

FINANCIAL RESULTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2008

CONSOLIDATED RESULTS

Year ended December 31,	2008	2007	2006
<i>(millions of Canadian dollars except where otherwise noted)</i>			
Cash Provided by Operating Activities	98.1	80.6	86.5
Cash Available for Distribution ¹	91.2	73.5	74.3
Cash Distributions Declared	74.9	69.6	67.3
Cash Distributions Declared Per Unit (dollars per unit) ²	1.0320	0.9600	0.9259

¹ See "Non-GAAP Measures." Refer to page 33 for the reconciliation to Cash Provided by Operating Activities.

² Includes trust units and ECT preferred units.

In 2008, Enbridge Income Fund (the Fund) completed growth projects within all three operating segments, including the BC Expansion project in Alliance Canada, the Westspur expansion in the Saskatchewan System and the Loreburn, Estlin and Alameda waste heat recovery facilities within the Green Power segment. The completion of these projects results in increased earnings and cashflows, which has enabled the Fund to increase monthly cash distributions to its unitholders.

For the year ended December 31, 2008, cash distributions declared of \$74.9 million (2007 – \$69.6 million) represented 82.1% (2007 – 94.7%) of cash available for distribution. The year-to-date decrease in the distribution rate reflected the Calpine Energy Services Canada Partnership (CESCA) bankruptcy settlement received in the first quarter. Excluding the cash received in the second quarter from the CESCA settlement, cash available for distribution to distributions declared for the year ended December 31, 2008, was 88.0%. The Fund pays cash distributions on a monthly basis to unitholders of record on the last business day of each month with distributions payable on or about the 15th day of the month following the declaration. Since inception, the Fund has declared the following distributions.



Annual Cash Distribution per Unit^{1,2,3}

¹ Distributions include both a return on capital and a return of capital.

² Includes trust units and ECT preferred units.

³ The 2009 estimated annual cash distribution column reflects the annualization of the monthly distribution of \$0.096 previously approved by the Board of Trustees payable to unitholders of record on January 30, 2009.

FINANCIAL PERFORMANCE ¹

EARNINGS

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Alliance Canada	63.1	57.0
Saskatchewan System	17.5	13.5
Green Power	1.1	2.3
Corporate	(59.8)	(58.3)
Earnings before the impact of tax changes	21.9	14.5
Revalue future taxes due to tax rate changes	–	8.5
Future taxes due to Tax Fairness Plan	–	(1.9)
Earnings	21.9	21.1

¹ Financial highlights have been extracted from financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Earnings for the year ended December 31, 2008, increased by \$0.8 million over the prior year. After adjusting for the impact of tax changes in 2007, earnings have increased by \$7.4 million from the prior year. This increase is primarily due to the receipt of the CESCA settlement of \$6.1 million for Alliance Canada as well as higher earnings from the Saskatchewan System due to the Westspur expansion and allowance oil sales. Offsetting these factors is a decline in earnings from the Green Power segment due to an unrealized non-cash mark to market loss on Wind power derivatives as well as shutdowns at NRGreen facilities due to equipment failures.

On June 22, 2007, the “Tax Fairness Plan” income trust taxation legislation, Bill C-52, received Royal Assent. Under the enacted legislation, a distribution tax will be imposed on Enbridge Income Fund starting in 2011. This change resulted in the recognition of future income tax liabilities and expense of \$1.9 million in 2007. The impact of the Tax Fairness Plan on the Fund’s reported earnings was relatively small because most of the assets are rate regulated and future taxes are expected to be included in the approved rates charged to customers in the future. However, as enacted in its present form, the Tax Fairness Plan will serve to reduce, all other things being equal, cash available for distribution by the Fund commencing in 2011. The earnings impact of the legislation in 2007 was more than offset by reductions in the 2011 federal corporate income tax rate of 0.5% in June and of 3.5% in December resulting in future income tax recoveries of \$8.5 million in the prior year.

FORWARD-LOOKING INFORMATION

In the interest of providing the Fund’s unitholders and potential investors with information about the Fund and its subsidiaries, including management’s assessment of the Fund’s and its subsidiaries’ future plans and operations, certain information provided in this Management’s Discussion and Analysis (MD&A) constitutes forward-looking statements or information (collectively, “forward-looking statements”). Forward-looking statements are typically identified by words such as “anticipate,” “expect,” “project,” “estimate,” “forecast,” “plan,” “intend,” “target,” “believe” and similar words suggesting future outcomes or statements regarding an outlook. Although the Fund believes that these forward-looking statements are reasonable based on the information available on the date such statements are made, such statements are not guarantees of future performance, and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements.

The Fund’s forward-looking statements are subject to risks and uncertainties pertaining to operating performance, regulatory parameters, weather, economic conditions and commodity prices, including but not limited to those risks and uncertainties discussed in this MD&A and in the Fund’s other filings with Canadian securities regulators. The impact of any one risk, uncertainty or factor on a particular forward-

looking statement is not determinable with certainty as these are interdependent and the Fund's future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by law, the Fund assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Fund or persons acting on the Fund's behalf, are expressly qualified in their entirety by these cautionary statements.

NON-GAAP MEASURES

This MD&A contains references to cash available for distribution and earnings before the impact of tax changes. Cash available for distribution represents cash available to fund distributions on trust units and ECT preferred units, as well as for debt repayments and reserves. This measure is important to unitholders as the Fund's objective is to provide a predictable flow of distributable cash to unitholders. Please refer to the Cash Available for Distribution reconciliation on page 33. Earnings before the impact of tax changes represents earnings adjusted for tax changes enacted in the year. Management believes that the presentation of earnings before the impact of tax changes provides useful information to investors and unitholders as it provides increased predictive value. Cash available for distribution and earnings before the impact of tax changes are not measures that have standardized meanings prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and are not considered GAAP measures. Therefore, these measures may not be comparable with similar measures presented by other issuers.

FUND STRATEGY

FUND'S OBJECTIVE

The Fund is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Fund commenced operations on June 30, 2003, and is administered by Enbridge Management Services Inc. (EMSI or Manager or Administrator), a wholly owned subsidiary of Enbridge Inc. (Enbridge). EMSI also serves as the manager of Enbridge Commercial Trust (ECT), a subsidiary of the Fund. The Fund has investments in businesses that operate crude oil and natural gas pipelines as well as waste heat recovery facilities and wind power.

The Fund's objectives are to provide a predictable flow of distributable cash and to increase, where prudent, cash distributions on a per trust unit basis.

STRATEGY

In order to further achieve the Fund's objectives, the Manager pursues a business strategy for the Fund which involves:

- Maximizing the efficiency and profitability of its existing assets through representation on the Boards and/or management committees governing the Fund's assets;
- Pursuing organic growth and expansion opportunities in its existing businesses; and
- Acquiring and or developing new energy infrastructure businesses that are complementary and in keeping with the risk and return profile of its existing business.

To successfully pursue this strategy, the Fund must mitigate certain business risks. These risks, and the Fund's strategies for managing them, are described under "Risk Factors."

The Tax Fairness Plan as enacted may limit the Fund's ability to successfully execute this strategy, and, accordingly, the Manager continues to consider a variety of alternatives to optimize returns and value to unitholders.

The Manager does not expect the Fund's operations, cashflows and earnings to be materially impacted by the current economic downturn and financial market turmoil. A large portion of the Fund's sources of revenue are contractually secured, and demand for the Fund's services has not been materially affected thus far, as evidenced by increased volumes on the Alliance System in 2008 and continuing progress on

the Saskatchewan System expansion project announced in the fourth quarter of 2008. Given the uncertain economic climate, the Manager is undertaking certain measures to protect the Fund's ongoing profitability and financial flexibility, including increased emphasis on counterparty credit risk management. To ensure that the Fund has sufficient liquidity to refinance maturing term debt in the event of a disruption in capital markets, the Manager is seeking to secure additional committed standby credit facilities from commercial banks and/or Enbridge Inc.

CORE BUSINESS ACTIVITIES

The Fund's activities are carried out through three operating segments:

- Alliance Canada includes the Fund's 50% interest in the Canadian portion of the Alliance System. The Alliance System is a natural gas pipeline system, comprised of Alliance Canada and Alliance US, transports natural gas from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois.
- Saskatchewan System owns and operates crude oil and liquids pipeline systems primarily connecting producing fields in southeastern Saskatchewan and southwestern Manitoba with Enbridge's mainline pipeline, for transportation to the United States.
- Green Power includes entities that produce electricity via alternative energy sources and consists of a 50% interest in each of NRGreen and the SunBridge wind project, as well as a 33% interest in each of the Magrath and Chin Chute wind projects.

SELECTED OPERATING HIGHLIGHTS

Year ended December 31,	2008	2007	2006
Average Daily Throughput Volume			
Alliance Canada <i>(millions of cubic feet per day)</i>	1,609.0	1,598.0	1,592.0
Saskatchewan System ¹ <i>(thousands of barrels per day)</i>			
Westspur System	177.8	157.2	155.2
Saskatchewan Gathering System	123.7	109.6	103.8
Weyburn System	34.7	35.0	37.3
Virden System	26.4	24.2	20.7
Green Power ² <i>(thousands of megawatt hours produced)</i>	312.5	285.0	52.2

¹ Totals are not presented as the same volumes can be transported through a combination of the pipelines comprising the Saskatchewan System.

² Wind assets were acquired on October 1, 2006. NRGreen's Kerrobert waste heat recovery facility began operations in 2006. NRGreen's three new facilities, Loreburn, Estlin and Alameda, began operations in May, July and November of 2008, respectively.

Alliance Canada transportation deliveries for the year, including Authorized Overrun Service (AOS) averaged 1,609 million cubic feet per day (mmcf/d) (21.4% in excess of firm capacity of 1,325 mmcf/d) compared with 1,598 mmcf/d (20.6% in excess of firm capacity) in 2007. This increase is reflective of Alliance Canada's continued focus on improving efficiencies on its system. An increase in AOS does not impact earnings; however, it does increase the competitiveness of Alliance Canada's tolls.

Throughputs for the Saskatchewan System have increased compared with the prior year due to several reasons, including the completion of the Westspur expansion, increased volumes being trucked to the pipelines and additional volumes from new customer connections. Higher throughputs do not directly impact earnings on the Saskatchewan Gathering and Westspur Systems since these systems are cost-of-service based. However, a portion of the increased throughput on these systems is attributable to the Westspur expansion, which will generate additional earnings on the incremental capital invested. Throughput levels may directly impact the earnings of the Weyburn and Virden systems.

The increase in energy production by Green Power was reflective of a partial year of operations from NRGreen's three new waste heat facilities, Loreburn, Estlin and Alameda, which were put into service in 2008. The increase from the new facilities was partially offset by downtime due to equipment failures at the facilities during the year, for which warranty and insurance claims are being pursued. Additionally, the energy produced by the three wind power projects is lower than the prior year's production due to a lower wind resource in 2008.

ALLIANCE CANADA

Alliance Canada consists of approximately 1,560 kilometres of the Alliance System's mainline beginning near Gordondale, Alberta and connecting to Alliance US at the Canada/US border near Carnduff, Saskatchewan. Alliance Canada also includes the Alliance System's lateral pipelines, which connect the mainline to a number of upstream receipt points, primarily at natural gas processing facilities in northwestern Alberta and northeastern British Columbia, and related infrastructure.

The Alliance System is designed to transport 1,325 mmcf/d of natural gas from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois. Shippers have executed transportation service agreements (TSAs) with each of Alliance Canada and Alliance US, which have an initial 15-year term expiring in November 2015 and provide for 98.5% (2007 – 98.5%) of the Alliance System's available firm transportation capacity. The TSAs are designed to provide Alliance Canada with a steady and predictable cash flow stream through 2015. Additional transportation capacity is available to shippers for no additional cost other than the cost of the associated fuel requirements through Alliance Canada's AOS. Beginning in December 2010, each TSA may be renewed on five years' notice for successive one-year terms, beyond the initial 15-year term, at the option of the shipper. The remaining 1.5% (20 mmcf/d) of firm capacity has been contracted on a short-term basis to March 2010.

Tolls and tariffs for Alliance Canada are regulated by the National Energy Board (NEB). Alliance Canada's TSAs are designed to provide toll revenues sufficient to recover prudently incurred costs of service, including operating and maintenance costs, costs of indebtedness, an allowance for income tax, capital taxes, depreciation and an allowed return on equity based on a deemed 70/30 debt-to-equity ratio. Each shipper's charges are proportionate to the shipper's contracted capacity. Toll adjustments, based on variances between the cost of service forecast used to calculate the toll and the actual cost of service, are made annually. Following consultation with the shippers, tolls are filed with the regulator for approval.

Depreciation expense on the transmission plant included in the cost of service is based on negotiated depreciation rates contained in the TSAs while the depreciation expense in the financial statements is recorded on a straight-line basis of 4% per annum. The negotiated depreciated rates are generally less than the straight-line rates in the earlier years and higher than straight-line depreciation in later years of the TSAs. This results in the recognition of a long-term receivable, referred to as deferred transportation revenue, expected to be recovered from shippers in subsequent rates. As at December 31, 2008, \$79.8 million (2007 – \$65.6 million) was recorded as deferred transportation revenue.

Alliance Canada's maintenance program maintains its productive capacity and helps to ensure the future sustainability of its distributions. The program includes semi-annual inspections of all compressor stations as well as internal corrosion coupon inspections and annual Pipe-to-Soil surveys, atmospheric inspections, above-ground indirect assessments and the repair and replacement of compressor parts. Mainline pipeline inspection is completed on a seven-year recurring schedule. Other maintenance performed includes soil resistance surveys and corrosion deficiency reports. Maintenance expenditures may vary from year to year.

Earnings

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Earnings before the impact of tax changes	63.1	57.0
Revalue future taxes due to tax rate changes	–	2.0
Earnings	63.1	59.0

Earnings for the year ended December 31, 2008, were \$4.1 million higher than the year ended December 31, 2007. This was primarily due to the CESCO bankruptcy settlement received in the first quarter of 2008 in respect of CESCO's repudiated capacity commitment. The final settlement and interest accrued increased earnings by \$6.1 million. Also contributing to earnings in 2008 was a higher allowance for income tax resulting from the change in the treatment of compressor maintenance expenditures. However, this increase was partially offset by a lower return on equity due to a declining investment base. In contrast, prior year earnings had a \$2.0 million future tax recovery, increasing earnings as a result of future tax rate reductions enacted in 2007. Future taxes in Alliance Canada result from differences, which arose on the acquisition of Alliance Canada from Enbridge, between the accounting values and the tax bases of certain assets and liabilities.

Earnings reflect a return on equity applied to investment base accounts, as well as an allowance for deemed income and provincial capital taxes on regulated activities. The rate used to calculate the equity return is not expected to change; however, related annual earnings will decline over time as the investment base is depreciated.

Revenues for the year ended December 31, 2008, were \$222.1 million compared with \$209.1 million for the year ended December 31, 2007. The \$13.0 million increase was primarily due to the change in accounting treatment for certain expenditures. In 2008, the treatment of expenditures for compressor overhaul maintenance and other replacement equipment was revised such that these costs are now expensed instead of capitalized as they were in prior years, increasing both operating and maintenance expense and toll revenue. Given the rapid consumption rate associated with these expenditures, and that overhaul maintenance expenditures relate primarily to the replacement of worn or obsolete equipment nearing the completion of its useful life, Alliance Canada determined that it is more appropriate to expense these items. Cost-of-service recoveries have also increased due to a higher allowance for income tax (as a result of the aforementioned change in accounting treatment), higher property taxes and the purchase of environmental credits in compliance with the Alberta Specified Emitters regulation. The increase to revenue was partially offset by a lower return on equity as a consequence of a declining investment base and a lower interest expense as a result of principal repayments made.

Strategy

Alliance Canada manages its operating assets and infrastructure with the objective of maximizing shipping capacity, excelling in operating performance and increasing the competitiveness of its tolls. By focusing on its core business, Alliance Canada has continued to meet or exceed its previous record in all key areas of operational performance; availability, reliability, safe operations, throughput and efficiency. Alliance Canada has successfully implemented several pipeline optimization projects and will continue to consider further optimization initiatives and growth opportunities, through expanded receipt capacity and new service offerings with an aim of increasing the competitiveness of its tolls and demand for services to ensure steady and sustainable cash flow.

BC Expansion Project

In December 2008, Alliance Canada completed construction of the expansion project in British Columbia that was built in response to shipper demands for increased receipt capacity on the Taylor-Aitken Creek lateral system in northeastern British Columbia. The project was completed in line with budget and involved construction of the Taylor Junction compressor station and includes a 7,000 horsepower turbine, a control and maintenance building with remote monitoring equipment and a high-pressure gas cooler. This project did not increase the mainline capacity but has enabled Alliance to ship an incremental 150 mmcf/d of gas out of the area.

2009 Toll Filing

On October 31, 2008, following consultation with its shippers, Alliance Canada filed its 2009 tolls with the NEB. Alliance Canada's 2009 tolls increased slightly from \$0.859 per million cubic feet (mcf) to \$0.863/mcf on January 1, 2009. Offsetting factors permitted the rates to remain substantially consistent.

Lower general and administrative (G&A) expenses and decreased compressor maintenance costs were offset by rising legal costs for compliance and regulatory matters, higher pipeline integrity expenses and increased environmental costs resulting from new climate change legislation in Alberta and British Columbia. Lower G&A expenses resulted from decreased spending on computer hardware and software as well as lower insurance premiums on policy renewals. Compressor maintenance costs decreased in 2008 as a result of the new CSA II maintenance contract effective March 2008.

Calpine Energy Services Canada Partnership (CESCA) Claim Settlement

In 2006, CESCA, a shipper on the Alliance System accounting for 1.5% of firm capacity, repudiated its firm transportation service agreement with Alliance Canada. Alliance Canada immediately arranged for the placement of this capacity and drew on CESCA's letter of credit for funds equal to 12 months of demand charges in respect of CESCA's former transportation capacity. The funds were held in trust with Alliance Canada's Security Trustee to be applied against any shortfall in tolls arising from the new placement. Transportation revenue for 2007 and 2008 was unaffected by this repudiation due to the re-marketing of the transportation capacity and use of the funds received as security.

In 2006, Alliance Canada and Alliance US filed proofs of claim in the Calpine Corporation Chapter 11 Bankruptcy proceeding. These claims were in respect of guarantees provided by Calpine Corporation as security for the performance of CESCA's obligations under its transportation contracts. In 2007, an agreement with CESCA and related Calpine entities was reached, which provided Alliance Canada and Alliance US with one general unsecured claim against CESCA. On January 16, 2008, full payment for settlement of the two claims totalling \$20.7 million was received. The Fund's 2008 results reflect \$6.1 million in earnings related to this settlement and the accrued interest, which is the Fund's 50% share of Alliance Canada's portion of the claim.

Capital Expenditures

Capital expenditures in 2008, representing the Fund's 50% interest, were \$23.3 million (2007 – \$17.9 million), including \$5.2 million (2007 – \$9.1 million) in maintenance capital expenditures and \$18.1 million (2007 – \$8.8 million) in enhancement capital. Capital expenditures were higher than expected due primarily to higher maintenance capital expenditures. Capital expenditures in 2008 were focused on the implementation of the SAP Core System and the BC Expansion project, as well as regular system maintenance. In 2009, Alliance Canada expects the Fund's 50% share of its capital expenditures to be approximately \$1.8 million.

Business Risks

The risks identified below are specific to Alliance Canada. General risks that affect the Fund as a whole are described under Risk Factors.

Re-Contracting Risk

The revenue generated by Alliance Canada is derived from tolls that are based on the TSAs which, unless renewed, will terminate at the end of the primary term in November 2015. Beyond the primary term, the decision by shippers to renew will depend on numerous factors, including the level of demand for natural gas in the geographic areas which can be served by pipelines and distribution facilities connected to the Alliance System, the ability and willingness of shippers to meet such demand, the competitiveness of Alliance Canada's toll structure and general market conditions. If shippers do not renew their TSAs, Alliance Canada may be forced to lower its tolls to avoid losing shippers, thereby reducing Alliance Canada's cash flow from the TSAs.

When the primary term of the TSAs expires, Alliance Canada is expected to have recovered approximately 54% of the capital cost of the Alliance Canada pipeline through depreciation charges collected from shippers. Since there is no guarantee that all shippers will extend their contracts beyond the primary term, the undepreciated capital cost and the deferred transportation revenue may not be recovered as soon as expected. In order to mitigate the risk of non-renewal, there are financial incentives for shippers to renew their contracts beyond the primary term. Additionally, Alliance Canada continues to focus on ensuring the competitiveness of its tolls and providing a high level of service through system enhancements.

Competition

The Alliance System faces competition in pipeline transportation from both existing and proposed projects. Any new or upgraded pipelines could provide shippers and competing pipelines greater access to natural gas markets or offer more desirable natural gas transportation services due to location, facilities or other factors. Further, these pipelines could charge tolls or provide service to locations that result in greater net profit for shippers. As a result, Alliance Canada may be forced to lower its transportation tolls upon the expiration of the primary term of the TSAs. Alliance Canada mitigates this risk through its continued focus on strong shipper relations and competitive tolls as well as its AOS, which allows shippers access to transportation capacity at no additional cost.

Exposure to Shippers

Alliance Canada is highly dependent on shippers for revenues from contracted capacity on the Alliance Canada system. Failure of the shippers to fulfill their contractual obligations under the TSAs could have an adverse effect on the cash flows and financial condition of Alliance Canada and could impair the ability of Alliance Canada to meet its debt obligations and make distributions to its limited partners. A prolonged economic downturn in the energy industry, significant reductions in the supply of natural gas in the Western Canadian Sedimentary Basin, competition from alternative sources of natural gas supply and from other providers of natural gas transportation services, and the price of and demand for natural gas and natural gas transportation services in markets served by Alliance Canada, among other things, could impact the ability of some or all of the shippers to fulfill their obligations under the TSAs.

Credit Risk

Currently, approximately 9.0% of firm capacity on Alliance Canada's system is contracted to shippers who do not have an investment-grade rating or equivalent strong credit status and are required to post security. These shippers have provided security to Alliance Canada, but in no case does it fully cover more than one year's demand charges under the TSAs. There can be no assurance that the security will be adequate to compensate Alliance Canada if a shipper is unable to fulfill its obligations under its TSA.

Recovery of Costs

Pursuant to the terms of the TSAs and in accordance with the negotiated toll principles accepted by the NEB, Alliance Canada is permitted to recover from the shippers costs incurred in the construction and operation of the Alliance System that are actually and reasonably incurred. There can be no certainty that all costs incurred by Alliance Canada will be recoverable through the transportation tolls. Since transportation tolls are set in advance based on forecast expenses, and adjusted periodically to reflect actual expenses, there is no assurance that the variances in the estimate will be recovered from shippers in subsequent periods.

Dependence on Interconnected Systems and Facilities

The Alliance System operates as an integrated pipeline; therefore, any matters which limit or restrict the ability of Alliance US to operate will equally affect the ability of Alliance Canada to operate. Alliance Canada may have no control over matters which may adversely affect Alliance US. In addition, the debt obligations of Alliance Canada and Alliance US are cross-collateralized. In the event of a default of the debt obligations of either Alliance Canada or Alliance US, the assets of the non-defaulting entity may be used to satisfy the debts of the defaulting entity. The debt obligations of both Alliance Canada and Alliance US also contain default provisions related to the occurrence of certain bankruptcy, insolvency or other adverse events affecting Aux Sable Extraction LP, where those events would have a material adverse effect on Alliance.

There is a significant degree of dependency on Aux Sable Liquid Products LP (Aux Sable), a related party to Alliance Canada through common ownership interest, to satisfy its requirements to provide heat content management services to Alliance US. Should Aux Sable fail to provide heat content management services for any reason, Alliance Canada may experience operational issues, including an interruption or curtailment of transportation service on the Alliance System. It is not possible to predict the extent or duration of these operational problems or their precise financial or operational effect on Alliance Canada.

SASKATCHEWAN SYSTEM

The Saskatchewan System transports crude oil from producing fields in southeastern Saskatchewan and southwestern Manitoba as well as natural gas liquids (NGLs) from the Steelman gas processing plant to Cromer, Manitoba, where the crude oil and NGLs enter Enbridge's mainline pipeline to be transported to the United States.

The Saskatchewan System is comprised of the Saskatchewan Gathering, Westspur, Weyburn and Virden pipeline systems. Collectively referred to as the Saskatchewan System, these crude oil and liquids pipeline systems include approximately 356 kilometres of trunk line, 1,900 kilometres of gathering pipeline and related terminals and tankage facilities. The capacity of each of the Saskatchewan Gathering and the Westspur Systems is 255,000 barrels per day (bpd) and the capacity of the Weyburn and Virden Systems is approximately 47,000 bpd and 37,000 bpd, respectively.

The Saskatchewan Gathering System and the Westspur System are regulated by Saskatchewan Energy and Resources (SER) and the NEB, respectively. Both systems follow the principles for establishing tolls outlined in agreements with shippers, signed in 1985, expired in 1995, and now monitored on a customer complaint basis. The Saskatchewan Gathering System and the Westspur System tolling agreements are based on a cost-of-service methodology and are designed to provide toll revenues sufficient to recover operating costs, depreciation, deemed interest expense, income tax and to provide an administrative expense allowance as well as a return on the asset base. This methodology increases the stability and predictability of cash flows generated by these systems.

The Weyburn and Virden Systems are regulated by the SER and Manitoba Science, Technology, Energy and Mines (STEM), respectively. Rates are established based on historical precedence, signed customer agreements or both and are updated to reflect changing market conditions when warranted.

The SER and the NEB exercise statutory authority over various matters such as construction and operations and may exercise authority over rates and ratemaking agreements with customers and underlying accounting principles. The regulators do not regularly review or approve the rates established by the pipeline systems comprising the Saskatchewan System. However, in the event of a customer complaint, the regulator would review and provide a ruling on the rates in question. There have been no customer toll complaints filed to date for any of the systems comprising the Saskatchewan System.

The Saskatchewan System maintenance program maintains its productive capacity and includes sump tanks, berm and line repairs, piping modifications and tank and meter repairs. Maintenance expenditures will vary year to year as some maintenance is performed on a cyclical basis. For example, software upgrades are scheduled every five years. Tank repairs occur annually, although, the extent of repairs will

fluctuate each year based on the age and size of the tank. The program also includes annual system integrity management, which consists of cathodic protection, installation and maintenance, inline inspections and repairs, station and tank inspection and repairs, as well as chemical injections, which serve as corrosion inhibitors.

Earnings

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Earnings before the impact of tax changes	17.5	13.5
Revalue future taxes due to tax rate changes	–	5.8
Earnings	17.5	19.3

Earnings for the year ended December 31, 2008, of \$17.5 million were lower than the prior year primarily due to a revaluation of future taxes in 2007 which boosted the prior year earnings by \$5.8 million. Future taxes in the Saskatchewan System result from temporary differences between the accounting value of the property, plant and equipment and the tax basis. After adjusting for the 2007 future tax revaluation, 2008 earnings were higher than the prior year earnings by \$4.0 million. The completion of the Westspur Expansion in June of 2008 increased earnings, as the capital expansion increased the rate base upon which the equity return is calculated. Additionally, the Saskatchewan System profited from the impact of higher oil prices in the first half of 2008 on the sale of allowance oil collected by the Virden System.

Earnings from both the Saskatchewan Gathering System and the Westspur System reflect an equity return on rate base. The rate used to calculate the equity return is not expected to change; however, the rate base will change due to depreciation over time as well as maintenance and enhancement capital additions. Earnings from both the Weyburn System and the Virden System reflect toll revenues less costs incurred.

Revenue for the Saskatchewan Gathering and Westspur Systems primarily reflected the cost-of-service recovery, whereby an increase in costs resulted in increased revenue. Revenue for the year ended December 31, 2008, was \$68.0 million, which is an increase of \$13.6 million from the prior year revenues of \$54.4 million. The increased revenue reflected higher cost-of-service recoveries on the Saskatchewan Gathering and Westspur Systems driven by an increase in labour costs and other increased operating costs related to the growth in the two systems.

Strategy

The Saskatchewan System operates its pipelines and supporting assets with the objective of providing reliable, cost-effective transportation solutions for its customers. The Saskatchewan System is focused on addressing the increased crude oil production and growing demand for pipeline capacity in the areas served by its systems through expansion and development initiatives. Transportation by pipeline is generally more cost effective than other alternatives and, as a result, the Saskatchewan System is currently pursuing further expansion of its facilities to meet the growing demand for its services. Growth from recently completed and planned system expansions is expected to increase distributable cash flow from this segment.

Saskatchewan System Capacity Expansion

The Westspur expansion project was completed on time and was put in service in June 2008 at a total cost of \$33.3 million. This expansion increased capacity on the Westspur System by 34% for all Westspur crude oil and NGL lines into Cromer, Manitoba.

The Fund expects to begin construction on Phase II of the Saskatchewan System Capacity Expansion in 2009. This expansion consists of four separate projects that will reduce capacity constraints at a variety of locations. Collectively, the projects will increase capacity across the system by approximately 129,000 bpd at an estimated cost of approximately \$100 million.

The Weyburn System Looping project includes upgrades to the Weyburn terminal pumps, piping and meter facilities. The Saskatchewan Benson Expansion project includes modifications to the Benson terminal, a line reversal between the Benson terminal and the Midale Feeder line, pump upgrades near Gapview, Saskatchewan, and installation of new pipe. The Westspur Bryant to Steelman Expansion project consists of the installation of new pipe from the Bryant station to Steelman, Saskatchewan, and the Westspur/NGL Conversion project involves the installation of new pipe from Steelman to Wilmar, Saskatchewan, and the transfer of an idle line from the Saskatchewan Gathering System to the Westspur System, which will allow for relocation of NGLs from the BP Steelman Gas Plant to the NGL line at Alida, Saskatchewan.

The regulatory applications for the Weyburn System Looping and the Saskatchewan Benson Expansion are expected to be prepared and submitted in the second quarter of 2009. The regulatory applications for the Westspur projects are targeted for filing in the fourth quarter of 2009. Shippers and producers on the Saskatchewan System were consulted, and a majority are supportive of these projects. Completion of the four capacity expansion projects is expected by the third quarter of 2010.

Capital Expenditures

Capital expenditures for the year ended December 31, 2008, were \$27.4 million (2007 – \$21.1 million) including \$4.4 million (2007 – \$4.4 million) in maintenance capital and \$23.0 million (2007 – \$16.7 million) in enhancement capital. Expenditures were lower when compared to the expected expenditures for 2008 of \$36.0 million. The \$8.6 million variance from the forecasted spending was primarily a result of savings from milder temperatures and snowfall during winter construction than was budgeted. Expenditures in 2008 were focused on the expansion of the Westspur System as well as sustaining capital infrastructure, the completion of new customer connections, pipeline integrity and tank and line repairs.

The Saskatchewan System anticipates capital expenditures of approximately \$46.4 million in 2009. Of this amount, approximately \$6.6 million is allocated to maintenance capital expenditures, to continue the annual repair and inspection programs. The remaining \$39.8 million is expected to be spent on the four projects comprising Phase II of the Saskatchewan System Capacity Expansion.

Business Risks

The risks identified below are specific to the Saskatchewan System. General risks that affect the Fund as a whole are described under Risk Factors.

Competition

The Saskatchewan System faces competition in pipeline transportation from other existing or proposed pipelines as well as other forms of transportation, most notably trucking. These alternative transportation options could charge rates or provide service to locations that result in greater net profit for shippers with the effect of forcing the Saskatchewan System to lower its transportation rates to avoid losing shippers, thereby reducing cash flow. The Saskatchewan System manages exposure to shippers and competition by ensuring the shipping rates are competitive and by providing a high level of service. Further, the Saskatchewan System's right-of-way and expansion efforts have created a competitive advantage. The Saskatchewan System will continue to focus on increasing efficiencies and economically expanding the capacity of its facilities in order to meet its shippers' growing demand.

Execution Risk

When undertaking a significant capital program, such as the Saskatchewan System Capacity Expansion, the Fund faces the risk of ineffective execution of the capital plan, which could result in cost over-runs, construction and regulatory delays. To mitigate these risks, clearly defined management and governance structures for all major projects are established, and strategic relationships with landowners, suppliers, contractors and other stakeholders are formed and maintained. Additionally, Enbridge's Human Resources department ensures that compensation programs, communications and working environments are designed to attract, develop and retain qualified personnel.

Demand for Services

Operations and tolls for the Saskatchewan Gathering and the Westspur Systems are based on expired agreements with certain crude oil shippers and are monitored on a customer complaint basis. The majority of the volumes shipped on these systems are transported on terms similar to a common carrier basis with no specific ongoing volume commitments. There is no assurance that shippers will continue to utilize these systems in the future or transport volumes on similar terms or at similar tolls.

Credit Risk

The Saskatchewan System's trade receivables consist primarily of amounts due from companies operating in the oil and gas exploration and development industry. The credit risk associated with these receivables is mitigated by utilization of credit exposure limits where appropriate, credit enhancement including contractual and collateral requirements, and netting arrangements.

GREEN POWER

Wind Power

Green Power includes the Fund's interest in three wind power projects including a 50% interest in the SunBridge project at Gull Lake, Saskatchewan, and a 33% interest in each of the Magrath and Chin Chute projects in southern Alberta. Collectively referred to as Wind Power, the SunBridge, Magrath and Chin Chute wind power projects have a combined capacity of 71 megawatts (MW). SunBridge consists of 17 turbines, each with a capacity of 0.66 MW for an 11 MW total. The power from Sunbridge is delivered into the Saskatchewan power grid and is sold to Saskatchewan Power Corporation (SaskPower) under a long-term Power Purchase Agreement (PPA) which expires in 2022. Each of the Magrath and Chin Chute wind projects utilize 20 turbines, each turbine has a capacity of 1.5 MW, for a 30 MW total capacity per project. The energy produced at Magrath and Chin Chute is delivered into the Alberta power grid. The Fund has entered into long-term agreements to substantially fix the price received for its share of production on these projects. The Magrath contract expires on November 30, 2024, while the Chin Chute contract expires on December 31, 2017.

The Fund entered into a contract to sell all available emission reduction credits generated by the Fund's interest in the Chin Chute and Magrath projects to Enbridge. The contract has an initial 20-year term ending October 1, 2026, and provides for a fixed price of \$5 per tonne of avoided CO₂ emissions, based on a negotiated rate of converting megawatts generated to tonnes of emissions reduced, plus applicable taxes.

Each of the Magrath and Chin Chute wind power projects receive \$10 per megawatt hour (MWh) for electricity generated for a 10-year term under federal government support programs for renewable power. The Magrath project will continue to receive Wind Power Production Incentives (WPPI) funding until August 16, 2014, and the Chin Chute project will continue to receive ecoENERGY Renewable Power Program Incentives (ERPPI) funding up to March 31, 2017.

Various inspection and monitoring methods are utilized as well as ongoing maintenance to maintain the safety and integrity of the wind turbines and related facilities, and to minimize system disruptions. The Wind Power assets are subject to semi-annual maintenance to maintain the life of the turbines. Future maintenance expenditures will vary each year, and, given the infancy of this industry, long-term projections of maintenance capital expenditures will likely differ from the actual results.

NRGreen

NRGreen operates four non-regulated waste heat recovery facilities located in Saskatchewan, along the Alliance Pipeline. The first facility located at Kerrobert, Saskatchewan, has been operating since December 2006. In 2008, NRGreen completed construction on three additional facilities in Loreburn, Estlin and Alameda, Saskatchewan. These facilities began operations in May, July and November of 2008, respectively. Electricity is generated by harnessing the waste heat produced by Alliance Canada's gas turbines at its compressor stations and converting it to electrical energy. With four waste heat recovery facilities in operation, NRGreen's facilities can generate 20 MW of power.

SaskPower purchases the power generated from all four of the NRGreen facilities. The PPAs expire 10 years after the in-service date for each facility. However, each PPA permits two five-year renewal notices at NRGreen's election. These may be renewed successively to provide an additional 10-year extension to the initial PPA.

NRGreen maintenance is performed concurrently with the Alliance Canada semi-annual inspection of the Kerrobert, Loreburn, Estlin and Alameda compressor stations.

Earnings

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Earnings before the impact of tax changes	1.1	2.3
Revalue future taxes due to tax rate changes	–	0.1
Future taxes due to Tax Fairness Plan	–	0.2
Earnings	1.1	2.6

Earnings for the year ended December 31, 2008, were \$1.1 million compared with earnings for the year ended December 31, 2007, of \$2.6 million. The \$1.5 million decrease in earnings is attributed to an unrealized non-cash derivative loss of \$0.9 million, downtime experienced at the NRGreen facilities during the year, interest expense on the new NRGreen credit facility and a lower wind resource on the wind power projects. In contrast, prior year earnings were positively impacted by \$0.3 million due to the future tax rate reduction in 2007 and an increase in future tax recoveries arising from the Tax Fairness Plan, which effectively changed the future tax rate from 0% to 29.5% starting in 2011. Future tax recoveries in the Green Power segment arose from differences between the accounting value and the fair value of the property, plant and equipment on the acquisition of the wind power projects.

The Green Power segment has entered into derivative instruments to mitigate cash-flow fluctuations associated with revenue generated on its wind power projects by fixing the price of power. A portion of the derivative instruments has not been designated as a hedge for accounting purposes. As a result, changes in the fair value of this portion are reflected in earnings each period.

NRGreen experienced equipment failures at its facilities during the year, which led to downtime resulting in lower earnings. All facilities are covered by warranty and at December 31, 2008, claims have been submitted, or are in the process of being submitted, for all equipment failures. Warranty and insurance claims of \$0.2 million related to the 2007 Kerrobert shutdown were received in the fourth quarter of 2008.

Strategy

The objective of Green Power is to produce reliable, cost-effective electricity via alternative energy sources to ensure stable, relatively predictable cash flow streams for the Fund. Power production by the Green Power segment is supported by long-term PPAs and power swap agreements, which serve to mitigate the risk of fluctuating power prices, thereby stabilizing cash flows.

Capital Expenditures

Capital expenditures of \$6.0 million in 2008 (2007 – \$17.2 million) were in line with expectations. The majority of these expenditures were construction costs for the three new NRGreen waste heat facilities that commenced operations in the year. The SaskPower interconnect on Alameda remains to be completed and some final construction costs on the three new facilities will be incurred in 2009. Green Power anticipates capital expenditures of approximately \$1.4 million in 2009 focused primarily on the final completion activities of the three new waste heat facilities.

Business Risks

The risks identified below are specific to the Green Power segment. General risks that affect the Fund as a whole are described under Risk Factors.

Variable Wind Resource

The generation of electricity associated with the Fund's interest in its wind power projects is dependent on the wind resource at each location. The wind resource fluctuates daily and seasonally. The Fund reduces its exposure to these wind resource fluctuations through PPAs, which provide fixed prices for the electricity produced. The actual long-term wind resource attained at each of the wind power projects has generally met or exceeded the expected wind resource, forecast by extensive long-term wind studies. However, there is no assurance the wind resource and thus electricity generation at each location will continue to meet expectations.

Dependence

The NRGreen waste heat recovery facilities generate electricity from the waste heat emitted from Alliance Canada's compressor stations. As a result, any shutdowns for maintenance or reduction in activity at these compressor stations will have a negative impact on the level of production for NRGreen.

Counterparty Risk

The primary source of fixed price revenue for each wind project and for NRGreen is a single counterparty. The stability of the Fund's revenue and cash flows from this segment is dependent upon the ability of these counterparties to pay their monthly charges. If these counterparties are unable to fulfill their obligations under their purchase agreements and an alternate counterparty is not available, Wind Power would be exposed to variable power prices. This risk is mitigated by investment grade requirements of the counterparties involved.

CORPORATE

The Corporate segment includes management and administrative costs, corporate financing costs, distributions to ECT preferred unitholders, business development activities not attributable to a specific business segment and other corporate costs including current and future income taxes.

Year ended December 31, <i>(millions of dollars)</i>	2008	2007
Costs before the impact of tax changes	(59.8)	(58.3)
Revalue future taxes due to tax rate changes	–	0.6
Future taxes due to Tax Fairness Plan	–	(2.1)
Total costs	(59.8)	(59.8)

Corporate costs of \$59.8 million were consistent with the comparative year due to offsetting factors. ECT preferred unit distributions and incentive fees increased with the 7.5% increase in regular monthly unitholders' distributions that was announced in May of 2008. Offsetting this in 2008 was lower interest expense and income taxes. Interest expense decreased as a result of the establishment of a separate credit

facility for NRGreen and the receipt of additional funds received via the CESCA claim. Payments were made on the credit facility in the year using the return of equity received from NRGreen subsequent to the establishment of the NRGreen facility. Corporate costs in the prior year reflected future tax expense of \$1.5 million related to future tax rate reductions in 2007 as well as the Tax Fairness Plan, Bill C-52, receiving Royal Assent in June of 2007.

SENSITIVITY ANALYSIS

Fluctuations in interest rates impact the interest expense incurred on the Fund's credit facility. A 1.0% increase in the interest rate on the Fund's credit facility would have decreased 2008 earnings by \$1.0 million. Alliance Canada earnings are not sensitive to fluctuations in interest rates under its cost of service toll methodology.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, the Fund had \$57.3 million available on its \$150.0 million credit facility. This facility, combined with cash generated by operating activities, is expected to provide adequate liquidity for the Fund in 2009. A \$100-million medium-term note will mature on December 21, 2009, and is expected to be refinanced at market-based rates that are consistent with the risk profile of the Fund. To ensure that the Fund has sufficient liquidity to refinance the medium-term note in the event of a disruption in capital markets, the Manager is seeking to secure additional committed standby credit facilities from commercial banks and/or Enbridge Inc.

The Fund's current liabilities routinely exceed current assets. Current liabilities include current maturities of long-term debt. Excluding current maturities of long-term debt, the Fund does not have a working capital deficit. The Fund's cash balance at December 31, 2008, of \$17.3 million includes \$9.9 million held in trust in Alliance Canada, pursuant to finance agreements within Alliance Canada.

Operating Activities

Cash provided by operating activities was \$98.1 million for the year ended December 31, 2008, compared to \$80.6 million in 2007. The CESCA bankruptcy settlement of \$6.1 million received in January 2008 positively impacted cash from operating activities. Additionally, higher earnings from operations and changes in operating assets and liabilities also contributed to higher cash flow from operating activities.

Investing Activities

Cash used for investing activities for the year ended December 31, 2008 was \$63.6 million, a \$7.6 million decline from the prior year comparative period. This decrease reflected the timing of the expenditures on the Westspur Expansion and the NRGreen facilities. Spending on the Westspur Expansion began in the third quarter of 2007 and was completed on June 1, 2008. The Loreburn, Estlin and Alameda facilities were completed and brought into service in May, July and November of 2008, respectively; however, the majority of the expenditures on these facilities were incurred in 2007.

Capital expenditures are categorized as either maintenance or enhancement. Maintenance capital expenditures are determined based on the capital requirements necessary to maintain the service capability of the existing assets and include the replacement of system components and equipment that are worn, obsolete or completing their useful life.

Enhancement expenditures include capital expansion projects and other projects that improve the service capability of existing assets, extend asset useful lives, increase capacities from existing levels, reduce costs or enhance revenues or enable the Fund to respond to government regulations and developing industry standards. Maintenance capital expenditures are funded through cash from operations, whereas enhancement capital expenditures are funded through debt and, as required, the issuance of equity.

Financing Activities

Financing activities for the year ended December 31, 2008, consisted of monthly distributions to unitholders, changes in outstanding indebtedness in the Fund's credit facility and the non-recourse credit facilities and repayment of non-recourse long-term debt in Alliance Canada. Monthly distributions to unitholders increased as a result of the 7.5% increase in the annual distribution rate announced in May 2008.

In March 2008, NRGreen secured new credit facilities consisting of a construction facility of \$52.5 million and an operating facility of \$5.0 million. Upon completion of the fourth NRGreen waste heat recovery facility, in November 2008, the construction facility converted to a two-year term revolving credit facility. Under this agreement, NRGreen has pledged its property as collateral and assigned its material agreements, including its power purchase agreements with SaskPower, to its lender.

At any time or as part of any request for the extension of the term of the operating facility, NRGreen may convert all or part of the two-year term revolving facility into the operating facility. The operating facility is an extendible revolving facility that matures on August 31, 2011. In March 2008, NRGreen drew on the credit facility and distributed \$20.0 million as a return of equity to the Fund. The Fund used this payment to pay down debt outstanding under its own credit facility, which had been drawn on to fund capital expansion at NRGreen. Obligations under the NRGreen credit facility are non-recourse to the Fund.

Payments due for contractual obligations over the next five years and thereafter are as follows:

<i>(millions of dollars)</i>	Total	Less than 1 year	2 years	3 years	4 years	5 years	After 6 years
Long-term Debt ¹	282.0	100.0	–	92.0	–	–	90.0
Non-recourse Long-term Debt ¹	761.1	30.9	58.5	36.3	96.4	39.9	499.1
Operating Leases	38.4	3.2	2.9	2.6	3.2	3.0	23.5
	1,081.5	134.1	61.4	130.9	99.6	42.9	612.6

¹ Includes amounts outstanding under credit facilities at December 31, 2008, in their year of expiry. Amounts are shown net of deferred financing charges.

In July 2007, Alliance Canada acquired a \$12.4 million investment in asset-backed commercial paper (ABCP), issued by a structured investment trust. As a result of deteriorating liquidity in the ABCP market in mid-2007, Alliance Canada was unable to redeem this investment upon its maturity on August 31, 2007.

A restructuring plan involving the conversion of the asset-backed commercial paper into medium-term notes was put forward for approval. On January 21, 2009, the Pan-Canadian Committee (the Committee) announced it had fully implemented the restructuring plan. The result of the restructuring plan implementation on January 22, 2009, was that Alliance Canada received various classes of Master Asset Vehicle (MAV) notes in exchange for Alliance Canada's investment in the asset-backed commercial paper. The MAV notes consist of 48% MAV2 Class A-1 notes, 42% MAV2 Class A-2 notes, 7% MAV2 Class B notes and 3% MAV2 Class C notes. The Class A-1 and A-2 notes, 90% of the notes received, carry an "A" rating from DBRS and the Class B and Class C notes are not rated. The legal maturity of the notes is July 15, 2056, but the actual expected repayment of the notes, if held to maturity, is January 22, 2017. The Fund recognized a fair value discount of \$0.4 million in 2007 and \$0.8 million in the first quarter of 2008 to adjust the value of the investment to factor in the notes received from the restructuring being rated at less than AAA. This estimate of fair value may differ from the actual fair value that will be realized.

The Fund does not anticipate that the investment in the Master Asset Vehicle notes will have any significant impact on Alliance Canada's operations or ability to meet upcoming debt obligations.

CASH AVAILABLE FOR DISTRIBUTION ¹

Year ended December 31,	2008	2007
<i>(millions of Canadian dollars)</i>		
Cash Provided by Operating Activities	98.1	80.6
Add/(Deduct):		
ECT preferred unit distributions ²	39.2	36.5
Alliance Canada maintenance capital expenditures ³	(5.2)	(9.1)
Alliance Canada debt repayments ⁴	(28.8)	(26.1)
Alliance Canada other cash retained ⁵	(11.5)	(12.3)
Green Power cash distributed/(retained) ⁵	0.1	(0.2)
Saskatchewan System maintenance capital expenditures ³	(4.4)	(4.4)
Change in operating assets and liabilities in the period ⁶	3.7	8.5
Cash Available for Distribution	91.2	73.5
Cash Available for Distribution is comprised of the following:		
Alliance Canada distributions	76.4	66.9
Alliance Canada capital tax	(0.2)	(0.5)
Saskatchewan System operating income before depreciation and amortization	34.6	27.0
Saskatchewan System maintenance capital expenditures	(4.4)	(4.4)
Green Power distributions	4.8	4.2
Corporate management and administrative expense	(6.5)	(4.8)
Corporate interest expense	(12.1)	(13.2)
Corporate other income	0.1	0.2
Corporate current taxes	(1.5)	(1.9)
Cash Available for Distribution	91.2	73.5
ECT Preferred Unit Distributions Declared	39.2	36.5
Trust unit distributions declared	35.7	33.1
Cash Distributions Declared	74.9	69.6

1 See Non-GAAP Measures on page 19.

2 The cash available for distribution above is compared to total distributions, including the ECT preferred unit distributions. Since ECT preferred units are treated as debt under GAAP with distributions deducted from earnings, the ECT preferred unit distributions have been added back to cash provided from operating activities.

3 Maintenance capital expenditures reduce cash available for distribution since these expenditures are funded through cash from operations.

4 Debt repayments in Alliance Canada are deducted from cash from operations in deriving cash available for distribution because they are funded from cash from Alliance Canada's operations.

5 The cash retained or distributed by Alliance Canada and Green Power reflects the cash from operations of these segments that has not been distributed to the Fund or distributions in excess of cash earnings in the period. While this cash from operations is proportionately consolidated and included in the Fund's cash provided by operating activities, it is not available for distribution by the Fund until it has been received from Alliance Canada and the Green Power segment. Cash retained by Alliance Canada and Green Power includes debt service reserves, capital expenditures and other cash needed to fund working capital or other requirements of these segments.

6 Change in operating assets and liabilities in the period reflect changes in non-cash working capital related to operating activities. The change has been added back to cash available for distribution since fluctuations in working capital are expected each period and are not indicative of changes in cash available to be distributed.

As set out in the above table, cash available for distribution consists of operating cash flow from the Fund's underlying businesses less deductions for maintenance capital expenditures, the Fund's administrative and operating expenses, corporate segment interest expense, applicable taxes and other reserves deemed prudent by the Manager.

The above calculations of cash available for distribution represent cash available to fund distributions on trust units and ECT preferred units, as well as for debt repayments and reserves.

In 2007, Alliance Canada returned \$1.0 million to the Fund, representing a return of contributed surplus from construction accounts. This receipt has been excluded from the cash available for distribution reconciliation since it relates to enhancement capital. Enhancement capital is funded via debt and equity; therefore, cash received related to enhancement capital is reserved for capital repayments.

ANALYSIS OF CASH DISTRIBUTIONS DECLARED

Year ended December 31, (millions of Canadian dollars)	2008	2007
Cash Provided by Operating Activities	98.1	80.6
Earnings	21.9	21.1
Trust Unit Cash Distributions Declared ¹	35.7	33.1
Excess of cash provided by operating activities over cash distributions declared	62.4	47.5
Shortfall of earnings over cash distributions declared	(13.8)	(12.0)

¹ ECT Preferred Unit Distributions have been excluded from this reconciliation since these distributions are reductions to earnings under GAAP.

For the year ended December 31, 2008, cash flows provided by operating activities in the period exceeded cash distributions paid to trust unitholders by \$62.9 million (2007 – \$47.5 million). This excess represented cash reserved for debt repayments, working capital requirements and maintenance capital expenditures, as well as cash retained by joint ventures.

Earnings were \$13.8 million lower than cash distributions to trust unitholders for the year ended December 31, 2008, which is consistent with the prior year. An excess of distributions over earnings is expected to continue in the future and partly represents a return of capital to unitholders (including ECT Preferred Unitholders.) Under GAAP, earnings reflect non-cash items such as amortization of deferred financing costs and depreciation as well as changes in future income taxes due to tax rate changes, all of which do not impact cash flow. Depreciation does not necessarily represent the cost of maintaining productive capacity; therefore, cash required for maintenance may be lower than depreciation expense.

DISTRIBUTIONS

On November 3, 2008, the Board of Trustees announced an 11.6% increase to the regular monthly distributions effective beginning in 2009. As a result, the regular monthly distributions will increase from \$0.086 per unit to \$0.096 per unit effective with the distribution payable to unitholders of record on January 30, 2009.

In May 2008, the Board of Trustees announced a change to the Fund's distribution policy. The Fund now targets to distribute approximately 95% of cash available for distribution each calendar year. The distribution will not typically be adjusted in circumstances where a change in cash available for distribution is not considered to be recurring. Formerly, the Fund had only implemented distribution increases when the increase could be sustained for at least five years into the future, including additional 1% annual increases, at an average payout ratio of 95%. This approach is no longer practical in light of the federal government's tax on Specified Income Flowthrough Vehicles, which will most likely reduce cash available for distribution commencing in 2011, if it is imposed as expected. The remaining 5% of cash available for distribution retained by the Fund is used to repay debt obligations, for general purposes and to levelize distributions.

Taxation of Distributions

Under Canadian tax laws, a component of the Fund's cash distributions is taxable in the hands of the unitholder, with the remaining portion treated as a return of capital unless held in a tax-deferred account. Based on current operations, the Fund estimates that approximately 90% of cash distributed in 2008 and 80% to be distributed in 2009 will be included in the income of unitholders for income tax purposes. The remaining amount distributed in both years represents a non-taxable return of capital.

Tax Treatment of Unitholder Distributions

Based on the Fund's analysis and external advice on the Tax Fairness Plan, the Fund believes that, commencing in 2011, the income portion of distributions to individuals holding their units outside a tax deferred account will be treated the same as taxable dividends from a Canadian corporation commencing in 2011. Returns of capital by the Fund to its unitholders should not be impacted by the Tax Fairness Plan. Since this is only a general summary and unitholders' individual circumstances will vary, it is not intended, nor should it be treated, as a representation of the income tax consequences to any particular unitholder or as tax or legal advice.

Unitholders should consult their own tax advisors to clarify the impact of the Tax Fairness Plan on their individual circumstances.

Sustainability of Distributions and Productive Capacity

The current level of distributions may change based on the performance of the Fund's businesses, the level of continued investment, the Fund's ability to obtain financing and the impacts of the Tax Fairness Plan. The Board of Trustees periodically approves changes to distributions based on cash flow to meet the Fund's distribution policy. Overall, cash distributions of the Fund are governed by the Trust Indenture, which requires a distribution of all distributable cash flow. Distributable cash flow is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the Manager determines to be necessary or appropriate for the proper management of the Fund and its assets.

The sustainability of the Fund's distributions is a function of several factors: the demand for the services provided by its businesses, maintenance of the productive capacity of its assets and its ability to comply with covenants in its debt agreements as well as repay or refinance its debt as it comes due.

Each operating segment maintains its productive capacity and ensures the future sustainability of its distributions through maintenance programs, which include annual maintenance expenditures as well as major maintenance capital expenditures. Maintenance expenditures are funded through cash from operations. Refer to the "Capital Expenditures" sections for further discussion on planned maintenance and enhancement capital activities for 2009.

The sustainability of the Fund's distributions and productive capacity is also a function of its ability to meet its debt obligations and to economically obtain financing to fund growth and operational requirements.

The impact of the Tax Fairness Plan on the Fund's distributions is discussed below under the "Risk Factors" section.

RISK FACTORS

The Fund's business activities are subject to market price, financing, liquidity, regulation, credit and operating risks. The Fund has formal risk management policies and risk management systems designed to mitigate these risks.

Tax Fairness Plan

On June 22, 2007, the Tax Fairness Plan income trust taxation legislation, Bill C-52, achieved Royal Assent. Under the enacted legislation, a distribution tax will be imposed on Enbridge Income Fund starting in 2011. This change resulted in the recognition of future income tax liabilities and expense of \$1.9 million in 2007. Future income tax expense was not recorded for the temporary differences attributed to Alliance Canada because rate-regulated accounting allows for the taxes payable method when future income taxes are expected to be included in the rates charged to customers in the future and fully recovered.

On December 20, 2007, the Minister of Finance announced proposed technical amendments to further clarify the Tax Fairness legislation contained in Bill C-52. The announcement provides clarity to the existing Tax Fairness legislation. If the proposed technical amendments are enacted as announced, Alliance Canada will continue to be a non-taxable entity for federal and provincial income tax purposes.

As enacted in its present form, the Tax Fairness Plan will result in a distribution tax of 29.5% starting in 2011 and reduced to 28% in 2012 and subsequent years. All other things being equal, the specified investment flow-through trust (SIFT) tax will serve to reduce cash available for distribution by the Fund commencing in 2011. With respect to the limitations on equity unit issuances, the Manager believes the Fund should be able to fund its currently identified growth plans. However, with the current uncertainty in the capital markets resulting from Bill C-52, there can be no assurance that sufficient capital will be available to fund further acquisitions or expansion projects.

The Fund, with input from external legal and financial advisors, is carefully assessing the impact of the legislation on the business and financial outlook of the Fund and its broader effect on the income trust sector as a whole. The Fund's objective in carrying out these activities is to adopt a strategy that will maximize value to unitholders going forward.

Financing Capacity and Liquidity

The Fund's financing risk relates to the availability and cost of debt and equity in the market to finance expansion projects and refinance existing debt maturities. This risk has been impacted by the enactment of the Tax Fairness Plan, which limits the amount of equity that can be issued by the Fund as well as market factors, financial performance and the Fund's current credit rating.

The Fund continuously monitors its capital requirements and debt levels in order to ensure sufficient liquidity and capital resources. The Fund aims to sustain sufficient liquidity using credit facilities which would enable the Fund to finance all anticipated requirements for one year without accessing capital markets. Additionally, the Fund maintains readiness to access capital markets through maintenance of investment-grade credit ratings and continued communication with commercial and investment banks.

Material Debt

The Fund has debt instruments with maturities ranging from 2009 to 2014. If, on maturity, refinancing of the debt is not possible, or if the terms of the replacement debt are less favourable than the existing terms, cash available for distribution and earnings could decrease. In addition, Alliance Canada has debt instruments outstanding with maturities ranging from 2012 to 2025. Similarly, if such debt is refinanced on less favourable terms or cannot be refinanced, distributions and earnings from Alliance Canada will likely decrease.

Debt Covenants

The Fund, NRGreen and Alliance Canada credit facilities include provisions that prohibit distributions in the event of default. The Fund's credit facility agreement includes a covenant that limits unconsolidated indebtedness to four times earnings before interest, taxes, depreciation and amortization (EBITDA). In the event of default and in the absence of a waiver from the lenders, failure to remediate this covenant could result in a reduction of distributions to unitholders. Under the NRGreen and Alliance Canada credit facilities, distributions cannot be made to owners if the debt service coverage ratio, calculated as of the applicable distribution date, falls below 1.25 to 1 for Alliance Canada and 1.4 to 1 for NRGreen for the four preceding fiscal quarters and the four succeeding fiscal quarters. The respective entities actively monitor debt covenants to ensure compliance. As at December 31, 2008, all were in full compliance with the debt covenants and expect to continue to be in compliance for the foreseeable future. Additionally, the Fund's obligations to pay the principal, interest and all other amounts payable on its medium-term notes outstanding have priority over distributions to unitholders.

Regulation and Legislation

Earnings and expansion projects on Alliance Canada and the Saskatchewan Systems are subject to the actions of various regulators, including the NEB. Actions of the regulators related to tariffs, tolls and facilities impact earnings and the success of the expansion projects. Delays in regulatory approvals could result in cost escalations and construction delays.

Changes in regulation, including decisions by regulators on the applicable tariff structure or changes in interpretations of existing regulations by courts or regulators, could adversely affect the results of operations of Alliance Canada and the Saskatchewan System. Further, the nature and degree of regulation and legislation affecting energy companies in Canada have changed significantly in past years and there is no assurance that further substantial changes will not occur. Such regulations and legislation may adversely affect the toll structure or other aspects of the Fund's business or the operations and creditworthiness of shippers.

Supply and Demand

The operation of the Fund's liquids and natural gas pipelines is dependent upon the supply of and demand for crude oil and natural gas from Western Canada. The demand for crude oil by refiners is dependent upon a number of factors, including the price of crude oil, the cost of operating the refinery and market prices for the various refined products. Demand for natural gas is affected by, among other things, weather, requirements for electric power and broader levels of economic activity. Supply of crude oil and natural gas is dependent upon a number of variables, including:

- the level of exploration, drilling, reserves and production of crude oil and natural gas;
- the accessibility of western Canadian crude oil and natural gas;
- the price and quality of crude oil and natural gas available from alternative Canadian and United States sources; and
- the regulatory environments in Canada and the United States, including the continued willingness of the governments of both countries to permit the export of crude oil and natural gas from Canada to the United States on a commercially acceptable basis.

Supply and demand risk on Alliance Canada is substantially mitigated by long-term TSAs under which virtually all of Alliance Canada's capacity is contracted for through 2015.

Demand for the Fund's services is also affected by the supply of and demand for power generated by facilities within the Green Power segment. This risk is mitigated by the long-term PPAs entered into with customers.

Operating Risk

The operation of Alliance Canada, the Saskatchewan System and Green Power involves operating risks, including the failure of equipment, information systems or processes, poor performance of equipment (whether due to misuse, unexpected degradation or design, construction or manufacturing defects), lack of spare parts, operator error, labour disputes, disputes or issues with interconnected facilities and carriers and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs and other similar events, many of which are beyond the control of the respective systems. The occurrence or continuance of any of these events could increase the cost of operating Alliance Canada, the Saskatchewan System and/or Green Power and reduce transportation capacity, thereby potentially impacting cash flow. The Fund employs various inspection and monitoring methods to manage pipeline, turbine and facility integrity as well as to minimize system disruptions. Additionally, the Fund employs safety policies, disaster recovery procedures and appropriate insurance coverage in the case of an incident.

Environmental Costs and Liabilities

The operation of the Saskatchewan System and Alliance Canada is subject to federal, provincial and local laws and regulations relating to environmental protection and operational safety. Risks of substantial environmental costs and liabilities, including those from leaks and explosions, are inherent in pipeline operations, and there can be no assurance that significant costs and liabilities, including those relating to claims for damages to property and persons resulting from operations of Alliance Canada and/or the Saskatchewan System, will not be incurred. To mitigate this risk, Alliance Canada and the Saskatchewan System have established safety and environmental policies that are designed to ensure that all aspects of their operations comply with existing regulations relating to personal safety and protection of the environment. It is not possible to predict the effect that any future changes in environmental laws and regulations will have on future earnings, and there can be no assurance that environmental costs incurred by Alliance Canada or the Saskatchewan System will be partially or fully recoverable under their tolls.

Easement Rights

Alliance Canada, Saskatchewan System and Green Power have acquired easement rights from landowners, tenants and service lease owners in order to construct, install and operate their pipelines and wind turbines. These easement rights were obtained through voluntary negotiation and, in certain cases, through statutory rights of entry. There can be no assurance that legal challenges will not be brought forward with respect to the form, content or recording of such easements, or to business segments' compliance with the terms of such easements during the construction and operation of the pipelines or wind turbines.

Market Price Risk

Refer to Note 14 of the Fund's 2008 Annual Consolidated Financial Statements.

Workforce Development

With increased rates of retirement due to the current workforce demographic, the Fund relies on Enbridge's strong recruiting efforts, comprehensive training and leadership development programs, as well as succession planning initiatives to ensure the Manager has qualified staff to provide services to the Fund.

Joint Venture Partners

Certain segments of the Fund consist of joint venture partnerships, with the Fund's ownership interests ranging from 33% to 50%. In these partnerships, the Fund does not have full control to execute initiatives without consent from the joint venture partners. This risk is mitigated through both formal and informal dialogue with joint venture partners.

CRITICAL ACCOUNTING ESTIMATES

Depreciation

Depreciation of property, plant and equipment, the Fund's largest asset with a net book value at December 31, 2008, of \$1,308.9 million, or 70.4% of total assets, is generally provided on either a straight-line basis over the estimated service lives of the assets or a unit of throughput basis commencing when the asset is placed in service. When it is determined that the estimated service life of an asset does not reflect the expected remaining period of benefit, prospective changes are made to the estimated service life. In general, estimates of service lives are based on third-party engineering studies, experience and industry practice. There are a number of assumptions inherent in estimating the service lives of the Fund's assets, including the level of development, exploration, drilling, reserves and production of crude oil and natural gas in the supply areas served by the Fund's pipelines as well as the demand for crude oil and natural gas and the integrity of the Fund's systems. Changes in these assumptions could result in adjustments to the estimated service lives, which could result in material changes to depreciation expense in future periods in any of the Fund's operating segments. Revised assumptions have historically resulted in extending useful lives.

Asset Retirement Obligations

The fair value of asset retirement obligations (AROs) associated with the retirement of long-lived assets is recognized as long-term liabilities in the period when they can be reasonably determined. The fair value approximates the cost a third party would charge in performing the tasks necessary to retire such assets and is recognized at the present value of expected future cash flows. AROs are added to the carrying value of the associated asset and depreciated over the asset's useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning and reclamation. The present value of expected future cash flows is determined using assumptions such as the probability of abandonment in place versus removal and the estimated costs required upon abandonment in each case, the discount rate and the estimated time to abandonment.

The undiscounted amount of expected cash flows required to settle the AROs for the Saskatchewan System is estimated at \$40.5 million (2007 – \$43.5 million), with the majority estimated to be settled beginning in the year 2026. The liability for the expected cash flows, as reflected in the financial statements, has been discounted at 6.56%.

A legal obligation exists for costs associated with retirement of the Alliance Canada pipeline; however, a provision for AROs has not been recognized as it is not possible to make a reasonable estimate of the AROs due to the indeterminate timing, the long-lived nature of the assets and the scope of the asset retirements. The Fund's estimates of retirement costs and the timing of settlement of these costs could change as a result of changes in timing and cost estimates as well as changes in regulatory requirements.

CHANGE IN ACCOUNTING POLICIES

Information about the Fund's changes in accounting policies is included in Note 3 of the 2008 Annual Consolidated Financial Statements.

Future Accounting Policy Changes

Accounting for the Effects of Rate Regulation

In August 2007, the Canadian Accounting Standards Board (AcSB) published its decision with respect to rate-regulated operations. The AcSB decided to retain much of the existing guidance related to rate-regulated operations; however, the exemption from the requirement to record future income taxes, as currently provided in CICA Handbook Section 3465 "Income Taxes" and the exemption from CICA Handbook Section 1100 "Generally Accepted Accounting Principles," will be removed, effective January 1, 2009. The Fund will adopt these changes on January 1, 2009, and the principal effect will be the recognition of future income tax liabilities on the balance sheet, offset equally by regulatory assets.

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements for periods beginning on January 1, 2011. The Manager of the Fund has established a project plan for implementing IFRS which includes determining:

- changes to accounting policies and implementation decisions;
- disclosure requirements;
- changes to information systems and accounting processes;
- changes to internal control over financial reporting and disclosure controls and procedures;
- training requirements; and
- external stakeholder communications.

The impact of the adoption of IFRS on the Fund's financial reporting is not yet determinable.

FINANCIAL INSTRUMENTS

Information about financial instruments outstanding at year end including the fair values, notional or principal amounts and maturities are shown in Note 15 of the Fund's Consolidated Financial Statements for the year ended December 31, 2008.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. Based on the requirements of National Instrument 52-109 of the Canadian Securities Administrators, EMSI, the Administrator of the Fund, under the supervision of the President and Chief Financial Officer of the Administrator, evaluated the effectiveness of the Fund's disclosure controls and procedures (as defined in National Instrument 52-109). Based on that evaluation, EMSI concluded that the Fund's disclosure controls and procedures were effective as of December 31, 2008.

Management's Report on Internal Controls over Financial Reporting

The Administrator of the Fund is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the rule of the Canadian Securities Administrators. The Fund's internal control over financial reporting is a process designed, under the supervision and with the participation of executive and financial officers of the Administrator of the Fund, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with GAAP.

The Company's internal control over financial reporting includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Fund;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Fund's assets that could have a material effect on the financial statements.

The Fund's internal control over financial reporting may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Fund's policies and procedures.

The Administrator of the Fund assessed the effectiveness of the Fund's internal control over financial reporting as of December 31, 2008, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Administrator concluded that the Fund maintained effective internal control over financial reporting as of December 31, 2008.

During the year ended December 31, 2008, there has been no change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

SELECTED ANNUAL FINANCIAL INFORMATION ¹

(millions of Canadian dollars, except where otherwise noted)

	2008	2007	2006
Revenues	297.0	270.8	254.4
Earnings	21.9	21.1	35.3
Per Unit (dollars per unit)	0.63	0.61	1.02
Total Assets	1,858.2	1,858.8	1,867.3
Total Long-term Liabilities	1,412.8	1,508.6	1,509.1

¹ Selected Annual Financial Information has been extracted from financial statements prepared in accordance with GAAP.

Significant items that have impacted the selected annual financial information are as follows:

- 2008 earnings reflected \$6.1 million received from the CESCA bankruptcy settlement in Alliance Canada.
- 2008 revenues reflected higher cost recoveries within the Saskatchewan System, subsequent to the Westspur System expansion, as well as higher cost recoveries in Alliance Canada related to the change in treatment of certain expenditures.
- 2007 earnings included future income tax recoveries of \$6.6 million for future tax rate changes enacted during the year.
- 2007 revenues reflected higher cost of service recovered through tolls as well as a full year of operations from the Green Power segment.
- 2006 earnings included future income tax recoveries of \$16.7 million for future tax rate changes enacted in the year.

SELECTED QUARTERLY FINANCIAL INFORMATION ¹

(millions of dollars, except per unit amounts)

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	83.7	72.2	72.4	68.7	73.0	65.0	67.8	65.0
Earnings	4.8	4.9	4.6	7.6	10.8	3.8	3.0	3.5
Earnings Per Unit (basic and diluted)	0.14	0.14	0.13	0.22	0.31	0.11	0.09	0.10
Cash Distributions Declared ²	18.7	18.7	20.1	17.4	17.3	17.4	17.4	17.4

¹ Selected Quarterly Financial Information has been extracted from financial statements prepared in accordance with GAAP.

² Cash distributions declared on Trust units and ECT preferred units.

Significant items that have impacted quarterly financial information are as follows:

- Fourth quarter revenue in 2008 reflected higher cost recoveries within the Saskatchewan System, particularly on the Saskatchewan Gathering and Westspur Systems, as well as higher cost recoveries in Alliance Canada related to the change in accounting treatment of certain expenditures.
- The Board of Trustees approved a 7.5% increase in distributions on the Fund's trust units and the ECT preferred units, effective with the distributions payable to holders of record on May 31, 2008. The Board of Trustees also approved a special distribution of \$0.024 per unit payable to holders of record on May 31, 2008.
- Second and third quarter revenue in 2008 reflected higher revenues on Alliance Canada due to higher cost-of-service recoveries in Alliance Canada as well as higher allowance oil sales on the Saskatchewan System.
- First quarter earnings in 2008 reflected a \$6.1 million increase from the CESCA bankruptcy settlement in Alliance Canada offset by increased current taxes in the Corporate segment and unrealized derivative losses in Green Power.

- Revenue in the fourth quarter of 2007 was higher due to increased cost recoveries on the Saskatchewan Gathering System and Westspur System reflecting higher operating costs driven by increased labour costs. Seasonality resulting from higher wind volumes in the winter months also contributed to increased revenues.
- Fourth quarter earnings in 2007 reflected future income tax recoveries of \$7.6 million due to the substantive enactment of reductions in future tax rates during the quarter.
- Second quarter earnings in 2007 reflected future income tax expense of \$1.9 million due to the substantive enactment of the Tax Fairness Plan.

FOURTH QUARTER 2008 HIGHLIGHTS

Fourth quarter earnings for 2008 were \$4.8 million, or \$0.14 per unit, compared with \$10.8 million, or \$0.31 per unit, in 2007. The decrease reflected future income tax recoveries totalling \$7.6 million recognized in the fourth quarter of 2007, as a result of the 3.5% reduction in future tax rates enacted in December 2007.

SUPPLEMENTARY INFORMATION

Outstanding Unit Data

	Number of Units Outstanding
Trust Units ¹	34,625,000
ECT Preferred Units	38,023,750

¹ On July 1, 2008, the Ordinary Unit priority right with respect to distributions terminated unconditionally, in accordance with the terms of the Fund's Trust Indenture, which can be found at www.sedar.com. As a result, the Ordinary Units, which are TSX-listed, and the Subordinated Units, which are not listed and are owned entirely by Enbridge Inc., are equal in all respects, without discrimination, preference or priority and are, for the purposes of the Trust Indenture, collectively designated as "trust units."

Outstanding unit information is provided as at February 6, 2009.

RELATED PARTY TRANSACTIONS

Information about the Fund's related party transactions is included in Note 19 to the Fund's consolidated financial statements for the year ended December 31, 2008.

Additional information relating to the Fund, including its Annual Information Form, is available on www.sedar.com.

Dated February 6, 2009

MANAGEMENT'S REPORT

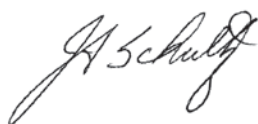
TO THE UNITHOLDERS OF ENBRIDGE INCOME FUND

The management of Enbridge Management Services Inc. is responsible for the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgment and best estimates. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

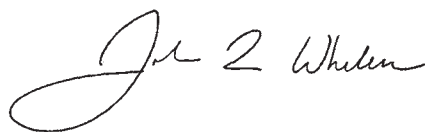
To meet its responsibility for reliable and accurate financial statements, management has established or assumed responsibility for monitoring systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded from loss or unauthorized use and transactions are executed in accordance with management's authorization. The internal control system includes an internal audit function as well as monitoring of an established code of business conduct.

The Board of Trustees and the Audit Committee are responsible for all aspects related to governance of the Fund. The Audit Committee, composed of independent and financially literate directors, has a specific responsibility to oversee management's efforts to fulfill its responsibilities for financial reporting and internal controls related thereto. The Audit Committee meets regularly during the year with management, internal auditors and independent auditors to review the consolidated financial statements, Management's Discussion and Analysis and Annual Information Form as well as internal controls related thereto, prior to submission to the Board of Trustees for approval.

PricewaterhouseCoopers LLP, appointed by the unitholders as the Fund's independent auditors, conducts an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards.



James A. Schultz
President



John K. Whelen
Vice President, Business Development
and Chief Financial Officer

February 6, 2009

AUDITORS' REPORT

TO THE UNITHOLDERS OF ENBRIDGE INCOME FUND

We have audited the consolidated statements of financial position of Enbridge Income Fund (the "Fund") as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Enbridge Income Fund as at December 31, 2008 and 2007 and the results of its operations and its cashflows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants,
Calgary, Alberta

February 6, 2009

CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31,	2008	2007
<i>(millions of dollars, except per unit amounts)</i>		
Revenues	297.0	270.8
Expenses		
Operating and maintenance	93.4	73.2
Management and administrative	6.5	4.8
Depreciation and amortization	85.8	81.8
	185.7	159.8
	111.3	111.0
Other Income and Expense	7.5	1.2
Interest Expense <i>(Note 10)</i>	(59.9)	(61.8)
ECT Preferred Unit Distributions <i>(Note 11)</i>	(39.2)	(36.5)
	19.7	13.9
Income Tax Recovery <i>(Note 17)</i>	2.2	7.2
Earnings	21.9	21.1
Basic and Diluted Earnings per Trust Unit <i>(Note 13)</i>	0.63	0.61

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Trust Units	333.4	333.4
Deficit at Beginning of Year	(48.1)	(36.1)
Earnings	21.9	21.1
Trust unit distributions	(35.7)	(33.1)
Deficit at End of Year	(61.9)	(48.1)
Accumulated Other Comprehensive Loss at Beginning of Year	(6.2)	–
Cumulative impact of change in accounting policy <i>(Note 3)</i>	–	(6.1)
Other comprehensive loss	(3.4)	(0.1)
Accumulated Other Comprehensive Loss at End of Year	(9.6)	(6.2)
Total Unitholders' Equity	261.9	279.1

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Earnings	21.9	21.1
Other Comprehensive Income/(Loss)		
Change in unrealized fair value on cash flow hedges, net of tax	(4.6)	(0.4)
Reclassification of realized losses on cash flow hedges to earnings, net of tax	1.2	0.3
	(3.4)	(0.1)
Comprehensive Income	18.5	21.0

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Cash Provided by Operating Activities		
Earnings	21.9	21.1
Charges/(credits) not affecting cash		
Depreciation and amortization	85.8	81.8
Amortization of deferred financing charges	1.6	1.6
Amortization of fair value increment on debt	(4.9)	(5.1)
Future income taxes	(3.7)	(9.1)
Other	1.1	(0.7)
Changes in operating assets and liabilities		
Change in accounts receivable and other	(6.0)	(5.3)
Change in accounts payable and accrued liabilities	16.8	16.5
Change in deferred amounts and other assets	(16.6)	(19.0)
Change in long-term liabilities	2.4	(0.7)
Asset retirements	(0.3)	(0.5)
	98.1	80.6
Investing Activities		
Additions to property, plant and equipment	(56.4)	(55.4)
Change in construction payable	(7.2)	(9.6)
Investment in asset-backed commercial paper <i>(Note 15)</i>	–	(6.2)
	(63.6)	(71.2)
Financing Activities		
Net change in long-term credit facility	(6.5)	29.5
Net change in non-recourse long-term credit facility	39.1	17.6
Repayment of non-recourse long-term debt	(28.8)	(26.1)
Trust unit distributions <i>(Note 13)</i>	(35.7)	(33.1)
	(31.9)	(12.1)
Increase/(Decrease) in Cash and Cash Equivalents	2.6	(2.7)
Cash and Cash Equivalents at Beginning of Year	14.7	17.4
Cash and Cash Equivalents at End of Year	17.3	14.7
Cash and Cash Equivalents	7.4	12.3
Cash and Cash Equivalents in Trust	9.9	2.4
	17.3	14.7

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,	2008	2007
<i>(millions of dollars)</i>		
Assets		
Current Assets		
Cash and cash equivalents	17.3	14.7
Accounts receivable and other	38.8	32.8
	56.1	47.5
Property, Plant and Equipment, Net <i>(Note 6)</i>	1,308.9	1,329.0
Intangible Assets <i>(Note 7)</i>	90.9	96.4
Goodwill	308.1	308.1
Deferred Amounts and Other Assets	90.7	75.0
Future Income Taxes <i>(Note 17)</i>	3.5	2.8
	1,858.2	1,858.8
Liabilities and Unitholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	49.6	39.6
Distributions payable	3.0	2.8
Current portion of long-term debt <i>(Note 8)</i>	100.0	-
Current portion of non-recourse long-term debt <i>(Note 9)</i>	30.9	28.7
	183.5	71.1
Long-term Debt <i>(Note 8)</i>	178.8	284.2
Non-recourse Long-term Debt <i>(Note 9)</i>	764.7	761.1
ECT Preferred Units <i>(Note 11)</i>	380.2	380.2
Long-term Liabilities	18.3	11.0
Asset Retirement Obligations <i>(Note 12)</i>	10.9	7.9
Future Income Taxes <i>(Note 17)</i>	59.9	64.2
	1,596.3	1,579.7
Unitholders' Equity		
Trust units <i>(Note 13)</i>	333.4	333.4
Deficit	(61.9)	(48.1)
Accumulated other comprehensive loss	(9.6)	(6.2)
	261.9	279.1
	1,858.2	1,858.8

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Approved by the Trustees of Enbridge Commercial Trust on behalf of Enbridge Income Fund:



Gordon G. Tallman
Trustee



Richard H. Auchinleck
Trustee

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE AND DESCRIPTION OF THE FUND

Enbridge Income Fund (the Fund) is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Fund commenced operations on June 30, 2003. Enbridge Management Services Inc. (EMSI), a wholly owned subsidiary of Enbridge Inc. (Enbridge), administers the Fund. EMSI also serves as the manager of Enbridge Commercial Trust (ECT), a subsidiary of the Fund.

The Fund conducts its business through three operating segments: Alliance Canada, Saskatchewan System and Green Power. These segments are strategic business units established along service lines by management to assess operational performance and to achieve the Fund's long-term goals.

ALLIANCE CANADA

Alliance Canada consists of the Fund's 50% interest in the Canadian portion of the 3,000-kilometre (km) Alliance System. The Alliance System, comprised of Alliance Canada and Alliance US, transports natural gas from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois. The Canadian portion includes approximately 1,560 km of the Alliance System's high-pressure, natural gas transmission system as well as its lateral pipeline system, which connects the mainline to a number of upstream receipt points and related infrastructure.

SASKATCHEWAN SYSTEM

The Saskatchewan System includes four crude oil and liquids pipeline systems: Saskatchewan Gathering, Westspur, Weyburn and Virden. Together these systems include approximately 356 km of trunk line and 1,900 km of gathering pipeline with operating capacities ranging from 37,000 barrels of oil per day (bpd) to 255,000 bpd.

GREEN POWER

Green Power includes the Fund's 33% to 50% interests in three wind power projects in Saskatchewan and southern Alberta. Green Power also includes the Fund's 50% interest in NRGreen, which develops and operates waste heat recovery power generation facilities primarily in Saskatchewan along the Alliance Pipeline.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Fund have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Amounts are stated in Canadian dollars unless otherwise noted. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates.

Basis of Presentation

The consolidated financial statements include the accounts of the Fund and its subsidiaries as well as its proportionate share of the accounts of its joint ventures.

Regulation

Both Alliance Canada and the systems comprising the Saskatchewan System are subject to regulation by various authorities, including the National Energy Board (NEB), Saskatchewan Energy and Resources (SER) and Manitoba Science, Technology, Energy and Mines (STEM). Regulatory bodies exercise statutory authority over matters such as construction, rates and ratemaking and agreements with customers. In order to recognize the economic effects of the actions of the regulator, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers through rates. In the absence of rate regulation, the Fund would not recognize regulatory assets or liabilities and the earnings impact would be recorded in the period the expenses are incurred or revenues are earned. Long-term regulatory assets are recorded in Deferred Amounts and Other Assets and current regulatory assets are recorded in Accounts Receivable and Other.

Regulatory liabilities are recorded in Accounts Payable and Accrued Liabilities. Regulatory assets are assessed for impairment if the Company identifies an event indicative of possible impairment. The recognition of regulatory assets and liabilities is based on the actions, or expected future actions, of the regulator. To the extent that the regulator's actions differ from the Fund's expectations, the timing and amount of recovery or settlement of regulatory balances could differ significantly from those recorded.

An Allowance for Funds Used During Construction (AFUDC) is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. AFUDC includes both an interest component and, if approved by the regulator, a cost of equity component. In the absence of rate regulation, the Fund would capitalize only the interest component and therefore the capitalized equity component, the corresponding earnings during the construction phase and the subsequent depreciation would not be recognized.

Certain regulators prescribe the pool method of accounting for property, plant and equipment, where similar assets with comparable useful lives are grouped and depreciated as a pool. When those assets are retired or otherwise disposed of, gains and losses are not reflected in income but are booked as an adjustment to accumulated depreciation. Entities not subject to rate regulation write off the net book value of the retired asset and include any resulting gain or loss in earnings.

Revenue Recognition

For businesses which are not rate-regulated, revenues are recorded when products have been delivered or services have been performed. Delivery or service performance only takes place when there is a sales contract in place specifying delivery volumes or services required and sales prices. Customer creditworthiness is assessed before contracts are signed.

The Saskatchewan Gathering and Westspur Systems within the Saskatchewan System as well as Alliance Canada generate revenues under the cost-of-service model. As a result, revenues include amounts related to expenses recognized in the financial statements that are expected to be recovered from shippers in future tolls. Revenue is recognized in a given period for tolls received to the extent that expenses are incurred. Differences between the recorded transportation revenue and actual toll receipts give rise to regulatory receivable or payable balances.

Financial Instruments

The Fund classifies financial assets as either held for trading, held to maturity, loans and receivables or available for sale. The Fund classifies financial liabilities as either held for trading or other financial liabilities.

Financial assets and liabilities that are "held for trading" are measured at fair value with changes in fair value recognized in earnings, except for derivatives that are designated as, and determined to be, effective hedging instruments, whose changes in fair value are recorded in Other Comprehensive Income (OCI).

Financial assets that are "available for sale" are measured at fair value with changes in those fair values recorded in OCI. Where actively quoted prices are not available, these financial assets are measured at amortized cost. Financial assets that are "held to maturity" and "loans and receivables" and financial liabilities that are "other financial liabilities" are measured at amortized cost using the effective interest rate method of amortization.

Cash and cash equivalents are designated as "held for trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable and other is designated as "loans and receivables." Accounts payable and other, distributions payable, long-term debt, non-recourse long-term debt and ECT preferred units are designated as "other financial liabilities."

Transaction Costs

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability. The Fund incurs transaction costs primarily through the issuance of debt and classifies these costs with the related debt. These costs are amortized using the effective interest rate method over the life of the related debt instrument.

Hedges

From time to time, the Fund uses financial derivatives to manage changes in commodity prices and interest rates. Hedge accounting is optional and it requires the Fund to document the hedging relationship and to test the hedging item's effectiveness in offsetting changes in fair values or cash flows of the underlying hedged item on an ongoing basis. The Fund presents the earnings and cash flow effects of hedging items with the hedged transaction.

Cash Flow Hedges

The Fund uses cash flow hedges to manage changes in power prices and interest rates. The effective portion of the change in the fair value of a cash flow hedging instrument is recorded in OCI and reclassified to earnings when the hedged item impacts earnings. Any hedge ineffectiveness is recorded in current period earnings with the hedged item.

If a derivative instrument designated as a cash flow hedge ceases to be effective or is terminated, hedge accounting is discontinued and the gain or loss at that date is deferred in OCI and recognized concurrently with the related transaction. Subsequent gains and losses from ineffective derivative instruments are recognized in earnings in the period they occur. If a hedged anticipated transaction is no longer probable, the gain or loss is recognized immediately in earnings.

If a derivative instrument is not an effective hedge for accounting purposes or is not designated as a hedging item, changes in the fair value are recorded in current period earnings.

Income Taxes

Pursuant to the Income Tax Act (Canada) as presently enacted, the Fund and ECT, as trusts, are not subject to income taxes to the extent that income and taxable capital gains are paid or payable to unitholders. In addition, each of the Fund and ECT are contractually committed to distribute to unitholders all or virtually all taxable income and taxable capital gains. However, certain subsidiary corporations are taxable, and applicable income and capital taxes have been reflected in these consolidated financial statements.

For non-regulated operations, the liability method of accounting for income taxes is followed. Future income tax assets and liabilities are recorded based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Future income tax assets and liabilities are measured using the tax rate that is expected to apply when the temporary differences reverse.

The regulated operations of the Fund recover tax expense based on the taxes payable method when prescribed by regulators or in ratemaking agreements that are subject to regulatory approval. Therefore, rates do not include the recovery of future income taxes related to temporary differences and the Fund does not record future income tax assets or liabilities related to these differences. The Fund expects that all future income taxes will be recovered in rates when they become payable.

Cash and Cash Equivalents

Cash and cash equivalents are recorded at fair value and include short-term deposits with terms to maturity of three months or less when purchased.

Property, Plant and Equipment

Enhancement capital expenditures, including upgrades and expansions, and maintenance capital expenditures, including major renewals and improvements, are capitalized at cost with depreciation commencing when the asset is placed in service. Maintenance and repair costs are expensed as incurred.

Depreciation of property, plant and equipment is generally provided on a straight-line basis over the estimated service life of the assets commencing when the asset is placed in service. Depreciation of pipeline in service in the Saskatchewan System is determined based on unit of throughput. Line fill is not depreciated.

Intangible Assets

Intangible assets consist of acquired long-term transportation service agreements (TSAs) with shippers on Alliance Canada and the production incentive agreements for the Magrath and Chin Chute wind power projects. Intangible assets are amortized on a straight-line basis over the expected life of the agreements.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets upon acquisition of a business. Goodwill is not subject to amortization but is tested for impairment at least annually and written down to fair value if impairment occurs. For the purposes of impairment testing, reporting units comprise business operations with similar economic characteristics and strategies and may represent either a business segment or a business unit within a business segment. Potential impairment is identified when the carrying value of a reporting unit, including allocated goodwill, exceeds its fair value. Goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

Deferred Amounts

Deferred amounts and other assets include costs which regulatory authorities have permitted or are expected to permit to be recovered through future rates.

Asset Retirement Obligations

Asset retirement obligations (AROs) associated with the retirement of long-lived assets are measured at fair value and recognized when they can be reasonably determined. The fair value approximates the cost a third party would charge in performing the tasks necessary to retire such assets and is recognized at the present value of expected future cash flows. AROs are added to the carrying value of the associated asset and depreciated over the asset's useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning and reclamation. The Fund's estimates of retirement costs could change as a result of changes in timing and cost estimates as well as changes in regulatory requirements.

Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's financial statement presentation.

3. CHANGES IN ACCOUNTING POLICIES

CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS— DISCLOSURES AND PRESENTATION

CICA Handbook Section 1535 "Capital Disclosures" and sections 3862 and 3863 "Financial Instruments – Disclosures and Presentation" came into effect on January 1, 2008. While the new standards did not change the Fund's accounting policies, they resulted in additional disclosures.

Under Section 1535, the Fund discloses its objectives, policies and procedures for managing capital, summary quantitative data about what the Fund manages as capital, and compliance with externally imposed capital requirements.

Sections 3862 and 3863 replaced Section 3861 "Financial Instruments – Disclosure and Presentation." Disclosure requirements have been revised and enhanced, while presentation requirements remain essentially unchanged. The new standards require expanded disclosure with respect to the significance of financial instruments for the Fund's financial position and performance, the nature and extent of risks arising from financial instruments to which the Fund is exposed during the reporting period and at the balance sheet date and how the Fund manages those risks.

FINANCIAL INSTRUMENTS, COMPREHENSIVE INCOME AND HEDGING RELATIONSHIPS

Effective January 1, 2007, the Fund 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." In accordance with the transitional provisions in these new standards, these policies were adopted prospectively and, accordingly, the prior periods were not restated.

Comprehensive Income and Equity

The new standards introduced comprehensive income, which consists of earnings and OCI. The Fund's consolidated financial statements now include a Statement of Comprehensive Income. The Fund's OCI is currently comprised of the effective portion of changes in unrealized gains and losses related to cash flow hedges.

The Fund now presents a Consolidated Statement of Unitholders' Equity, which includes the change for each component of unitholders' equity. The cumulative changes in OCI are recorded in Accumulated Other Comprehensive Income (AOCI), a separate component of unitholders' equity. The components of AOCI are reflected in the Consolidated Statement of Comprehensive Income.

Financial Instruments

CICA Handbook Section 3855 established recognition and measurement criteria for financial instruments and requires that, generally, all financial instruments are recorded at fair value on initial recognition. Subsequent measurement depends on whether the instrument has been classified as "held to maturity," "held for trading," "available for sale" or "loans and receivables" as defined by Section 3855.

With the exception of recognizing derivative instruments, including hedge instruments, at fair value, the valuation of the Fund's financial instruments did not change. The methods by which the Fund determines the fair value of its financial instruments also did not change as a result of adopting this standard.

Impact on Adoption

The adoption of the new standards resulted in the following adjustments on January 1, 2007:

Increase/(Decrease)	Assets	Liabilities and Equity
<i>(millions of dollars)</i>		
Deferred Amounts and Other Assets ¹	(10.1)	–
Accounts Payable and Accrued Liabilities ²	–	1.0
Long-term Debt ¹	–	(5.4)
Non-recourse Long-term Debt ¹	–	(4.7)
Long-term Liabilities ²	–	5.1
Accumulated Other Comprehensive Loss ²	–	(6.1)
	(10.1)	(10.1)

¹ The Fund reclassified unamortized deferred financing fees of \$10.1 million from deferred amounts and other assets to long-term debt and non-recourse long-term debt.

² The Fund recognized a liability of \$6.1 million for unrealized losses related to its power purchase swap agreements designated as cash flow hedges.

FUTURE ACCOUNTING POLICY CHANGES

Accounting for the Effects of Rate Regulation

In August 2007, the Canadian Accounting Standards Board (AcSB) published its decision with respect to rate-regulated operations. The AcSB decided to retain much of the existing guidance related to rate-regulated operations; however, the exemption from the requirement to record future income taxes, as currently provided in CICA Handbook Section 3465 “Income Taxes” and the exemption from CICA Handbook Section 1100 “Generally Accepted Accounting Principles” will be removed, effective January 1, 2009. The Fund will adopt these changes on January 1, 2009 and the principal effect will be the recognition of future income tax liabilities on the balance sheet, offset equally by regulatory assets.

Goodwill and Intangible Assets

The CICA implemented revisions to standards dealing with goodwill and intangible assets effective for fiscal years beginning on or after October 1, 2008. Section 3064 “Goodwill and Intangible Assets,” which replaced Section 3062 “Goodwill and Other Intangible Assets,” provides guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. This standard is not expected to materially impact the Fund’s financial statements.

International Financial Reporting Standards

The Canadian Accounting Standards Board confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements for periods beginning on January 1, 2011. The Manager of the Fund has established a project plan for implementing IFRS which includes determining:

- changes to accounting policies and implementation decisions;
- disclosure requirements;
- changes to information systems and accounting processes;
- changes to internal control over financial reporting and disclosure controls and procedures;
- training requirements; and
- external stakeholder communications.

The impact of the adoption of IFRS on the Fund’s financial reporting is not yet determinable.

4. SEGMENTED INFORMATION

Year ended December 31, 2008	Alliance Canada	Saskatchewan System	Green Power	Corporate	Consolidated
<i>(millions of dollars)</i>					
Revenue	222.1	68.0	6.9	–	297.0
Operating and maintenance	(57.4)	(33.2)	(2.8)	–	(93.4)
Management and administrative	–	–	–	(6.5)	(6.5)
Depreciation and amortization	(62.4)	(20.1)	(3.3)	–	(85.8)
	102.3	14.7	0.8	(6.5)	111.3
Other income and expense	7.0	(0.2)	0.6	0.1	7.5
Interest expense	(46.3)	–	(0.4)	(13.2)	(59.9)
ECT preferred unit distributions	–	–	–	(39.2)	(39.2)
Income taxes	0.1	3.0	0.1	(1.0)	2.2
Earnings	63.1	17.5	1.1	(59.8)	21.9
Goodwill	308.1	–	–	–	308.1
Total assets	1,496.7	278.0	78.2	5.3	1,858.2
Capital expenditures	20.7	29.8	5.9	–	56.4

Year ended December 31, 2007	Alliance Canada	Saskatchewan System	Green Power	Corporate	Consolidated
<i>(millions of dollars)</i>					
Revenue	209.1	54.4	7.3	–	270.8
Operating and maintenance	(43.5)	(27.4)	(2.3)	–	(73.2)
Management and administrative	–	–	–	(4.8)	(4.8)
Depreciation and amortization	(62.0)	(16.6)	(3.2)	–	(81.8)
	103.6	10.4	1.8	(4.8)	111.0
Other income and expense	0.9	(0.3)	0.4	0.2	1.2
Interest expense	(47.5)	–	–	(14.3)	(61.8)
ECT preferred unit distributions	–	–	–	(36.5)	(36.5)
Income taxes	2.0	9.2	0.4	(4.4)	7.2
Earnings	59.0	19.3	2.6	(59.8)	21.1
Goodwill	308.1	–	–	–	308.1
Total assets	1,516.3	261.9	78.8	1.8	1,858.8
Capital expenditures	17.9	21.1	17.2	–	56.2

5. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

GENERAL INFORMATION ON RATE REGULATION AND ITS ECONOMIC EFFECTS

Alliance Canada

Shippers on Alliance entered into 15-year transportation contracts, expiring in December 2015, which set out the cost-of-service toll methodology used to calculate annual tolls. The NEB approves the cost-of-service toll methodology and the annual toll for the Alliance pipeline. Toll adjustments are filed annually with the regulator. The tolls include a return on equity component of 11.26% (2007 – 11.26%) after tax and are based on a deemed 70% debt and 30% equity structure.

Saskatchewan System

The Saskatchewan Gathering System and the Westspur System are regulated by SER and the NEB, respectively. Both systems follow the cost-of-service methodology. Tolls are subject to change from time to time based on the differences between the estimated cost of service and actual costs incurred and include a 6.5% return on a semi-depreciated rate base.

The regulators do not regularly review or approve the rates established by the pipeline systems comprising the Saskatchewan System. However, in the event of a customer complaint, the regulator would review and provide a ruling on the rates in question.

FINANCIAL STATEMENT EFFECTS

Accounting for rate-regulated entities has resulted in recording the following regulatory assets and liabilities:

December 31,	2008	2007	Estimated Settlement Period (years)	Earnings Impact ¹	
				2008	2007
<i>(millions of dollars)</i>					
Regulatory Assets/(Liabilities)					
Alliance Canada					
Deferred transportation revenue ²	79.8	65.6	17	14.2	18.3
Transportation revenue adjustment ³	(2.0)	–	1	(2.0)	0.8
Saskatchewan System					
Transportation revenue adjustment ³	(0.3)	(0.6)	1	0.3	(1.3)

¹ The effect of rate regulation resulted in an increase/(decrease) in after-tax reported earnings.

² Deferred transportation revenue is related to the cumulative difference between GAAP depreciation expense included in the financial statements of Alliance Canada and depreciation expense included in transportation tolls. Alliance Canada expects to recover this difference over a number of years when depreciation rates in the TSAs are expected to exceed the GAAP depreciation rates, beginning in 2012 and ending in 2025. This regulatory asset is not included in the rate base.

³ The transportation revenue adjustment is the cumulative difference between actual expenses and estimated expenses included in transportation tolls. The transportation revenue adjustments are not included in the rate base.

Long-term regulatory assets are recorded in Deferred Amounts and Other Assets, whereas current regulatory assets are recorded in Accounts Receivable and Other. Regulatory liabilities are recorded in Accounts Payable and Accrued Liabilities.

OTHER ITEMS AFFECTED BY RATE REGULATION

Future Income Taxes

In the absence of rate regulation, future income tax liabilities of \$67.3 million (2007 – \$64.6 million) associated with certain assets, primarily property, plant and equipment, would be recorded.

Accumulated unrecorded future income tax liabilities of \$21.8 million (2007 – \$16.7 million) relate to the regulatory deferral accounts identified above. In the absence of rate regulation, regulatory deferrals would not be recorded nor would the associated future income tax liabilities.

As a result of the tax impacts discussed above, earnings during the year would increase by \$3.8 million (2007 – \$12.8 million) in the absence of rate regulation.

Allowance for Funds Used During Construction (AFUDC)

To date, an equity component of \$67.6 million (2007 – \$67.3 million) is included in property, plant and equipment.

6. PROPERTY, PLANT AND EQUIPMENT

December 31, 2008	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
<i>(millions of dollars)</i>				
Alliance Canada				
Pipeline in service	4.0%	1,258.7	(297.7)	961.0
Plant assets	17.2%	12.3	(10.5)	1.8
Capital spares	–	6.8	–	6.8
Other assets	32.6%	11.7	(1.6)	10.1
		1,289.5	(309.8)	979.7
Saskatchewan System				
Pipeline in service	6.0%	335.7	(88.3)	247.4
Line fill	–	5.3	–	5.3
Under construction	–	5.7	–	5.7
		346.7	(88.3)	258.4
Green Power				
Machinery and equipment	4.6%	74.9	(5.8)	69.1
Other assets	5.3%	1.8	(0.1)	1.7
Under construction	–	–	–	–
		76.7	(5.9)	70.8
		1,712.9	(404.0)	1,308.9

December 31, 2007	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
<i>(millions of dollars)</i>				
Alliance Canada				
Pipeline in service	4.0%	1,249.2	(244.8)	1,004.4
Plant assets	15.0%	3.2	(2.1)	1.1
Capital spares	–	5.6	–	5.6
Other assets	31.7%	10.8	(8.7)	2.1
		1,268.8	(255.6)	1,013.2
Saskatchewan System				
Pipeline in service	5.3%	298.6	(68.8)	229.8
Line fill	–	5.3	–	5.3
Under construction	–	13.0	–	13.0
		316.9	(68.8)	248.1
Green Power				
Machinery and equipment	4.4%	49.8	(2.9)	46.9
Other assets	5.3%	1.8	(0.2)	1.6
Under construction	–	19.2	–	19.2
		70.8	(3.1)	67.7
		1,656.5	(327.5)	1,329.0

7. INTANGIBLE ASSETS

December 31, 2008	Weighted Average Amortization Rate	Cost	Accumulated Amortization	Net
<i>(millions of dollars)</i>				
Alliance Canada				
Long-term transportation agreements	4.4%	116.0	(28.4)	87.6
Green Power				
Production incentive agreements	8.4%	4.0	(0.7)	3.3
		120.0	(29.1)	90.9

December 31, 2007	Weighted Average Amortization Rate	Cost	Accumulated Amortization	Net
<i>(millions of dollars)</i>				
Alliance Canada				
Long-term transportation agreements	4.4%	116.0	(23.2)	92.8
Green Power				
Production incentive agreements	8.4%	4.0	(0.4)	3.6
		120.0	(23.6)	96.4

8. LONG-TERM DEBT

December 31,	2008	2007
<i>(millions of dollars)</i>		
Medium Term Notes		
4.19% due December 21, 2009	100.0	100.0
5.25% due December 22, 2014	90.0	90.0
Credit Facility	92.0	98.5
Deferred Financing Charges	(3.2)	(4.3)
Total Debt	278.8	284.2
Current Maturities	(100.0)	–
Long-term Debt	178.8	284.2

Medium Term Notes

The Medium Term Notes (MTNs) are unsecured and redeemable by the Fund prior to maturity, in whole or in part, at the option of the Fund at the Government of Canada yield plus 0.14% and 0.25% for the Series 1 and Series 2 MTNs, respectively. Interest on the MTNs is payable semi-annually in June and December. The Medium Term Notes have a fair value of \$180.5 million (2007 – \$186.1 million) based on quoted market prices.

Credit Facility

On September 30, 2007, the Fund amended the existing three-year unsecured credit facility to increase the facility from \$105.0 million to \$150.0 million under the same terms and conditions as the previously existing facility. On February 10, 2008, the maturity date of the Fund's existing three-year credit facility was amended from February 10, 2010, to February 10, 2011.

The Fund may receive advances on the credit facility up to an aggregate principal amount of the credit limit by requesting prime rate advances, U.S. base rate advances, U.S. LIBOR advances, letter of credit advances, bankers' acceptance advances or by requesting bankers' acceptance equivalent loans. Interest is charged at a rate per annum, dependent on the type of advance requested plus applicable margin. The current applicable margins range from nil to 0.53%.

At December 31, 2008, the Fund's credit facility had \$0.7 million (2007 – \$0.2 million) of letters of credit outstanding and \$57.3 million (2007 – \$51.3 million) in undrawn credit available.

9. NON-RECOURSE LONG-TERM DEBT

December 31,	2008	2007
<i>(millions of dollars)</i>		
Alliance Canada		
Bank credit facility	57.5	43.0
Senior notes		
7.230% due 2015	113.2	117.4
7.181% due 2023	168.2	174.8
5.546% due 2023	100.4	107.4
7.217% due 2025	134.8	139.9
6.765% due 2025	162.4	168.2
NRGreen		
Bank credit facility	24.6	–
	761.1	750.7
Fair Value Increment on Long-term Debt Acquired	38.2	43.3
Deferred Financing Charges	(3.7)	(4.2)
Total Non-recourse Debt	795.6	789.8
Current Portion of Non-recourse Debt	(30.9)	(28.7)
Non-recourse Long-term Debt	764.7	761.1

Non-recourse long-term debt maturities for the years ending December 31, 2009 through 2013, are \$30.9 million, \$58.5 million, \$36.3 million \$96.4 million, and \$39.9 million, respectively, and \$499.1 million thereafter.

Non-recourse debt has a fair value of \$756.7 million (2007 – \$796.8 million) based on quoted market prices.

ALLIANCE CANADA BANK CREDIT FACILITY

Alliance Canada maintains a committed extendible revolving credit facility in the amount of \$200.0 million with an expansion provision to facilitate timely increases of the facility to \$300.0 million if required. The facility agreement contains provisions for an extension of one additional year on each anniversary of the closing date. In June 2007, Alliance Canada extended the maturity date of its existing credit facility from June 28, 2011, to June 28, 2012.

Interest is accrued and payable based on bankers' acceptance rates, plus applicable margins, for terms not exceeding six months. Amounts outstanding under the credit facility at December 31, 2008, bear interest at an average rate of 2.08% (December 31, 2007 – 4.65%).

At December 31, 2008, Alliance Canada's credit facility had \$80.0 million (2007 – \$80.0 million) of letters of credit outstanding and \$5.0 million (2007 – \$34.0 million) in undrawn credit available, of which the Fund's proportionate share is 50%.

NRGREEN BANK CREDIT FACILITY

In March 2008, NRGreen secured new credit facilities consisting of a construction credit facility of \$52.5 million and an operating credit facility of \$5.0 million. Upon completion of the fourth NRGreen waste heat recovery facility, in November 2008, the construction facility converted to a two-year revolving credit facility. The operating credit facility is an extendible revolving facility that matures on August 31, 2011. To date the operating facility has not been drawn on.

Interest is accrued and payable based on bankers' acceptance rates, plus applicable margins, for terms not exceeding 12 months. Amounts outstanding at December 31, 2008, bear interest at a rate of 3.31%.

At December 31, 2008, NRGreen had \$8.4 million in undrawn credit available, of which the Fund's proportionate share is 50%.

The facility is secured by a first ranking floating charge over all property of NRGreen, which includes the four waste heat recovery facilities and an assignment of material contracts. The NRGreen credit facility is non-recourse to the Fund as security provided by NRGreen is limited to the rights and assets of NRGreen and does not extend to the rights and assets of the Fund, except to the extent of the Fund's investment in NRGreen.

ALLIANCE CANADA SENIOR NOTES

The Fund recorded the senior notes at their fair value on the date of the acquisition of its interest in Alliance Canada. The difference between the fair value and the principal amount of the debt is amortized using the effective interest method over the remaining life of the debt. The senior notes are non-recourse to the Fund as security provided by Alliance Canada is limited to the rights and assets of Alliance Canada and does not extend to the rights and assets of the Fund, except to the extent of the Fund's investment in Alliance Canada.

The senior notes may be redeemed by Alliance Canada at any time at a price equal to the greater of (i) the applicable Government of Canada yield price plus a premium and (ii) par, together with accrued interest. Alliance Canada may be required to redeem the senior notes, in whole or in part, from proceeds received under insurance claims or other claims for damages if the proceeds are not applied to repair or rebuild the Alliance pipeline system.

Interest on the senior notes is payable semi-annually in June and December. Principal repayments are closely tied to the recovery rates for depreciation contained in the TSAs.

Certain assets of Alliance Canada are pledged as collateral to Alliance Canada's lenders and to the lenders to Alliance Pipeline US. Alliance Canada's long-term debt is collateralized by a first priority perfected security interest in Alliance Canada's TSAs with its shippers, Alliance Canada's NEB permit, certain other material contracts, the trust accounts into which Alliance Canada's transportation revenue is deposited and a floating charge debenture over Alliance Canada's real property and tangible personal property. Alliance Canada is required to meet certain financial conditions and adhere to certain covenants on an ongoing basis.

10. INTEREST EXPENSE

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Interest expense on:		
Long-term debt	12.5	13.1
Non-recourse long-term debt	51.1	52.0
Amortization of deferred financing fees and bank charges	1.7	1.8
Capitalized interest	(0.5)	–
Amortization of the fair value increment on debt	(4.9)	(5.1)
	59.9	61.8
Interest paid	63.2	65.3

The interest capitalized related to the construction of the Westspur Expansion was \$0.5 million in 2008 (2007 – nil).

Interest obligations on long-term debt for the years ending December 31, 2009 through 2013, are \$8.9 million, \$4.7 million, \$4.7 million, \$4.7 million and \$4.7 million, respectively.

Interest obligations on non-recourse long-term debt for the years ending December 31, 2009 through 2013, are \$47.4 million, \$45.2 million, \$41.4 million, \$38.9 million and \$36.2 million, respectively.

11. ECT PREFERRED UNITS

The ECT preferred units are entitled to non-cumulative monthly distributions in an amount equal to the monthly distribution per trust unit. The ECT preferred units have no voting rights and mature on June 30, 2033, at which time ECT is obligated to redeem all of the outstanding ECT preferred units for a price of \$10 per unit. At December 31, 2008 and 2007, 38,023,750 ECT preferred units were outstanding.

The ECT preferred units include both a debt and equity component as the holder has the option to request redemption based on a redemption price that is referenced to the market value of a trust unit. Upon request by the holder and satisfaction of the necessary conditions, including financing on terms acceptable to the Independent ECT Trustees, the ECT preferred units will be repurchased for cancellation by ECT with a repurchase price per ECT preferred unit based on the net issue price realized from the sale (or that could be realized from the sale) of a trust unit to the public. This redemption is paid in cash and the Fund must use its best efforts to finance the redemption request through the issue of additional equity or debt. As a result, it is necessary to record the fair value of the equity component at the date of issue. The equity component was assigned a nil value at the time the Fund was created. Any gain or loss on the redemption of the debt component, based on the \$10 per unit par value would be recorded as an equity transaction.

12. ASSET RETIREMENT OBLIGATIONS

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Obligations at beginning of year	7.9	7.9
Liabilities incurred with Westspur Expansion	0.5	–
Revision to retirement date	2.1	–
Accretion expense	0.7	0.5
Liabilities settled	(0.3)	(0.5)
Obligations at end of year	10.9	7.9

A legal obligation exists for the retirement of assets within the Saskatchewan System and Green Power operating segments. The undiscounted amount of expected cash flows required to settle the asset retirement obligations is estimated at \$40.5 million (2007 – \$43.5 million), with the majority estimated to be settled beginning in the year 2026. The liability for the expected cash flows, as reflected in the financial statements, has a weighted average discount rate of 6.56%.

Although a legal obligation exists for costs associated with retirement of the Alliance Canada pipeline, it is not possible to make a reasonable estimate of AROs due to the indeterminate timing and scope of the asset retirements.

13. TRUST UNITS

UNITS OUTSTANDING

December 31,	2008		2007	
<i>(millions of dollars except number of units)</i>	Number of Units	Amount	Number of Units	Amount
Trust Units ¹	34,625,000	333.4	34,625,000	333.4

¹ 14,500,000 of these trust units are owned by Enbridge Inc.

Pursuant to the Trust Indenture, an unlimited number of trust units may be issued. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets in the event of termination or wind-up of the Fund. All units have equal rights and privileges. Prior to July 1, 2008, 14,500,000 units were subordinated to the remaining 20,125,000 units, which had a priority right in respect to distributions of distributable cash. On July 1, 2008, this priority right terminated unconditionally, in accordance with the terms of the Fund's Trust Indenture. As a result, the trust units are equal in all respects.

Trust units are redeemable at any time at the option of the holder. The redemption price is equal to the lesser of 90% of the weighted average market price of the units during a 10-day period occurring immediately prior to the redemption date and the closing market price on the redemption date. The total amount payable by the Fund in respect of redemptions in any calendar month shall not exceed \$0.1 million. To the extent that a unitholder is not entitled to receive cash upon the redemption of the trust units, the redemption price shall be satisfied by way of the Fund distributing a pro-rata number of ECT notes or other assets held by the Fund.

The Fund makes monthly distributions to unitholders of record on the last business day of each month. The amount of cash distributed monthly consists of all amounts received by the Fund including the income, interest, dividends, return of capital or other amounts, if any, from investments held by the Fund, less amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of trust units and amounts which the administrator or the Trustees of ECT may reasonably consider necessary for payment of costs and expenses required for the operation of the Fund and for reasonable reserves.

The distribution will not typically be adjusted in circumstances where a change in cash available for distribution is not considered to be recurring. In the event the Fund pursues activities which are consistent with the purposes of the Fund as outlined in the Trust Indenture, the Fund has the discretion to set aside reasonable reserves for such amounts, thereby reducing the percentage of cash available to be distributed. For the year ended December 31, 2008, the Fund declared \$35.7 million (2007 – \$33.1 million) in cash distributions to trust unitholders. Cash distributions of \$39.2 million (2007 – \$36.5 million) were also declared on the ECT preferred units during the year ended December 31, 2008.

14. RISK MANAGEMENT

MARKET PRICE RISK

The Fund's earnings are subject to movements in interest rates and commodity prices (collectively, market price risk). Risk management policies, processes and systems are in place to mitigate these risks. The following summarizes the types of market price risks to which the Fund is exposed, and the risk management instruments used to mitigate them.

Interest Rate Risk

The Fund is exposed to interest rate fluctuations in the form of cash flow interest rate risk and fair value interest rate risk. Cash flows and earnings are impacted by changes in market interest rates on existing variable rate debt. Floating to fixed interest rate swaps are used from time to time to hedge against cash flow volatility due to the effect of future interest rate movements on existing debt instruments. The fair value of fixed rate long-term debt is also impacted by changes in market interest rates. As at December 31, 2008, there are no interest rate derivative financial instruments outstanding.

Based on variable rate debt balances, excluding Alliance Canada, a 1.0% change in interest rates would have resulted in a \$1.0 million impact to earnings for the year ended December 31, 2008. The earnings of Alliance Canada are not sensitive to fluctuations in interest rates under its cost-of-service toll methodology. The total carrying value of the Fund's variable rate debt (including Alliance Canada) was \$174.1 million at December 31, 2008.

Commodity Price Risk

Commodity price risk is the risk of changes in cash flows or earnings due to changes in the market price of commodities. The Fund is exposed to movements in the price of power through its interest in wind power assets in Alberta. To manage this exposure, the Fund uses two fixed-price power agreements that convert the floating price received when power is sold to a fixed rate.

For the year ended December 31, 2008, a \$5/MWh change in the price of power would have impacted after-tax earnings by \$0.3 million as well as other comprehensive income by \$1.7 million. In order to derive the impact of this change, the Fund assumed capacity based on the asset's underlying performance to date, used observable market inputs to derive future power prices and discounted the expected cash flows.

SUMMARY OF DERIVATIVE INSTRUMENTS USED FOR RISK MANAGEMENT

The Fund uses the following cash flow hedges to manage changes in power prices.

Derivative Instruments used as Cash Flow Hedges

(millions of dollars, unless otherwise noted)	Notional Principal or Quantity (MW/H)	Fair Value Payable ¹	Maturity	Year ended December 31, 2008	
				Unrealized Losses, net of tax ²	Realized Losses, net of tax ³
Chin Chute Power Swap	2.0	(3.4)	2017	(1.5)	(0.6)
Magrath Power Swap	2.8	(8.1)	2024	(3.1)	(0.6)
	4.8	(11.5)		(4.6)	(1.2)

¹ See Note 15 Financial Instruments for a description of the methodology used in deriving the fair value of these instruments.

² The tax recoveries related to the unrealized losses on the Chin Chute and Magrath Power swaps are \$0.6 million and \$1.2 million, respectively.

³ The tax recoveries related to the realized losses on the Chin Chute and Magrath Power swaps are \$0.2 million and \$0.2 million, respectively.

(millions of dollars, unless otherwise noted)	Notional Principal or Quantity (MW/H)	Fair Value Payable ¹	Maturity	Year ended December 31, 2007	
				Unrealized Losses, net of tax ²	Realized Losses, net of tax ³
Chin Chute Power Swap	2.0	(3.8)	2017	(0.5)	(0.3)
Magrath Power Swap	2.8	(4.6)	2024	0.1	–
	4.8	(8.4)		(0.4)	(0.3)

¹ See Note 15 Financial Instruments for a description of the methodology used in deriving the fair value of these instruments.

² The tax recovery related to the unrealized loss on the Chin Chute Power swap is \$0.2 million.

³ The tax recovery related to the realized loss on the Chin Chute Power swap is \$0.1 million.

The current portion of the fair value payable is included in accounts payable and accrued liabilities, while the long-term portion is included in long-term liabilities. The Fund estimates that \$1.2 million of Accumulated Other Comprehensive Loss related to cash flow hedges will be reclassified to earnings in the next 12 months.

UNREALIZED GAINS AND LOSSES ON NON-HEDGING DERIVATIVES

If a derivative instrument is not an effective hedge for accounting purposes or is not designated as a hedging item, changes in the fair value are recorded in current period earnings. The Fund recognized an unrealized derivative loss of \$0.9 million (\$0.6 million after tax) for the year ended December 31, 2008 (2007 – gain of \$0.5 million after tax), related to a portion of a power purchase swap agreement not designated as a hedging instrument. This instrument has a fair value payable of \$1.7 million at December 31, 2008 (2007 – \$1.1 million).

LIQUIDITY RISK

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they become due. In order to manage this risk, the Fund forecasts its cashflow over the near and long term and ensures that sufficient funds will be available when required. The Fund's primary sources of liquidity and capital resources are cash provided by operating activities and the Fund's credit facility. Cash generated by operating activities, supplemented by additional borrowings as necessary, is expected to be sufficient to meet the forecast liquidity and capital resource requirements of the Fund.

CREDIT RISK

Credit risk arises from the possibility that a counterparty will default on its contractual obligations. Accounts receivable are subject to credit risk. The carrying values reflect Management's assessment of the associated maximum exposure to such credit risk.

Alliance Canada is exposed to credit risk since its business is concentrated in the natural gas transportation industry and its revenue is dependent upon the ability of its shippers to pay their monthly demand charges. Alliance Canada limits, to some degree, its exposure to this credit risk by requiring its shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or can demonstrate equivalent financial strength. As at December 31, 2008, Alliance Canada held \$43.0 million in letters of credit and cash deposits for these shippers.

The Saskatchewan System's trade receivables consist primarily of amounts due from companies operating in the oil and gas industry. The credit risk associated with these receivables is mitigated by utilization of credit exposure limits and, where appropriate, credit enhancement including contractual and collateral requirements and netting arrangements.

Green Power is exposed to credit risk since each project's primary source of fixed-price revenue is a single counterparty. This risk is mitigated by the strong creditworthiness of counterparties and maintenance of specified credit requirements.

From time to time, accounts receivables and other financial assets are past due. The management and monitoring of these accounts is performed on an ongoing basis by each business. As at December 31, 2008, accounts receivable in excess of 90 days represented less than 1% of the total balance.

15. FINANCIAL INSTRUMENTS

December 31,	2008		2007	
(millions of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	17.3	17.3	14.7	14.7
Accounts receivable and other	37.4	37.4	32.2	32.2
Held for trading investment ¹	5.0	5.0	5.8	5.8
	59.7	59.7	52.7	52.7
Financial Liabilities				
Accounts payable and accrued liabilities	47.3	47.3	38.5	38.5
Long-term debt ²	1,081.4	1,053.8	1,078.2	1,124.4
ECT preferred units	380.2	394.3	380.2	389.7
Long-term liabilities	2.7	2.7	3.2	3.2
Current derivatives payable ³	1.5	1.5	0.9	0.9
Long-term derivatives payable ³	11.8	11.8	6.9	6.9
	1,524.9	1,511.4	1,507.9	1,563.6

¹ Alliance Canada acquired an investment in asset-backed commercial paper, issued by a structured trust as part of Alliance Canada's current debt service requirement in 2007.

² Long-term debt includes non-recourse debt but excludes transaction costs.

³ Derivatives payable includes those derivatives used in hedging relationships and non-hedging derivatives.

The fair value of financial instruments represents the estimated amounts that would have been received from or paid to counterparties to settle these instruments at the reporting date.

The fair value of the Fund's long-term debt is based on actively quoted market prices for instruments of similar yield, credit risk and term. The fair value of the ECT preferred units is derived from the closing market price of the Fund's trust units.

The fair value of the Fund's derivative financial instruments and investment in asset-backed commercial paper reflects the Fund's best estimates of market value based on generally accepted valuation techniques or models and supported by observable market prices for commodities. When such prices are not available, the Fund uses discounted cash flow analysis based on models derived from observable market inputs.

The fair value of other financial assets and liabilities is reported as equal to cost, due to either the short period to maturity or to the lack of an actively quoted market.

Held for Trading Investment

In July 2007, Alliance Canada acquired a \$12.4-million investment in asset-backed commercial paper, issued by a structured investment trust (the Trust). As a result of the liquidity issues arising in the asset-backed commercial paper market, the Trust was unable to redeem this investment upon its maturity on August 31, 2007.

On January 21, 2009, the Pan-Canadian Committee (the Committee) announced it had fully implemented a restructuring plan for the asset-backed commercial paper market. As a result, Alliance Canada received various classes of Master Asset Vehicle (MAV) notes in exchange for the asset-backed commercial paper. The MAV notes consist of 48% MAV2 Class A-1 notes, 42% MAV2 Class A-2 notes, 7% MAV2 Class B notes and 3% MAV2 Class C notes. The Class A-1 and A-2 notes, which represent 90% of the notes received, carry an "A" rating from DBRS whereas the Class B and Class C notes are not rated. The legal maturity of the notes is July 15, 2056, but the actual expected repayment of the notes, if held to maturity, is January 22, 2017.

Since there is no active market for asset-backed commercial paper, the investment was reclassified to other deferred amounts and is classified as a held-for-trading instrument. The Fund recognized a fair value discount of \$0.4 million in 2007 and \$0.8 million in the first quarter of 2008 on the investment.

The Fund does not anticipate that the issues surrounding its investment in asset-backed commercial paper will have a significant impact on Alliance Canada's operations or on its ability to meet upcoming debt obligations.

16. CAPITAL DISCLOSURES

The Fund defines capital as unitholders' equity (excluding AOCI), long-term debt (net of transaction costs) and ECT preferred units, less cash and cash equivalents (net of proportionately consolidated cash and cash equivalents). Non-recourse debt, consisting of debt proportionately consolidated from joint venture interests, is excluded from the Fund's definition of capital as it is not controlled or managed exclusively by the Fund.

The Fund's capital is calculated as follows:

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Long-term Debt ¹	282.0	288.5
Unitholders' Equity, net of AOCI	271.5	285.3
ECT Preferred Units	380.2	380.2
Cash and Cash Equivalents	(2.6)	(1.6)
	931.1	952.4

¹ Includes the current portion of Long-term Debt.

The Fund's objectives when managing capital are to maintain flexibility between:

- enabling its businesses to operate at the highest efficiency;
- providing liquidity and access to capital for growth opportunities; and
- providing returns and generating predictable cash flow for distribution to unitholders.

To promote access to capital and liquidity on reasonable terms, the Fund targets to maintain an investment-grade credit rating. New capital can be raised through the issuance of short and long-term debt as well as equity securities. The draft income trust taxation legislation limits the amount of additional equity that income trusts, including the Fund, can raise before 2011. The relative amount of debt and equity in the Fund's structure is managed with a view to maintaining credit metrics within parameters established by the rating agencies and lenders. The Fund's credit facility includes a covenant that limits outstanding debt to a multiple of EBITDA (earnings before interest, taxes, depreciation and amortization). As at December 31, 2008 and 2007, the Fund was in full compliance with its covenants.

17. INCOME TAXES

INCOME TAX RATE RECONCILIATION

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Earnings before income taxes	19.7	13.9
Combined statutory income tax rate	29.5%	32.1%
Income taxes at statutory rate	5.8	4.5
Increase/(decrease) resulting from:		
Interest deductions of subsidiaries arising from intercorporate debt	(25.8)	(20.8)
Legislated tax changes on future income tax balances	0.1	(6.6)
Distributions on ECT preferred units	11.6	11.7
Deductions allocated to unitholders	5.8	6.0
Future income taxes related to regulated operations	0.3	(2.0)
Income taxes recoveries	(2.2)	(7.2)
Effective income tax rate	(11.2%)	(51.8%)

COMPONENTS OF FUTURE INCOME TAXES

December 31,	2008	2007
<i>(millions of dollars)</i>		
Future income tax liabilities/(assets)		
Differences in accounting and tax bases of:		
Property, plant and equipment and intangible assets	74.5	78.2
Fair value increment on long-term debt acquired	(10.1)	(11.6)
Asset retirement obligation	(2.9)	(2.1)
Cash flow hedges	(3.7)	(2.4)
Other	(1.4)	(0.7)
	56.4	61.4

On June 22, 2007, the Tax Fairness Plan income trust taxation legislation, Bill C-52, received Royal Assent. Under the enacted legislation, a distribution tax will be imposed on Enbridge Income Fund starting in 2011. This change resulted in the recognition of future income tax liabilities and expense of \$1.9 million in the second quarter of 2007. Future income tax expense was not recorded for the temporary differences attributed to Alliance Canada because future income taxes are expected to be included in the approved rates charged to customers in the future and fully recovered.

Current income taxes were \$1.5 million (2007 – \$1.9 million.) In 2008, income taxes paid amounted to \$3.8 million (2007 – a recovery of \$0.3 million).

During the year ended December 31, 2008, the Fund recognized the benefit of federal unused loss carryforwards of \$6.4 million (2007 – \$2.4 million). Unused tax loss carryforwards expire as follows: 2015 – \$0.1 million, 2026 – \$2.3 million and 2028 – \$4.0 million.

18. JOINT VENTURES

The Fund's proportionate share of the net assets, earnings, cash flows and financial position of its interests in joint ventures is summarized below. This summary does not include the impact of the purchase price excess that resulted upon the acquisition of the joint ventures.

NET ASSETS

December 31,	Ownership Interest	2008	2007
<i>(millions of dollars)</i>			
Alliance Canada	50%	344.4	355.2
Green Power			
NRGreen	50%	8.5	27.6
Wind Power Assets	33%–50%	39.2	41.6
		392.1	424.4

EARNINGS

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Revenues	230.8	216.0
Operating and maintenance	(59.1)	(45.0)
Depreciation and amortization	(60.1)	(59.2)
Interest expense	(51.6)	(52.6)
Other income and expense	7.2	1.2
Proportionate share of net earnings	67.2	60.4

CASH FLOWS

Year ended December 31,	2008	2007
<i>(millions of dollars)</i>		
Cash provided by operating activities	118.3	97.1
Cash used in investing activities	(33.6)	(44.3)
Cash used in financing activities	(83.7)	(54.6)
Proportionate share of increase/(decrease) in cash and cash equivalents	1.0	(1.8)

FINANCIAL POSITION

December 31,	2008	2007
<i>(millions of dollars)</i>		
Current assets	38.1	34.5
Property, plant and equipment	1,048.9	1,079.0
Deferred amounts and other assets	86.9	74.8
Current liabilities	(52.3)	(42.6)
Non-recourse long-term debt	(726.4)	(717.9)
Long-term liabilities	(2.8)	(3.2)
Asset retirement obligation	(0.3)	(0.2)
Proportionate share of net assets	392.1	424.4

Included in the Fund's proportionate share of cash from Alliance Canada is \$9.9 million (2007 – \$2.4 million) of cash that is held in trust. Under the terms of Alliance Canada's finance agreements, all funds received from shippers in settlement of transportation tolls, as well as interest earned on trust account balances, are segregated in trust accounts and first applied to meet debt service and operating requirements before distributions, if any, are made to the partners. At the completion of each fiscal quarter, Alliance Canada determines the amount of cash and cash equivalents necessary to satisfy this requirement and applies to have funds, if any, in excess of this amount transferred to a non-trust account. Only funds in non-trust accounts may be distributed to the partners of Alliance Canada.

19. RELATED PARTY TRANSACTIONS

Alliance Canada has contracts with shippers who are also affiliates of the Fund through common ownership interests of Enbridge. The Fund's share of Alliance Canada's revenue from affiliates for the year ended December 31, 2008, is \$13.5 million (2007 – \$12.3 million), of which \$1.1 million (2007 – \$1.0 million) was included in accounts receivable at year-end. The terms of these contracts are the same as those agreed to with independent third parties.

Administrative and operation services agreements allow for Alliance Canada to provide services to Alliance Pipeline US (an entity related to Alliance Canada by virtue of common ownership interests) in exchange for reimbursement of incurred costs or at rates consistent with those obtainable from independent third parties. Certain amounts reimbursed under the services agreements with Alliance Pipeline US also include a recovery of costs relating to the use of common administrative assets. The Fund's share of amounts charged to Alliance Pipeline US during the year ended December 31, 2008, was \$12.7 million (2007 – \$10.1 million), of which \$1.3 million (2007 – \$0.7 million) was included in accounts receivable as at December 31, 2008.

The Saskatchewan System does not have any employees and uses the services of Enbridge, which has a 41.9% equity ownership interest in the Fund, for managing and operating the business. These services, which are charged at cost in accordance with service agreements, were \$15.5 million for 2008 (2007 – \$12.7 million), of which \$0.9 million (2007 – \$0.8 million) was included in payables at December 31, 2008.

The SunBridge project does not have any employees and uses the services of Enbridge for managing and operating the business. These services, which are charged at cost, were \$0.3 million for 2008 (2007 – \$0.3 million), with \$0.1 million included in accounts payable at December 31, 2008 (2007 – \$0.1 million).

Under the management and administrative agreements with EMSI, a wholly owned subsidiary of Enbridge, an incentive fee is payable annually to EMSI equal to 25% of cash distributions above a base distribution level of \$0.825 per unit per year. During the year ended December 31, 2008, incentive fees were \$5.0 million (2007 – \$3.3 million), which were included in accounts payable at December 31, 2008 (2007 – \$3.3 million). In addition, a base fee of \$0.1 million is payable annually for providing administrative and management services and is included in accounts payable at December 31, 2008.

20. COMMITMENTS

At December 31, 2008, the Fund had operating lease obligations as detailed below:

<i>(millions of dollars)</i>	Total	Less than 1 year	2 years	3 years	4 years	5 years	After 6 years
Operating Leases	38.4	3.2	2.9	2.6	3.2	3.0	23.5

On March 31, 2008, Alliance Canada entered into a service agreement with General Electric Canada. The contract is for maintenance activities on Alliance Canada's compressor equipment and expires in December 2015. Alliance Canada has outstanding monthly commitments of US\$498,905 and €30,491 related to this contract. The monthly fees may escalate annually based on an indexed price formula in the contract.

21. SUBSEQUENT EVENTS

DISTRIBUTION BY THE FUND

On January 15, 2009, the Fund made a monthly cash distribution in the amount of \$0.086 per trust unit. A cash distribution of \$0.086 per unit was also paid on the same date on the ECT preferred units.

On January 19, 2009, the Fund declared a monthly cash distribution in the amount of \$0.096 per trust unit to unitholders of record on January 30, 2009, which is payable on February 13, 2009. Cash distributions of \$0.096 per unit were also declared on the same date on the ECT preferred units.

UNITHOLDER AND INVESTOR INFORMATION

Ordinary Units

The ordinary units of Enbridge Income Fund are listed in Canada on the Toronto Stock Exchange and trade under the symbol “ENF.UN”.

Fund Trustee/Registrar and Transfer Agent

CIBC Mellon Trust Company
600, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1
Telephone: (403) 232-2400
Toll free: (800) 387-0825
Internet: www.cibcmellon.com

Fund Administrator

Enbridge Management Services Inc.
3000, 425 - 1st Street S.W.
Calgary, Alberta, Canada T2P 3L8
Telephone: (403) 231-3900
Facsimile: (403) 231-3920

Auditors

PricewaterhouseCoopers LLP

Tax Information

The Fund is a “mutual fund trust” as defined in the Income Tax Act (Canada) (the “Act”). Units in the Fund are qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans under the Act.

Cash distributions to unitholders include an income or taxable component and a return of capital component. The specific breakdown of distributions in a particular year will be provided to the unitholders after the end of the year.

Based on current operations, the Fund estimates that approximately 80% of cash to be distributed during 2009 will be included in the income of unitholders for tax purposes.

The taxable component will be mainly ordinary income for tax purposes although there will be a dividend component that will qualify for the dividend tax credit when received by an individual resident in Canada. The portion of a distribution that is considered a return of capital is not immediately taxable but rather reduces the unitholder's tax basis in the unit.

Holders and potential holders of Fund units should consult their own tax advisors with respect to their particular circumstances.

Cash Distributions

Monthly distributions are normally made to unitholders of record as of the close of business on the last business day of each month, and are expected to be paid to unitholders on or about the 15th day of the following month. The following expected distribution dates for 2009 are subject to the distributions being declared by the Board of Trustees.

Record date	Payment date
December 31, 2008	January 15
January 30	February 13
February 27	March 13
March 31	April 15
April 30	May 15
May 29	June 15
June 30	July 15
July 31	August 14
August 31	September 15
September 30	October 15
October 30	November 13
November 30	December 15

Dividend Reinvestment and Unit Purchase Plan

In June 2004, the Fund began a Distribution Reinvestment Plan (the “Plan”). Participants may elect, without brokerage fees, to automatically reinvest monthly distributions in additional units of the Fund. Details of the Plan are available on the Fund's website. Investors should contact their respective investment dealer to enroll.

In order to be eligible to participate in the Plan, unitholders must be resident in Canada and hold a minimum of 100 ordinary trust units. Unitholders resident outside of Canada will be entitled to participate in the Plan subject to applicable local law. U.S. residents and citizens are not eligible to participate.

Executive Office

Enbridge Income Fund
3000, 425 - 1st Street S.W.
Calgary, Alberta, Canada T2P 3L8
Telephone: (403) 231-3900

Investor Inquiries

If you have inquiries regarding the following:

- additional financial or statistical information
- industry and company developments
- latest news releases or investor presentations

Please contact Enbridge Investor Relations or visit Enbridge Income Fund's web site at www.enbridgeincomefund.com.

Investor Relations

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Annual Meeting

The annual meeting of unitholders will be held in the Kensington Room, Le Royal Meridien King Edward Hotel, Toronto, Ontario at 1:30 p.m. EDT on Monday, May 4, 2009.

Quarterly Unit Trading Information

The Toronto Stock Exchange

2008 (dollars)	First	Second	Third	Fourth	Annual
High	11.10	12.17	11.86	11.58	12.17
Low	9.80	10.17	9.88	7.29	7.29
Close	10.30	11.69	10.15	10.37	10.37
Volume (millions)	1.57	2.39	1.45	2.81	8.21
2007 (dollars)	First	Second	Third	Fourth	Annual
High	13.07	12.75	12.14	11.26	13.07
Low	10.42	11.14	9.63	9.20	9.20
Close	11.37	11.35	9.81	10.25	10.25
Volume (millions)	2.32	1.69	1.81	3.81	9.63

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Enbridge Income Fund's ordinary units trade on the Toronto Stock Exchange under the symbol ENF.UN.

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