

Enbridge Income Fund
Management's Discussion & Analysis
For the three and nine months ended September 30, 2007

This Management's Discussion and Analysis (MD&A), dated November 5, 2007, should be read in conjunction with the unaudited interim consolidated financial statements of Enbridge Income Fund (the Fund) as at and for the three and nine months ended September 30, 2007 and the audited financial statements and MD&A contained in the Fund's Annual Report for the year ended December 31, 2006. Unless otherwise noted, all financial information is in Canadian dollars and financial information pertaining to Alliance Canada and Green Power reflects the Fund's proportionate share. Additional information related to the Fund, including the Fund's Annual Information Form, is filed on SEDAR at www.sedar.com.

CONSOLIDATED EARNINGS

<i>(millions of dollars)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Alliance Canada	14.1	15.2	42.6	43.1
Saskatchewan System	3.0	3.2	9.1	9.2
Green Power	-	-	1.5	-
Corporate	(13.3)	(12.6)	(41.9)	(36.9)
Earnings before impact from tax changes	3.8	5.8	11.3	15.4
Revalue future taxes due to tax rate changes	-	-	0.9	16.7
Future taxes due to Tax Fairness Plan	-	-	(1.9)	-
Earnings	3.8	5.8	10.3	32.1

Earnings were \$10.3 million for the nine months ended September 30, 2007 compared with \$32.1 million in 2006. Of the decrease in earnings, \$17.7 million was attributable to the revaluation of future income taxes in 2006 and the change in future income taxes as a result of Bill C-52 described below. Earnings, excluding the impact of tax changes, decreased due to increased costs in the Corporate segment - primarily higher interest expense, incentive fees and ECT preferred unit distributions, which were partially offset by the Green Power segment.

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 of 31.5% 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. 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, all other things being equal, likely result in a reduction of cash available for distribution by the Fund commencing in 2011. The earnings impact of the legislation was partially offset by the reduction in the federal corporate income tax rate of 0.5% effective in 2011, which was substantively enacted in June. The future tax rate changes substantively enacted in 2006 resulted in a 7% decline in future tax rates and had a more significant impact on earnings than the tax rate changes in 2007.

Earnings were \$3.8 million for the three months ended September 30, 2007 compared with \$5.8 million in 2006. The \$2.0 million decrease reflected similar factors as those identified in the nine-month analysis.

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 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 impact from tax changes. Cash available for distribution represents 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. Please refer to Cash Available for Distribution reconciliation on page 8. Earnings before impact from tax changes represents earnings adjusted for tax changes substantively enacted. Management believes that the presentation of earnings before impact from tax changes provides useful information to investors and unitholders as it provides increased predictive value. Cash available for distribution and earnings before impact from 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 DESCRIPTION & OBJECTIVE

The Fund is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Fund is administered by Enbridge Management Services

Inc. (EMSI or the Manager), a wholly owned subsidiary of Enbridge Inc. (Enbridge). The Fund owns the Saskatchewan System, a 50% interest in Alliance Pipeline Limited Partnership (Alliance Canada), as well as a 50% interest in NRGreen Power Limited Partnership (NRGreen) and interests in three wind power projects in Western Canada (collectively known as Green Power).

The Fund's objective is to provide a stable and sustainable flow of distributable cash through investment in energy infrastructure and to increase, where prudent, cash distributions per unit.

FINANCIAL RESULTS

ALLIANCE CANADA				
<i>(millions of dollars)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Earnings before impact from tax changes	14.1	15.2	42.6	43.1
Revalue future taxes due to tax rate changes	-	-	0.2	2.7
Earnings	14.1	15.2	42.8	45.8

Alliance Canada is the Canadian portion of the 3000 km Alliance System. The Alliance System is designed to transport 1,325 million cubic feet per day (mmcf/d) of natural gas from Northeastern British Columbia and Northwestern Alberta to the Chicago, Illinois area.

Alliance Canada has transportation service agreements with its shippers for 100% of its available firm transportation capacity. Alliance Canada's transportation service agreements are designed to provide toll revenues sufficient to recover prudently incurred costs of service, including operating and maintenance, depreciation, an allowance for income and provincial capital taxes, costs of indebtedness and an allowed return on equity of 11.26% after tax, based on a deemed 70/30 debt to equity ratio. The initial term of these agreements expires in 2015, except for 1.5% of contracted transportation capacity, which is currently contracted until March 2010.

Earnings for the nine months ended September 30, 2007 decreased by \$3.0 million over the nine months ended September 30, 2006. In the second quarter of 2006, substantial future tax rate reductions were enacted, which resulted in future tax recoveries and increased earnings for the period. 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. The Tax Fairness Plan did not result in future income tax expense being recorded in 2007 for such differences within Alliance Canada because the future income taxes are expected to be collected in the tolls charged to customers in the future and fully recovered.

Excluding these future tax impacts on earnings, earnings decreased due to the reduction in the equity return caused by the depreciating investment base. Earnings for the three months ended September 30, 2007 reflect the same factor as for the nine-month results.

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

Revenue for the nine months ended September 30, 2007 was \$155.0 million compared with \$149.8 million for the nine months ended September 30, 2006. The increase resulted from higher cost of service recoveries, which were partially offset by a lower equity return as a consequence of a depreciating investment base. Revenue for the three months ended September 30, 2007 of \$51.7 million compared to \$48.3 million for the three months ended September 30, 2006 reflected similar factors as the year to date results.

SASKATCHEWAN SYSTEM

<i>(millions of dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Earnings before impact from tax changes	3.0	3.2	9.1	9.2
Revalue future taxes due to tax rate changes	-	-	0.7	14.0
Earnings	3.0	3.2	9.8	23.2

The Saskatchewan System includes four crude oil and liquids pipeline systems: Saskatchewan Gathering, Westspur, Weyburn, and Virden pipeline systems. Together these systems include approximately 328 km of trunk line and 1900 km of gathering pipeline with capacities ranging from 37,000 bpd to 190,000 bpd.

Saskatchewan System earnings for the nine months ended September 30, 2007 were lower than the comparable period primarily due to significant future tax rate reductions substantively enacted in the second quarter of 2006. Future taxes in the Saskatchewan System result from temporary differences between the accounting value of the property, plant and equipment and the tax basis. Earnings for the three and nine months ended September 30, 2007, excluding the impact of the revaluation of future taxes, were comparable with earnings for the three and nine months ended September 30, 2006.

The Saskatchewan Gathering System and the Westspur System tolling agreements are designed to provide toll revenues sufficient to recover operating costs, depreciation, deemed interest expense, deemed income tax, and to provide a return on rate base and an administrative expense allowance. 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 over time due to depreciation as well as maintenance and enhancement capital additions. Tolls on the Weyburn and Virden systems are based on historical precedents and/or agreements with customers and are updated to reflect changes in market conditions when warranted. As a result, earnings from Weyburn and Virden reflect tolls less costs incurred.

For the nine months ended September 30, 2007, revenues were \$38.0 million compared to \$36.4 million for the nine months ended September 30, 2006. The increase reflected increased cost of service recoveries including higher operating costs driven by an increase in labour costs. Revenue of \$12.2 million for the three months ended September 30, 2007 decreased \$0.3 million from the same period in 2006 due to the timing of cost of service recoveries.

GREEN POWER

(millions of dollars)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Earnings before impact from tax changes	-	-	1.5	-
Future taxes due to Tax Fairness Plan	-	-	0.2	-
Earnings	-	-	1.7	-

Green Power includes the Fund's 33% to 50% interests in three wind power projects in Saskatchewan and Southern Alberta. Collectively, these wind power projects can generate a total of 71 megawatts (MW) of electricity. Green Power also includes the Fund's 50% interest in NRGreen, which develops and operates waste heat recovery power generation facilities along the Alliance Pipeline. These facilities convert waste heat to electricity, which is then sold under long-term power purchase agreements. The first facility, at Kerrobert, Saskatchewan, began operations at the end of 2006 and another three facilities are currently under construction. This segment is impacted by seasonality with higher earnings during the winter months and lower earnings during the summer months.

Earnings for the nine months ended September 30, 2007 were positively impacted by the Tax Fairness Plan, which effectively changed the future tax rate from 0% to 31.5%. 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. Earnings for the three months ended September 30, 2007 were reflective of extreme weather in the quarter. For NRGreen, the extreme heat reduced the waste heat output from the Alliance Canada gas turbines from which power is produced, resulting in lower earnings compared with prior quarters. For the wind power projects, the extreme heat and low wind volumes resulted in lower production and earnings than prior quarters.

The Fund has fixed the price risk associated with a portion of production from the Chin Chute Wind Power Project through a floating to fixed power purchase swap agreement, whereby the Fund pays the average spot rate in return for a fixed price. In Q3, an abnormally prolonged period of extremely warm weather resulted in lower than expected production and revenue from the Chin Chute facility and, at the same time, drove the average spot power price higher. As a result, payments under the swap during the quarter more than offset revenue from the facility and reduced earnings in the Green Power segment. Management is closely monitoring the performance of this swap to ensure that it will continue to perform as an effective economic hedge over the long term under normal power market conditions.

Collectively, Green Power assets generated approximately 50,200 MW hours and 200,700 MW hours of electricity for the three and nine months ended September 30, 2007, respectively.

CORPORATE

<i>(millions of dollars)</i>	Three months ended		Nine months ended	
	2007	2006	2007	2006
Costs before impact from tax changes	(13.3)	(12.6)	(41.9)	(36.9)
Future taxes due to Tax Fairness Plan	-	-	(2.1)	-
Total costs	(13.3)	(12.6)	(44.0)	(36.9)

Corporate costs included distributions on the preferred units of Enbridge Commercial Trust (ECT), a subsidiary of the Fund, as well as interest expense, incentive fees and management and administrative costs.

Corporate costs, excluding the impact of the Tax Fairness Plan, were \$41.9 million for the nine months ended September 30, 2007 compared with \$36.9 million for the nine months ended September 30, 2006. The \$5.0 million increase was driven by several factors. Interest expense increased as a result of the increased borrowings used to finance the acquisition of the Wind Power projects in October 2006 as well as other expansion projects. Additionally, both incentive fees and ECT preferred unit distributions increased due to a 4.5% increase in per unit distributions for all Fund units in the fourth quarter of 2006.

Corporate costs for the three months ended September 30, 2007 compared with the three months ended September 30, 2006 reflected similar factors as the nine-month period and include the recognition of tax recoveries in the period due to tax losses from interest deductions on inter-corporate debt. These losses will be carried back to offset taxes paid in prior years.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Analysis

At September 30, 2007, the Fund had \$63.0 million available on its credit facility. This facility, combined with cash generated by operating activities, and supplemented by additional borrowings as necessary, 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 budgeted maintenance and enhancement capital expenditures described in the Fund's 2006 Annual Report and subsequent quarterly reports.

The Fund's cash balance at September 30, 2007 of \$32.7 million includes \$20.9 million held in trust by Alliance Canada, pursuant to finance agreements within Alliance Canada.

Operating Activities

Cash provided by operating activities was \$71.1 million for the nine months ended September 30, 2007, a \$1.9 million decrease from the prior year period. Cash provided from operating activities for the three months ended September 30, 2007 was \$30.6 million, a \$4.8 million decrease from the prior year comparable period. The decrease reflected changes in working capital and lower earnings from operations.

Investing Activities

Cash used for investing activities for the nine months ended September 30, 2007 of \$39.3 million was \$27.1 million higher than the prior year period largely due to the timing of capital projects within the segments, specifically the construction of the three new waste heat recovery facilities by NRGreen, Alliance Canada's asset optimization projects and the Westspur expansion within the Saskatchewan System. These projects are being funded through debt and cash from operations.

Financing Activities

Financing activities for the nine months ended September 30, 2007 related to monthly distributions to ordinary and subordinated unitholders, as well as changes in outstanding indebtedness under the credit facility and non-recourse debt funding for Alliance Canada.

On September 21, 2007, the Fund increased its available credit under its existing unsecured credit facility from \$105.0 million to \$150.0 million under the same terms and conditions. The additional available credit will support the Fund's current expansion initiatives.

In June 2007, Alliance Canada amended the maturity date of its existing credit facility from June 28, 2011 to June 28, 2013.

There has not been a significant change in the Fund's financial position from December 31, 2006.

CASH AVAILABLE FOR DISTRIBUTION¹

<i>(millions of dollars)</i>	Three months ended		Nine months ended	
	September 30, 2007	2006	September 30, 2007	2006
Cash Provided by Operating Activities	30.6	35.4	71.1	73.0
Add/(Deduct):				
ECT preferred unit distributions ²	9.1	8.7	27.4	26.2
Alliance Canada maintenance capital expenditures ³	(1.7)	(0.8)	(2.6)	(2.0)
Alliance Canada debt repayments ⁴	-	-	(13.1)	(14.5)
Alliance Canada cash retained	(8.8)	(12.7)	(20.7)	(14.9)
Green Power cash retained	0.1	-	(0.4)	(4.0)
Saskatchewan System maintenance capital expenditures ³	(1.4)	(0.4)	(2.3)	(0.8)
Change in operating assets and liabilities in the period ⁵	(8.9)	(12.3)	(3.7)	(5.0)
Cash Available for Distribution	19.0	17.9	55.7	58.0
Cash Available for Distribution is comprised of the following:				
Alliance Canada distributions	17.7	16.1	49.6	51.1
Alliance Canada capital tax	(0.1)	(0.2)	(0.4)	(0.7)
Saskatchewan System operating income before depreciation, amortization and accretion	5.6	6.4	19.0	18.8
Saskatchewan System maintenance capital expenditures	(1.4)	(0.4)	(2.3)	(0.8)
Green Power distributions	0.7	-	2.9	-
Corporate management and administrative expense	(1.0)	(1.4)	(3.8)	(3.5)
Corporate interest expense	(3.4)	(2.5)	(9.6)	(7.2)
Corporate other income	-	-	0.1	-
Corporate current taxes	0.9	(0.1)	0.2	0.3
Cash Available for Distribution	19.0	17.9	55.7	58.0
ECT Preferred Unit Distributions Declared	9.1	8.7	27.4	26.2
Ordinary and Subordinated Units Distributions Declared	8.3	8.0	24.9	23.9
Cash Distributions Declared	17.4	16.7	52.3	50.1

¹ See Non-GAAP measures.

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

³ Maintenance capital expenditures reduce the 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 the cash available for distribution because they are funded from cash from Alliance Canada's operations.

⁵ Change in operating assets and liabilities in the period reflect changes in non-cash working capital related to operating activities. The change has been deducted from 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.

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. The calculations reflect the actual financial results of the Fund for the three and nine months ended September 30, 2007.

The cash retained by Alliance Canada and Green Power reflected the cash from operations of these segments that was not distributed to the Fund. While the cash from operations was proportionately consolidated and was included in the results of the Fund, 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 that was needed to fund working capital or other requirements of these segments.

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 quarter end. In the Green Power segment, distributions represent the monthly cash distributions received from the Wind Power projects and the quarterly distributions from NRGreen as well as cash settlements paid or received by the Fund for the wind power purchase swap agreements. Distributions from NRGreen are paid in the month subsequent to quarter end.

In the second quarter of 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 debt repayments.

Capital expenditures are categorized as either maintenance or enhancement expenditures. 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 are funded through the issuance of debt or equity and 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 governmental regulations and developing industry standards. Maintenance capital expenditures reduce the cash available for distributions since these expenditures are funded through cash from operations.

For the three months ended September 30, 2007, cash distributions declared of \$17.4 million (2006 - \$16.7 million) represented 91.6% (2006 - 93.3%) of cash available for distribution and for the nine months ended September 30, 2007, cash distributions declared of \$52.3 million (2006 - \$50.1 million) represented 93.9% (2006 - 86.4%) of cash available for distribution. As at September 30, 2007, the Fund had distributed 91.8% of cash available since inception.

Taxation of distributions

Under Canadian tax laws, a component of the Fund's cash distributions are taxable in the hands of the Unitholder, with the remaining portion a return of capital, unless held in a tax-deferred account. Based on current operations, the Fund estimates that approximately 80% of cash to be distributed in 2007 will be included in the income of unitholders for tax purposes. The remaining 20% of cash distributed represents the non-taxable return of capital.

	Three months ended		Nine months ended	
	September 30,		September 30,	
<i>(millions of dollars)</i> ¹	2007	2006	2007	2006
Cash Provided by Operating Activities	30.6	35.4	71.1	73.0
Earnings	3.8	5.8	10.3	32.1
Ordinary and Subordinated Unit Cash Distributions Declared	8.3	8.0	24.9	23.9
Excess of cash provided by operating activities over ordinary and subordinated cash distributions declared	22.3	27.4	46.2	49.1
Excess/(Shortfall) of earnings over ordinary and subordinated cash distributions	(4.5)	(2.2)	(14.6)	8.2

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

For the three and nine months ended September 30, 2007, cash flows provided by operating activities in the period exceeded cash distributions paid to ordinary and subordinated unitholders by \$22.3 million (2006 - \$27.4 million) and \$46.2 million (2006 - \$49.1 million), respectively. This excess represented cash reserved for working capital requirements and maintenance capital expenditures, as well as cash retained by joint ventures.

Cash distributions paid to ordinary and subordinated unitholders exceeded earnings by \$4.5 million (2006 - \$2.2 million) and by \$14.6 million (2006 - \$8.2 million shortfall) for the three and nine months ended September 30, 2007. The excess of distributions over earnings is expected to continue in the future and partly represents a return of capital to 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. In 2006, the excess of earnings over cash distributions reflected non-cash future income tax recoveries of \$16.7 million in the second quarter of 2006 as a result of the reduction in future income tax rates.

The Fund's policy is to distribute, on average over a five year rolling period, 95% of cash available for distribution. The remaining 5% is used by the Fund to repay debt obligations, for general purposes and to level distributions. 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 discussed below.

Sustainability of Distributions and Productive Capacity

Although the Fund intends to continue to make cash distributions from funds generated by its operating segments, the distributions are not guaranteed. 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 refinance its debt as it comes due.

A complete discussion of risks and uncertainties affecting the Fund and its operating businesses are included in Enbridge Income Fund's MD&A contained in its Annual Report and the Annual Information Form for the year ended December 31, 2006.

Demand for the Fund's services could be affected by a variety of factors including the supply of and demand for the underlying commodities transported on the pipelines owned by the Fund and the supply of and demand for power generated by facilities within the Green Power segment. A reduction in the demand for services could negatively impact revenue and impair the ability of the fund to sustain its distributions. Competition from other facilities could also affect the demand for services and cash available for distribution.

The Fund has taken steps to mitigate the risk of fluctuating demand for its services.

- Alliance Canada has contracted 98.5% of its available firm transportation capacity under take or pay arrangements with credit worthy shippers which ensures that it will generate a steady and predictable cashflow stream through late 2015. While currently protected by long-term contracts for service, Alliance will maintain its competitive position through its high pressure pipeline line technology which increases the efficiency and lowers the cost of natural gas transportation services. Should a shipper choose not to renew its contract for periods beyond 2015 on similar terms and a replacement shipper cannot be found, distributions from Alliance could decrease.
- Increased crude oil production and growing demand for pipeline capacity in the areas served by the Saskatchewan System are expected to increase distributable cashflow from this segment in the near term. Transportation by pipeline is generally more cost effective than other alternatives (e.g. trucking) and as a result the Saskatchewan system is currently expanding its capacity by approximately 20 percent to meet the growing demand for its services. Revenue is generated on the two largest pipeline systems within the Saskatchewan Segment (the Saskatchewan System and the Westpur System) pursuant to a cost of service toll that ensures recovery, among other things, of all operating and capital costs as well as a return on shareholders equity. This tolling methodology serves to increase the stability and predictability of distributable cashflow. The system expansion noted above is subject to this same cost of service tolling arrangement.
- Power production by the Green Power segment is supported by long-term power purchase agreements and power swap agreements which serve to mitigate the risk of fluctuating power prices and to stabilize revenue.

Each operating segment prevents the erosion of its productive capacity through maintenance programs. Maintenance expenditures are funded through cash from operations. Please refer to the Fund's MD&A for the year ended December 31, 2006 and subsequent quarterly reports for further discussion on planned maintenance and enhancement capital expenditures for 2007.

For Alliance Canada, the maintenance 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 jet engine replacements. Intelligent pigging is completed with a seven year re-occurring schedule. Other maintenance performed includes soil resistance surveys, and corrosion deficiency reports. Maintenance capital expenditures may vary from year to year.

The Saskatchewan System maintenance capital program includes sump tanks, berm and line repairs, piping modifications, and tank and meter repairs. Maintenance capital expenditures

will vary year to year as some maintenance is performed on a cyclical pattern. 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 Saskatchewan System maintains the productive capacity of its assets through its annual system integrity programs which include cathodic protection, inline inspections, station integrity, tank integrity, as well as chemical injections, which serve as corrosion inhibitors, into the lines.

The Wind assets within the Green Power segment are subject to semi-annual maintenance to maintain the life of the turbines. Future maintenance capital expenditures will vary each year and given the infancy of this industry, long term future projections of maintenance capital expenditures will likely differ from the actual results. For NRGreen, maintenance is performed concurrently with the Alliance Canada semi-annual inspection of the Kerrobert compressor station.

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.

On September 21, 2007, the Fund increased the size of its standby revolving credit facility from \$105 million to \$150 million without changes to the facility's terms and conditions, demonstrating the Fund's continued ability to debt finance.

Both the Fund's credit facility and the Alliance Canada credit facility include provisions that prohibit distributions in the event of default. The Fund's credit facility agreement includes a covenant that limits unconsolidated indebtedness to 4 times 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 Alliance Canada credit facility, distributions cannot be made to partners if Alliance Canada's debt service coverage ratio, calculated as of the applicable distribution date, falls below 1.25 to 1 for the four preceding fiscal quarters and the four succeeding fiscal quarters.

The Fund and Alliance Canada actively monitor debt covenants to ensure compliance. As at September 30, 2007, both companies were in compliance with the debt covenants and expect to continue to be in compliance for the foreseeable future.

Other factors impacting distributions

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 of 31.5% will be imposed on Enbridge Income Fund starting in 2011. Alliance Canada is seeking clarification on whether it is subject to the broadly drafted legislation. This change resulted in the recognition of future income tax liabilities and expense of \$1.9 million. 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 rates charged to customers in the future and fully recovered.

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.

Impact on distributions and expansion projects

As enacted in its present form, the Tax Fairness Plan will, 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 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 Bill C-52, there can be no assurance that sufficient capital will be available to fund further acquisitions or expansion projects.

Impact on unitholders receiving distributions

Based on the Fund's own analysis and external advice, the Fund believes that the income portion of distributions to individual's 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 the foregoing is only a general summary and unitholders' individual circumstances will vary, the foregoing 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.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Fund adopted new accounting standards for: Financial Instruments - Recognition and Measurement, Financial Instruments - Disclosure and Presentation, Comprehensive Income, and Hedges. These policies were adopted prospectively and accordingly, prior periods were not restated.

The new standards require that the Fund now recognize certain financial instruments, including cash flow hedges, on the balance sheet at fair value. The standards also require the classification of financial assets and liabilities according to expected use. Loans and receivables, and instruments held to maturity, remain recorded at amortized cost. The Fund has not changed the classification or valuation of other financial instruments.

To the extent cash flow hedges are effective, unrealized changes in fair value are recorded in Accumulated Other Comprehensive Income (AOCI), a component of unitholders' equity, until the gains or losses are realized and recognized in earnings. Unrealized changes in fair value hedges are recorded in earnings with changes in the fair value of the underlying asset or liability. Any ineffectiveness is charged to current earnings. Generally, effectiveness is an assessment of how well a hedge mitigates the underlying risk.

For derivatives that do not qualify for hedge accounting, the unrealized changes in fair value are charged to current earnings. The Fund does not use derivatives for speculative purposes.

The Fund uses hedges to mitigate fluctuations in cash flows from the sale of power generated by certain wind power assets. The new accounting standards require changes in the fair value of the hedges be reflected in AOCI. For hedges deemed ineffective, changes in the fair value of the instruments are reflected in earnings in the period. As a result of the new standards for cash flow hedges, at January 1, 2007, the Fund recognized a liability of \$6.1 million representing the fair value of its power purchase swap agreements.

Capital Disclosures and Financial Instruments – Disclosure and Presentation

Effective January 1, 2008, the Fund will adopt new accounting standards for Capital Disclosures and Financial Instruments – Disclosure and Presentation. The Fund will disclose its objectives, policies and procedures for managing capital, additional information with respect to capital compliance requirements, and enhanced disclosure of risks associated with financial instruments and how those risks are managed.

OUTLOOK

The Fund will continue to focus on managing its existing assets and seek to increase distributable cash flow through investment in stable energy infrastructure, subject to available capital.

Alliance Canada will continue to focus on its core business, operating performance, and the competitiveness of its tolls. This includes the B.C. expansion project, which proposes to increase receipt capacity for existing shippers with natural gas receipts originating in Northeastern British Columbia and the construction of the Taylor Compression Station which would increase receipt capacity on the Taylor-Aitken Creek lateral system.

In connection with the B.C. expansion project, on September 11, 2007 the NEB approved the application and directed Alliance Canada to conduct a second open season to survey additional interest in the new services. The second open season closed on October 17, 2007 with no new nominations. Construction of the project, which is estimated to cost Alliance Canada \$30.3 million, is expected to commence in late spring 2008. Field survey activities could be initiated as early as December 2007.

On October 5, 2007, the Canadian Association of Petroleum Producers (CAPP) filed a motion for leave to appeal the NEB's decision with the Federal Court of Appeal, as well as an application for review and stay with the NEB on October 11, 2007. Alliance Canada will oppose CAPP's motion and applications with the Federal Court of Appeal and the NEB.

The Saskatchewan System will continue to focus its efforts on managing system assets and infrastructure, and further developing its operational procedures and processes to maximize available transportation capacity and the competitiveness of its tolls.

On October 2, 2007, the NEB approved the Plan, Profile and Book of Reference (PPBOR), to proceed with landowner notifications for the Westspur expansion. The notification to landowners was completed on October 17, 2007 at which time a mandatory 30 day public notification period was initiated. Barring any third party interventions or delays, permission to begin construction is expected in November 2007 with estimated completion in Q2 of 2008.

Green Power will focus on operational effectiveness as well as expansion of NRGreen through the construction of three 5.1 MW waste heat recovery facilities at Alliance Canada's Alameda, Estlin and Loreburn compressor stations.

SELECTED QUARTERLY FINANCIAL INFORMATION¹

(millions of dollars, except per unit amounts)

	2007				2006			2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	65.0	67.8	65.0	68.2	60.8	63.5	61.9	63.7
Earnings	3.8	3.0	3.5	3.2	5.8	21.0	5.3	2.5
Earnings Per Unit (basic and diluted)	0.11	0.09	0.10	0.09	0.17	0.61	0.15	0.07
Cash Distributions Declared ²	17.4	17.4	17.4	17.2	16.7	16.7	16.7	16.5

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

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 2007 reflected future income tax expense of \$1.9 million due to the substantive enactment of the Tax Fairness Plan.
- Second quarter earnings in 2006 reflected future income tax recoveries of \$16.7 million due to the substantive enactment of reductions in future tax rates during the quarter.
- The Board of Trustees approved increases in distributions of 1% and 4.5%, on the Fund's ordinary and subordinated units and the ECT preferred units, effective with the distributions payable to holders of record on January 31, 2006, and November 30, 2006, respectively.

SUPPLEMENTARY INFORMATION

Outstanding Unit Data

Number of Units Outstanding

Ordinary Units	20,125,000
Subordinated Units	14,500,000
ECT Preferred Units	38,023,750

Outstanding unit data information is provided as at November 5, 2007.

SELECTED OPERATING AND FINANCIAL HIGHLIGHTS¹

<i>(millions of dollars except where otherwise noted)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Average Daily Throughput Volume				
Alliance Canada (millions of cubic feet per day)	1,535	1,513	1,606	1,595
Saskatchewan System ² (thousands of barrels per day)				
Westspur System	158.6	155.5	157.0	154.4
Saskatchewan Gathering System	109.0	103.1	108.2	103.1
Weyburn System	37.3	39.1	34.8	38.1
Virden System	23.1	18.4	22.4	20.8
Green Power ³ (thousands of megawatt hours produced)	50.2	-	200.7	-
Revenues	65.0	60.8	197.8	186.2
Earnings before impact from tax changes ⁴	3.8	5.8	11.3	15.4
Earnings	3.8	5.8	10.3	32.1
Per Unit (dollars per unit)	0.11	0.17	0.30	0.93
Cash Available for Distribution ⁴	19.0	17.9	55.7	58.0
Cash Distributions Declared	17.4	16.7	52.3	50.1
Cash Distributions Declared Per Unit (dollars per unit)				
Ordinary Units	0.2400	0.2298	0.7200	0.6893
Subordinated Units	0.2400	0.2298	0.7200	0.6893
ECT Preferred Units	0.2400	0.2298	0.7200	0.6893
Total Long-Term Liabilities			1,517.4	1,455.0
Total Assets			1,866.8	1,825.2
ECT Preferred Units (number of units)			38,023,750	38,023,750
Ordinary Units (number of units)			20,125,000	20,125,000
Subordinated Units (number of units)			14,500,000	14,500,000
Total Number of Units			34,625,000	34,625,000

¹ Financial Highlights have been extracted from financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles.

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.

⁴ See Non-GAAP Measures.