

**Enbridge Income Fund**  
**Management's Discussion & Analysis**  
**For the three and six months ended June 30, 2009**

This management's discussion and analysis (MD&A) dated July 27, 2009 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 six months ended June 30, 2009 and MD&A contained in the Fund's Annual Report for the year ended December 31, 2008. Unless otherwise noted, all financial information is presented in Canadian dollars and financial information pertaining to Alliance Canada and Green Power reflects the Fund's proportionate share of those entities. 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		Six months ended	
	2009	2008	2009	2008
Alliance Canada	14.6	14.3	29.1	35.0
Saskatchewan System	4.8	5.5	9.0	9.3
Green Power	0.9	0.1	2.7	0.1
Corporate	(16.9)	(15.3)	(34.1)	(32.2)
<b>Earnings</b>	<b>3.4</b>	<b>4.6</b>	<b>6.7</b>	<b>12.2</b>

Earnings for the six months ended June 30, 2009 decreased by \$5.5 million compared to the same period in the prior year. This decrease reflected the Calpine Energy Services Canada Partnership (CESCA) bankruptcy settlement received by Alliance Canada during the first quarter of 2008 in respect of CESCA's repudiated capacity commitment on the Alliance Pipeline. The final settlement, inclusive of accrued interest, was \$6.1 million (\$4.4 million net of tax).

After removing the net-of-tax impact of the CESCA settlement from the prior period, the Fund's earnings for the first half of 2009 were approximately \$1.1 million lower than the first half of 2008. The decrease in earnings between periods is a result of offsetting factors. Factors which increased earnings included earnings growth in the Saskatchewan System attributable to the Westspur Expansion, completed on June 1, 2008, higher earnings contributions from the three new waste heat facilities at NRGreen and an unrealized non-cash derivative gain of \$1.3 million (2008 - \$0.9 million loss). The non-cash derivative gain results from the change in fair value on derivative instruments entered into to fix the price of power on the Fund's wind power projects. Factors which decreased earnings included lower allowance oil sales at both the Virden and Weyburn Systems as well as lower throughput on the Virden System. Additionally, higher Corporate costs in the current year resulted from increased incentive fees and Enbridge Commercial Trust (ECT) preferred unit distributions due to an increase in the Fund's monthly distributions earlier in 2009.

Earnings for the three months ended June 30, 2009 were \$3.4 million, compared with earnings of \$4.6 million for the three months ended June 30, 2008. The factors resulting in lower earnings for the current year second quarter are consistent with the explanations provided above for the year-to-date results. The unrealized non-cash derivative gain for the second quarter of 2009 was \$0.3 million, compared with a loss of \$0.2 million in the prior year comparable period.

## **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 Enbridge Commercial Trust (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 referred to 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.

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**ALLIANCE CANADA**

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<i>(millions of dollars)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	<b>2009</b>	2008	<b>2009</b>	2008
Earnings	<b>14.6</b>	14.3	<b>29.1</b>	35.0

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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 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 expires in March 2010.

Alliance Canada earnings for the six months ended June 30, 2009 were lower than the prior year comparable period by \$5.9 million. This is primarily due to the receipt of the CESCA bankruptcy settlement of \$6.1 million in the first quarter of 2008. Tax of \$1.7 million associated with the CESCA bankruptcy settlement is included in the Corporate segment for the six months ended June 30, 2008. After removing the impact of the CESCA settlement from the prior year earnings, earnings have increased by \$0.2 million in the first six months of 2009. Earnings for the three months ended June 30, 2009 were \$14.6 million, compared with \$14.3 million for the prior year comparable period. The increases in both the three and six-month periods reflected a higher allowance for income taxes included in toll revenue partially offset by a lower return on equity resulting from Alliance Canada's depreciating investment base. The rate used to calculate the equity return is not expected to change; however, the investment base upon which the equity return is calculated will change over time due to depreciation as well as new capital expenditures.

Revenue of \$55.2 million and \$109.2 million for the three months and six months ended June 30, 2009 is higher than revenue of \$54.4 million and \$108.2 million earned in the comparable periods of 2008. Increased revenue resulted primarily from the completion of the BC Expansion project in December 2008. The slight increase in Alliance Canada's firm service transportation tolls from \$0.859 per million cubic feet (mcf) to \$0.863/mcf effective January 1, 2009 also factor into the revenue increase.

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**SASKATCHEWAN SYSTEM**

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<i>(millions of dollars)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	<b>2009</b>	2008	<b>2009</b>	2008
Earnings	<b>4.8</b>	5.5	<b>9.0</b>	9.3

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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 capacities ranging from 37,000 barrels per day (bpd) to 255,000 bpd.

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, agreements with customers or both and are updated to reflect changes in market conditions when warranted. As a result, earnings from Weyburn and Virden reflect toll revenue less costs incurred.

For both the three and six-month periods ended June 30, 2009, earnings were positively impacted by growth in the rate base resulting from the expansion of the Westspur System, in service June 2008, and from new customer connections on the Saskatchewan Gathering System, offset by lower earnings contributions from allowance oil sales on the Virden and Weyburn Systems. Allowance oil sales for the Virden and Weyburn Systems have been impacted by decreased commodity prices as well as the timing of sales. Additionally, the Virden System had experienced higher than usual throughputs in the prior year due to capacity restrictions on the Westspur System which was under-going an expansion.

Revenues for the six months ended June 30, 2009 were \$36.6 million compared with \$30.4 million for the six months ended June 30, 2008. This higher revenue was a reflection of increased throughput and higher tolls following the completion of the Westspur expansion. Revenues for the Saskatchewan Gathering and Westspur Systems primarily reflect the cost of service recovery, whereby an increase in costs results in increased revenue. The \$2.8 million increase in revenues for the three months ended June 30, 2009 over the prior year comparable period reflected similar factors as the increase in revenues for the six-month period.

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## **GREEN POWER**

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(millions of dollars)	Three months ended		Six months ended	
	2009	June 30, 2008	2009	June 30, 2008
Earnings	<b>0.9</b>	0.1	<b>2.7</b>	0.1

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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 that can generate a total of 20 MW of electricity. These facilities convert waste heat to greenhouse gas free electricity, which is then sold under long-term power purchase agreements. The first facility began operations at the end of 2006. Three additional facilities were placed into service in May, July and November of 2008.

Higher earnings for Green Power in the six months ended June 30, 2009 includes an unrealized non-cash derivative gain of \$1.3 million (2008 – a loss of \$0.9 million). The Green Power segment has entered into derivative instruments to mitigate fluctuations in cash flow generated by its wind power projects. A portion of the contracted production 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.

Additionally, the operation of four waste heat facilities at NRGreen for the first six months of 2009 resulted in increased earnings over the prior year comparable period as only two facilities were in operation during the six months ended June 30, 2008. While the waste heat facilities did incur some unscheduled outages during January 2009 due to extremely cold weather in Saskatchewan, the operation of the four facilities generated more power than the prior year comparable period. Modifications to improve the facilities' operational performance in cold weather and help prevent outages like those experienced in January 2009 continued during the second quarter of 2009, and are expected to be completed by the end of the year. The increased earnings associated with the operation of additional waste heat facilities are partially offset by higher interest expense in this segment related to NRGreen's credit facility, which was first drawn upon in March 2008.

Green Power earnings for the three months ended June 30, 2009 were \$0.8 million higher than earnings for the three months ended June 30, 2008. Increased earnings from NRGreen operations for the three months ended June 30, 2009 reflected the contribution of two additional facilities operating in the second quarter of 2009 compared with the second quarter of 2008. Additionally, the Green Power current year second quarter earnings reflected a non-cash derivative gain of \$0.3 million compared with a non-cash derivative loss of \$0.2 million in the prior year comparable period.

Increased revenues by \$1.3 million and \$3.7 million in the three and six-month periods ended June 30, 2009 over the prior year comparable periods reflected the same factors as the earnings increases.

## **CORPORATE**

<i>(millions of dollars)</i>	Three months ended		Six months ended	
	2009	June 30, 2008	2009	June 30, 2008
Costs	<b>(16.9)</b>	(15.3)	<b>(34.1)</b>	(32.2)

Corporate costs include distributions on the preferred units of ECT, a subsidiary of the Fund, as well as interest expense, incentive fees and management and administrative costs.

Corporate costs were \$34.1 million for the six months ended June 30, 2009 compared with \$32.2 million for the prior year comparable period. Higher monthly distributions of \$0.096 per unit in the current year resulted in higher incentive fees of \$1.9 million and higher ECT preferred unit distributions of \$2.3 million compared with the six-month period ending June 30, 2008 as both of these costs are driven by the Fund's distributions. Partially offsetting these factors was decreased current taxes in 2009. Current taxes were higher for both the three and six-month periods ending June 30, 2008 primarily due to the CESCO claim settlement received in the prior year at Alliance Canada. Additionally, lower interest rates in 2009 have reduced interest expense.

In May and June 2009 the Fund entered into derivative instruments to mitigate cash flow volatility that could arise from fluctuations in interest rates. The total notional principle of the interest rate derivative instruments outstanding at June 30, 2009 for the year ended December 31, 2009 is \$175 million and is \$275 million for the years ending December 31, 2010 through 2013. At June 30, 2009, all of the interest rate derivatives entered into during the second quarter of 2009 are designated as hedging instruments in cash flow hedging relationships. In the second quarter of 2009, the impact of these interest rate derivative instruments on earnings was nil. Unrealized gains and losses on these derivatives impact Other Comprehensive Income.

Corporate costs for the three months ending June 30, 2009 were \$16.9 million compared with costs of \$15.3 in the prior year comparable period. Consistent with the year-to-date results, this increase reflected increases in incentive fees and ECT preferred unit distributions of \$0.8 million and \$0.4 million, respectively. The second quarter corporate costs continued to reflect the benefit of lower interest expense on variable rate debt compared with the second quarter of 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

On June 18, 2009, the Fund secured an incremental \$150 million of committed revolving standby credit in two separate facilities. Of the aggregate amount, \$50 million was provided by a commercial bank. Enbridge Inc., an affiliated entity of the Fund's Administrator, provided the remaining \$100 million in a separate facility that was identical in all material respects to the bank facility. Each facility has an initial revolving term of 364 days that is extendable annually. There is a one-year term-out at the end of the applicable revolving term. These new credit facilities, along with the existing term credit facility that

matures in 2011, provide the Fund with a total of \$300 million of combined credit facilities, exclusive of non-recourse credit facilities. At June 30, 2009, the Fund had \$203.3 million of available standby credit capacity. The credit facilities, combined with cash generated by operating activities, are expected to provide adequate liquidity for the Fund based on current expectations of the Fund's future capital expansions. The \$100 million medium-term note maturing on December 21, 2009 is expected to be refinanced in the term debt market at market-based rates that are consistent with the risk profile of the Fund. In the event that the term debt markets are not attractive, the standby credit facilities will be available to fund repayment of the maturing MTN.

On July 23, 2009, Alliance Canada entered into a 365 day unsecured operating facility with Alliance Pipeline L.P., an affiliated entity. The new facility, which is non-recourse to the Fund, allows Alliance Canada to borrow up to US\$20 million on similar terms to those Alliance Canada would receive from commercial banks in Canada. To date, Alliance Canada has not drawn on the new facility.

The Fund's cash balance at June 30, 2009 of \$8.0 million included \$3.1 million held in trust by Alliance Canada, pursuant to finance arrangements within Alliance Canada.

### **Operating Activities**

Cash provided by operating activities was \$39.8 million for the six months ended June 30, 2009, a decrease of \$17.7 million from the corresponding period of the prior year as a result of changes in operating assets and liabilities and the impact of the receipt of the CESCA bankruptcy settlement in the prior year. For the three months ended June 30, 2009 cash provided by operating activities was \$3.3 million, a \$9.9 million decrease from the prior year comparable period for the same reasons as noted above.

### **Investing Activities**

Cash used for investing activities of \$13.7 million for the six months ended June 30, 2009 decreased by \$16.8 million from the prior year comparable period as capital expended in the first half of 2008 was primarily directed at completing the Westspur expansion project in Saskatchewan. The Westspur expansion came into service on June 1, 2008. Capital additions for the first half of 2009 are primarily comprised of maintenance capital on the Saskatchewan System, completion activities on Alliance Canada's BC Expansion and modifications to the NRGreen waste heat facilities to improve operational performance in cold weather.

A decrease of \$8.2 million in cash used for investing activities for the three months ended June 30, 2009 compared to the corresponding period of the prior year is also a result of the Westspur expansion project that was ongoing during most of the first half of 2008.

### **Financing Activities**

Financing activities for the six months ended June 30, 2009 included payment of monthly distributions to trust unitholders and changes in outstanding indebtedness under credit facilities. Cash used in financing activities increased by \$7.1 million to \$35.4 million for the six months ended June 30, 2009. Cash used in financing activities for the three months ended June 30, 2009 was \$8.3 million, compared with \$17.8 million in the prior year comparable period. Average monthly trust unit distributions were \$0.096 per unit in 2009, compared with average monthly trust unit distributions of \$0.086 per unit declared during the first half of 2008. In March 2008 NRGreen drew on its newly secured credit facility to distribute a \$20.0 million return of equity to the Fund. Proceeds were used to reduce indebtedness at the Fund level which had been incurred to fund NRGreen.

## CASH AVAILABLE FOR DISTRIBUTION

<i>(millions of dollars)</i>	Three months		Six months	
	ended June 30, <b>2009</b>	2008	ended June 30, <b>2009</b>	2008
<b>Cash Provided by Operating Activities</b>	<b>3.3</b>	13.2	<b>39.8</b>	57.5
Add/(Deduct):				
ECT preferred unit distributions <sup>2</sup>	<b>10.9</b>	10.5	<b>21.9</b>	19.6
Alliance Canada maintenance capital expenditures <sup>3</sup>	<b>(0.6)</b>	(0.6)	<b>(1.1)</b>	(2.4)
Alliance Canada debt repayments <sup>4</sup>	<b>(15.5)</b>	(14.2)	<b>(15.5)</b>	(14.2)
Alliance Canada other cash (retained)/distributed <sup>5</sup>	<b>4.6</b>	12.1	<b>(6.5)</b>	(5.9)
Green Power cash (retained)/distributed <sup>5</sup>	<b>(0.3)</b>	(2.0)	<b>(0.8)</b>	(2.0)
Saskatchewan System maintenance capital expenditures <sup>3</sup>	<b>(0.6)</b>	(0.7)	<b>(1.0)</b>	(1.1)
Change in operating assets and liabilities in the period <sup>6</sup>	<b>21.9</b>	10.5	<b>9.4</b>	(5.1)
<b>Cash Available for Distribution<sup>1</sup></b>	<b>23.7</b>	28.8	<b>46.2</b>	46.4
Cash Available for Distribution is comprised of the following:				
Alliance Canada distributions	<b>17.8</b>	23.8	<b>35.7</b>	40.6
Alliance Canada capital tax	-	(0.1)	-	(0.1)
Saskatchewan System operating income before depreciation, amortization and accretion	<b>9.6</b>	9.3	<b>18.7</b>	16.7
Saskatchewan System maintenance capital expenditures	<b>(0.6)</b>	(0.7)	<b>(1.0)</b>	(1.1)
Green Power distributions	<b>1.6</b>	0.9	<b>2.5</b>	1.8
Corporate management and administrative expense	<b>(2.3)</b>	(1.7)	<b>(4.6)</b>	(2.9)
Corporate other income	-	-	<b>0.1</b>	0.1
Corporate interest expense	<b>(2.4)</b>	(2.8)	<b>(5.1)</b>	(5.9)
Corporate current taxes	-	0.1	<b>(0.1)</b>	(2.8)
<b>Cash Available for Distribution<sup>1</sup></b>	<b>23.7</b>	28.8	<b>46.2</b>	46.4
ECT Preferred Unit Distributions Declared	<b>10.95</b>	10.50	<b>21.90</b>	19.60
Trust Unit Distributions Declared	<b>9.97</b>	9.60	<b>19.94</b>	17.90
<b>Cash Distributions Declared</b>	<b>20.92</b>	20.10	<b>41.84</b>	37.50

<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> 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.

<sup>6</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.

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

Cash available for distribution for the six months ended June 30, 2009 was \$46.2 million, which is consistent with the prior year comparable period. However, cash available for distribution for the six months ended June 30, 2008 includes the \$6.1 million CESCA settlement received from Alliance Canada. After removing the impact of the CESCA settlement from the prior year, the cash available for distribution for the six-month period ending June 30, 2009 increased compared with the prior year comparable period due to higher contributions from all three operating segments. For the three months ended June 30, 2009, cash available for distribution was \$23.7 million, a decrease of \$5.1 million from the prior year due to the \$6.1 million receipt of the CESCA settlement received by the Fund in the second quarter of 2008.

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

## ANALYSIS OF CASH DISTRIBUTIONS DECLARED

<i>(millions of Canadian dollars)</i>	Three months		Six months	
	ended June 30, <b>2009</b>	2008	ended June 30, <b>2009</b>	2008
Cash Provided by Operating Activities	<b>3.3</b>	13.2	<b>39.8</b>	57.5
Earnings	<b>3.4</b>	4.6	<b>6.7</b>	12.2
Trust Unit Cash Distributions Declared <sup>1</sup>	<b>10.0</b>	9.6	<b>19.9</b>	17.9
Excess of cash provided by operating activities over cash distributions declared	<b>(6.7)</b>	3.6	<b>19.9</b>	39.6
Shortfall of earnings over cash distributions declared	<b>(6.6)</b>	(5.0)	<b>(13.2)</b>	(5.7)

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

For the six months ended June 30, 2009, cash flows provided by operating activities in the period exceeded cash distributions paid to trust unitholders by \$19.9 million (2008 - \$39.6 million). The cash flows provided by operating activities were \$6.7 million lower than cash distributions of \$10.0 million for the three months ended June 30, 2009.

Earnings were \$13.2 million lower than cash distributions to trust unitholders for the six months ended June 30, 2009. The greater shortfall in earnings over distributions in the first half of 2009 compared with 2008 was due to the \$6.1 million CESCA settlement (\$4.4 million net of tax) recorded in earnings in the first three months of 2008. 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 continues to focus on managing its existing assets and seeks to increase distributable cash flow through investment in low risk, energy infrastructure, subject to available capital.

### **Saskatchewan System Capacity Expansion**

The scope of Phase II of the Saskatchewan System Capacity Expansion has been refined and now includes three separate projects that will help reduce capacity constraints at several locations in Saskatchewan. The Benson Expansion project on the Saskatchewan Gathering System includes terminal modifications, pump upgrades and installation of new pipe. The Bryant to Steelman Expansion project on the Westspur System involves installation of new crude oil pipe and station and terminal upgrades and, lastly, the NGL Conversion project on the Westspur System involves the conversion of an existing NGL line to crude oil, a new NGL pipeline and pump station, and the conversion of an existing crude oil line to relocate NGLs from the BP Steelman Gas Plant to the NGL line at Alida, Saskatchewan. These projects continue to be supported by both shippers and producers in the area. Collectively, the projects will increase capacity across the system by approximately 125,000 bpd at a cost of approximately \$120 million.

The regulatory application for the Saskatchewan Gathering System Benson Expansion project has been completed and the Fund expects to begin construction on this project in the third quarter of 2009. Regulatory applications for the two Westspur System projects are targeted for filing in the fourth quarter of 2009. All three projects comprising the Phase II Saskatchewan System Capacity Expansion are targeted to be complete by the fourth quarter of 2010.

### **Alliance Canada Open Seasons**

From June 1 to July 15, 2009 Alliance Canada held concurrent open seasons on a Gathering Receipt Service and a Canadian Delivery Service. The proposed Gathering Receipt Service would provide up to 500 million cubic feet per day of incremental receipt capacity from new or existing receipt points on the Alliance Canada pipeline system. The proposed Canadian Delivery Service, would be the first for Alliance Canada and would deliver gas from Northwestern Alberta and Northeastern British Columbia to receipt points into TransCanada's Alberta System.

The open seasons were successful, as Alliance Canada has received sufficient interest in both proposed services to move to the detailed capital costing and regulatory preparation stage. Management continues to analyze the results of the open seasons and will work with subscribers to refine the proposed services.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Asset Retirement Obligations**

In May 2009, the NEB released a report on the financial issues associated with pipeline abandonment. The NEB will require all companies to formally assess the timeline and cost of future abandonment and, if necessary, set aside funds to cover future abandonment costs. All pipelines regulated under the NEB Act will be required to comply with the report's framework and action plan. The NEB is hosting technical meetings beginning in September 2009 to evaluate how abandonment estimates will be calculated and submitted as well as proposals for how funds will be collected and set aside. The NEB's goal is to have companies, as required, begin setting aside funds for abandonment no later than the end of May 2014. Currently, due to the difficulty in determining a reasonable estimate of the asset retirement obligation associated with Alliance Canada because of the indeterminate timing and scope of asset retirements, the Fund does not have an asset retirement obligation recorded in its consolidated financial statements. However, should the NEB action plan result in a reasonable estimate of asset retirement obligations for accounting purposes, recognition of those obligations may be made in future periods. As a result, regulatory assets and liabilities may be recognized to the extent the timing of recovery from shippers differs from the recognition of abandonment costs for accounting purposes.

## **CHANGE IN ACCOUNTING POLICIES**

Information about the Fund's changes in accounting policies is included in Note 1 to the June 30, 2009 unaudited consolidated financial statements.

## FUTURE ACCOUNTING POLICY CHANGES

### International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) confirmed in February 2008 that publicly accountable entities will be required to adopt IFRS for interim and annual financial statements beginning on January 1, 2011, including comparative financial statements for 2010.

Enbridge Inc. (Enbridge), whose IFRS conversion project includes the Fund, has developed a Project Charter which includes an IFRS governance structure to monitor the progress of the transition. In addition, Enbridge has trained internal IFRS team members and has hired a public accounting firm to assist with project management and to provide technical accounting advice on the interpretation and application of IFRS. These services are provided by Enbridge's IFRS team to the Fund as a component of the Management and Administrative services provided under contract by the Manager.

The multiyear transition plan includes four phases - diagnostic, project planning, policy design and implementation. The diagnostic and project planning phases have been completed. The detailed project plan completed for 2009 and 2010 identifies and plans for the workstreams listed below.

#### Accounting and Reporting

During the first quarter of 2009, key accounting decisions were made that will impact how the Fund will reflect IFRS initially in the January 1, 2010 opening balance sheet and high level decisions on how the Fund expects to apply IFRS to significant balances such as property, plant and equipment. In the second quarter of 2009, IFRS-compliant accounting policies were prepared with respect to high impact areas such as property, plant and equipment. During the remainder of 2009, Enbridge expects to finalize accounting policy decisions, develop processes to derive the opening balance sheet under IFRS and create model financial statement disclosures that will identify the type of information and the level of detail the Fund will disclose under IFRS.

#### Other impacts of IFRS

During the policy design phase, the impacts of IFRS on Accounting and Business Processes, Disclosure Controls and Procedures, Internal Control over Financial Reporting and Tax will be identified and documented. During the remainder of 2009, Enbridge expects to complete the design and implementation phases of its comparative year information systems solution, prepare for the conversion of the Fund's 2010 opening balance sheet, in 2010, and monitor potential changes to IFRS, particularly as it applies to accounting for rate regulated entities. A detailed training plan will be developed for all staff impacted by IFRS.

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

<i>(millions of dollars, except per unit amounts)</i>	2009			2008			2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	<b>77.3</b>	74.7	83.7	72.2	72.4	68.7	73.0	65.0
Earnings	<b>3.4</b>	3.3	4.8	4.9	4.6	7.6	10.8	3.8
Earnings Per Unit (basic and diluted)	<b>0.10</b>	0.10	0.14	0.14	0.13	0.22	0.31	0.11
Cash Distributions Declared <sup>2</sup>	<b>20.92</b>	20.92	18.70	18.70	20.10	17.40	17.30	17.40

<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 Trust units and ECT preferred units.

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

- Fourth quarter revenues from the Fund's regulated entities, including Alliance Canada, the Westspur System and the Saskatchewan Gathering System, are typically higher than the prior quarters due to higher cost of service recoveries.

- First quarter earnings in 2008 reflected a \$6.1 million increase from the CESCA bankruptcy settlement in Alliance Canada offset by increased current taxes in the Corporate segment and unrealized derivative losses in Green Power.
- 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.
- Increased cash distributions declared in the first half of 2009 reflected an increase in the monthly distribution from \$0.086 per unit to \$0.096 per unit. This increase in the distribution resulted in higher ECT preferred unit distributions and incentive fees thereby reducing earnings in the first two quarters of 2009.
- In the second quarter of 2008 monthly distributions on the Fund's trust units and the ECT preferred units were increased from \$0.08 per unit to \$0.086 per unit, effective with the distributions payable to holders of record on May 31, 2008. A special distribution of \$0.024 per unit was also paid to holders of record on May 31, 2008.

## **SUPPLEMENTARY INFORMATION**

<b>Outstanding Unit Data</b>	<u>Number of Units Outstanding</u>
Trust Units	34,625,000
ECT Preferred Units	38,023,750

Outstanding unit data is provided as at July 27, 2009.

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

<i>(millions of dollars except where otherwise noted)</i>	Three months ended		Six months ended	
	2009	June 30, 2008	2009	June 30, 2008
<b>Average Daily Throughput Volume</b>				
Alliance Canada (millions of cubic feet per day)	<b>1,587.0</b>	1,623.0	<b>1,638.0</b>	1,654.0
<b>Saskatchewan System<sup>2</sup>(thousands of barrels per day)</b>				
Westspur System	<b>186.8</b>	163.9	<b>193.2</b>	159.2
Saskatchewan Gathering System	<b>131.2</b>	118.4	<b>134.4</b>	115.4
Weyburn System	<b>36.1</b>	34.4	<b>35.6</b>	34.7
Virden System	<b>16.7</b>	26.8	<b>18.0</b>	29.6
Green Power <sup>3</sup> (thousands of megawatt hours produced)	<b>89.3</b>	66.8	<b>185.5</b>	145.7
Revenues	<b>77.3</b>	72.4	<b>152.0</b>	141.1
Earnings	<b>3.4</b>	4.6	<b>6.7</b>	12.2
Per Unit (dollars per unit)	<b>0.10</b>	0.13	<b>0.19</b>	0.35
Cash Provided by Operating Activities	<b>3.3</b>	13.2	<b>39.8</b>	57.5
Cash Available for Distribution <sup>4</sup>	<b>23.7</b>	28.8	<b>46.2</b>	46.4
Cash Distributions Declared	<b>20.9</b>	20.1	<b>41.8</b>	37.5
<b>Cash Distributions Declared Per Unit (dollars per unit)</b>				
Trust Units	<b>0.2880</b>	0.2760	<b>0.5760</b>	0.5160
ECT Preferred Units	<b>0.2880</b>	0.2760	<b>0.5760</b>	0.5160
Total Long-Term Liabilities			<b>1,496.7</b>	1,505.7
Total Assets			<b>1,918.0</b>	1,849.2
ECT Preferred Units (number of units)			<b>38,023,750</b>	38,023,750
Trust Units (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, Estlin and Alameda waste heat recovery facilities began operations in May, July and November of 2008, respectively.

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