

Enbridge Income Fund
Management's Discussion & Analysis
For the year ended December 31, 2006
Dated January 29, 2007

This discussion should be read in conjunction with the audited consolidated financial statements of Enbridge Income Fund as at and for the years ended December 31, 2006 and 2005.

SELECTED OPERATING AND FINANCIAL HIGHLIGHTS¹

(millions of dollars except where otherwise noted)

Year ended December 31,	2006	2005	2004
Average Daily Throughput Volume			
Alliance Canada (millions of cubic feet per day)	1,592.0	1,597.0	1,581.0
Saskatchewan System ² (thousands of barrels per day)			
Westspur System	155.2	148.7	140.9
Saskatchewan Gathering System	103.8	103.2	97.8
Weyburn System	37.3	35.0	31.4
Virden System	20.7	21.5	19.0
Green Power ³ (thousands of megawatt hours produced)	52.2	-	-
Revenues	254.4	249.0	239.8
Earnings	35.3	15.2	10.4
Per Unit (dollars per unit)	1.02	0.44	0.30
Cash Available for Distribution	74.3	74.3	68.7
Cash Distributions Declared	67.3	66.1	62.5
Cash Distributions Declared Per Unit (dollars per unit)			
Ordinary Units	0.9259	0.9100	0.8607
Subordinated Units	0.9259	0.9100	0.8607
ECT Preferred Units	0.9259	0.9100	0.8607
Total Long-Term Liabilities	1,501.2	1,488.8	1,524.3
Total Assets	1,859.4	1,842.9	1,903.3
ECT Preferred Units (number of units)	38,023,750	38,023,750	38,023,750
Ordinary Units (number of units)	20,125,000	20,125,000	20,125,000
Subordinated Units (number of units)	14,500,000	14,500,000	14,500,000
Total Number of Equity Units	34,625,000	34,625,000	34,625,000

¹ Financial Highlights have been extracted from financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles in millions of Canadian dollars unless otherwise noted.

² Totals are not presented as the same volumes can be transported through a combination of the pipelines comprising the Saskatchewan System.

³ Wind assets were acquired on October 1, 2006. NRGreen's Kerrobert waste heat recovery facility began operations December 29, 2006.

In the interest of providing Enbridge Income Fund (the Fund) 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, economic conditions, interest rates 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 applicable securities law and regulations, 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.

OVERALL FINANCIAL RESULTS

CONSOLIDATED EARNINGS

(millions of dollars)

Year ended December 31,	2006	2005
Alliance Canada	59.0	54.7
Saskatchewan System	27.0	11.2
Green Power	0.6	-
Corporate	(51.3)	(50.7)
Earnings	35.3	15.2

Earnings for the year ended December 31, 2006 are \$35.3 million, compared with \$15.2 million for the year ended December 31, 2005. The primary reason for the increase is a reduction in future tax rates substantively enacted during the second quarter. Future tax balances within the Fund are primarily a result of temporary differences between the accounting and tax basis of assets and liabilities purchased by the Fund upon inception. Over time, as these assets or liabilities are amortized, the temporary differences reverse. The rate used to calculate future taxes is the rate enacted when the temporary differences are expected to reverse. A reduction in future income tax rates causes a revaluation of future tax balances which results in future income tax recoveries within the Fund. Future tax rates were reduced by approximately 7% for the Saskatchewan System resulting in future tax recoveries of \$14.0 million. The reduction in future tax rates for Alliance Canada was approximately 5% resulting in future tax recoveries of \$2.7 million. In addition, earnings were positively impacted by growth in earnings in the Saskatchewan System as well as earnings from the addition of the Green Power operating segment in the fourth quarter of 2006.

FUND STRATEGY

Fund Vision and Objective

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 and is administered by Enbridge Management Services Inc. (EMSI), 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 owns the Saskatchewan System, a 50% interest in Alliance Pipeline Limited Partnership (Alliance Canada), a 50% interest in NRGreen Power Limited Partnership (NRGreen) and interests in three wind power projects in Western Canada.

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

Strategy

In order to further achieve these growth and stability objectives, the Manager will pursue a business strategy for the Fund, which involves:

- i. maximizing the efficiency and profitability of its existing assets through representation on the boards and/or management committees of the Fund's assets;
- ii. pursuing organic growth and expansion opportunities through its existing assets and asset acquisitions; and
- iii. pursuing opportunities to acquire energy infrastructure investments or other related assets from Enbridge or third parties that meet the Fund's acquisition and investment guidelines.

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.

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 larger 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;
- Saskatchewan System, which owns and operates crude oil and liquids pipelines systems primarily connecting producing fields in Southern Saskatchewan and Southwestern Manitoba with Enbridge's mainline pipeline, for transportation to the United States; and
- 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.

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. In addition, Alliance Canada 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 million cubic feet per day (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% (2005 – 100%) of the Alliance System's available firm transportation capacity. Additional transportation capacity, referred to as Authorized Overrun Service (AOS), is available to shippers for no additional cost other than the cost of the associated fuel requirements. Beginning December 2010, each TSA may be renewed upon five years' notice for successive one-year terms beyond the initial 15-year term, at the option of the shipper. During 2006, 1.5% (20 mmcf/d) of the firm capacity was contracted to shippers on a short-term basis to March 2007.

Tolls and tariffs for Alliance Canada are regulated by the National Energy Board (NEB) in Canada. Alliance Canada is entitled to recover its cost of service by collecting monthly charges from shippers. 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, large corporations and provincial 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 from the cost of service, are made annually with tolls being submitted to shippers and filed with the regulator.

Saskatchewan System

The Saskatchewan System operates crude oil and liquids pipelines systems 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 comprise approximately 415 kilometres of trunk line and 1,900 kilometres of gathering pipeline and related terminals and storage facilities. The capacity of each of the Saskatchewan Gathering and the Westspur Systems is 190,000 barrels per day (bpd) and the capacity of the Weyburn and Virden Systems is 39,000 bpd and 37,000 bpd, respectively.

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

The Saskatchewan Gathering System and the Westspur System are regulated by Saskatchewan Industry and Resources (SIR) 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 rate base.

The Weyburn and Virden Systems are regulated by the SIR and Manitoba Science, Technology, and Mines (MEM), respectively. Rates are established based on historical precedence and/or signed agreements with customers and are updated to reflect changing market conditions when warranted.

The SIR and the NEB exercise statutory authority over various matters such as construction, operations and may, when necessary, 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.

Green Power

Wind Power

On October 1, 2006, the Fund purchased Enbridge's interests 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 for \$42.1 million. This acquisition is consistent with the Fund's objective to prudently increase cash available for distribution to unitholders through acquisitions of low-risk energy infrastructure. The acquisition was financed through the existing credit facility.

Collectively referred to as Wind Power, the SunBridge, Magrath, and Chin Chute wind turbines have the capacity to generate 71 megawatts (MW) of power in total. SunBridge is located southeast of Gull Lake and consists of 17 0.66-MW wind turbines that generate 11 MW of electricity which is sold to Saskatchewan Power Corporation (SaskPower) for distribution through the Saskatchewan power grid. The Magrath and Chin Chute wind projects located in Southern Alberta each consist of 20 1.5-MW wind turbines. The power generated is sold to the Alberta Power Pool at the spot price; however, the Fund has long-term fixed-price Power Purchase Agreements (PPA) with Enbridge Pipelines Inc. and another counterparty in order to fix the power prices on the Magrath and Chin Chute projects. The Magrath and Chin Chute PPAs expire on November 30, 2024 and December 31, 2017, respectively.

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

In addition, since it is uncertain whether the federal government's Wind Power Production Incentive (WPPI) or similar successor incentive program will be reinstated, Enbridge has agreed to pay the Fund \$10 per megawatt hour (MWh) of power produced by the Fund's interest in Chin Chute for a period ending on the earlier of 10 years or when the WPPI program or similar successor incentive program is reinstated. The Fund intends to monitor and investigate announcements and developments relating to funding or incentives applicable to wind power projects, such as the recent January 19, 2007 announcement from the Prime Minister's office of \$1.5 billion in alternative energy funding, with a view to identifying any opportunities for the Chin Chute project and the Fund.

NRGreen

NRGreen began operations of its non-regulated waste heat recovery facility at Kerrobert, Saskatchewan on December 29, 2006 and is constructing three additional facilities in Loreburn, Estlin and Alameda, Saskatchewan. Electricity is generated by harnessing the waste heat produced by Alliance Canada's gas turbines at its compressor stations and by converting this waste heat to electrical energy. SaskPower, pursuant to a 10-year PPA, ending December 29, 2016, purchases the power generated from the 5.0 MW Kerrobert facility. NRGreen may elect to issue two successive renewal notices, each extending the PPA for an additional five-year period. In addition, on August 22, 2006 NRGreen signed PPAs with SaskPower for the future

power generated by NRGreen's three additional waste heat recovery facilities currently under construction upon commencement of operations, which is expected in mid-2008.

ALLIANCE CANADA

Earnings

(millions of dollars)

Year ended December 31,	2006	2005
Revenues	201.4	203.9
Operating and maintenance	(35.0)	(33.3)
Capital taxes	(1.0)	(1.3)
Depreciation and amortization	(61.3)	(62.0)
Other income and expense	1.0	0.8
Interest expense	(48.7)	(50.8)
Current and future income taxes	2.6	(2.6)
Earnings	59.0	54.7

Results of Operations

Alliance Canada delivered its contracted 1,325 mmcf/d of firm service shipping capacity throughout 2006. Actual transportation deliveries, including utilized Authorized Overrun Service (AOS), averaged 1,592 mmcf/d (20.2% in excess of firm capacity) for the year ended December 31, 2006, consistent with average deliveries of 1,597 mmcf/d (20.6% in excess of firm capacity) in the prior year. Planned and unplanned outages were effectively managed along the system. An increase in usage of AOS does not impact earnings, however it does increase the competitiveness of Alliance Canada's tolls.

Revenue primarily reflects the cost of service recovery, whereby a decrease in costs decreases revenue. For 2006, revenue decreased by \$2.5 million from the prior year. This decrease is primarily due to a property tax rebate received following a 2006 court decision. In addition, lower financing costs, lower depreciation rates included in tolls and a lower equity return as a consequence of a depreciating investment base contributed to the decrease in revenue. These items are partially offset by higher operating and maintenance costs included in the cost of service recovery.

Operating and maintenance costs increased due to higher personnel related costs as well as higher utility costs from the Windfall Cooler projects, duty charges paid on spare gas generators brought into Canada and increased legal fees from the asset optimization initiatives.

Interest expense is lower due to repayments on long-term debt during 2006.

Earnings increased primarily due to the reduction in future tax rates resulting in future tax recoveries of \$2.7 million. Future taxes in Alliance Canada result from temporary differences between the accounting values of the transportation contracts, included in intangible assets, and long-term debt, versus their tax bases. The recovery of notional taxes in tolls for the full year in 2006 and the elimination of large corporation tax to the extent not recovered through tolls in the prior year also increased earnings. These changes are partially offset by the reduction in the equity return as a result of a depreciating investment base and a reduction in the recovery of notional taxes due to tax rate changes substantively enacted during the second quarter.

Earnings reflect a return on equity applied to investment base accounts, as well as an allowance

for income, large corporations and provincial capital taxes on regulated activities. The rate used to calculate the equity return is not expected to change; however, annual earnings will decline over time as the investment base is depreciated.

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. Looking to the future, Alliance Canada is focused on pipeline optimization, expansion opportunities and other development initiatives.

Capital Expenditures

Capital expenditures in 2006, representing the Fund's 50% interest, were \$10.5 million (2005 - \$8.9 million) including \$7.6 million (2005 - \$4.5 million) in maintenance capital expenditures, and \$2.9 million (2005 - \$4.4 million) in enhancement capital. Expenditures in 2006 were focused on compressor overhauls, pipeline and information system maintenance programs, as well as the enhancement of gas coolers at the Windfall compressor station aimed to improve system efficiency.

In 2007, Alliance Canada expects to spend approximately \$17.7 million, representing the Fund's 50% interest, on capital expenditures. Of this amount, \$11.5 million will be spent on maintenance capital including scheduled maintenance of Alliance Canada's compressor units, pipeline maintenance and information related systems. Enhancement capital of \$6.2 million will be spent on a number of asset optimization projects, including the continuation of the Alameda cooler enhancement project. In addition, Alliance is proposing a B.C. expansion project, increasing receipt capacity for existing shippers with natural gas receipts originating in Northeastern British Columbia. The Fund's share of the total estimated cost for the project is \$17.5 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.

Exposure to Shippers

Alliance Canada is highly dependent upon the shippers for revenues from contracted capacity on the Alliance Canada system. The failure of the shippers to perform 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.

The TSAs obligate the shippers to pay reservation charges regardless of whether they transport natural gas on the Alliance System. The shipper's obligations are subject to limited rights to receive reservation charge credits to the extent Alliance Canada is unable, for any reason related solely to the physical capability of the Alliance Canada pipeline, to transport volumes of natural gas up to the shipper's contracted capacity. As a result, Alliance Canada's profitability and its ability to make distributions to owners will generally depend on the shippers' financial

condition and ability to pay rather than upon the amount of natural gas transported. To reduce this risk, Alliance Canada has put certain controls in place to monitor the creditworthiness of each shipper.

The revenue generated by Alliance Canada is derived from tolls that are based on the TSAs. Approximately 98.5% of the firm service contract capacity is long term, which, unless renewed, will terminate at the end of the primary term in November 2015. Beyond such 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 upon general market conditions. If the shippers do not renew their TSAs, Alliance Canada may be forced to lower its tolls to retain or replace such shippers.

Alliance Canada is exposed to economic risk associated with the recovery of capital beyond the primary term of the TSAs. There is no guarantee that the shippers will extend their contracts beyond the primary term nor is there any assurance that Alliance Canada will be able to replace the shippers under terms to recover the then undepreciated capital cost. When the primary term of the TSAs expires in November 2015, Alliance Canada is expected to have recovered approximately 55% of the capital cost of the Alliance Canada pipeline through depreciation charges collected from shippers. In order to mitigate the risk of non-renewal, there are financial incentives for shippers to renew their contracts beyond the primary term.

Terms of the TSAs

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. In addition, transportation tolls are set in advance, based on anticipated expenses, and adjusted periodically to reflect actual expenses. If actual expenses exceed the estimate in any period, there is no assurance that the shortfall can 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. Therefore, 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.

There is no assurance that the Aux Sable Extraction Facility will operate uninterrupted or will continue business operations indefinitely. Aux Sable's business involves processing, refining and marketing natural gas liquids (NGLs) and its profitability will depend in part on the differential in the price of natural gas versus the price of various NGLs in its market area.

Competition

The Alliance System faces competition in pipeline transportation from both existing and proposed projects. Any new or upgraded pipelines could either allow shippers and competing pipelines to have greater access to natural gas markets or offer natural gas transportation services that are more desirable to shippers than those provided by Alliance Canada because of location, facilities or other factors. In addition, these pipelines could charge tolls or provide service to locations that result in greater net profit for shippers with the effect of forcing Alliance Canada to lower its transportation tolls upon the expiration of the primary term of the TSAs or otherwise, to avoid losing shippers, thereby reducing Alliance Canada's cash flow from the TSAs.

SASKATCHEWAN SYSTEM

Earnings

(millions of dollars)

Year ended December 31,	2006	2005
Revenues	51.7	45.1
Operating and maintenance	(25.1)	(20.7)
Capital taxes	(0.3)	(0.5)
Depreciation and amortization	(16.2)	(15.5)
Accretion on asset retirement obligations	(0.5)	(0.4)
Other income and expense	(0.3)	(0.3)
Current and future income taxes	17.7	3.5
Earnings	27.0	11.2

Results of Operations

Throughputs for the Saskatchewan System have increased compared to the prior year due to increased volumes on connected facilities as well as from new volumes being trucked to the pipelines. Higher throughputs do not directly impact earnings on the Saskatchewan Gathering and Westspur Systems since they are cost of service based. However, they may impact earnings for the Weyburn and Virden Systems.

Revenue has increased due to recovery in tolls of increased operating expenses.

Earnings are higher primarily due to the reduction in future tax rates substantively enacted during the second quarter resulting in an increase to earnings of \$14.0 million. Future taxes in the Saskatchewan System result from temporary differences between the accounting value of the property, plant and equipment versus the tax basis. The remaining increase in earnings is due to several factors that are the result of a higher rate base on the Saskatchewan Gathering and Westspur Systems.

Earnings from both the Saskatchewan Gathering System and the Westspur System reflect a return on equity applied to rate base accounts. The rate used to calculate the equity return is not

expected to change. However, the rate base upon which the equity return is calculated 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.

Strategy

The Saskatchewan System operates its pipelines and supporting assets with the objective of providing reliable, cost effective transportation solutions and generating strong cashflows. In addition, the Saskatchewan System is focused on meeting demand for increased capacity through expansion and development initiatives.

Capital Expenditures

Capital expenditures in 2006 were \$12.2 million (2005 - \$6.6 million) including \$3.5 million (2005 - \$3.9 million) in maintenance capital and \$8.7 million (2005 - \$2.7 million) in enhancement capital. Expenditures in 2006 were focused on sustaining capital infrastructure, the completion of new customer connections, pipeline integrity, and the commencement of an expansion of the Westspur and Weyburn Systems.

The Saskatchewan System anticipates capital expenditures of approximately \$22.0 million in 2007. Of this amount, approximately \$5.9 million is allocated to maintenance capital expenditures, including the annual repair and inspection programs involving electronic pipe corrosion inspection tools, or "smart pigs". The remaining \$16.1 million is for enhancement capital including the capacity expansion on the Westspur and Weyburn Systems. These expansions will increase capacity on the Weyburn System between Weyburn and Midale by approximately 8,000 bpd, as well as increase capacity on the Westspur System between Midale and Steelman by approximately 20,000 bpd and between Alida and Cromer by approximately 77,000 bpd. These expansions are expected to be in service by the end of 2007.

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.

Exposure to Shippers

Operations and tolls for the Saskatchewan Gathering System and the Westspur System are based on agreements with certain crude oil shippers, which expired in 1995. At present, operations and tolls are monitored on a customer complaint basis. The majority of the volumes shipped on the Saskatchewan Gathering and Westspur pipeline systems are transported on terms similar to a common carrier basis with no specific on-going 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.

There is no assurance that the regulators will continue to permit the Saskatchewan Gathering System and the Westspur System to use the present form of tolls. Shippers could file complaints with respect to the effective toll or protest any proposed changes to the toll, including the terms and conditions of service. In addition, changes in regulator policy or statutory changes could affect the relationship between the respective system and its shippers. The Saskatchewan System's cash flow, and ultimately cash flow available for distribution to unitholders, could be reduced by an adverse change to the Saskatchewan Gathering System and/or the Westspur System's tolls, rate structures and terms and conditions of service.

Competition

The Saskatchewan System faces competition in pipeline transportation from other pipelines as well as other forms of transportation, most notably trucking. For the Weyburn and Virden pipeline systems, which use market-based tolls, the cost of alternative transportation options affects the rates that can be charged for transportation service on these pipelines. The cost of alternative transportation options also provides competition on the Saskatchewan System's cost of service-based pipelines, the Saskatchewan Gathering and Westspur pipeline systems. 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, for commercial reasons, to lower the transportation rates to avoid losing shippers, thereby reducing the Saskatchewan System's cash flow from transportation services. The Saskatchewan System manages exposure to shippers and competition by ensuring the shipping rates are competitive and by providing a high level of service.

GREEN POWER

Earnings

(millions of dollars)

Year ended December 31,	2006
Revenues	1.3
Operating and maintenance	(0.4)
Depreciation and amortization	(0.5)
Other income and expense	0.2
Earnings	0.6

Results of Operations

Earnings in the period were generated primarily from the Wind Power assets. The Wind Power assets were fully operational during the fourth quarter with the Chin Chute wind project commencing operations on October 31, 2006. These assets generated approximately 52,200 MW hours of electricity during the period since acquisition on October 1, 2006.

NRGreen's Kerrobert facility commenced commercial operations on December 29, 2006, generating electrical power for SaskPower.

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.

Capital Expenditures

Capital expenditures in 2006 were \$10.1 million (2005 - nil) related primarily to enhancement capital for NRGreen's Kerrobert waste heat recovery facility and three new waste heat recovery facilities at Alameda, Estlin, and Loreburn, Saskatchewan. In 2007, Green Power will focus on completing the three new facilities and expects commercial operations to commence mid-2008. The Fund's 50% share of the cost of this project is expected to be \$22.7 million in 2007. The Fund expects to meet this funding requirement through use of the credit facility.

Business Risks

The risks identified below are specific to the Green Power. 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 Wind Power is dependent on the wind resource at each location. Although extensive long-term wind studies have been conducted, there is no assurance that the wind resource, and thus electricity generation, at each location will meet expectations.

Commodity Price Risk

The primary source of fixed price revenue for each wind project is a single counterparty. Thus the stability of the Fund's revenue from Wind Power 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

(millions of dollars)

Year ended December 31,	2006	2005
Management and administrative	(4.3)	(3.7)
Interest expense	(11.4)	(11.0)
ECT preferred unit distributions	(35.2)	(34.6)
Other	(0.4)	(1.4)
Total costs	(51.3)	(50.7)

Corporate Activities

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.

Results of Operations

Management and administrative costs increased primarily due to a \$0.5 million expense for GST recorded in the third quarter as a result of the determination that the Fund is not entitled to claim certain input tax credits. In addition, incentive fees and ECT preferred unit distributions are higher due to increases in the unitholder distribution rate by 1% in January 2006 and again by 4.5% in November 2006.

Interest expense has increased due to an increase in borrowings to finance both the acquisition of the Wind Power projects in October 2006 and increased enhancement capital expenditures.

CRITICAL ACCOUNTING POLICIES

Rate Regulation

The Fund follows Canadian Generally Accepted Accounting Principals, which may differ for regulated operations from those otherwise expected in non-regulated operations. These differences generally involve the timing of revenue and expense recognition.

The accounting for these items is based on an expectation of future approved rates. For example, the deferral of differences between amounts included in rates and actual experience for specified expenses is based on the expectation that refunds to, or the recovery from, shippers of the deferred balance, will be allowed in the future.

If rates allowed in future years are different from the Fund's expectations, the timing and amount of the recovery of liabilities or refund of assets, recorded or unrecorded, could be significantly different from that reflected in the financial statements.

Revenue Recognition

Alliance Canada's TSAs are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers. The period in which costs are recovered from toll receipts may differ from the period that these costs are recognized in the financial statements. Differences between the recorded transportation revenue and actual toll receipts give rise to receivable or payable balances.

Generally, the Saskatchewan System's transportation revenues are recorded when products have been delivered or services have been performed. For operations that are subject to regulation, revenues are not necessarily recognized in the same period as the cash tolls or the billed amounts. For rate-regulated operations, revenue is recognized in a manner that is consistent with the underlying rates allowed by the regulatory authority.

Financial Instruments, Hedging Relationships and Other Comprehensive Income

New accounting standards will be in effect for fiscal years beginning on or after October 1, 2006 for hedge accounting, recognition and measurement of financial instruments and disclosure of comprehensive income.

The Fund will apply these standards beginning on January 1, 2007 resulting in the recognition of other comprehensive income in a separate financial statement and the inclusion of accumulated other comprehensive income as a component of unitholders equity. To the extent economic hedges do not qualify, or are not documented as hedges in accordance with the new standards, gains and losses will be charged to current period earnings. The Fund anticipates that the adoption of these standards will not result in a material impact on the financial statements.

CRITICAL ACCOUNTING ESTIMATES

Regulatory Asset

Alliance Canada has recorded a long-term deferred asset for the cumulative difference between depreciation expense included in the financial statements and depreciation expense included in transportation tolls. The pipeline is fully contracted to 2015, however, intentions for renewal are declared annually commencing in 2010. There is no certainty as to whether Alliance will retain 100% contracted capacity beyond the primary term of the TSAs when the majority of the deferred asset is to be recovered. The carrying value of this asset reflects management's assessment as to its ultimate recoverability.

Depreciation

Depreciation of property, plant and equipment, the Fund's largest asset with a net book value at December 31, 2006 of \$1,349.0 million, or 72.6% of total assets, generally is provided on a straight-line basis over the estimated service lives of the assets 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 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 business segments, with the exception of the Corporate segment. Generally, revised assumptions have historically resulted in extended useful lives.

Asset Retirement Obligations

The fair value of asset retirement obligations (AROs) associated with the retirement of long-lived assets are 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 asset retirement obligations (ARO) is estimated at \$43.5 million (2005 - \$41.0 million) with the majority estimated to be settled beginning in the year 2033. The liability for the expected cash flows, as reflected in the financial statements, has been discounted at 6.58%. A legal obligation exists for costs associated with retirement of the Alliance Canada pipeline. However, a provision for asset retirement obligations has not been recognized, as it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the retirement for pipeline in service assets. 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.

LIQUIDITY AND CAPITAL RESOURCES

During 2006, the Fund amended its existing three-year credit facility to increase its size from \$70.0 million to \$105.0 million and to reduce the applicable margin on bankers acceptance advances. The credit facility may be used to provide working capital to the Fund, for general Fund purposes or to finance acquisitions. At December 31, 2006, the Fund had \$36.0 million in undrawn credit facilities for liquidity requirements. This facility, combined with cash generated by operating activities, is expected to be sufficient to meet the forecast liquidity and capital resource requirements of the Fund. Forecasted liquidity requirements include monthly cash distributions to unitholders, including ordinary and subordinated unitholders of the Fund as well as preferred unitholders of ECT. Anticipated capital resource requirements include the budgeted maintenance and enhancement capital expenditures as described under the Capital Expenditures headings.

The Fund's current liabilities routinely exceed current assets. This deficit is funded through cash from operations, which is typically greater than double the balance of the deficit in a given year. For example, at the end of 2004, the working capital deficit was \$26.7 million. During 2005, operations generated \$84.2 million cash, which easily funded the deficit. The Fund expects this trend to continue. The Fund's cash balance at December 31, 2006 of \$17.4 million includes \$4.0 million held in trust in Alliance Canada, pursuant to finance agreements within Alliance Canada.

Operating Activities

Cash provided by operating activities is \$86.5 million for the year ended December 31, 2006,

compared with \$84.2 million in the prior year. The increase in cash from operations reflects the increase in earnings from the new Green Power segment and the growth in the Saskatchewan System.

Investing Activities

Cash used for investing activities for the year ended December 31, 2006 was \$79.5 million, an increase of \$64.4 million from the prior year. The increase in expenditures is due primarily to the Wind Power acquisition, the completion of construction of the Kerrobert facility within NRGreen and the expansion of the Westspur and Weyburn Systems within the Saskatchewan System.

Capital expenditures are classified as either maintenance or enhancement. Maintenance capital expenditures are funded through cash from operations and debt. Enhancement capital expenditures are funded through debt and the issuance of equity as required.

Financing Activities

Financing activities during the year ended December 31, 2006 primarily relate to the draw on the credit facility to fund the Wind Power acquisition as well as semi-annual repayments on non-recourse long-term debt, monthly distributions to ordinary and subordinated unitholders and changes in credit facilities.

On June 28, 2006, Alliance Canada executed a new credit facility arrangement in the amount of \$200.0 million with an expansion provision on similar terms subject to lender approvals, to facilitate an increase to \$300.0 million, if required. Interest is based upon bankers' acceptance rates, plus applicable margins and the initial term of the facility is five years with a provision for additional one year terms on each anniversary of the closing. This facility replaces the former \$190.0 million facility that expired during the quarter ended June 30, 2006.

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

<i>(millions of dollars)</i>	Total	Less than			After 5
		1 year	2-3 years	4-5 years	years
Long-Term Debt	1,018.2	26.1	228.6	95.5	668.0
Operating Leases	7.3	2.4	4.2	0.7	-
Other Long-Term Obligations	9.0	3.9	5.1	-	-
	1,034.5	32.4	237.9	96.2	668.0

RECENT DEVELOPMENTS

Senior Management Changes

On September 1, 2006, Jim Schultz was appointed President of EMSI, the Administrator of the Fund and Manager of ECT. Mr. Schultz is also Senior Vice President, New Ventures for Enbridge Inc., and prior to assuming his new duties with the Fund was President of Enbridge Gas Distribution. He replaced Stephen J. Wuori who will remain as a Trustee of Enbridge Commercial Trust and Director of EMSI. In conjunction with this change, John Whelen was appointed Vice President, Business Development and Chief Financial Officer of EMSI, replacing Leigh Cruess. Mr. Whelen is also Senior Vice President, Corporate Development for Enbridge, and prior to September 1 was Vice President and Treasurer for Enbridge.

DISCLOSURE CONTROLS AND PROCEDURES

Based on the requirements of Multilateral 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 Multilateral Instrument 52-109). Based on that evaluation, EMSI concluded that the Fund's disclosure controls and procedures were effective as of December 31, 2006.

CASH AVAILABLE FOR DISTRIBUTION¹

(millions of dollars)

Year ended December 31,	2006	2005
Cash Provided by Operating Activities	86.5	84.2
Add/(Deduct):		
ECT preferred unit distributions	35.2	34.6
Alliance Canada cash retained	(43.6)	(42.3)
NRGreen cash retained	(4.0)	-
Saskatchewan System maintenance capital expenditures	(3.5)	(3.9)
Change in operating assets and liabilities in the period	3.7	1.7
Cash Available for Distribution	74.3	74.3
Cash Available for Distribution is comprised of the following:		
Alliance Canada distributions	66.6	73.7
Alliance Canada capital tax	(1.0)	(1.3)
Alliance Canada large corporations tax	-	(2.5)
Saskatchewan System operating income before depreciation, amortization and accretion	26.0	23.9
Saskatchewan System maintenance capital expenditures	(3.5)	(3.9)
Saskatchewan System large corporations tax	-	(0.2)
Green Power operating income before depreciation, amortization and accretion	1.1	-
Corporate management and administrative expense	(4.3)	(3.7)
Corporate other income	0.1	0.1
Corporate interest expense	(10.3)	(9.7)
Corporate current taxes	(0.4)	(2.1)
Cash Available for Distribution	74.3	74.3
Cash Distributions Declared	67.3	66.1

¹ Cash available for distribution is not a standardized measure under Canadian Generally Accepted Accounting Principles; therefore, it may not be comparable to similarly titled measures used by other issuers.

The above calculations of cash available for distribution represent cash available to fund distributions on ordinary units, subordinated 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 stable and sustainable flow of distributable cash to unitholders.

The cash retained by Alliance Canada reflects the cash from operations of Alliance Canada that has not been distributed to the Fund. While the cash from operations is proportionately consolidated and is included in the results of the Fund, it is not available for distribution by the

Fund until it has been received from Alliance Canada. The cash available for distribution from Alliance Canada is reduced to reflect debt service reserves, capital expenditures and other cash that is needed to fund working capital or other requirements at Alliance Canada. Cash retained by Alliance Canada is included above under "Alliance Canada cash retained" except for cash needed to fund working capital, which is included in "Change in operating assets and liabilities in the period". Distributions from Alliance Canada, which are subject to the approval of the Board of Directors of the General Partner of Alliance Canada, are made on a quarterly basis and paid in the month subsequent to the quarter end.

In the first quarter of 2006, \$4.0 million, representing the Fund's 50% investment in the Kerrobert waste heat project, was returned by Alliance Canada to the Fund. Alliance Canada returned these funds as a result of the sale of the project at carrying value to NRGreen. 'NRGreen cash retained' reflects this return from Alliance Canada and its retention for expenditures related to the Kerrobert waste heat project.

The Saskatchewan System 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, which are worn, obsolete or completing their useful life.

For the year ended December 31, 2006, cash distributions declared of \$67.3 million (2005 - \$66.1 million) represent 90.6% (2005 - 89.0%) of cash available for distribution. The Fund's policy is to distribute, on average, approximately 95% of cash available for distribution over a five-year period.

The Fund pays cash distributions on a monthly basis to unitholders of record on the last business day of each month. Distributions are payable on or about the 15th day of the month following the declaration. During the years ended December 31, 2006 and 2005, the Fund declared the following distributions to ordinary unitholders. Cash distributions of the same amount per unit were also declared on the subordinated units and the ECT preferred units.

Month of Record	2006		2005
	% Increase	Per Unit	Per Unit
January	1.0%	0.0765916	0.0758333
February		0.0765916	0.0758333
March		0.0765916	0.0758333
April		0.0765916	0.0758333
May		0.0765916	0.0758333
June		0.0765916	0.0758333
July		0.0765916	0.0758333
August		0.0765916	0.0758333
September		0.0765916	0.0758333
October		0.0765916	0.0758333
November	4.5%	0.0800000	0.0758333
December		0.0800000	0.0758333
Annual Cash Distribution Declared Per Unit		0.9259160	0.9099996

The Board of Trustees approves changes to distributions periodically based on cash flow to meet the Fund's distribution policy. As a result, the annual distribution rate has increased from

\$0.825 at the inception of the Fund to \$0.96 per unit effective November 30, 2006. The timing of the regular annual review of the distribution rate is in the fourth quarter of each year. The Fund estimates that approximately 80% of cash to be distributed during 2006 will be included in the income of unitholders for tax purposes. Based on current operations, the Fund estimates that approximately 80% of cash to be distributed during 2007 will be included in the income of unitholders for tax purposes.

On January 15, 2007, the Fund made a monthly cash distribution in the amount of \$0.08 per ordinary unit. A cash distribution of \$0.08 per unit was also paid on the same date on the subordinated units and the ECT preferred units.

On January 18, 2007, the Fund declared a monthly cash distribution in the amount of \$0.08 per ordinary unit to unitholders of record on January 31, 2007, which is payable on February 15, 2007. Cash distributions of \$0.08 per unit were also declared on the same date on the subordinated units and the ECT preferred units.

OUTLOOK

Operating Segments

The Fund will continue to focus on managing its existing assets and expansion through organic growth projects with the view of maximizing capacity and continuing to generate stable and sustainable distributions to unitholders.

Alliance Canada expects that it will play a major role in transporting incremental volumes of natural gas and/or natural gas liquids from Alberta to markets in midwestern and Eastern North America. The Alliance Canada system was constructed to allow quick and cost-effective expansion of its mainline system by adding infill compression, with scalable further expansion scenarios employing looped pipe.

On October 31, 2006, Alliance Canada filed its 2007 tolls with the NEB following consultation with shippers. Alliance Canada's 2007 tolls will increase 5% effective January 1, 2007, from \$0.74/mcf to \$0.78/mcf, due primarily to higher operating costs and higher depreciation expense. The increases are partially offset by reduced financing costs, allowance for income taxes and equity return due to a declining investment base.

Alliance is proposing a B.C. expansion project, increasing receipt capacity for existing shippers with natural gas receipts originating in Northeastern British Columbia. A binding open season was held from October 5, 2006 to October 26, 2006. Alliance received binding subscriptions at an acceptable price for 150 mmcf/d.

To facilitate this project, Alliance is proposing to construct the Taylor Compression Station that would enable it to increase receipt capacity on the Taylor-Aitken Creek lateral system. Alliance is not proposing to increase the mainline capacity of its System with this project, only the ability for existing shippers to increase gas nominations at receipt points in B.C. Subject to Board of Director and NEB Board approval, Alliance has scheduled completion of the \$17.5 million project for November 2008.

As part of Alliance's focus on asset optimization, Alliance is planning to upgrade four gas turbines on the mainline delivery system. These upgrades are expected to extend the maintenance interval from its current requirement of 25,000 hours to 50,000 hours and are expected to yield annual fuel savings of approximately 70,000 MBTU to the shippers' benefit.

The Saskatchewan System will continue to focus its efforts in 2007 on managing system assets and infrastructure and further developing its operational procedures and processes with a goal of maximizing available transportation capacity and the competitiveness of its tolls. This includes the Westspur and Weyburn System capacity expansions.

Green Power will continue to focus on its expansion within NRGreen through the construction of three 5.1-MW waste heat recovery facilities at Alliance Canada's Alameda, Estlin and Loreburn compressor stations. Completion of these facilities is expected by the end of 2007, with commercial operation commencing as early as the second quarter of 2008.

Recent Tax Developments

On October 31, 2006, the Canadian Government announced a "Tax Fairness Plan" that would, among other things, create a new tax regime for publicly traded income trusts including the Fund. Under the proposed rules, the taxable portion of an income trust's distributions would be subject to taxation in a manner similar to the treatment of taxable income within a corporation. For existing income trusts, the new rules would not become applicable until 2011 provided they limit their expansion to "normal growth" prior to that year. On December 15, 2006 the Government issued guidelines with respect to what it would consider "normal growth" for existing income trusts that wish to ensure that they do not become subject to the proposed tax rules until 2011. Under these guidelines, the amount of equity units that an income trust can issue to finance growth up to 2011 may not exceed the value of its publicly traded equity units on October 31, 2007 (subject to annual limits). The guidelines do not explicitly limit the amount of debt that an income trust can issue to fund growth, although as a practical matter this will be constrained by credit considerations and/or financial covenants.

On December 21, 2006, the Government released draft legislation for comment. Considerable uncertainty still exists as the draft legislation does not fully address all aspects of the tax regime introduced in the Tax Fairness Plan (including the "normal growth" guidelines). Further, the proposed legislation is now subject to review by a Parliamentary committee through an expedited public hearing process. Timing for enactment of the legislation by Parliament remains uncertain.

If enacted in their present form, the proposed tax changes would, all other things being equal, likely result in a reduction of cash available for distribution by the Fund commencing in 2011. With respect to the proposed limitations on equity unit issuances, the Manager believes that the Fund should be able to fund its currently identified growth plans. However, with the current uncertainty in the capital markets resulting from the proposed tax changes, there can be no assurance that sufficient capital will be available to fund further acquisitions or expansion projects. The Manager, with input from external legal and financial advisors, is closely monitoring legislative developments and carefully assessing the impact of the proposed legislation on the business and financial outlook of the Fund and its broader effect on the income trust sector as a whole, all with a view to adopting a strategy that will maximize value to unitholders going forward once legislative framework is finalized. The Manager, through the Canadian Energy Infrastructure Group has also been active in lobbying the Government for changes to the proposed legislation, to mitigate its adverse effects.

RISK FACTORS

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 and demand for crude oil from the refiners in the midwestern United States. 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. Supply 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.

Operating Risk

As with any comprehensive system, the operation of Alliance Canada, the Saskatchewan System, and Green Power involve many 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 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.

Regulation and Legislation

Earnings from Alliance Canada and the Saskatchewan System are subject to the actions of various regulators, including the NEB. Actions of the regulators related to tariffs, tolls and facilities impact earnings from these operations. 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 and the United States has 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 its business or the operations and creditworthiness of the shippers.

Adequacy of Insurance

Alliance Canada, the Saskatchewan System and Green Power currently maintain insurance considered by management to be consistent with prudent industry practice and applicable law for pipeline and electrical generation systems of a similar size and nature in Canada. In the event there is a total or partial loss within Alliance System, the Saskatchewan System and/or Green Power, there can be no assurance that the insurance proceeds received in respect thereof will be sufficient in any particular situation or sufficient to satisfy all indebtedness of the respective business segment.

Environmental Costs and Liabilities

The operation of the Saskatchewan System, and Alliance Canada are 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 will not be incurred, including those relating to claims for damages to property and persons resulting from operations of Alliance Canada and/or the Saskatchewan System. 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 its operations comply with existing regulations relating to personal safety and protection of the environment. However, it is not possible to predict the effect that any future changes in environmental laws and regulations will have on their 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.

Interest Rate Risk

The Fund is exposed to interest rate fluctuations on variable rate debt and on future debt issues. Increases in interest rates could reduce the Fund's competitiveness and could have a materially adverse effect on the Fund's cash flow and distributable cash. The Fund may use derivative financial instruments in order to manage interest rate risk. There are no interest rate derivative financial instruments outstanding at year-end.

Credit Risk

Currently, approximately 22% of firm capacity on Alliance Canada's system is contracted to shippers who do not have an investment grade rating or acceptable credit status and are required to post security. These shippers have provided security to Alliance Canada, however, the security does not fully cover more than one year's demand charges under the TSAs. There can be no assurance that a shipper's security will be adequate to compensate Alliance if the shipper is unable to fulfill its obligations under its TSA.

Alliance Canada's transportation tolls are calculated on the basis of a deemed firm capacity of 1,325 mmcf/d. Accordingly, a failure to pay by any of the shippers without obtaining a replacement shipper at the same transportation toll would decrease Alliance Canada's revenues and earnings and therefore, Alliance Canada's cash flows and financial condition could be adversely affected.

The Saskatchewan System's trade receivables consist primarily of amounts due from companies operating in the oil and gas exploration and development industry and are collateralized by the crude oil and other products contained in the Saskatchewan System's pipeline and storage facilities. Green Power is also exposed to credit risk due to the concentration of its counterparties as discussed under Green Power.

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 its pipeline 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 with respect to the form, content, or recording of such easements, or to Alliance Canada, the Saskatchewan System and/or Green Power's compliance with the terms of such easements during the construction and operation of the pipeline or wind turbine.

Fluctuations in Distributions

Although the Fund's policy is to distribute 95% of cash available for distribution, cash distributions are not guaranteed and distributions by the Fund will fluctuate. The actual amount of Distributable Cash will depend upon numerous factors, including operating cash flow, general and administrative costs, applicable taxes, debt service costs, capital expenditures, restrictions

imposed by lenders, disruptions in service and reserves established by the Fund, ECT and Enbridge Income Partners LP (LP).

In addition, the amount of Distributable Cash may be affected by the proposed changes to the way income trusts and their investors are taxed beginning in 2011 under the Government of Canada's Tax Fairness Plan as described above under the 'Outlook' section.

Finally, a decision by Alliance Canada to reduce or cease all distributions would negatively impact the Fund's overall financial position. To mitigate this risk, the Fund, as a 50% owner of Alliance GP, has the right to appoint 50% (currently three of six) of the directors to the board of Alliance GP.

Potential Conflicts of Interests

Certain conflicts of interest could arise as a result of the relationships among Enbridge, the Manager, the Fund, ECT, LP and Enbridge Income Partners Holdings Inc (IP Holdings). The senior officers of the Manager are also employees of Enbridge, which could result in conflicts of interest. This risk is mitigated by the requirement for approval of material transactions between the aforementioned parties by a majority of the Independent ECT Trustees.

Continued Investment Eligibility

If the Fund ceases to qualify as a "mutual fund trust", Ordinary Units will cease to be "qualified investments" under the Tax Act resulting in adverse income tax consequences for unitholders. In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Trust monitors the ownership units to comply with the requirements of the Tax Act for "mutual fund trusts."

SELECTED QUARTERLY FINANCIAL INFORMATION ¹

*(millions of dollars, except per unit amounts)*¹

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Transportation Revenue	68.2	60.8	63.5	61.9	63.7	63.3	61.7	60.3
Earnings	3.2	5.8	21.0	5.3	2.5	5.0	3.7	4.0
Earnings Per Unit (basic and diluted)	0.09	0.17	0.61	0.15	0.07	0.15	0.10	0.12
Cash Distributions Declared ²	17.2	16.7	16.7	16.7	16.5	16.6	16.5	16.5

¹ Selected Quarterly Financial Information has been extracted from financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles in Canadian dollars unless otherwise noted.

² Cash distributions declared on ordinary, subordinated and ECT preferred units.

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

- Second quarter earnings in 2006 reflect future income tax recoveries of \$16.7 million due to the substantive enactment of reductions in future tax rates during the quarter.
- Quarterly revenue and earnings in 2005 and 2006 have increased relative to prior quarters due to the collection of an income tax allowance in the tolls of Alliance Canada.
- Increases in distributions of 1% and 4.5% on the Fund's ordinary and subordinated units and the ECT preferred units were approved by the Board of Trustees effective with the distributions payable to holders of record on January 31, 2006, and November 30, 2006, respectively.

FOURTH QUARTER 2006 HIGHLIGHTS

Earnings for the fourth quarter were \$3.2 million, an increase of \$0.7 million from 2005. The growth in earnings from the acquisition of the Wind Power assets and growth within the Saskatchewan System was partially offset by lower earnings from Alliance Canada due to the reduction in the equity return as a result of a depreciating investment base and a reduction in the recovery of notional taxes due to tax rate changes substantively enacted during the second quarter. In addition, Corporate costs were higher in the fourth quarter primarily due to interest expense on the credit facility drawn to finance the wind power asset acquisition.

Cash provided by operating activities for the fourth quarter was \$13.5 million, compared to \$5.2 million for the three months ended December 31, 2005. The increase is primarily due to changes in operating assets and liabilities in the period. Cash used in investing activities increased over the same period in 2005 from \$7.0 million in 2005 to \$67.3 million in the three months ended December 31, 2006, as a result of the Wind Power acquisition, the Saskatchewan System expansion and the construction of the NRGreen Kerrobert facility. Financing activities in the current quarter primarily consisted of the draw on the credit facility to fund the Wind Power acquisition, repayments on non-recourse debt, and ordinary and subordinated unit distributions.

FINANCIAL INSTRUMENTS

Fair Values of Financial Instruments

Information about the financial instruments outstanding at year end including the fair values, notional or principal amounts and maturities are shown in Note 16 of the Fund's Consolidated Financial Statements for the year ended December 31, 2006.

RELATED PARTY TRANSACTIONS

On October 1, 2006, the Fund purchased Enbridge's interests in the SunBridge, Magrath and the Chin Chute wind power projects for \$42.1 million. Enbridge is a related party to the Fund by virtue of its 41.9% equity interest in the Fund as well as its ownership of the Fund's ECT preferred units. The transaction has been recorded at fair value, which was approved by the Fund's Independent Trustees who were supported by independent financial, legal and technical advisors.

Alliance Canada has contracts with shippers who are also affiliates of the Fund through common ownership interests of Enbridge. The Fund's share of revenue from affiliates for the year ended December 31, 2006 is \$21.1 million (2005 - \$26.8 million), of which \$1.9 million (2005 - \$2.0 million) is included in accounts receivable in Alliance Canada. 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 L.P. (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 L.P. also include a recovery of costs relating to the use of common administrative assets. The Fund's share of amounts charged to Alliance Pipeline L.P. during the year ended December 31, 2006 was \$8.8 million (2005 - \$9.6 million) of which, \$0.2 million was included in accounts receivable as at December 31, 2006.

The Saskatchewan System does not have any employees and uses the services of Enbridge for managing and operating the business. These services, which are charged at cost in accordance with service agreements, amounted to \$12.4 million for 2006 (2005 - \$9.9 million) of which, \$1.8 million was included in payables at December 31, 2006.

The Chin Chute and Magrath projects have contracts with Enbridge for the purchase of emission reduction credits and the Chin Chute project has a contract with Enbridge to assure receipt of WPPI. During 2006, Enbridge owed the Fund \$0.1 million with respect to these contracts and the amount is included in accounts receivable as at December 31, 2006.

In addition, the Magrath project has entered into a fixed price electricity agreement with Enbridge Pipelines Inc (EPI), a subsidiary of Enbridge. The agreement is settled on a net basis. During 2006, EPI charged the Fund \$0.6 million as a result of the agreement, which was included in accounts payable at December 31, 2006.

The SunBridge project does not have any employees and utilizes the services of Enbridge for managing and operating the business. These services, which are charged at cost in accordance with service agreements, amounted to \$0.05 million for 2006 and are included in accounts payable at December 31, 2006.

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, 2006, incentive fees amounted to \$2.4 million (2005 - \$2.1 million). In addition, a base fee for providing administrative and management services is payable annually and is \$0.1 million for the year ended December 31, 2006 (2005 - \$0.1 million).

SUPPLEMENTARY INFORMATION

Outstanding Unit Data

	<u>Number of Units Outstanding</u>
Ordinary Units	20,125,000
Subordinated Units	14,500,000
ECT Preferred Units	38,023,750

Outstanding unit data information is provided as at January 29, 2007.

Additional information relating to the Fund is available on www.sedar.com.