

**Enbridge Income Fund**  
**Management's Discussion & Analysis**  
**For the three and nine months ended September 30, 2008**

This management's discussion and analysis (MD&A), dated November 3, 2008 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, 2008, and the audited financial statements and MD&A contained in the Fund's Annual Report for the year ended December 31, 2007. 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](http://www.sedar.com).

**CONSOLIDATED EARNINGS**

| <i>(millions of dollars)</i> | Three months ended |                    | Nine months ended  |                    |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
|                              | September 30, 2008 | September 30, 2007 | September 30, 2008 | September 30, 2007 |
| Alliance Canada              | 14.7               | 14.1               | 49.7               | 42.8               |
| Saskatchewan System          | 3.6                | 3.0                | 12.9               | 9.8                |
| Green Power                  | 0.7                | -                  | 0.8                | 1.7                |
| Corporate                    | (14.1)             | (13.3)             | (46.3)             | (44.0)             |
| <b>Earnings</b>              | <b>4.9</b>         | <b>3.8</b>         | <b>17.1</b>        | <b>10.3</b>        |

For the three months ended September 30, 2008, increased earnings of \$1.1 million from the prior year comparative period reflected growth in the Saskatchewan System, non-cash derivative gains in the Green Power segment and higher earnings in Alliance due to the change in treatment of expenditures for compressor overhaul maintenance.

Earnings, for the nine months ended September 30, 2008, increased by \$6.8 million compared with the nine months ended September 30, 2007. Increased earnings in Alliance Canada and the Saskatchewan System were partially offset by lower earnings from the Green Power segment and higher Corporate costs which resulted from the increase in the distribution rate in the second quarter of 2008. Alliance Canada earnings reflected the Fund's 50% share of the \$11.7 million payment received in the first quarter by Alliance Canada in the Calpine Energy Services Canada Partnership (CESCA) bankruptcy settlement.

**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. 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 predictable flow of distributable cash to unitholders. Please refer to the Cash Available for Distribution reconciliation on page 7. Cash available for distribution is not a measure that has standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and is not considered a GAAP measure. Therefore, this measure may not be comparable with similar measures presented by other issuers.

## FUND DESCRIPTION AND 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 Manager or Administrator), 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 predictable flow of distributable cash through investment in energy infrastructure and to increase, where prudent, cash distributions per unit.

## ALLIANCE CANADA

|                       | Three months ended |      | Nine months ended |      |
|-----------------------|--------------------|------|-------------------|------|
|                       | September 30,      |      | September 30,     |      |
| (millions of dollars) | 2008               | 2007 | 2008              | 2007 |
| Earnings              | 14.7               | 14.1 | 49.7              | 42.8 |

Alliance Canada is the Canadian portion of the 3,000 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 (TSAs) 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/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.

Alliance Canada earnings for the three months ended September 30, 2008 increased over the comparable prior year period primarily due to an increase in the allowance for income taxes included in tolls. This increase was offset by the lower equity return in 2008, caused by the depreciating investment base. Earnings reflect a return on equity applied to investment base accounts. The rate used to calculate the equity return is not expected to change; however without additions to the investment base, related annual earnings will decline over time as the investment base is depreciated.

In 2008, the treatment of expenditures for compressor overhaul maintenance and other replacement equipment was revised such that these costs are now expensed instead of capitalized as they were in prior years, increasing both operating and maintenance expense and toll revenue. Given the rapid consumption rate associated with these expenditures and that overhaul maintenance expenditures relate primarily to the replacement of worn or obsolete equipment nearing the completion of its useful life, Alliance Canada determined that it is more appropriate to expense these items. Earnings for both the three and nine months ended September 30, 2008 were positively impacted by a higher allowance for income taxes reflected in toll revenue related to this change.

Earnings for the nine months ended September 30, 2008 were \$6.9 million higher than the comparable nine month period ended September 30, 2007. This increase was primarily due to the CESCA bankruptcy settlement received in the first quarter of 2008 in respect of CESCA's repudiated capacity commitment. The final settlement and interest accrued increased earnings by \$6.1 million.

Revenue for the three and nine months ended September 30, 2008 was \$54.2 million and \$162.4 million, respectively, compared with revenue of \$51.7 million and \$155.0 million for the three and nine months ended September 30, 2007. The increase in revenue for the three and nine months ended September 30, 2008 reflected the change in treatment of overhaul maintenance expenditures discussed above.

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### **SASKATCHEWAN SYSTEM**

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| <i>(millions of dollars)</i> | Three months ended |      | Nine months ended |      |
|------------------------------|--------------------|------|-------------------|------|
|                              | 2008               | 2007 | 2008              | 2007 |
| Earnings                     | <b>3.6</b>         | 3.0  | <b>12.9</b>       | 9.8  |

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

Earnings for the three and nine month periods ended September 30, 2008 increased due to growth in the rate base related to expansion of the Westspur System as well as higher allowance oil sales on the Virden and Weyburn Systems. On June 1, 2008, the Westspur expansion was brought into service. This expansion increased capacity on the Westspur System by approximately 34%.

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, a return on rate base and to provide 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 and expansions. Tolls on the Weyburn and Virden Systems are based on historical precedence 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, 2008, revenue was \$46.1 million compared with \$38.0 million for the nine months ended September 30, 2007 reflecting increased throughputs and higher cost of service recoveries on both the Westspur and Saskatchewan Systems, as well as higher allowance oil sales. Revenue for the Saskatchewan Gathering and Westspur Systems primarily reflects the cost of service recovery, whereby an increase in costs results in increased revenue. Revenue for the three months ended September 30, 2008 was \$15.7 million while revenue for the three months ended September 30, 2007 was \$12.2 million. The increase in the period reflected the same factors as the nine months ended September 30, 2008.

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**GREEN POWER**

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| (millions of dollars) | Three months ended |      | Nine months ended |      |
|-----------------------|--------------------|------|-------------------|------|
|                       | September 30,      |      | September 30,     |      |
|                       | 2008               | 2007 | 2008              | 2007 |
| Earnings              | <b>0.7</b>         | -    | <b>0.8</b>        | 1.7  |

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Green Power includes the Fund's 33% to 50% interests in three wind power projects in Saskatchewan and Southern Alberta which, collectively, 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 facilities along the Alliance Pipeline. On November 1, 2008 NRGreen's fourth waste heat facility, Alameda, commenced operations, increasing NRGreen's total capacity to 20 MW of power. These facilities convert waste heat to electricity, which is then sold under long-term power purchase agreements. The first facility began commercial operations in late 2006 and the second and third facilities at Loreburn and Estlin, Saskatchewan began operations in late May and July 2008, respectively.

Green Power earnings for the three months ended September 30, 2008 were higher than the comparable prior year period which reflected positive incremental earnings from both the Loreburn and Estlin facilities as well as an unrealized non-cash derivative gain of \$0.6 million related to wind power.

Earnings for the nine months ended September 30, 2008 were \$0.9 million lower than the prior year comparable period. Positive earnings from NRGreen's new facilities offset lower earnings from a shutdown in the first quarter of 2008 at NRGreen's Kerrobert facility caused by a bearing and mechanical seal failure. This facility is covered by warranty under which NRGreen is pursuing the recovery of repair costs. NRGreen is also pursuing recovery of lost revenue from its insurers. Earnings also reflected interest expense on NRGreen's non-recourse credit facility drawn upon in March 2008 and an unrealized derivative loss of \$0.3 million for the nine month period. Earnings for the nine months ended September 30, 2007 reflected a future income tax recovery of \$0.2 million as a result of the enactment of Bill C-25, the Tax Fairness Plan.

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

In October 2008, NRGreen made progress with warranty and insurance claims originating from the 2007 shutdown. A recovery will be booked in the fourth quarter of 2008, when the \$0.2 million is received from this settlement. Insurance and warranty claims related to the Kerrobert facility shut down in the first quarter of 2008 remain outstanding.

Revenue for the three months ended September 30, 2008 was \$2.3 million compared with revenue of \$1.1 million for the three months ended September 30, 2007. The increase was primarily attributable to the revenue contributed by the Loreburn and Estlin facilities in 2008. Revenue of \$4.8 million for the nine months ended September 30, 2008 was consistent with the prior year comparable period. This reflects the increased revenue contribution from the Loreburn and Estlin facilities, offset by the non-cash derivative losses in Wind Power and the NRGreen Kerrobert facility shutdown in the first quarter of 2008.

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**CORPORATE**

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| (millions of dollars) | Three months ended |        | Nine months ended |        |
|-----------------------|--------------------|--------|-------------------|--------|
|                       | September 30,      |        | September 30,     |        |
|                       | 2008               | 2007   | 2008              | 2007   |
| Costs                 | <b>(14.1)</b>      | (13.3) | <b>(46.3)</b>     | (44.0) |

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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 for the three months ended September 30, 2008 were \$0.8 million higher than corporate costs for the three months ended September 30, 2007. This increase was driven by higher incentive fees and ECT preferred unit distributions resulting from the 7.5% increase in unitholders' distributions announced in May 2008.

Corporate costs for the nine months ended September 30, 2008, reflect similar factors as for the three months results, with the exception of higher current taxes primarily due to the timing of the CESCA bankruptcy settlement received by Alliance Canada in the first quarter of 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2008, the Fund had \$65.0 million available on its \$150.0 million credit facility. This facility, combined with cash generated by operating activities, and supplemented by additional financing as necessary, is expected to be sufficient to fund liabilities as they come due, finance budgeted investing activity and pay monthly cash distributions.

The Fund's cash balance at September 30, 2008 of \$23.9 million included \$17.9 million held in trust by Alliance Canada, pursuant to finance arrangements within Alliance Canada.

### **Operating Activities**

Cash provided by operating activities for three months ended September 30, 2008 of \$30.1 million was consistent with the prior year's cash provided by operating activities of \$30.6 million. Higher earnings in the third quarter of 2008 were offset by lower cash provided by changes in operating assets and liabilities.

For the nine months ended September 30, 2008, cash provided by operating activities increased by \$16.5 million from the prior year period. Cash provided by operating activities was positively impacted by the \$6.1 million CESCA bankruptcy settlement received in January 2008.

### **Investing Activities**

Cash used for investing activities for the three months ended September 30, 2008 was \$13.1 million, a \$2.8 million decline from the prior year comparative period. This decrease in investing activities reflected the timing of the expenditures on the Westspur expansion, which began in the third quarter of 2007 and was completed on June 1, 2008.

Cash used for investing activities for the nine months ended September 30, 2008 was \$43.6 million (2007 - \$39.3 million). The increased investing activities in the current year relate primarily to the Westspur expansion project in Saskatchewan, which was brought into service on June 1, 2008, and to the British Columbia expansion project at Alliance Canada.

### **Financing Activities**

Financing activities for the three and nine months ended September 30, 2008 included monthly distributions to unitholders, which increased as a result of the 7.5% increase in the annual distribution rate announced in May 2008. Draws on non-recourse credit facilities, payments on the Corporate credit facility and scheduled non-recourse debt repayments are also all included in financing activities.

In March 2008, NRGreen secured new credit facilities consisting of a construction credit facility of \$52.5 million and an operating credit facility of \$5.0 million. The construction facility will convert to a two year revolving credit facility upon the earlier of December 31, 2008 and the initial date of commercial operations of the Loreburn, Estlin and Alameda (LEA) waste heat facilities. Under this agreement, NRGreen has pledged its property as collateral and assigned its material agreements, including its power purchase agreements with SaskPower, to its lender. After commencement of commercial operations of the LEA facilities and as part of any request for the extension of the term of the operating facility, NRGreen may

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

On February 10, 2008, the maturity date of the Fund's existing three-year credit facility was amended from February 10, 2010 to February 10, 2011.

In July 2007, Alliance Canada acquired a \$12.4 million investment in asset-backed commercial paper (ABCP), issued by a structured investment trust (the Trust). As a result of deteriorating liquidity in the ABCP market in mid 2007, Alliance Canada was unable to redeem this investment upon its maturity on August 31, 2007. In March 2008, the Pan-Canadian Investors Committee (the Committee) announced its application to the Ontario Supreme Court of Justice requesting the Court call a meeting of ABCP note-holders to vote on the Committee's proposed restructuring plan. In the second quarter of 2008, the restructuring plan was approved but the decision was appealed by various Corporate note-holders to the Ontario Court of Appeal in June. Following a dismissal of the appeal by the Ontario Court of Appeal in June, the various Corporate note-holders appealed this decision with the Supreme Court of Canada. In September 2008 the appeal to the Supreme Court of Canada was denied. The restructuring plan will involve the conversion of the asset-backed commercial paper into medium term notes; it is expected to be implemented in the fourth quarter of 2008. The ratings of the medium term notes received in exchange for the asset-backed commercial paper will vary depending on each note's underlying assets and related security.

The Fund does not anticipate that the treatment of Alliance Canada's investment in ABCP will have a significant impact on its operations or ability to meet upcoming debt obligations.

In July 2008, SemCanada Crude Company (SemCanada), a Shipper on the Saskatchewan System filed for creditor protection under the Companies' Creditors Arrangement Act in Canada. Management believes that this situation will not have a material impact on the Fund's operating or financial performance.

## **CASH AVAILABLE FOR DISTRIBUTION**

On November 3, 2008, the Board of Trustees announced an 11.6% increase to the regular monthly distributions. Effective for 2009, the regular monthly distributions will increase from \$0.086 per unit to \$0.096 per unit. This distribution increase reflects strong results and cash flow from the Fund's core businesses, including the recently completed Westspur expansion.

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

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

## CASH AVAILABLE FOR DISTRIBUTION<sup>1</sup>

| <i>(millions of dollars)</i>   | Three months ended |       | Nine months ended |        |
|--|--------------------|-------|-------------------|--------|
|  | 2008               | 2007  | 2008              | 2007   |
| <b>Cash Provided by Operating Activities</b>   | <b>30.1</b>        | 30.6  | <b>87.6</b>       | 71.1   |
| Add/(Deduct):  |                    |       |                   |        |
| ECT preferred unit distributions <sup>2</sup>  | <b>9.8</b>         | 9.1   | <b>29.4</b>       | 27.4   |
| Alliance Canada maintenance capital expenditures <sup>3</sup>                        | <b>(0.4)</b>       | (1.2) | <b>(2.8)</b>      | (3.8)  |
| Alliance Canada debt repayments <sup>4</sup>   | -                  | -     | <b>(14.2)</b>     | (13.1) |
| Alliance Canada other cash retained <sup>6</sup>                                     | <b>(11.1)</b>      | (9.3) | <b>(18.9)</b>     | (19.5) |
| Green Power cash distributed/(retained) <sup>6</sup>                                 | <b>0.2</b>         | 0.1   | <b>0.1</b>        | (0.4)  |
| Saskatchewan System maintenance capital expenditures <sup>3</sup>                    | <b>(1.1)</b>       | (1.4) | <b>(2.2)</b>      | (2.3)  |
| Change in operating assets and liabilities in the period <sup>5</sup>                | <b>(5.3)</b>       | (8.9) | <b>(10.4)</b>     | (3.7)  |
| <b>Cash Available for Distribution<sup>1</sup></b>                                   | <b>22.2</b>        | 19.0  | <b>68.6</b>       | 55.7   |
| Cash Available for Distribution is comprised of the following:                       |                    |       |                   |        |
| Alliance Canada distributions  | <b>18.0</b>        | 17.7  | <b>58.6</b>       | 49.6   |
| Alliance Canada capital tax  | <b>(0.1)</b>       | (0.1) | <b>(0.2)</b>      | (0.4)  |
| Saskatchewan System operating income before depreciation, amortization and accretion | <b>8.1</b>         | 5.6   | <b>24.8</b>       | 19.0   |
| Saskatchewan System maintenance capital expenditures                                 | <b>(1.1)</b>       | (1.4) | <b>(2.2)</b>      | (2.3)  |
| Green Power distributions  | <b>1.2</b>         | 0.7   | <b>3.0</b>        | 2.9    |
| Corporate management and administrative expense                                      | <b>(1.5)</b>       | (1.0) | <b>(4.4)</b>      | (3.8)  |
| Corporate other income   | -                  | -     | <b>0.1</b>        | 0.1    |
| Corporate interest expense   | <b>(3.2)</b>       | (3.4) | <b>(9.1)</b>      | (9.6)  |
| Corporate current taxes  | <b>0.8</b>         | 0.9   | <b>(2.0)</b>      | 0.2    |
| <b>Cash Available for Distribution<sup>1</sup></b>                                   | <b>22.2</b>        | 19.0  | <b>68.6</b>       | 55.7   |
| ECT Preferred Unit Distributions Declared  | <b>9.8</b>         | 9.1   | <b>29.4</b>       | 27.4   |
| Ordinary and Subordinated Units Distributions Declared                               | <b>8.9</b>         | 8.3   | <b>26.8</b>       | 24.9   |
| <b>Cash Distributions Declared</b>   | <b>18.7</b>        | 17.4  | <b>56.2</b>       | 52.3   |

<sup>1</sup> See Non-GAAP Measures on page 2.

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

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

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

<sup>5</sup> Change in operating assets and liabilities in the period reflect changes in non-cash working capital related to operating activities. The change has been added back to cash available for distribution since fluctuations in working capital are expected each period and are not indicative of changes in cash available to be distributed.

<sup>6</sup> The cash retained or distributed by Alliance Canada and Green Power reflects the cash from operations of these segments that has not been distributed to the Fund or distributions in excess of cash earnings in the period. While this cash from operations is proportionately consolidated and included in the Fund's cash provided by operating activities, it is not available for distribution by the Fund until it has been received from Alliance Canada and the Green Power segment. Cash retained by Alliance Canada and Green Power includes debt service reserves, capital expenditures and other cash needed to fund working capital or other requirements of these segments.

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.

For the three and nine months ended September 30, 2008, distributions declared represented 84.2% (2007 – 91.6%) and 81.9% (2007 – 93.9%) of cash available for distribution, respectively. The year to date decrease in the distribution payout rate reflected the CESCO bankruptcy settlement received in the first quarter. Since the cash received represents cash in lieu of future tolls, the incremental cash available for distribution increase will be distributed to unitholders over the life of the repudiated contract. Excluding the cash received in the second quarter from the CESCO settlement, cash available for distributions to distributions declared for the nine months ended September 30, 2008 was 89.6%.

Based on current operations, the Fund estimates that approximately 90% of cash distributed in 2008 will be included in the income of unitholders for tax purposes. The remaining 10% of cash distributed represents the non-taxable return of capital.

The following table provides a comparison of cash distributions to cash provided by operating activities and to earnings.

| <i>(millions of Canadian dollars)</i>  | Three months ended           |       | Nine months ended            |        |
|--|------------------------------|-------|------------------------------|--------|
|  | September 30,<br><b>2008</b> | 2007  | September 30,<br><b>2008</b> | 2007   |
| Cash Provided by Operating Activities  | <b>30.1</b>                  | 30.6  | <b>87.6</b>                  | 71.1   |
| Earnings   | <b>4.9</b>                   | 3.8   | <b>17.1</b>                  | 10.3   |
| Ordinary and Subordinated Unit Cash Distributions Declared <sup>1</sup>                                    | <b>8.9</b>                   | 8.3   | <b>26.8</b>                  | 24.9   |
| Excess of cash provided by operating activities over ordinary and subordinated cash distributions declared | <b>21.2</b>                  | 22.3  | <b>60.8</b>                  | 46.2   |
| Shortfall of earnings over ordinary and subordinated cash distributions                                    | <b>(4.0)</b>                 | (4.5) | <b>(9.7)</b>                 | (14.6) |

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

For the three and nine months ended September 30, 2008, cash from operating activities exceeded the cash distributions paid to ordinary and subordinated unitholders by \$21.2 million (2007 - \$22.3 million) and \$60.8 million (2007 - \$46.2 million), respectively. This measure will fluctuate throughout the year to reflect the fluctuations in working capital as well as cash retained by joint ventures.

Earnings were lower than cash distributions to ordinary and subordinated unitholders for the three and nine months ended September 30, 2008. The smaller shortfall in earnings over distributions in the nine months ended September 30, 2008 when compared to the prior year comparable period was reflective of the time lag between when cash was generated and when cash was distributed. An excess of distributions over earnings is expected to continue in the future and partly represents a return of capital to unitholders (including ECT Preferred Unitholders.) Under GAAP, earnings reflect non-cash items such as amortization of deferred financing costs and depreciation as well as changes in future income taxes due to tax rate changes, all of which do not impact cash flow. Depreciation does not necessarily represent the cost of maintaining productive capacity; therefore, cash required for maintenance may be lower than depreciation expense.

## RECENT DEVELOPMENTS AND OUTLOOK

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

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. Current initiatives include the British Columbia Expansion Project (BCX).

The BCX project will enhance Alliance Canada's capacity for natural gas receipts originating in northeastern British Columbia. The BCX project involves construction of a Taylor Junction compressor station that would enable increased receipt capacity on the Taylor-Aitken Creek lateral system. This project will not increase the mainline capacity but will enable existing shippers to increase gas nominations at receipt points in B.C. Construction is underway and the project is expected to be completed and in-service in December 2008.

In 2007, Alliance Canada filed its 2008 tolls with the NEB which included a toll increase of 10.7% effective January 1, 2008. A toll objection was filed by a shipper and a NEB hearing on Alliance's proposed 2008 tolls resulted. On September 23, 2008, the NEB dismissed the shipper's objection and approved the 2008 tolls, as filed, effective January 1, 2008.

The Saskatchewan System continues to focus on meeting the increased crude oil production and growing demand for pipeline capacity in the areas served by its systems through expansion and development initiatives. The recently completed Westspur expansion has been in-service since June of this year, increasing capacity by 34% for crude oil and NGL deliveries into Cromer, Manitoba. With increased drilling in the Bakken formation in South East Saskatchewan, the Fund has proposed, and received majority support from both Shippers and Producers, for an expansion of the Weyburn, Westspur and Saskatchewan systems. The combined expansions will increase upstream capacity from 130,000 bpd to 205,000 bpd. Total costs for these expansions are estimated to be approximately \$104 million (including capitalized interest), with an expected in-service date of Q3 2010.

The total forecast capital expenditures for 2008 for the Saskatchewan System was increased to \$39.2 million to account for increased customer connections on the Saskatchewan Gathering System.

In the Green Power segment, NRGreen's Loreburn waste heat facility began operations in May 2008 and the Estlin waste heat facility began operation in July 2008. NRGreen's fourth waste heat facility, the Alameda facility, was completed and began operations on November 1, 2008. Approximately \$2.5 million in project costs remains to be spent in the fourth quarter of 2008.

## **FUTURE ACCOUNTING POLICY CHANGES**

### **International Financial Reporting Standards**

The Canadian Accounting Standards Board confirmed in February 2008 that publicly accountable entities will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements by January 1, 2011. The Fund expects that the transition to IFRS, planned for January 1, 2011, will impact accounting policies, financial reporting and information technology systems and processes.

The Fund has begun an IFRS conversion project and has made progress on determining the impacts of transitioning to IFRS. A formal governance structure has been established by the Manager to facilitate conversion. The Manager has completed the initial diagnostic phase and has verified the differences between Canadian generally accepted accounting policies and IFRS. Alliance Canada has commenced its own IFRS project to facilitate a timely conversion in conjunction with the Fund.

## SELECTED QUARTERLY FINANCIAL INFORMATION<sup>1</sup>

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

|  | 2008        |      |      |      | 2007 |      |      | 2006 |
|--|-------------|------|------|------|------|------|------|------|
|  | Q3          | Q2   | Q1   | Q4   | Q3   | Q2   | Q1   | Q4   |
| Revenue                                  | <b>72.2</b> | 72.4 | 68.7 | 73.0 | 65.0 | 67.8 | 65.0 | 68.2 |
| Earnings                                 | <b>4.9</b>  | 4.6  | 7.6  | 10.8 | 3.8  | 3.0  | 3.5  | 3.2  |
| Earnings Per Unit (basic and diluted)    | <b>0.14</b> | 0.13 | 0.22 | 0.31 | 0.11 | 0.09 | 0.10 | 0.09 |
| Cash Distributions Declared <sup>2</sup> | <b>20.1</b> | 20.1 | 17.4 | 17.3 | 17.4 | 17.4 | 17.4 | 17.2 |

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

<sup>2</sup>Cash distributions declared on ordinary, subordinated and ECT preferred units.

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

- The Board of Trustees approved a 7.5% increase in distributions on the Fund's ordinary and subordinated units and the ECT preferred units, effective with the distributions payable to holders of record on May 31, 2008. The Board of Trustees also approved a special distribution of \$0.024 payable to holders of record on May 31, 2008.
- Second and third quarter revenue in 2008 reflected higher revenues on Alliance Canada due to higher cost of service recoveries as well as higher allowance oil sales on the Saskatchewan System.
- First quarter earnings in 2008 reflected a \$6.1 million increase from the CESCA bankruptcy settlement in Alliance Canada.
- Revenue in the fourth quarter of 2007 was higher due to increased cost recoveries on the Saskatchewan Gathering System and Westspur System reflecting higher operating costs driven by increased labour costs. Seasonality resulting from higher wind volumes in the winter months also contributed to increased revenues.
- Fourth quarter earnings in 2007 reflected future income tax recoveries of \$7.6 million due to the substantive enactment of reductions in future tax rates during the quarter.
- Second quarter earnings in 2007 reflected future income tax expense of \$1.9 million due to the substantive enactment of the Tax Fairness Plan.

## SUPPLEMENTARY INFORMATION

### Outstanding Unit Data

### Number of Units Outstanding

|                                 |            |
|---------------------------------|------------|
| Ordinary Units                  | 20,125,000 |
| Subordinated Units <sup>1</sup> | 14,500,000 |
| ECT Preferred Units             | 38,023,750 |

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

Outstanding unit data information is provided as at November 3, 2008.

## SELECTED OPERATING AND FINANCIAL HIGHLIGHTS<sup>1</sup>

| <i>(millions of dollars except where otherwise noted)</i>       | Three months ended |        | Nine months ended |            |
|---|--------------------|--------|-------------------|------------|
|   | September 30,      |        | September 30,     |            |
|   | 2008               | 2007   | 2008              | 2007       |
| Average Daily Throughput Volume                                 |                    |        |                   |            |
| Alliance Canada (millions of cubic feet per day)                | <b>1,546</b>       | 1,535  | <b>1,618</b>      | 1,606      |
| Saskatchewan System <sup>2</sup> (thousands of barrels per day) |                    |        |                   |            |
| Westspur System   | <b>190.3</b>       | 158.6  | <b>169.7</b>      | 157.0      |
| Saskatchewan Gathering System                                   | <b>128.3</b>       | 109.0  | <b>119.8</b>      | 108.2      |
| Weyburn System  | <b>35.1</b>        | 37.3   | <b>34.8</b>       | 34.8       |
| Virden System   | <b>22.1</b>        | 23.1   | <b>27.0</b>       | 22.4       |
| Green Power <sup>3</sup> (thousands of megawatt hours produced) | <b>64.7</b>        | 50.2   | <b>210.4</b>      | 200.7      |
| Revenues  | <b>72.2</b>        | 65.0   | <b>213.3</b>      | 197.8      |
| Earnings  | <b>4.9</b>         | 3.8    | <b>17.1</b>       | 10.3       |
| Per Unit (dollars per unit)                                     | <b>0.14</b>        | 0.11   | <b>0.49</b>       | 0.30       |
| Cash Provided by Operating Activities                           | <b>30.1</b>        | 30.6   | <b>87.6</b>       | 71.1       |
| Cash Available for Distribution <sup>4</sup>                    | <b>22.2</b>        | 19.0   | <b>68.6</b>       | 55.7       |
| Cash Distributions Declared                                     | <b>18.7</b>        | 17.4   | <b>56.2</b>       | 52.3       |
| Cash Distributions Declared Per Unit (dollars per unit)         |                    |        |                   |            |
| Ordinary Units  | <b>0.2580</b>      | 0.2400 | <b>0.7740</b>     | 0.7200     |
| Subordinated Units  | <b>0.2580</b>      | 0.2400 | <b>0.7740</b>     | 0.7200     |
| ECT Preferred Units   | <b>0.2580</b>      | 0.2400 | <b>0.7740</b>     | 0.7200     |
| Total Long-Term Liabilities                                     |                    |        | <b>1,506.0</b>    | 1,517.4    |
| Total Assets  |                    |        | <b>1,859.4</b>    | 1,866.8    |
| ECT Preferred Units (number of units)                           |                    |        | <b>38,023,750</b> | 38,023,750 |
| Ordinary Units (number of units)                                |                    |        | <b>20,125,000</b> | 20,125,000 |
| Subordinated Units (number of units) <sup>5</sup>               |                    |        | <b>14,500,000</b> | 14,500,000 |
| Total Number of Units   |                    |        | <b>34,625,000</b> | 34,625,000 |

<sup>1</sup>Financial Highlights have been extracted from financial statements prepared in accordance with GAAP.

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

<sup>3</sup>NRGreen's Loreburn and Estlin waste heat recovery facilities began operations on May 26, 2008 and July 24, 2008, respectively.

<sup>4</sup>See Non-GAAP Measures.

<sup>5</sup>On July 1, 2008, the Ordinary Unit priority right with respect to distributions terminated unconditionally, in accordance with the terms of the Fund's Trust Indenture. As a result, the Ordinary Units, which are TSX-listed, and the Subordinated Units, which are not listed and are owned entirely by Enbridge Inc., are equal in all respects, without discrimination, preference or priority and are, for the purposes of the Trust Indenture, collectively designated as "ordinary units".