD/USG	CDN/USG
Market frac-spread	\$ 0.594	\$ 0.650	\$ 0.539	\$ 0.608
Realized frac-spread	\$ 0.524	\$ 0.573	\$ 0.482	\$ 0.544

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 frac-spread 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 anticipated 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** section for further discussion of the hedged frac-spreads as at September 30, 2007.

For the three months ended September 30, 2007, Inter Pipeline's realized frac-spread of \$0.676 USD/USG, including hedged and unhedged production, was 13.0% higher than the \$0.598 USD/USG frac-spread realized in 2006. Similarly, Inter Pipeline's realized frac-spread of \$0.524 USD/USG for the nine months ended September 30, 2007, was approximately 8.7% higher than the \$0.482 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. Comparatively, these realized prices are significantly higher than the 15-year, and even the 3-year annual historical simple average market frac-spreads to December 31, 2006 of \$0.246 USD/USG and \$0.370 USD/USG, respectively.

### ***Revenue***

Overall, in the third quarter of 2007, the NGL extraction business generated \$0.9 million less revenue as compared to the quarter ended September 30, 2006. This decrease in revenue is due to the decreases in the cost of shrinkage, fuel gas and power and lower throughput volumes at the plants.

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 third quarter of 2007, as the cost of shrinkage, fuel gas and power decreased over the same period in 2006, the associated revenue also decreased.

Year to date 2007, the NGL extraction business generated \$45.8 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 decreased \$4.2 million in the third 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 decrease in cost is directly associated with the decreased volumes of shrinkage gas purchased due to the decreased production of NGLs. A decrease in the price of Alberta natural gas purchased for shrinkage gas at the NGL extraction plants also contributed to the decrease in shrinkage gas expense during the third 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 \$5.32 per GJ in the third quarter of 2007, which is approximately 7.0% lower than the weighted average price of \$5.72 per GJ in the third quarter ended September 30, 2006.

Year to date 2007, shrinkage gas expense increased \$30.0 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 \$6.46 per GJ in the first nine months of 2007 was approximately 5.3% lower than the weighted average price of \$6.82 per GJ in 2006.

### ***Operating Expenses***

Fuel and power costs, which accounted for 77.5% of operating costs, were \$32.3 million in the third quarter of 2007 compared to \$32.7 million for the same period in 2006. The decrease in costs is primarily due to the decreased volume of gas processed and NGL produced at the NGL extraction facilities and the decrease in natural gas prices as described in the *Shrinkage* section above. Natural gas cost decreases were complemented by a decrease in the average Alberta power pool price. The power pool price for the third quarter of 2007 was \$92.47 per megawatt hour (MWh) as compared to \$94.87/MWh in the third quarter of 2006.

Year to date 2007, fuel and power costs, which accounted for 76.6% of operating costs, were \$87.9 million for the first nine months of 2007 compared to \$83.8 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 a slight increase in Alberta power pool prices. These increases were partially offset by a year to date decrease in natural gas prices. The average Alberta power pool price for the first nine months of 2007 was \$68.68 per MWh as compared to \$68.59 per MWh in 2006.

### ***Capital Expenditures***

Growth capital expenditures of \$2.3 million are related to the Empress V ethane recovery improvement project. Sustaining capital expenditures of \$0.8 million for the third quarter of 2007 are related to the installation of updated process controls at the Cochrane plant.

## Conventional Oil Pipelines Business Segment

	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	% change	2007	2006	% change
Volumes (000s b/d)						
Bow River	123.6	144.5	(14.5)	136.8	142.1	(3.7)
Central/Valley/Mid Saskatchewan	73.2	69.3	5.6	73.0	66.0	10.6
	196.8	213.8	(8.0)	209.8	208.1	0.8
(\$ millions, except per barrel and % amounts)						
Revenue	\$ 30.2	\$ 30.2	–	\$ 90.9	\$ 86.0	5.7
Operating expenses	\$ 10.2	\$ 10.0	2.0	\$ 28.9	\$ 26.8	7.8
Revenue per barrel	\$ 1.67	\$ 1.54	8.4	\$ 1.59	\$ 1.51	5.3
Capital expenditures						
Growth <sup>(1)</sup>	\$ 1.2	\$ 1.8		\$ 5.3	\$ 12.3	
Sustaining <sup>(1)</sup>	0.3	0.6		2.1	1.4	
Total capital expenditures	\$ 1.5	\$ 2.4		\$ 7.4	\$ 13.7	

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

### Volumes

Overall volumes in the third quarter of 2007 were approximately 17,000 b/d lower than in the comparable period of 2006. The Bow River Hardisty South system volumes were approximately 13,000 b/d lower in the third quarter of 2007, compared to the same period in 2006. The majority of this decrease to Hardisty South volumes is a result of a scheduled refinery turnaround in Billings, Montana. These volumes were also down as a result of Inter Pipeline modifying the viscosity blending taking place on the Hardisty South system to ship a more viscous crude oil which reduced the overall throughput capacity of the Hardisty South system. The associated decrease in throughput capacity has been offset by a tariff increase such that revenue to Inter Pipeline should not be impacted significantly. This new viscosity blending methodology is expected to continue until November 1, 2008 with an effect of decreased throughput volumes on the Hardisty South system. Volume declines on the conventional systems were approximately 3.8% when compared to the same period in 2006. These volume declines were partially offset by the additional volumes from the Cactus Lake interconnection facilities on the Mid Saskatchewan pipeline system.

Year to date volumes in 2007 were approximately 1,700 b/d higher than in the comparable period of 2006. Hardisty South volumes increased approximately 1,400 b/d resulting from the expanded Bow River system and volumes from the new Cactus Lake interconnection facilities. These volume increases more than offset year to date natural volume declines of approximately 4.4%.

### Revenue

Revenues in the third quarter of 2007 were consistent with the prior year. Volume declines discussed above were primarily offset by mainline toll increases averaging 6% and 3% effective January 1 and July 1, 2007, respectively. Year to date revenues for 2007 increased approximately \$4.9 million when compared to 2006 primarily due to toll rate and volume increases.

### Operating Expenses

Operating expenses in the third quarter of 2007 increased approximately \$0.2 million compared to the prior year. Increased expenditures on routine integrity maintenance programs and salary and benefit costs were primarily offset by decreases in fuel and power costs and non cash environmental remediation accruals.

Fuel and power expenses decreased approximately \$0.5 million to \$1.3 million in the third quarter of 2007. The average Alberta power pool price for the third quarter of 2007 was \$92.47 per MWh compared to \$94.87 per MWh for the same period in 2006. The 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 per MWh throughout 2007 (2006 – 5.0 MW of power at an average price of \$49.50/MWh).

Year to date operating expenses increased approximately \$2.1 million compared to the same period in 2006. This is primarily due to increases in routine operating, salary and benefit expenditures.

### **Capital Expenditures**

Growth capital expenditures of \$1.2 million in the third quarter of 2007 for the conventional oil pipelines segment primarily relate to the completion of construction of blending facilities on the Bow River pipeline system. Sustaining capital expenditures of \$0.3 million in the third quarter consisted of a number of small projects on three of the conventional pipeline systems. Year to date capital expenditures are approximately \$0.7 million higher when compared to 2006, primarily due to the replenishment of capital spares such as pumps during the year and other smaller maintenance projects.

### **Oil Sands Transportation Business Segment**

	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	% change	2007	2006	% change
Volumes (000s b/d)						
Cold Lake (100% basis)	356.2	335.5	6.2	339.5	327.3	3.7
Corridor <sup>(1)</sup>	242.3	–	–	94.1	–	–
	598.5	335.5	78.4	433.6	327.3	32.5
(\$ millions, except % amounts)						
Revenue <sup>(1)(2)</sup>	\$ 39.2	\$ 14.9	163.1	\$ 71.0	\$ 44.1	61.0
Operating expenses <sup>(1)(2)</sup>	\$ 14.1	\$ 5.7	147.4	\$ 24.6	\$ 14.7	67.3
Capital expenditures <sup>(1)(2)</sup>						
Growth <sup>(3)</sup>	\$ 153.2	\$ 1.2		\$ 169.5	\$ 10.9	
Sustaining <sup>(3)</sup>	0.5	–		0.5	–	
Total capital expenditures	\$ 153.7	\$ 1.2		\$ 170.0	\$ 10.9	

- (1) The Corridor pipeline system was acquired on June 15, 2007, therefore only 107 days of revenues and operating expenses were recognized year to date in 2007 and there are no comparable figures. Average volumes represent 107 days of operations and have been prorated over the nine month period. Since the acquisition of Corridor, average volumes on the Corridor pipeline systems have been approximately 243,430 b/d.
- (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.

Total throughput volumes on the Corridor pipeline system of 242,300 b/d is comprised of 216,800 b/d and 25,500 b/d on the bitumen blend and supplemental feedstock pipelines, respectively. Volumes on the Corridor pipeline system have been consistent since its acquisition with the exception of September when they were reduced by approximately 49,000 b/d due to maintenance at the Muskeg River Mine.

Volumes on the Cold Lake pipeline system increased by 20,700 b/d in the third quarter of 2007 over the comparable period in 2006. The increase was primarily a result of increased production from EnCana's Foster Creek project. During the third quarter of 2007, aggregate volumes on the Cold Lake pipeline system were above the minimum ship-or-pay levels for the first time.

## ***Revenue***

In the third quarter of 2007, approximately \$23.0 million of the \$24.3 million growth in revenues in the oil sands transportation business segment is primarily due to the Corridor acquisition in June 2007. Corridor is the sole transporter of diluted bitumen produced by the Alberta Oil Sands Project owned by Shell, Chevron and Marathon. 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 operating costs, depreciation, taxes, debt financing costs and provides a structured return on the equity component of the rate base.

Revenues attributable to the Cold Lake pipeline system increased approximately \$1.3 million in the third quarter of 2007 due to increased volume and a resulting increase in each of the capital fee revenue and operating cost recovery revenues.

Similarly, year to date oil sands transportation revenues increased approximately \$26.9 million over the comparable period primarily due to the Corridor acquisition. Cold Lake pipeline system revenues increased approximately \$0.4 million year to date in 2007 primarily as a result of an increase in volumes and 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 by each shipper.

The Cold Lake TSA and additional facility agreements also provide for the recovery of substantially all of the Cold Lake pipeline system's operating costs. As such, \$6.3 million (Q3 2006 - \$5.5 million) of operating costs recovered were included in revenue during the quarter. Year to date 2007, approximately \$15.5 million (YTD 2006 - \$14.7 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 Pipeline Limited Partnership providing for a return on the capital invested and recovery of operating costs. During the third quarter, approximately \$2.4 million (Q3 2006 - \$2.6 million) of additional capital fee revenue was earned from these projects. Year to date 2007, these additional facilities contributed capital fees of approximately \$7.0 million (YTD 2006 - \$7.2 million).

## ***Operating Expenses***

Similar to above, approximately \$7.5 million of the \$8.4 million increase in operating expenses for the oil sands transportation business was due to the Corridor acquisition. Cold Lake operating expenses for the third quarter ended September 30, 2007 increased approximately \$0.9 million compared to the same period last year primarily due to increases in power and timing of right-of-way remediation projects. 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.

Year to date, approximately \$8.4 million of the \$9.9 million increase in operating expenses, related to the acquisition of Corridor.

## ***Capital Expenditures***

During the third quarter of 2007, capital expenditures incurred in the oil sands transportation business segment totalled \$153.7 million of which \$144.4 million was expended on the Corridor Expansion.

The Corridor Expansion is currently on schedule and on target with original cost estimates, with approximately 52% of the 42-inch pipeline being successfully constructed. The remaining expenditures relate to engineering, progress payments on long lead delivery items and construction activities associated with the pump stations and other facilities portion of the Corridor Expansion. Approximately 75% of Corridor's pipeline construction and facility costs have been committed.

Construction of the Shell Orion connection to the Cold Lake pipeline system accounted for approximately \$5.0 million of the total expenditures in the quarter. Expansions of pumping facilities on the diluent pipeline and at the La Corey Terminal accounted for an additional \$3.0 million of the total expenditures. Approximately \$0.8 million of the remaining expenditures relate to engineering for the expansion of the south leg of the Cold Lake pipeline system and various metering expansions.

### Bulk Liquid Storage Business Segment

	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	% change	2007	2006	% change
Utilization	95.8%	94.5%	1.4	96.4%	94.8%	1.7
(\$ millions, except % amounts)						
Revenue	\$ 38.9	\$ 34.1	14.1	\$ 120.8	\$ 100.1	20.7
Operating expenses	\$ 24.5	\$ 21.3	15.0	\$ 76.6	\$ 63.3	21.0
Capital expenditures						
Growth <sup>(1)</sup>	\$ 7.9	\$ 6.1		\$ 18.7	\$ 9.5	
Sustaining <sup>(1)</sup>	0.8	2.5		2.1	5.6	
Total capital expenditures	\$ 8.7	\$ 8.6		\$ 20.8	\$ 15.1	

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

#### Utilization

Utilization rates continued to be strong, in both the three and nine month periods ended September 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 third quarter of 2007 increased \$4.8 million when compared to the same period in 2006. Revenue of approximately \$3.0 million was generated from increased utilization and higher storage margins associated with additional biofuels storage services. Revenues from engineering project and facilities management services, through which certain project costs are recoverable from customers, increased approximately \$2.3 million compared to the same period in 2006. Average foreign exchange rates were relatively consistent between the third quarters of 2006 and 2007; therefore foreign exchange rates had a negligible effect on the translation of the bulk liquid storage operations into Canadian currency for financial reporting purposes.

Year to date 2007, revenue increased approximately \$20.7 million when compared to 2006. Inter Pipeline completed the reconfiguration of existing storage facilities to accommodate biodiesel products for Greenergy International Ltd. (Greenergy) commissioned in April 2007. An additional \$6.4 million of revenue is attributed to increased utilization and higher margins related to biofuels storage. Year to date, approximately \$7.9 million of the increase in revenues is related to engineering project and facilities management revenue as discussed above. Translation of the bulk liquid storage operations into Canadian currency increased revenue by approximately \$6.6 million compared to 2006. The average foreign exchange rate from British pounds sterling to the Canadian dollar for the year to date rose from approximately £1 to \$2.06 in 2006 to £1 to \$2.19 in 2007.

#### Operating Expenses

Operating expenses in the quarter increased approximately \$3.2 million compared to the same quarter of 2006 primarily due to a \$2.4 million increase in recoverable costs relating to engineering projects and facilities management operations. Other variances include approximately \$0.8 million in costs associated with increased utilization from Greenergy and other customers.

Year to date 2007, operating expenses increased approximately \$13.3 million compared to 2006. As above, approximately \$7.7 million of the increase related to recoverable engineering project and facilities management costs. Other variances include approximately \$1.1 million in fuel and other costs associated with the increased utilization. Approximately \$4.2 million of the increase in operating expenses is due to foreign currency translation to Canadian currency.

### ***Capital Expenditures***

Approximately \$3.4 million of the \$7.9 million of growth capital expenditures relate primarily to a second Greenergy biofuels project at the Immingham West terminal. Approximately \$1.3 million relates to three modification projects and new tank construction at the Seal Sands terminal with the remaining growth capital expenditures mainly related to other smaller modification projects at Immingham terminals. The first Greenergy project is effectively complete and Greenergy has brought this biodiesel plant up to full production capacity of 100,000 tonnes per annum. The second phase of this project's design and modification works are presently on schedule for completion in May 2008.

### **Corporate**

(\$ millions, except % amounts)	Three Months Ended September 30			Nine Months Ended September 30		
	2007	2006	% change	2007	2006	% change
Depreciation and amortization	\$ 22.8	\$ 17.1	33.3	\$ 60.2	\$ 52.1	15.5
Financing charges	20.7	10.1	105.0	41.9	30.0	39.7
General and administrative	9.0	6.6	36.4	25.1	19.3	30.0
Unrealized change in fair value of derivative financial instruments	8.9	–	–	24.1	–	–
Management and acquisition fees to General Partner	1.8	1.4	28.6	15.4	4.3	258.1
Unit incentive options	–	–	–	–	0.2	(100.0)
Income taxes (recovery)	(0.3)	0.9	(133.3)	229.1	2.8	–

### ***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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Credit facility interest expense	\$ 10.9	\$ 3.9	\$ 19.3	\$ 11.4
Interest on loan payable to General Partner	5.8	5.8	17.3	17.3
Debentures interest expense	3.7	0.3	4.9	1.1
Cash related financing charges	20.4	10.0	41.5	29.8
Amortization of deferred financing charges	0.3	0.1	0.4	0.2
Total financing charges	\$ 20.7	\$ 10.1	\$ 41.9	\$ 30.0

Short-term interest rates for the quarter ranged from a weighted average commercial paper rate, including commissions, of 5.16% (Q3 2006 – bankers acceptances, including stamping fees of 5.11%) to a weighted average prime rate of 6.25% (Q3 2006 – 6.00%).

The weighted average principal outstanding on the credit facilities was \$1,123.6 million for the third quarter of 2007 (Q3 2006 – \$281.2 million). This weighted average debt was higher in the third quarter of 2007 compared to the same quarter in 2006 primarily due to the Corridor acquisition and capital expenditures on the Corridor Expansion. See the **LIQUIDITY AND CAPITAL RESOURCES** section for further details of Inter Pipeline's and Corridor's debt facilities.

In accordance with the terms of the FSA, approximately \$4.4 million of interest expense (YTD 2007 - \$5.0 million) incurred to finance the Corridor Expansion, was capitalized as part of the project costs.

Interest expense on the \$379.8 million loan payable to the 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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Canada	\$ 6.3	\$ 4.0	\$ 16.6	\$ 11.8
Europe	2.7	2.6	8.5	7.5
Total general and administrative expenses	\$ 9.0	\$ 6.6	\$ 25.1	\$ 19.3

In Canada, general and administrative expenses increased approximately \$2.3 million during the third quarter of 2007 and approximately \$4.8 million year to date primarily due to an increase in employee costs and incentives when compared to the same periods in 2006. Inter Pipeline also added to its complement of employees and incurred additional administrative costs as a result of the acquisition of Corridor

In the third quarter of 2007 in Europe, general and administrative expenses were consistent with 2006. Year to date, general and administrative expenses increased \$1.0 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 third quarter of 2007, the General Partner was paid a management fee of \$1.8 million (Q3 2006 - \$1.4 million) equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (LPA). Year to date 2007, management fees of \$4.5 million (YTD 2006 - \$3.9 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 (YTD 2006 - \$0.4 million) related to the Corridor acquisition.

### ***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 (previously not subject to tax) and the periods in which these differences will reverse. Inter Pipeline estimates that \$744.8 million of net taxable temporary differences, not previously subject to tax, will reverse after January 1, 2011, resulting in an additional \$234.6 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 nine months ended September 30, 2007, the recognition of the additional liability was initially accounted for prospectively and an additional \$234.6 million of future income tax expense was 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 an example, the Federal Government recently proposed tax rate reductions in its fall Economic Statement, which would impact the overall future income tax estimate once enacted. 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, recent tax legislative changes in Europe also impacted future income taxes. In Germany, tax legislation 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 was a \$4.6 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 was a \$3.9 million reduction in future income tax liabilities. Therefore, the overall impact of these reduced tax rates was an \$8.5 million decrease in the future income tax liabilities.

## SUMMARY OF QUARTERLY RESULTS

(\$ millions, except per unit and % amounts)	2005		2006			2007		
	Fourth Quarter <sup>(1)</sup>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
<b>Revenue</b>								
NGL extraction	\$ 233.8	\$ 195.5	\$ 133.0	\$ 177.1	\$ 186.1	\$ 196.8	\$ 178.5	\$ 176.2
Conventional oil pipelines	\$ 28.2	\$ 28.7	\$ 27.1	\$ 30.2	\$ 30.7	\$ 30.9	\$ 29.8	\$ 30.2
Oil sands transportation <sup>(2)</sup>	\$ 17.2	\$ 13.9	\$ 15.3	\$ 14.9	\$ 14.7	\$ 14.0	\$ 17.8	\$ 39.2
Bulk liquid storage	\$ 30.4	\$ 31.6	\$ 34.3	\$ 34.1	\$ 43.7	\$ 42.4	\$ 39.4	\$ 38.9
<b>Net income (loss)<sup>(2)(3)(4)</sup></b>	\$ 20.9	\$ 29.1	\$ 30.8	\$ 42.4	\$ 28.3	\$ 24.5	\$ (207.9)	\$ 35.1
Per unit – basic <sup>(2)(3)(4)</sup>	\$ 0.11	\$ 0.15	\$ 0.15	\$ 0.21	\$ 0.14	\$ 0.12	\$ (1.03)	\$ 0.18
Per unit – diluted <sup>(2)(3)(4)</sup>	\$ 0.11	\$ 0.15	\$ 0.15	\$ 0.21	\$ 0.14	\$ 0.12	\$ (1.03)	\$ 0.18
<b>Funds from operations<sup>(2)(3)(5)</sup></b>	\$ 38.1	\$ 47.9	\$ 48.8	\$ 61.5	\$ 47.2	\$ 54.8	\$ 45.0	\$ 67.6
Per unit <sup>(2)(3)(5)</sup>	\$ 0.21	\$ 0.25	\$ 0.24	\$ 0.31	\$ 0.24	\$ 0.27	\$ 0.22	\$ 0.34
<b>Cash distributions<sup>(6)</sup></b>	\$ 35.0	\$ 39.0	\$ 39.2	\$ 40.3	\$ 42.3	\$ 42.4	\$ 42.6	\$ 42.7
Per unit <sup>(6)</sup>	\$ 0.1900	\$ 0.1950	\$ 0.1950	\$ 0.2000	\$ 0.2100	\$ 0.2100	\$ 0.2100	\$ 0.2100
<b>Payout ratio before sustaining capital<sup>(3)(5)</sup></b>	91.8%	81.5%	80.2%	65.4%	89.7%	77.4%	94.5%	63.1%
<b>Payout ratio after sustaining capital<sup>(3)(5)</sup></b>	101.3%	84.4%	84.6%	69.7%	101.7%	79.6%	101.5%	65.5%
<b>Units outstanding</b>								
Weighted average	184.2	194.7	200.7	201.2	201.6	202.0	202.6	203.1
End of period	184.6	200.4	200.9	201.4	201.7	202.3	202.8	203.3

(1) Restated for change in segment reporting policy.

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

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

(4) The net loss for the second quarter of 2007 was primarily due to the recognition of a 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 September 2007. See the Income Taxes section in RESULTS OF OPERATIONS for further details.

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

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

## LIQUIDITY AND CAPITAL RESOURCES

(\$ millions, except for % amounts)	As at September 30	
	2007	2006
Cash	\$ 33.7	\$ 33.8
Working capital deficiency excluding cash, current portion of Convertible Debentures and fair value of derivative financial instruments <sup>(1)</sup>	\$ (69.5)	\$ (12.0)
Variable rate debt		
Inter Pipeline revolving credit facility available	\$ 750.0	\$ 500.0
Corridor syndicated credit facility available	2,142.0	–
Inter Pipeline and Corridor demand loan facilities available	60.0	20.0
Total credit facilities available	2,952.0	520.0
Less unutilized credit facilities	(1,751.0)	(228.0)
Total outstanding credit facilities <sup>(2)</sup>	1,201.0	292.0
Corridor debentures	300.0	–
Less variable rate debt swapped to fixed	(45.0)	(46.0)
Total outstanding variable rate debt	1,456.0	246.0
Fixed rate long-term debt		
Loan payable to General Partner	379.8	379.8
Convertible Debentures	10.2	12.6
Add variable rate debt swapped to fixed	45.0	46.0
Total outstanding fixed rate long-term debt	435.0	438.4
Total debt and debentures outstanding (before deferred debt transaction costs)	1,891.0	684.4
Less deferred debt transaction costs and equity portion of Convertible Debentures <sup>(3)</sup>	(9.1)	(0.5)
Total debt and debentures outstanding (net of deferred debt transaction costs)	\$ 1,881.9	\$ 683.9
Total debt to total capitalization <sup>(1)</sup>	68.0%	36.7%

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

(2) Outstanding letters of credit were approximately \$0.2 million which are not included in the total credit facilities outstanding as at September 30, 2007.

(3) Long term debt in the September 30, 2007 financial statements is \$1,872.1, which consists of debt of \$1,880.8 net of deferred debt transaction costs of \$8.7 million. Convertible Debentures of \$10.2 million outstanding consist of \$9.8 million allocated to debt and \$0.4 million allocated to equity.

At September 30, 2007, Inter Pipeline’s consolidated debt balance, including non-recourse debt, was \$1,891.0 million. In August 2007, Corridor closed a \$2,142.0 million syndicated credit facility and \$40.0 million demand operating facility to finance Corridor’s ongoing operations and the construction of the Corridor Expansion. Concurrently, Corridor’s \$520.0 million syndicated credit facility and \$20 million demand operating facilities were cancelled.

As at September 30, 2007, Inter Pipeline’s total debt to capitalization ratio on a consolidated basis is 68.0%. Removing the impact of Corridor’s non-recourse debt of \$888.0 million, Inter Pipeline’s debt to capitalization ratio is 53.0%.

Of the \$1,891.0 million of total debt outstanding at September 30, 2007, \$1,456.0 million or 77.0% was exposed to a period ending variable interest rate, including stamping fees and commissions, of 5.29% with

the remaining \$435.0 million or 23.0% of fixed term debt with rates ranging from 5.85% to 6.31% (excluding Convertible Debentures).

Inter Pipeline's Convertible Debenture mature December 31, 2007. These debentures are convertible at the option of the holder into Class A units at any time prior to the close of business on December 31, 2007 at a conversion price of \$6.00 per Class A unit.

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	\$ 1,201.0	\$ –	\$ 588.0	\$ 613.0	\$ –
Loan payable to General Partner	379.8	–	–	–	379.8
Convertible Debentures	10.2	10.2	–	–	–
Corridor debentures	300.0	–	150.0	–	150.0
Operating leases	58.5	6.9	15.3	7.4	28.9
<b>Total obligations</b>	<b>\$ 1,949.5</b>	<b>\$ 17.1</b>	<b>\$ 753.3</b>	<b>\$ 620.4</b>	<b>\$ 558.7</b>

Inter Pipeline increased its capital expenditure plans for the balance of 2007 to reflect the Corridor Expansion, and now forecasts to invest approximately \$265 million in organic growth and approximately \$6 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, pursuant to the FSA, Inter Pipeline entered into a guarantee in favour of the shippers for the payment and performance of all obligations of Corridor, the General Partner or the operator (if the operator was not Inter Pipeline) other than those obligations for repayment of borrowed money or similar financial obligations incurred by these entities (except for funding certain cost overruns). 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 under the terms of the FSA as operator of the Corridor pipeline system.

## CASH DISTRIBUTIONS TO UNITHOLDERS

(\$ millions, except per unit and % amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Cash provided by operating activities	\$ 52.2	\$ 51.7	\$ 166.3	\$ 157.3
Net change in non-cash working capital	15.4	9.8	1.1	0.9
Less sustaining capital expenditures <sup>(1)</sup>	(2.4)	(3.8)	(7.0)	(8.0)
Cash available for distribution <sup>(1)</sup>	65.2	57.7	160.4	150.2
Change in discretionary reserves	(22.5)	(17.4)	(32.7)	(31.8)
Cash distributions	\$ 42.7	\$ 40.3	\$ 127.7	\$ 118.4
Cash distributions per unit <sup>(2)</sup>	\$ 0.21	\$ 0.20	\$ 0.63	\$ 0.59
Payout ratio before sustaining capital <sup>(1)</sup>	63.1%	65.4%	76.2%	74.9%
Payout ratio after sustaining capital <sup>(1)</sup>	65.5%	69.7%	79.6%	78.8%
Growth capital expenditures <sup>(1)</sup>	\$ 164.6	\$ 11.4	\$ 196.3	\$ 37.2
Sustaining capital expenditures <sup>(1)</sup>	2.4	3.8	7.0	8.0
Total capital expenditures	\$ 167.0	\$ 15.2	\$ 203.3	\$ 45.2

(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 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 structure, 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 Inter Pipeline 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. The reconciliation is prepared using reasonable and supportable assumptions, reflecting Inter Pipeline’s planned courses of action in light of management and the board of director’s judgment regarding the most probable set of economic conditions. Investors should be aware that actual results may vary, possibly materially, from such forward-looking adjustments.

The discretionary reserve increased approximately \$22.5 million in the third quarter of 2007 and approximately \$32.7 million year to date, due to the positive 2007 business performance, primarily driven by the acquisition of Corridor, favourable commodity prices and increased volumes in the NGL extraction business, increased utilization and higher margins 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 tables below show Inter Pipeline's cash distributions paid relative to cash provided by operating activities and net income (loss) for the periods indicated. See also the "Outlook" of this report and "Risk Factors" sections of the December 31, 2006 AIF for further information regarding the sustainability of cash distributions.

	Three Months Ended September 30	Nine Months Ended September 30	Years Ended December 31		
(\$ millions, except per unit and % amounts)	2007	2007	2006	2005	2004
Cash provided by operating activities	\$ 52.2	\$ 166.3	\$ 201.6	\$ 171.8	\$ 133.8
Cash distributions	(42.7)	(127.7)	(160.8)	(137.7)	(115.6)
Excess	\$ 9.5	\$ 38.6	\$ 40.8	\$ 34.1	\$ 18.2

	Three Months Ended September 30	Nine Months Ended September 30	Years Ended December 31		
(\$ millions, except per unit and % amounts)	2007	2007	2006	2005	2004
Net income (loss)	\$ 35.1	\$ (148.3)	\$ 130.6	\$ 89.3	\$ 81.1
Cash distributions	(42.7)	(127.7)	(160.8)	(137.7)	(115.6)
Shortfall	\$ (7.6)	\$ (276.0)	\$ (30.2)	\$ (48.4)	\$ (34.5)

Cash distributions are less than cash provided by operating activities, but are in excess of net income. Cash distributions are generally more than net income because Inter Pipeline, as a flow-through-entity, distributes a cash return of capital in addition to a cash return on capital. Thus the cash distributions will generally always be higher than net income as it will include certain non-cash expenses such as depreciation, future income taxes, unrealized changes in the fair value of derivative financial instruments, etc. The overall cash distributions of Inter Pipeline are governed by the LPA, specifically 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.

## OUTSTANDING UNIT DATA

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

(millions)	Class A	Class B	Total
Units outstanding	203.1	0.2	203.3
Units reserved for issuance upon exercise of vested Unit Incentive Options	1.7	—	1.7
Units reserved for issuance upon conversion of Convertible Debentures	1.7	—	1.7

As at November 6, 2007, Inter Pipeline had 203.6 million Class A units outstanding and 0.2 million Class B units outstanding, for a total of 203.8 million units outstanding.

## FINANCIAL INSTRUMENTS

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 September 30, 2006 were being accounted for as hedges; however effective January 1, 2007, Inter Pipeline discontinued accounting for these financial instruments as hedges. As at January 1, 2007, the mark-to-market or fair value of these financial instruments were recorded as current assets or liabilities and any change in the fair value is now recognized as an unrealized change in fair value of these derivative financial instruments in the calculation of net income. When the financial instrument matures, the realized gain or loss is recorded in net income.

## 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 September 30, 2007, Inter Pipeline had hedged approximately 38% of forecast propane plus volumes for the period October 1 to December 31, 2007 and 31% for the period January 1 to December 31, 2008 at the Cochrane NGL extraction plant at average prices of \$0.40 CDN/USG and \$0.45 CDN/USG, respectively. These average prices would approximate \$0.40 USD/USG and \$0.46 USD/USG, respectively based on the average USD/CDN forward curve as at September 30, 2007.

As at November 6, 2007, Inter Pipeline hedged approximately 43% and 34% of forecast propane plus volumes for the period October 1, 2007 to December 31, 2007 and January 1, 2008 to December 31, 2008, respectively at average prices of \$0.452 CDN/USG and \$0.473 CDN/USG. This average price would approximate \$0.481 USD/USG and \$0.512 USD/USG, respectively based on the average USD/CDN forward curve as at November 6, 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 September 30, 2007 to hedge NGL revenues fixed NGL prices at average prices for the following periods:

Hedge Period	October to December 2007		January to December 2008	
	Average Price(USD/USG)	Average Quantity (b/d)	Average Price (USD/USG)	Average Quantity (b/d)
Propane	\$ 0.985	5,000	\$ 1.067	2,997
Normal butane	\$ 1.147	856	\$ 1.236	516
Iso butane	\$ 1.159	530	\$ 1.270	320
Pentanes plus	\$ 1.645	424	\$ 1.647	256

The mark-to-market value of these contracts resulted in an unrealized loss of CDN \$22.4 million (USD \$22.5 million) at September 30, 2007.

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

Hedge Period	October to December 2006		January to December 2007	
	Average Price (USD/ USG)	Average Quantity (b/d)	Average Price (USD/ USG)	Average Quantity (b/d)
Propane	\$ 0.968	5,337	\$ 1.043	2,241
Normal butane	\$ 1.160	913	\$ 1.209	388
Iso butane	\$ 1.165	565	\$ 1.217	240
Pentanes plus	\$ 1.639	452	\$ 1.772	192

The mark-to-market value of these contracts resulted in an unrealized loss of USD \$4.1 million at September 30, 2006.

### *Natural Gas*

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

Hedge Period	October 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	\$ 8.03	26,087	\$ 7.81	17,268

The mark-to-market value of the natural gas contracts at September 30, 2007 resulted in an unrealized loss of \$13.9 million.

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

Hedge Period	October to December 2006		January to December 2007	
	Average Price (CDN/GJ)	Average Quantity (GJ/day)	Average Price (CDN/GJ)	Average Quantity (GJ/day)
AECO natural gas	\$ 8.05	27,826	\$ 8.31	11,836

The mark-to-market value of the natural gas contracts at September 30, 2006 resulted in an unrealized loss of \$12.0 million.

### **Foreign Currency**

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

Hedge Period	2007 October to December 2007		2008 January to December 2008	
	Average Price (USD/CDN)	Amount (USD thousands)	Average Price (USD/CDN)	Amount (USD thousands)
Foreign exchange	\$ 0.878	\$ 9,296	\$ 0.918	\$ 5,974

The mark-to-market value of these contracts at September 30, 2007 resulted in an unrealized gain of \$11.1 million.

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

Hedge Period	2006 October to December 2006		2007 January to December 2007	
	Average Price (USD/CDN)	Amount (USD thousands)	Average Price (USD/CDN)	Amount (USD thousands)
Foreign exchange	\$ 0.885	\$ 9,819	\$ 0.905	\$ 4,395

The mark-to-market value of these contracts at September 30, 2006 resulted in an unrealized gain of \$0.1 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 September 30, 2007 is an unrealized gain of \$0.9 million compared to an unrealized gain of \$0.9 million at September 30, 2006.

## Corporate Interest Rates

A portion of the outstanding variable rate debt at September 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 \$2.7 million at September 30, 2007 compared to an unrealized loss of \$4.3 million at September 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 September 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 \$5.5 million at September 30, 2007.

## TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties in the quarter ended September 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 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 officers and directors of the General Partner received a total of \$0.2 million in dividends during the quarter from PAC pursuant to their ownership of non-voting shares (Q3 2006 – \$0.2 million). Year to date dividends paid to these officers and directors by PAC in 2007 were \$2.1 million (YTD 2006 - \$0.6 million)

Inter Pipeline entered into a loan agreement with the General Partner for \$379.8 million. At September 30, 2007, interest payable to the General Partner on the loan was \$9.9 million (YTD 2006 - \$9.9 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 September 30, 2007, there were amounts owed to the General Partner by Inter Pipeline of \$1.0 million (September 30, 2006 – \$0.5 million).

See the **Corporate** section of **RESULTS OF OPERATIONS** for detail of management and acquisition fees paid to the General Partner.

## **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 third quarter of the 2007 fiscal year.

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.

For business processes unique to Corridor, management is committed to completing the design of internal controls and integrating the accounting and reporting systems 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 September 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***

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 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: a regulatory asset 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; \$7.5 million of debt transaction costs may have been recorded within long-term debt instead of to property, plant and equipment; a regulatory liability may be recorded as accounts payable and accrued liabilities instead of deferred revenue. Inter Pipeline has not recognized future income taxes of approximately \$19 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 and Capitalized Interest***

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, Corridor'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, Corridor and the shippers have agreed to estimate the annual revenue requirements to be invoiced by Corridor 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.

### ***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 September 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 and were designated 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. Therefore, 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 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 Convertible 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 September 30	
(\$ millions, except per unit amounts)	2007	2006
Closing unit price	\$ 9.50	\$ 10.24
Total number of units outstanding	203.3	201.4
	1,931.5	2,062.0
Long-term debt	1,880.8	671.8
Convertible Debentures (debt portion)	9.8	12.1
Enterprise value	\$ 3,822.1	\$ 2,745.9

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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Operating revenue	\$ 284.4	\$ 256.3	\$ 834.2	\$ 735.9
Shrinkage gas expense	(96.1)	(100.3)	(341.9)	(311.9)
Cash operating expense	(89.6)	(76.6)	(242.4)	(211.8)
Cash general and administrative expense	(8.6)	(6.4)	(24.5)	(18.7)
Management and acquisition fees expense	(1.8)	(1.4)	(15.4)	(4.3)
Credit facility interest expense	(10.9)	(3.9)	(19.3)	(11.4)
Loan payable to General Partner interest expense	(5.8)	(5.8)	(17.3)	(17.3)
Interest on debentures	(3.7)	(0.3)	(4.9)	(1.1)
Current income taxes	(0.3)	(0.1)	(1.1)	(1.2)
Funds from operations	\$ 67.6	\$ 61.5	\$ 167.4	\$ 158.2

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 September 30			
	Growth	Sustaining	Total	Total
NGL extraction	\$ 2.3	\$ 0.8	\$ 3.1	\$ 3.0
Conventional oil pipelines	1.2	0.3	1.5	2.4
Oil sands transportation	153.2	0.5	153.7	1.2
Bulk liquid storage	7.9	0.8	8.7	8.6
Total	\$ 164.6	\$ 2.4	\$ 167.0	\$ 15.2

(\$ millions)	Nine Months Ended September 30			
	Growth	Sustaining	2007 Total	2006 Total
NGL extraction	\$ 2.8	\$ 2.3	\$ 5.1	\$ 5.5
Conventional oil pipelines	5.3	2.1	7.4	13.7
Oil sands transportation	169.5	0.5	170.0	10.9
Bulk liquid storage	18.7	2.1	20.8	15.1
<b>Total</b>	<b>\$ 196.3</b>	<b>\$ 7.0</b>	<b>\$ 203.3</b>	<b>\$ 45.2</b>

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](http://www.sedar.com).

Dated at Calgary, Alberta this 8<sup>th</sup> day of November, 2007.

### **Disclaimer**

*This MD&A highlights significant business results and statistics for Inter Pipeline's three and nine month periods ended September 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 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 **BUSINESS RISKS** in this MD&A and the section entitled "Risk Factors" included in Inter Pipeline's AIF, which can be reviewed at [www.sedar.com](http://www.sedar.com)*

*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 AIF.*

*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 September 30 2007	As at December 31 2006
		(restated - see note 2)
<b>ASSETS</b>		
Current Assets		
Cash (note 16)	\$ 33,720	\$ 16,294
Accounts receivable	125,710	131,520
Fair value of derivative financial instruments (note 15)	10,114	-
Prepaid expenses and other deposits	5,218	13,032
<b>Total Current Assets</b>	<b>174,762</b>	<b>160,846</b>
Fair value of derivative financial instruments (note 15)	1,915	-
Regulatory asset (notes 2 and 3)	5,447	-
Intangible assets (note 5)	361,540	374,583
Property, plant and equipment (note 6)	2,643,035	1,545,341
Deferred financing charges (note 2)	-	1,541
Goodwill (note 3)	203,503	74,803
<b>Total Assets</b>	<b>\$ 3,390,202</b>	<b>\$ 2,157,114</b>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current Liabilities		
Cash distributions payable (note 7)	\$ 14,232	\$ 14,121
Accounts payable and accrued liabilities (note 10)	173,281	123,593
Fair value of derivative financial instruments (note 15)	32,875	-
Deferred revenue	12,908	10,108
Current portion of Convertible Debentures	9,785	11,697
<b>Total Current Liabilities</b>	<b>243,081</b>	<b>159,519</b>
Long-term debt (note 8)	1,872,155	674,800
Fair value of derivative financial instruments (note 15)	11,591	-
Asset retirement obligation (note 9)	22,302	20,530
Environmental liabilities	10,859	10,259
Pension liabilities	3,114	3,442
Long-term incentive plan (note 12)	2,342	1,337
Future income taxes (note 10)	332,222	88,839
<b>Total Liabilities</b>	<b>2,497,666</b>	<b>958,726</b>
Commitments (notes 3, 15 and 17)		
Partners' Equity		
Conversion feature on Convertible Debentures	429	516
Partners' equity (note 11)	901,230	1,167,093
Accumulated other comprehensive income	(9,123)	30,779
<b>Total Partners' Equity</b>	<b>892,536</b>	<b>1,198,388</b>
<b>Total Liabilities and Partners' Equity</b>	<b>\$ 3,390,202</b>	<b>\$ 2,157,114</b>

See accompanying notes to the consolidated financial statements.

**Inter Pipeline Fund**

## Consolidated Statements of Partners' Equity

(unaudited) (thousands of dollars)	Nine Months Ended September 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	(148,153)	(148)	(148,301)	102,356
Cash distributions declared (note 7)	(127,535)	(128)	(127,663)	(118,424)
Issuance of Partnership units (notes 11 and 12)				
Conversion of Debentures	1,999	2	2,001	4,013
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	6,567	7	6,574	4,192
Issued under Unit Incentive Option Plan	1,430	2	1,432	2,104
Equity issuances, net of issue costs	-	-	-	142,231
Unit incentive options (note 12)	7	-	7	154
<b>Balance, end of period</b>	<b>\$ 900,330</b>	<b>\$ 900</b>	<b>\$ 901,230</b>	<b>\$ 1,178,700</b>

## Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

(unaudited) (thousands of dollars)	Nine Months Ended September 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	(31,931)	11,742
<b>Balance, end of period</b>	<b>\$ (9,123)</b>	<b>\$ 2,036</b>

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

## Consolidated Statements of Net Income (Loss)

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>REVENUES</b>				
Operating revenue	\$ 284,456	\$ 256,344	\$ 834,212	\$ 735,864
<b>EXPENSES</b>				
Shrinkage gas	96,120	100,251	341,901	311,937
Operating	90,466	77,495	244,783	212,908
Depreciation and amortization (note 13)	22,803	17,070	60,183	52,144
Financing charges (note 14)	20,687	10,146	41,924	29,955
General and administrative	8,963	6,641	25,109	19,300
Unrealized change in fair value of derivative financial instruments (note 15)	8,862	-	24,128	-
Management fee to General Partner	1,801	1,401	4,503	3,885
Acquisition fee to General Partner (note 3)	-	-	10,883	376
Unit incentive options (note 12)	-	23	7	154
	249,702	213,027	753,421	630,659
<b>INCOME BEFORE INCOME TAXES</b>	34,754	43,317	80,791	105,205
<b>Provision for income taxes</b> (note 10)				
Current income tax expense	338	95	1,130	1,171
Future income tax (recovery) expense	(681)	768	227,962	1,678
	(343)	863	229,092	2,849
<b>NET INCOME (LOSS)</b>	\$ 35,097	\$ 42,454	\$ (148,301)	\$ 102,356
<b>Net income (loss) per unit</b> (note 11)				
Basic and Diluted	\$ 0.18	\$ 0.21	\$ (0.73)	\$ 0.51

## Consolidated Statements of Comprehensive Income (Loss)

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>NET INCOME (LOSS)</b>	\$ 35,097	\$ 42,454	\$ (148,301)	\$ 102,356
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	(14,435)	3,392	(37,041)	11,742
Transfer of gains and losses on derivatives previously designated as cash flow hedges to net income	736	-	5,110	-
	(13,699)	3,392	(31,931)	11,742
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ 21,398	\$ 45,846	\$ (180,232)	\$ 114,098

See accompanying notes to the consolidated financial statements.

Inter Pipeline Fund

# Consolidated Statements of Cash Flows

(unaudited) (thousands of dollars)	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 35,097	\$ 42,454	\$ (148,301)	\$ 102,356
Depreciation and amortization	22,803	17,070	60,183	52,144
Amortization of deferred financing charges	-	53	-	159
Amortization of transaction costs on long-term debt	279	-	449	-
Unit incentive options	-	23	7	154
Non-cash operating expense	874	933	2,357	1,133
Non-cash general and administrative expense	368	225	648	591
Unrealized change in fair value of derivative financial instruments	8,862	-	24,128	-
Future income tax (recovery) expense	(681)	768	227,962	1,678
Funds from operations	67,602	61,526	167,433	158,215
Net change in non-cash working capital (note 16)	(15,413)	(9,804)	(1,135)	(902)
Cash provided by operating activities	52,189	51,722	166,298	157,313
<b>INVESTING ACTIVITIES</b>				
Expenditures on property, plant and equipment	(167,048)	(15,187)	(203,307)	(45,182)
Proceeds on sale of assets	-	59	41	87
Acquisition of Corridor pipeline system (note 3)	(25)	-	(302,227)	-
Assumption of cash on the acquisition of Corridor pipeline system (note 3)	-	-	3,012	-
Decrease in funds held in trust	-	-	-	37,851
Acquisition of TLG	-	(6)	-	(37,732)
Assumption of cash on the acquisition of TLG	-	-	-	303
Acquisition of Simon Storage	-	-	-	(187)
Net change in non-cash investing working capital (note 16)	43,387	(1,317)	47,907	5,037
Cash used in investing activities	(123,686)	(16,451)	(454,574)	(39,823)
<b>FINANCING ACTIVITIES</b>				
Cash distributions declared (note 7)	(42,664)	(40,253)	(127,663)	(118,424)
Increase (repayment) of long-term debt	117,165	15,000	428,023	(134,000)
Transaction costs on long-term debt	(125)	-	(1,383)	-
Issuance of Partnership units, net of issue costs	-	-	-	142,231
Cash received under Distribution Reinvestment and Optional Unit Purchase Plan	2,509	1,534	6,574	4,192
Issuance of units under Unit Incentive Option Plan	395	363	1,432	2,104
Issuance of Class B units upon Debenture conversions	1	1	2	4
Net change in non-cash financing working capital (note 16)	34	1,034	111	2,098
Cash provided by (used in) financing activities	77,315	(22,321)	307,096	(101,795)
Effect of foreign currency translation on foreign denominated cash	(539)	98	(1,394)	577
<b>Increase in cash</b>	<b>5,279</b>	<b>13,048</b>	<b>17,426</b>	<b>16,272</b>
<b>Cash, beginning of period</b>	<b>28,441</b>	<b>20,749</b>	<b>16,294</b>	<b>17,525</b>
<b>Cash, end of period</b>	<b>\$ 33,720</b>	<b>\$ 33,797</b>	<b>\$ 33,720</b>	<b>\$ 33,797</b>

See accompanying notes to the consolidated financial statements.

# Notes To Interim Consolidated Financial Statements

(unaudited)

September 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.

## 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.

## Notes To Interim Consolidated Financial Statements

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(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 accumulated foreign currency translation adjustment balance at September 30, 2007 of \$6.2 million has been recorded to AOCI (December 31, 2006 - \$30.8 million; September 30, 2006 – gain of \$2.0 million; December 31, 2005 – loss of \$9.7 million). The decrease of \$14.4 million and \$37.0 million respectively in the accumulated foreign currency translation adjustment balance for the three and nine months ended September 30, 2007 is now included in OCI in the Statement of Comprehensive Income (three and nine months ended September 30, 2006 – increase of \$3.4 million and \$11.7 million respectively). In addition, in the three and nine months ended September 30, 2007, \$0.7 million and \$5.1 million respectively of unrealized gains and losses on derivatives designated as cash flow hedges in prior periods have been transferred to net income.

# Notes To Interim Consolidated Financial Statements

(unaudited)

September 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 “EUB”), 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.

## Inter Pipeline Fund

# Notes To Interim Consolidated Financial Statements

(unaudited)

September 30, 2007

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

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 \$5.4 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; \$7.5 million of debt transaction costs may have been recorded within long-term debt instead of to property, plant and equipment; the regulatory liability of \$0.9 million may be recorded as accounts payable and accrued liabilities instead of deferred revenue; and Inter Pipeline has not recognized future income taxes of approximately \$19 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 and Capitalized Interest*

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 September 30, 2007, \$0.9 million is included in deferred revenue as a revenue surplus.

## Inter Pipeline Fund

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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.

### *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, and long-term debt assumed of \$777.0 million. The acquisition was funded through an existing revolving credit facility (see note 8). As a result of 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 (“Corridor Expansion”).

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		(9,621)
Regulatory asset (note 2)		10,234
Property, plant and equipment (note 6)		970,093
Goodwill		136,492
Long-term debt, net of debt transaction costs and discount of \$3.6 million (note 8)		(773,438)
Fair value of derivative financial instruments (notes 2 and 15)		(10,234)
Future income taxes liability (notes 2 and 10)		(24,311)
	\$	<b>302,227</b>

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4. Segment Reporting

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

	Three Months Ended September 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
<b>Revenues</b>	\$ 176,189	\$ 30,156	\$ 39,194	\$ -	\$ 245,539	\$ 38,917	\$ 284,456
<b>Expenses</b>							
Shrinkage gas	96,120	-	-	-	96,120	-	96,120
Operating	41,708	10,196	14,071	-	65,975	24,491	90,466
Depreciation and amortization	6,382	4,700	8,634	-	19,716	3,087	22,803
Financing charges	-	-	6,378	14,503	20,881	(194)	20,687
General and administrative	-	-	753	5,477	6,230	2,733	8,963
Unrealized change in fair value of derivative financial instruments	7,812	434	-	616	8,862	-	8,862
Management fee to General Partner	-	-	-	1,801	1,801	-	1,801
Acquisition fee to General Partner	-	-	-	-	-	-	-
Unit incentive options	-	-	-	-	-	-	-
<b>Total expenses</b>	152,022	15,330	29,836	22,397	219,585	30,117	249,702
<b>Income before income taxes</b>	24,167	14,826	9,358	(22,397)	25,954	8,800	34,754
Provision for income taxes	-	-	48	(1,563)	(1,515)	1,172	(343)
<b>Net income (loss)</b>	\$ 24,167	\$ 14,826	\$ 9,310	\$ (20,834)	\$ 27,469	\$ 7,628	\$ 35,097
Expenditures on property, plant and equipment	\$ (3,129)	\$ (1,482)	\$ (153,683)	\$ -	\$ (158,294)	\$ (8,754)	\$ (167,048)
	<b>As at September 30, 2007</b>						
Total assets	\$ 750,436	\$ 461,168	\$ 1,741,385	\$ -	\$ 2,952,989	\$ 437,213	\$ 3,390,202
Property, plant and equipment	\$ 408,086	\$ 440,096	\$ 1,483,597	\$ -	\$ 2,331,779	\$ 311,256	\$ 2,643,035
Goodwill	\$ -	\$ -	\$ 136,492	\$ -	\$ 136,492	\$ 67,011	\$ 203,503

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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		
<b>Three Months Ended September 30, 2006</b>								
<b>Revenues</b>	\$ 177,090	\$ 30,243	\$ 14,873	\$ -	\$ 222,206	\$ 34,138		\$ 256,344
<b>Expenses</b>								
Shrinkage gas	100,251	-	-	-	100,251	-		100,251
Operating	40,467	9,958	5,722	-	56,147	21,348		77,495
Depreciation and amortization	6,288	4,543	3,997	-	14,828	2,242		17,070
Financing charges	-	-	-	10,274	10,274	(128)		10,146
General and administrative	-	-	-	4,018	4,018	2,623		6,641
Management fee to General Partner	-	-	-	1,401	1,401	-		1,401
Acquisition fee to General Partner	-	-	-	-	-	-		-
Unit incentive options	-	-	-	23	23	-		23
<b>Total expenses</b>	147,006	14,501	9,719	15,716	186,942	26,085		213,027
<b>Income before income taxes</b>	30,084	15,742	5,154	(15,716)	35,264	8,053		43,317
Provision for income taxes	-	-	46	-	46	817		863
<b>Net income (loss)</b>	\$ 30,084	\$ 15,742	\$ 5,108	\$ (15,716)	\$ 35,218	\$ 7,236		\$ 42,454
Expenditures on property, plant and equipment	\$ (3,030)	\$ (2,417)	\$ (1,207)	\$ -	\$ (6,654)	\$ (8,533)		\$ (15,187)
<b>As at December 31, 2006</b>								
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

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	Nine Months Ended September 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
<b>Revenues</b>	\$ 551,503	\$ 90,924	\$ 71,000	\$ -	\$ 713,427	\$ 120,785	\$ 834,212
<b>Expenses</b>							
Shrinkage gas	341,901	-	-	-	341,901	-	341,901
Operating	114,698	28,914	24,571	-	168,183	76,600	244,783
Depreciation and amortization	19,139	14,017	17,581	-	50,737	9,446	60,183
Financing charges	-	-	7,358	35,112	42,470	(546)	41,924
General and administrative	-	-	753	15,836	16,589	8,520	25,109
Unrealized change in fair value of derivative financial instruments	25,048	(230)	-	(690)	24,128	-	24,128
Management fee to General Partner	-	-	-	4,503	4,503	-	4,503
Acquisition fee to General Partner	-	-	-	10,883	10,883	-	10,883
Unit incentive options	-	-	-	7	7	-	7
<b>Total expenses</b>	500,786	42,701	50,263	65,651	659,401	94,020	753,421
<b>Income before income taxes</b>	50,717	48,223	20,737	(65,651)	54,026	26,765	80,791
Provision for income taxes	-	-	139	234,606	234,745	(5,653)	229,092
<b>Net income (loss)</b>	\$ 50,717	\$ 48,223	\$ 20,598	\$ (300,257)	\$ (180,719)	\$ 32,418	\$ (148,301)
Expenditures on property, plant and equipment	\$ (5,114)	\$ (7,416)	\$ (170,004)	\$ -	\$ (182,534)	\$ (20,773)	\$ (203,307)

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	Nine Months Ended September 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		
<b>Revenues</b>	\$ 505,665	\$ 86,042	\$ 44,098	\$ -	\$ 635,805	\$ 100,059	\$ 735,864	
<b>Expenses</b>								
Shrinkage gas	311,937	-	-	-	311,937	-	311,937	
Operating	108,075	26,827	14,735	-	149,637	63,271	212,908	
Depreciation and amortization	18,869	13,745	12,028	-	44,642	7,502	52,144	
Financing charges	-	-	-	30,356	30,356	(401)	29,955	
General and administrative	-	-	-	11,797	11,797	7,503	19,300	
Management fee to General Partner	-	-	-	3,885	3,885	-	3,885	
Acquisition fee to General Partner	-	-	-	376	376	-	376	
Unit incentive options	-	-	-	154	154	-	154	
<b>Total expenses</b>	438,881	40,572	26,763	46,568	552,784	77,875	630,659	
<b>Income before income taxes</b>	66,784	45,470	17,335	(46,568)	83,021	22,184	105,205	
Provision for income taxes	-	-	150	-	150	2,699	2,849	
<b>Net income (loss)</b>	\$ 66,784	\$ 45,470	\$ 17,185	\$ (46,568)	\$ 82,871	\$ 19,485	\$ 102,356	
Expenditures on property, plant and equipment	\$ (5,550)	\$ (13,641)	\$ (10,912)	\$ -	\$ (30,103)	\$ (15,079)	\$ (45,182)	

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## 5. Intangible Assets

			September 30 2007	December 31 2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
NGL extraction business				
Customer contracts	\$ 287,612	\$ (30,364)	\$ 257,248	\$ 264,438
Patent	8,727	(1,974)	6,753	7,220
Oil sands transportation business				
Transportation Services Agreement	93,548	(15,312)	78,236	80,656
Bulk liquid storage business				
Customer contracts and relationships	15,438	(1,026)	14,412	16,624
Tradename	5,240	(349)	4,891	5,645
	\$ 410,565	\$ (49,025)	\$ 361,540	\$ 374,583

## 6. Property, Plant and Equipment

			September 30 2007	December 31 2006
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
NGL extraction business				
Facilities and equipment	\$ 448,674	\$ (44,255)	\$ 404,419	\$ 410,010
Spare parts	3,667	-	3,667	3,617
Conventional oil pipeline business				
Facilities and equipment	782,487	(342,604)	439,883	446,322
Deferred receipt facilities expenditures	6,138	(5,925)	213	426
Oil sands transportation business				
Facilities and equipment	967,458	(64,587)	902,871	339,468
Construction work in progress	507,209	-	507,209	19
Pipeline linefill	74,033	(516)	73,517	10,384
Bulk liquid storage business				
Facilities and equipment	325,857	(14,601)	311,256	335,095
	\$ 3,115,523	\$ (472,488)	\$ 2,643,035	\$ 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 nine months ended September 30, 2007, Inter Pipeline declared cash distributions totaling \$42.7 million and \$127.7 million, respectively (three and nine months ended September 30, 2006 - \$40.3 million and \$118.4 million, respectively). As at September 30, 2007, distributions of \$14.2 million are payable to 203.1 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 are outstanding under Inter Pipeline's debt facilities:

	September 30 2007	December 31 2006
Loan Payable to General Partner	\$ 379,800	\$ 379,800
\$2,142 million Unsecured Revolving Credit Facility (a, e)	588,000	-
\$750 million Unsecured Revolving Credit Facility (b, e)	613,000	295,000
Corridor Debentures (c, e)	300,000	-
Transaction Costs (note 2)	(5,467)	-
Accumulated amortization of transaction costs	1,507	-
Discount	(20,237)	-
Accumulated amortization of discount	15,552	-
	<b>\$ 1,872,155</b>	<b>\$ 674,800</b>

- (a) On August 16, 2007, Corridor entered into a new unsecured \$2,142 million syndicated revolving credit facility and a \$40 million demand operating facility. The credit facility is comprised of the following tranches:
- i. \$190 million non-recourse tranche expiring on August 14, 2012
  - ii. \$1,464 million non-recourse tranche expiring on August 14, 2012
  - iii. \$292 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012 and the Corridor first expansion commencement date or the suspension true-up date.
  - iv. \$196 million recourse to Inter Pipeline, this tranche expires on the earlier of August 14, 2012, the Corridor first expansion commencement date or the suspension true-up date.

The credit and operating facilities incur fees on amounts borrowed at floating rates based on bankers' acceptances plus 45 to 65 basis points. Unborrowed amounts are charged standby fees of 10 to 15 basis points. If Corridor's credit rating changes, the fees on floating rate amounts could increase by up to 55 basis points or reduce by up to 10 basis points, while fees on undrawn amounts could increase by up to 12 basis points and decrease by up to 2.5 basis points.

- (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). Subsequent to September 30, 2007, the maturity date for \$660 million of the revolving facility was extended to September 29, 2012.
- (c) 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 Corridor Debentures are redeemable in whole, or in part, at the option of Corridor at a price equal to the principal amount to be redeemed, plus accrued and unpaid interest including a premium above the implied yield to maturity.

- (d) The credit agreement with a banking syndicate that was 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, was cancelled in August, 2007.

## Inter Pipeline Fund

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- (e) During the nine months ended September 30, 2007, Inter Pipeline had a net increase of \$1,206 million in its long-term debt. \$0.3 million of the increase was drawn on the \$750 million Unsecured Revolving Credit Facility, \$0.6 million was drawn on the \$2,142 million Corridor Revolving Credit Facility, and \$0.3 million relates to the Corridor Debentures assumed.
- (f) At September 30, 2007, outstanding letters of credit of \$0.2 million have been issued. In October, 2007, letters of credit for \$3.5 million were also issued.

## 9. Asset Retirement Obligation

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

	Nine Months Ended September 30 2007	Year ended December 31 2006
Obligation at beginning of year	\$ 20,530	\$ 16,715
Additions to liabilities	1,137	2,577
Accretion expense	924	1,063
Foreign currency adjustments	(289)	175
Obligation at end of period	\$ 22,302	\$ 20,530

There were no liabilities settled during the nine months ended September 30, 2007 and 2006.

At September 30, 2007, \$0.9 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 \$744.8 million net taxable temporary differences, not previously subject to tax, will reverse after January 1, 2011, resulting in an additional \$234.6 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 nine months ended September 30, 2007, the recognition of the additional liability is accounted for prospectively and an additional \$234.6 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

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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, the 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 \$4.6 million reduction in future income tax liabilities at September 30, 2007. 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 at September 30, 2007, of recognizing this income tax rate change is a \$3.9 million reduction in future income tax liabilities. Therefore, the overall impact of these reduced tax rates is an \$8.5 million decrease in the future income tax liabilities at September 30, 2007.

At September 30, 2007, current income taxes payable of \$2.1 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	333,152	356	333,508
Issued under Distribution Reinvestment and Optional Unit Purchase Plan	744,847	755	745,602
Issued under Unit Incentive Option Plan (note 12)	506,571	539	507,110
Balance as at September 30, 2007	203,111,178	203,404	203,314,582

***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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Net income (loss) attributable to unitholders – Basic	\$ 35,097	\$ 42,454	\$ (148,301)	\$ 102,356
Interest on Debentures	255	324	-	1,053
Net income (loss) attributable to unitholders – Diluted*	\$ 35,352	\$ 42,778	\$ (148,301)	\$ 103,409
Weighted-average units outstanding – Basic	203,062,749	201,166,924	202,543,817	198,889,098
Effect of debenture conversions	1,685,744	2,146,857	-	2,351,688
Effect of unit options	780,846	1,204,086	-	1,346,036
Weighted-average units outstanding – Diluted*	205,529,339	204,517,867	202,543,817	202,586,822
Net (loss) income per unit – Basic and diluted	\$ 0.18	\$ 0.21	\$ (0.73)	\$ 0.51

\* The debenture conversions and unit option exercises have an anti-dilutive impact for the nine months ended September 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	-	\$ -	\$ -	86,317
Exercised	(506,571)	\$ 6.57	\$ 2.54	(30,625)
Cancelled	(13,000)	\$ 10.22	\$ 9.72	(68,376)
Balance outstanding, September 30, 2007	1,733,687	\$ 7.83	\$ 5.29	1,034,544

\* 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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Amortization of intangible assets	\$ 3,539	\$ 3,538	\$ 10,637	\$ 10,602
Depreciation of facilities and equipment	18,441	13,230	47,900	40,233
Depreciation of pipeline linefill	442	-	515	-
Amortization of deferred receipt facilities expenditures	71	70	213	571
Gain on sale of property, plant and equipment	-	(23)	(6)	(24)
Accretion of asset retirement obligation	310	255	924	762
Total depreciation and amortization	\$ 22,803	\$ 17,070	\$ 60,183	\$ 52,144

**14. Financing Charges**

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Interest on Loan Payable to General Partner (note 8)	\$ 5,771	\$ 5,771	\$ 17,313	\$ 17,313
Interest expense on credit facilities	15,290	3,998	24,264	11,430
Interest on Debentures	255	324	802	1,053
Interest on Corridor Debentures	3,463	-	4,078	-
	24,779	10,093	46,457	29,796
Capitalized interest (note 2)	(4,371)	-	(4,982)	-
Amortization of transaction costs on long-term debt (notes 2 and 8)	279	-	449	-
Amortization of deferred financing charges (note 2)	-	53	-	159
Total financing charges	\$ 20,687	\$ 10,146	\$ 41,924	\$ 29,955

At September 30, 2007, \$9.9 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 September 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 September 30, 2007 and has recorded the change in fair value for the three and nine months ended September 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 September 30, 2007:

	Nine Months Ended September 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	(19,342)	-
Change in fair value of contracts in place at beginning of year that settled during the period	5,110	-
Fair value of derivative financial instruments, end of period	\$ (32,437)	\$ -

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

	September 30 2007	December 31 2006
Current asset	\$ 10,114	\$ -
Long-term asset	1,915	-
Current liability	(32,875)	-
Long-term liability	(11,591)	-
	\$ (32,437)	\$ -

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

	September 30 2007	December 31 2006*
<b>Frac-spread risk management</b>		
NGL swaps	\$ (22,415)	\$ 8,596
Natural gas swaps	(13,859)	(10,016)
Foreign exchange swaps	11,124	(3,829)
	(25,150)	(5,249)
<b>Interest rate risk management</b>		
Interest rate swaps	(8,192)	(4,041)
	(8,192)	(4,041)
<b>Power price risk management</b>		
Electricity price swaps	905	1,319
	905	1,319
	\$ (32,437)	\$ (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 September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>Revenues</b>				
NGL swaps	\$ (3,928)	\$ (3,656)	\$ (5,123)	\$ (5,372)
Foreign exchange swaps	1,241	462	(17)	1,043
	(2,687)	(3,194)	(5,140)	(4,329)
<b>Shrinkage gas expense</b>				
Natural gas swaps	(4,191)	(3,050)	(9,010)	(8,055)
	(4,191)	(3,050)	(9,010)	(8,055)
<b>Operating expenses</b>				
Electricity price swaps	438	501	521	625
Heat rate swaps	-	1,713	(74)	1,977
	438	2,214	447	2,602
<b>Financing charges</b>				
Interest rate swaps	(589)	(245)	(1,079)	(941)
	(589)	(245)	(1,079)	(941)
<b>Net realized loss on derivative financial instruments</b>	<b>\$ (7,029)</b>	<b>\$ (4,275)</b>	<b>\$ (14,782)</b>	<b>\$ (10,723)</b>

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006*	2007	2006*
Frac-spread risk management				
NGL swaps	\$ (8,415)	\$ -	\$ (31,010)	\$ -
Natural gas swaps	(4,962)	-	(3,843)	-
Foreign exchange swaps	6,314	-	14,953	-
	(7,063)	-	(19,900)	-
Interest rate risk management				
Interest rate swaps	(414)	-	1,296	-
	(414)	-	1,296	-
Power price risk management				
Electricity price swaps	(649)	-	(414)	-
Heat rate swaps	-	-	-	-
	(649)	-	(414)	-
Transfer of gains and losses on derivatives previously designated as cash flow hedges from accumulated other comprehensive income	(736)	-	(5,110)	-
Unrealized change in fair value of derivative financial instruments	\$ (8,862)	\$ -	\$ (24,128)	\$ -

\* No comparative amounts were included in net income in the three and nine months ended September 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 September 30, 2007 represent approximately 38% of forecast propane plus volumes at the Cochrane extraction plant for the period October to December 2007 at average prices of approximately \$0.40 Cdn/US gallon and 31% of forecast volumes for the period January to December 2008 at average prices of approximately \$0.45 Cdn/US gallon. These average prices would approximate \$0.40 US/US gallon and \$0.46 US/US gallon, respectively, based on the average US\$/Cdn\$ forward curve as at September 30, 2007. Contracts outstanding at September 30, 2007 were as follows:

Hedged Period	As at September 30, 2007			
	October 1 to December 31, 2007		January 1 to December 31, 2008	
	Average Price (US\$/US gallon)	Average Quantity (b/d)	Average Price (US\$/US gallon)	Average Quantity (b/d)
NGLs				
Propane	0.985	5,000	1.067	2,997
Normal butane	1.147	856	1.236	516
Iso butane	1.159	530	1.270	320
Pentanes plus	1.645	424	1.647	256
	Average Price (Cdn\$/GJ)	Average Quantity (GJ/day)	Average Price (Cdn\$/GJ)	Average Quantity (GJ/day)
AECO natural gas	8.03	26,087	7.81	17,268

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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	0.878	9,296	0.918	5,974

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.

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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 nine months ended September 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 nine months ended September 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 7.9 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 September 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		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Accounts receivable	\$ (11,711)	\$ (26,778)	\$ 5,810	\$ 10,800
Prepaid expense and other deposits	2,884	3,146	7,814	6,075
Cash distributions payable	34	1,034	111	2,098
Accounts payable and accrued liabilities	37,714	15,715	49,688	(18,634)
Deferred revenue	(1,492)	(3,141)	2,800	6,811
Working capital deficiency assumed on acquisitions	5,622	-	(9,621)	(1,609)
Impact of foreign exchange rate differences and other	(5,043)	(63)	(9,719)	692
<b>Changes in non-cash working capital</b>	<b>\$ 28,008</b>	<b>\$ (10,087)</b>	<b>\$ 46,883</b>	<b>\$ 6,233</b>
These changes relate to the following activities:				
Operating	\$ (15,413)	\$ (9,804)	\$ (1,135)	\$ (902)
Investing	43,387	(1,317)	47,907	5,037
Financing	34	1,034	111	2,098
<b>Decrease in non-cash working capital</b>	<b>\$ 28,008</b>	<b>\$ (10,087)</b>	<b>\$ 46,883</b>	<b>\$ 6,233</b>

**Other Cash Flow Information**

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
Cash taxes paid	\$ 104	\$ (2)	\$ 779	\$ 25
Cash interest paid	\$ 22,248	\$ 3,908	\$ 44,859	\$ 23,909

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## **17. Commitments**

On June 15, 2007, Inter Pipeline Fund entered into an agreement with the shippers to guarantee the payment and performance of all obligations, other than repayment of borrowed amounts or similar financial 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.

With respect to the Corridor Expansion, approximately 75% of Corridor's pipeline construction and facility costs have been committed at September 30, 2007.

## **18. Comparative Figures**

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