

ENBRIDGE INCOME FUND
Consolidated Financial Statements
December 31, 2008

February 6, 2009

AUDITORS' REPORT

To the Unitholders of Enbridge Income Fund

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants,
Calgary, Alberta

ENBRIDGE INCOME FUND
CONSOLIDATED STATEMENTS OF EARNINGS

(millions of dollars, except per unit amounts)

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

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

ENBRIDGE INCOME FUND
CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(millions of dollars)

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

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

ENBRIDGE INCOME FUND
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(millions of dollars)

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

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

ENBRIDGE INCOME FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of dollars)

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

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

ENBRIDGE INCOME FUND
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(millions of dollars)

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

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

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

(Signed) "Gordon G. Tallman"
Trustee

(Signed) "Richard H. Auchinleck"
Trustee

ENBRIDGE INCOME FUND

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE AND DESCRIPTION OF THE FUND

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

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

Alliance Canada

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

Saskatchewan System

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

Green Power

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Regulation

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

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers through rates. In the absence of rate regulation, the Fund would not recognize regulatory assets or liabilities and the earnings impact would be recorded in the period the expenses are incurred or revenues are earned. Long-term regulatory assets are recorded in Deferred Amounts and Other Assets and current regulatory assets are recorded in Accounts Receivable and Other. Regulatory liabilities are recorded in Accounts Payable and Accrued Liabilities. Regulatory assets are assessed for impairment if the Company identifies an event indicative of possible impairment. The recognition of regulatory assets and liabilities is based on the actions, or expected future actions of the regulator. To the extent that the regulator's actions differ from the Fund's expectations, the timing and amount of recovery or settlement of regulatory balances could differ significantly from those recorded.

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

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

Revenue Recognition

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

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

Financial Instruments

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

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

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

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

Transaction Costs

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

Hedges

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

Cash Flow Hedges

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

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

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

Income Taxes

Pursuant to the *Income Tax Act* (Canada) as presently enacted, the Fund and ECT, as trusts, are not subject to income taxes to the extent that income and taxable capital gains are paid or payable to unitholders. In addition, each of the Fund and ECT are contractually committed to

distribute to unitholders all or virtually all taxable income and taxable capital gains. However, certain subsidiary corporations are taxable and applicable income and capital taxes have been reflected in these consolidated financial statements.

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

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

Cash and Cash Equivalents

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

Property, Plant and Equipment

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

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

Intangible Assets

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

Goodwill

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

Deferred Amounts

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

Asset Retirement Obligations

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

Comparative Amounts

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

3. CHANGES IN ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments – Disclosures and Presentation

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

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

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

Financial Instruments, Comprehensive Income and Hedging Relationships

Effective January 1, 2007, the Fund adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". In accordance with the transitional provisions in these new standards, these policies were adopted prospectively and accordingly, the prior periods were not restated.

Comprehensive Income and Equity

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

The Fund now presents a Consolidated Statement of Unitholders' Equity, which includes the change for each component of unitholders' equity. The cumulative changes in OCI are recorded in

Accumulated Other Comprehensive Income (AOCI), a separate component of unitholders' equity. The components of AOCI are reflected in the Consolidated Statement of Comprehensive Income.

Financial Instruments

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

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

Impact on Adoption

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

(millions of dollars)

Increase/(Decrease)	Assets	Liabilities and Equity
Deferred Amounts and Other Assets ¹	(10.1)	-
Accounts Payable and Accrued Liabilities ²	-	1.0
Long-Term Debt ¹	-	(5.4)
Non-Recourse Long-Term Debt ¹	-	(4.7)
Long-Term Liabilities ²	-	5.1
Accumulated Other Comprehensive Loss ²	-	(6.1)
	(10.1)	(10.1)

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

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

Future Accounting Policy Changes

Accounting for the Effects of Rate Regulation

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

Goodwill and Intangible Assets

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

International Financial Reporting Standards

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

- Changes to accounting policies and implementation decisions;
- Disclosure requirements;
- Changes to information systems and accounting processes;
- Changes to internal control over financial reporting and disclosure controls and procedures;
- Training requirements; and
- External stakeholder communications.

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

4. SEGMENTED INFORMATION

(millions of dollars)

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

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

5. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

General Information on Rate Regulation and its Economic Effects

Alliance Canada

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

Saskatchewan System

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

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

Financial Statement Effects

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

<i>(millions of dollars)</i>			Estimated Settlement Period (years)	Earnings Impact¹	
December 31,	2008	2007		2008	2007
Regulatory Assets/(Liabilities)					
Alliance Canada					
Deferred transportation revenue ²	79.8	65.6	17	14.2	18.3
Transportation revenue adjustment ³	(2.0)	-	1	(2.0)	0.8
Saskatchewan System					
Transportation revenue adjustment ³	(0.3)	(0.6)	1	0.3	(1.3)

1. *The effect of rate regulation resulted in an increase/(decrease) in after tax reported earnings.*
2. *Deferred transportation revenue is related to the cumulative difference between GAAP depreciation expense included in the financial statements of Alliance Canada and depreciation expense included in transportation tolls. Alliance Canada expects to recover this difference over a number of years when depreciation rates in the TSAs are expected to exceed the GAAP depreciation rates, beginning in 2012 and ending in 2025. This regulatory asset is not included in the rate base.*
3. *The transportation revenue adjustment is the cumulative difference between actual expenses and estimated expenses included in transportation tolls. The transportation revenue adjustments are not included in the rate base.*

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

Other Items Affected by Rate Regulation

Future Income Taxes

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

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

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

Allowance for Funds Used During Construction (AFUDC)

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

6. PROPERTY, PLANT AND EQUIPMENT

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

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

7. INTANGIBLE ASSETS

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

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

8. LONG TERM DEBT

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

Medium Term Notes

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

Credit Facility

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

The Fund may receive advances on the credit facility up to an aggregate principal amount of the credit limit by requesting prime rate advances, U.S. base rate advances, U.S. LIBOR advances, letter of credit advances, bankers' acceptance advances, or by requesting bankers' acceptance equivalent loans. Interest is charged at a rate per annum, dependent on the type of advance requested plus applicable margin. The current applicable margins range from nil to .53%.

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

9. NON-RECOURSE LONG TERM DEBT

(millions of dollars)

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

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

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

Alliance Canada Bank Credit Facility

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

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

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

NRGreen Bank Credit Facility

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

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

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

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

Alliance Canada Senior Notes

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

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

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

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

10. INTEREST EXPENSE

(millions of dollars)

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

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

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

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

11. ECT PREFERRED UNITS

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

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

12. ASSET RETIREMENT OBLIGATIONS

(millions of dollars)

Year ended December 31,	2008	2007
Obligations at beginning of year	7.9	7.9
Liabilities incurred with Westspur expansion	0.5	-
Revision to retirement date	2.1	-
Accretion expense	0.7	0.5
Liabilities settled	(0.3)	(0.5)
Obligations at end of year	10.9	7.9

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

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

13. TRUST UNITS

Units Outstanding

(millions of dollars except number of units)

December 31,	2008		2007	
	Number of Units	Amount	Number of Units	Amount
Trust Units ¹	34,625,000	333.4	34,625,000	333.4

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

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

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

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

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

14. RISK MANAGEMENT

Market Price Risk

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

Interest Rate Risk

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

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

Commodity Price Risk

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

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

Summary of Derivative Instruments used for Risk Management

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

Derivative Instruments used as Cash Flow Hedges

Year ended December 31, 2008

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

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

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

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

Year ended December 31, 2007

<i>(millions of dollars, unless otherwise noted)</i>	Notional Principal or Quantity (MW/H)	Fair Value Payable ¹	Maturity	Unrealized Losses, net of tax ²	Realized Losses, net of tax ³
ChinChute Power Swap	2.0	(3.8)	2017	(0.5)	(0.3)
Magrath Power Swap	2.8	(4.6)	2024	0.1	-
	4.8	(8.4)		(0.4)	(0.3)

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

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

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

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

Unrealized Gains and Losses on Non-Hedging Derivatives

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

Liquidity Risk

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

Credit Risk

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

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

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

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

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

15. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

Held for Trading Investment

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

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

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

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

16. CAPITAL DISCLOSURES

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

The Fund's capital is calculated as follows:

(millions of dollars)

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

¹ Includes the current portion of Long-term debt.

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

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

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

17. INCOME TAXES

Income Tax Rate Reconciliation

(millions of dollars)

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

Components of Future Income Taxes

(millions of dollars)

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

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

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

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

18. JOINT VENTURES

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

Net Assets

(millions of dollars)

December 31,	Ownership Interest	2008	2007
Alliance Canada	50%	344.4	355.2
Green Power			
NRGreen	50%	8.5	27.6
Wind Power Assets	33% - 50%	39.2	41.6
		392.1	424.4

Earnings

(millions of dollars)

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

Cash Flows

(millions of dollars)

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

Financial Position

(millions of dollars)

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

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

19. RELATED PARTY TRANSACTIONS

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

Administrative and operation services agreements allow for Alliance Canada to provide services to Alliance Pipeline US (an entity related to Alliance Canada by virtue of common ownership interests) in exchange for reimbursement of incurred costs or at rates consistent with those obtainable from independent third parties. Certain amounts reimbursed under the services

agreements with Alliance Pipeline US also include a recovery of costs relating to the use of common administrative assets. The Fund's share of amounts charged to Alliance Pipeline US during the year ended December 31, 2008 was \$12.7 million (2007 - \$10.1 million) of which \$1.3 million (2007 - \$0.7 million) was included in accounts receivable as at December 31, 2008.

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

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

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

20. COMMITMENTS

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

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

On March 31, 2008, Alliance Canada entered into a service agreement with General Electric Canada. The contract is for maintenance activities on Alliance Canada's compressor equipment and expires in December 2015. Alliance Canada has outstanding monthly commitments of US\$498,905 and €230,491 related to this contract. The monthly fees may escalate annually based on an indexed price formula in the contract.

21. SUBSEQUENT EVENTS

Distribution by the Fund

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

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