***ENBRIDGE INCOME FUND***

***Consolidated Financial Statements***

***December 31, 2010***

PRICEWATERHOUSECOOPERS

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February 1, 2011

**Independent Auditor's Report**

**To the Unitholders of Enbridge Income Fund**

We have audited the accompanying consolidated financial statements of Enbridge Income Fund, which comprise the consolidated statement of financial position as at December 31, 2010 and 2009 and the consolidated statements of earnings, comprehensive income (loss), unitholders' equity, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

PRICEWATERHOUSECOOPERS

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enbridge Income Fund as at December 31, 2010 and 2009 and the results of its operations and its cash flows 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**

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Revenues | **328.1** | 314.8 |
| Expenses | | |
| Operating and maintenance | **110.4** | 101.0 |
| Management and administrative | **11.3** | 9.7 |
| Depreciation and amortization | **94.3** | 91.3 |
| | **216.0** | 202.0 |
| | **112.1** | 112.8 |
| Other Income | **0.4** | 1.1 |
| Interest Expense (Note 10) | **(56.9)** | (56.0) |
| ECT Preferred Unit Distributions (Note 11) | **(43.8)** | (43.8) |
| | **11.8** | 14.1 |
| Income Tax (Expense) Recovery (Note 14) | **0.8** | (1.1) |
| Earnings | **12.6** | 13.0 |

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

**ENBRIDGE INCOME FUND**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Earnings | **12.6** | 13.0 |
| Other Comprehensive Income/(Loss) | | |
| Change in unrealized gains/(losses) on cash flow hedges, net of tax | **(16.0)** | 6.0 |
| Reclassification of cash flow hedges to earnings, net of tax | **(0.2)** | (0.5) |
| | **(16.2)** | 5.5 |
| Comprehensive Income/(Loss) | **(3.6)** | 18.5 |

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

**ENBRIDGE INCOME FUND**
**CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY**

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Trust Units (Note 13) | **333.4** | 333.4 |
| ECT Preferred Units (Note 11) | **583.7** | - |
| Deficit at Beginning of Year | **(88.8)** | (61.9) |
| Earnings | **12.6** | 13.0 |
| Distributions to unitholders | **(39.9)** | (39.9) |
| ECT Preferred Units Amendment (Note 11) | **(291.3)** | - |
| Deficit at End of Year | **(407.4)** | (88.8) |
| Accumulated Other Comprehensive Loss at Beginning of Year | **(4.1)** | (9.6) |
| Other comprehensive income/(loss), net of tax | **(16.2)** | 5.5 |
| Accumulated Other Comprehensive Loss at End of Year | **(20.3)** | (4.1) |
| Total Unitholders' Equity | **489.4** | 240.5 |

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

**ENBRIDGE INCOME FUND**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Cash Provided by Operating Activities | | |
| Earnings | **12.6** | 13.0 |
| Charges/(credits) not affecting cash | | |
| Depreciation and amortization | **94.3** | 91.3 |
| Amortization of deferred financing charges | **1.8** | 2.3 |
| Amortization of fair value increment on debt | **(4.4)** | (4.5) |
| Future income taxes | **(0.3)** | 0.4 |
| Other | **0.1** | (1.1) |
| Changes in operating assets and liabilities | | |
| Change in accounts receivable and other | **(16.5)** | 0.3 |
| Change in accounts payable and accrued liabilities | **(15.5)** | 4.0 |
| Change in deferred amounts and other assets | **(8.3)** | (5.6) |
| Change in long-term liabilities | **3.6** | (5.9) |
| | **67.4** | 94.2 |
| Investing Activities | | |
| Additions to property, plant and equipment | **(128.6)** | (40.2) |
| Additions to intangible assets | **(1.2)** | (0.2) |
| Change in construction payable | **22.4** | (0.7) |
| | **(107.4)** | (41.1) |
| Financing Activities | | |
| Net change in long-term credit facility | **(81.5)** | 115.5 |
| Long-term debt issues (repayments) | **200.0** | (100.0) |
| Net change in non-recourse long-term credit facility | **(0.9)** | (57.1) |
| Repayment of non-recourse long-term debt | **(33.9)** | (31.0) |
| Non-recourse long-term debt issues | **-** | 59.4 |
| Trust unit distributions (Note 13) | **(39.9)** | (39.6) |
| | **43.8** | (52.8) |
| Increase in Cash and Cash Equivalents | **3.8** | 0.3 |
| Cash and Cash Equivalents at Beginning of Year | **17.6** | 17.3 |
| Cash and Cash Equivalents at End of Year | **21.4** | 17.6 |
| | | |
| Cash and Cash Equivalents | **5.8** | 3.9 |
| Cash and Cash Equivalents in Trust (Note 15) | **15.6** | 13.7 |
| | **21.4** | 17.6 |
| | | |
| Supplementary Cash Flow Information | | |
| Income taxes paid | **-** | 2.2 |
| Interest paid | **56.9** | 57.2 |

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

**ENBRIDGE INCOME FUND**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | **21.4** | 17.6 |
| Accounts receivable and other | **55.0** | 38.5 |
| | **76.4** | 56.1 |
| Property, Plant and Equipment, net (Note 6) | **1,305.1** | 1,261.2 |
| Intangible Assets (Note 7) | **83.4** | 89.1 |
| Goodwill | **308.1** | 308.1 |
| Deferred Amounts and Other Assets | **198.4** | 194.6 |
| Future Income Taxes (Note 14) | **4.1** | 6.2 |
| | **1,975.5** | 1,915.3 |
| **Liabilities and Unitholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | **72.9** | 53.3 |
| Distributions payable | **3.3** | 3.3 |
| Current portion of non-recourse long-term debt (Note 9) | **36.3** | 57.9 |
| | **112.5** | 114.5 |
| Long-Term Debt (Note 8) | **415.7** | 296.1 |
| Non-Recourse Long-Term Debt (Note 9) | **687.9** | 705.1 |
| ECT Preferred Units (Note 11) | **88.1** | 380.2 |
| Long-Term Liabilities | **10.4** | 3.2 |
| Asset Retirement Obligations (Note 12) | **15.1** | 12.4 |
| Future Income Taxes (Note 14) | **156.4** | 163.3 |
| | **1,486.1** | 1,674.8 |
| Unitholders' Equity | | |
| Trust units (Note 13) | **333.4** | 333.4 |
| ECT Preferred Units (Note 11) | **583.7** | - |
| Deficit | **(407.4)** | (88.8) |
| Accumulated other comprehensive loss | **(20.3)** | (4.1) |
| | **489.4** | 240.5 |
| | **1,975.5** | 1,915.3 |

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

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

(signed) “Catherine M. Best”
Trustee

(signed) “Gordon G. Tallman”
Trustee

## 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 and Enbridge Income Fund Holdings Inc. (EIFH), a unitholder 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 objectives.

### Alliance Canada

Alliance Canada consists of the Fund's 50% interest in the Canadian portion of the 3,000 kilometer (km) Alliance System. The Alliance System, comprised of Alliance Canada and Alliance US, transports natural gas primarily 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 388 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. During 2010, the Saskatchewan Phase II expansion project was substantially completed and declared in-service. This expansion project will increase capacity across the gathering systems by approximately 125,000 bpd. The Saskatchewan System also includes business development activities in the Bakken region.

### 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 operates waste heat recovery power generation facilities in Saskatchewan along the Alliance System.

### Plan of Arrangement

On December 17, 2010, the court approved plan of arrangement (the Plan) to restructure the Fund took effect. Under the Plan, all publicly held Trust Units of the Fund, as well as 5,000,000 Trust Units held by Enbridge, were exchanged on a one-for-one basis for shares of a taxable Canadian corporation, EIFH. Concurrently, the Trust Units ceased trading on the Toronto Stock Exchange.

In connection with the Plan, an Exchange Right was granted to Enbridge, the holder of the ECT Preferred Units, allowing the holder to exchange such ECT Preferred Units for Fund Trust Units on a one-for-one basis. Concurrently, the existing liquidity right was terminated. Subsequent to implementation of the Plan, the Fund ceased to be a specified investment flow-through (SIFT) entity and therefore is not subject to SIFT tax legislation.

## 2. SUMMARY OF 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. Significant estimates and assumptions used in preparation of the consolidated financial statements include, but are not limited to: carrying values of regulatory assets and liabilities (Note 5); depreciation rates and carrying value of property, plant and equipment (Note 6); amortization rates of intangible assets (Note 7); carrying value of goodwill; fair values of financial instruments (Note 17); and income taxes (Note 14). Actual results could differ from these estimates.

### Basis of Presentation

The consolidated financial statements include the accounts of the Fund, its subsidiaries and its proportionate share of the accounts of its joint venture interests.

### 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 Ministry of Energy and Resources (SMER) and Manitoba Innovation, Energy and Mines. Regulatory bodies exercise statutory authority over matters such as construction, rates and ratemaking and agreements with customers. 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 in future periods 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. Long-term regulatory liabilities are recorded in Long-Term Liabilities, whereas current regulatory liabilities are recorded in Accounts Payable and Accrued Liabilities. Regulatory assets are assessed for impairment if the Fund 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.

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; 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 earnings 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 and the amount of revenue can be reliably measured. Customer credit worthiness is assessed prior to agreement signing as well as throughout the contract duration.

The Saskatchewan Gathering and Westspur systems within the Saskatchewan System as well as Alliance Canada generate revenues under the cost of service model which is designed to provide toll revenues sufficient to recover prudently incurred costs of service as well as to provide an allowed return. Therefore, revenue is recognized at the amount that is expected to be recovered from shippers in future tolls under the cost of service model. Differences between the recorded transportation revenue and actual toll receipts give rise to regulatory receivable or payable balances.

Revenues from operating leases of certain Green Power assets are recognized on a straight-line basis over the term of the lease.

**Financial Instruments**

The Fund classifies financial assets and financial liabilities as held for trading, loans and receivables, other financial liabilities or instruments in qualifying hedging relationships. All financial instruments are initially recorded at fair value on the consolidated statement of financial position. Subsequent measurement of the financial instrument is based on its classification. At December 31, 2010 and 2009, the Fund had no held to maturity or available for sale instruments.

*Held for Trading*

Financial assets and liabilities that are classified as held for trading are measured at fair value with changes in fair value recognized in earnings in Revenue and Other Income. The Fund has classified cash and cash equivalents, the Alliance Canada investment in Master Asset Vehicle (MAV) notes and its non-qualifying derivative instruments as held for trading.

*Loans and Receivables*

Loans and receivables, which include Accounts Receivable and Other, are measured at amortized cost using the effective interest rate method, net of any impairment losses recognized.

*Other Financial Liabilities*

Other financial liabilities are recorded at amortized cost using the effective interest rate method and include Accounts Payable and Accrued Liabilities, Distributions Payable, Long-term Debt, Non-recourse Long-term Debt and the liability portion of the ECT Preferred Units.

*Derivatives in Qualifying Hedging Relationships*

The Fund uses derivative financial instruments to manage exposure to changes in commodity prices, foreign exchange rates, and interest rates. Hedge accounting is optional and requires the Fund to document the hedging relationship and test the hedging item's effectiveness in offsetting

changes in the 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. Derivatives in qualifying hedging relationships are categorized as cash flow hedges or fair value hedges. At December 31, 2010 and 2009, the Fund held no fair value hedges.

*Cash Flow Hedges*
The Fund uses cash flow hedges to manage exposure to changes in interest rates, power prices, foreign exchange rates and natural gas prices. The effective portion of the change in the fair value of a cash flow hedging instrument is recorded in Other Comprehensive Income (OCI) and reclassified to earnings when the hedged item impacts earnings. Any hedge ineffectiveness is recorded in current period earnings.

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. If a hedged anticipated transaction is no longer probable, the gain or loss is recognized immediately in earnings. Subsequent gains and losses from ineffective derivative instruments are recognized in earnings in the period in which they occur.

*Impairment*
With respect to loans and receivables, the Company assesses the assets for impairment when it no longer has reasonable assurance of timely collection. If evidence of impairment is noted, the Fund reduces the value of the loan or receivable to its estimated realizable amount, determined using discounted expected future cash flows.

*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 recorded as a reduction of the related liability and are amortized using the effective interest rate method over the life of the related debt instrument.

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

Future income tax assets and liabilities are determined 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.

**Cash and Cash Equivalents**
Cash and cash equivalents include short-term investments with a term to maturity of three months or less when purchased. Cash and cash equivalents include amounts in trust, pursuant to Alliance Canada's financing agreements which require amounts for current principal and interest payments to be deposited into debt service trust accounts. Alliance Canada can only distribute funds in non-trust accounts to its partners.

**Property, Plant and Equipment**
Expenditures for construction, expansion, major renewals and betterments are capitalized. Maintenance and repair costs are expensed as incurred. Expenditures for project development are capitalized if they are expected to have a future benefit. The Fund capitalizes interest incurred during construction.

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. Certain pipeline assets in service within the Saskatchewan System are depreciated based on unit of throughput.

**Intangible Assets**
Intangible assets consist primarily of acquired long-term transportation service agreements (TSAs) with shippers on Alliance Canada, computer software and the production incentive agreements for several wind power projects. Intangible assets are amortized on a straight-line basis over their expected lives.

**Impairment of Long-Lived Assets**
The Fund reviews the carrying values of its long-lived assets as events or changes in circumstances warrant. If it is determined that the carrying value of an asset exceeds the undiscounted cash flows expected from the asset, the asset is written down to fair value.

**Goodwill**
Goodwill represents the excess of the purchase price over the fair value of net identifiable assets on acquisition of a business. Goodwill is not subject to amortization but is tested for impairment at least annually. For the purposes of impairment testing, reporting units are identified as business operations within an operating 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 recognized and measured at fair value when they can be reasonably determined. The fair value approximates the cost a third party would charge to perform 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.

## 3. CHANGES IN ACCOUNTING POLICIES

**Future Accounting Policy Changes**

*International Financial Reporting Standards*

First-time adoption of Part I – International Financial Reporting Standards (Part I) of the Canadian Institute of Chartered Accountants (CICA) Handbook is mandatory for Canadian publicly accountable enterprises on January 1, 2011, with the exception of certain qualifying entities. Part I is mandatory for qualifying entities, including those with operations subject to rate regulation, for periods beginning on or after January 1, 2012. The Fund is a qualifying entity for purposes of this deferral and will continue to present its financial statements in accordance with pre-changeover accounting standards, Part V of the CICA Handbook, during the 2011 deferral period.

*Business Combinations*

CICA Section 1582, Business Combinations, replaces Section 1581. The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires that acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination are expensed in the period in which they are incurred. The adoption of the revised standard will impact the accounting treatment of future business combinations. The revised standard is effective for business combinations occurring on or after January 1, 2011.

## 4. SEGMENTED INFORMATION

| **Year ended December 31, 2010** | Alliance Canada | Saskatchewan System | Green Power | Corporate | Consolidated |
|---|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | | |
| Revenues | **230.8** | **87.6** | **9.7** | **-** | **328.1** |
| Operating and maintenance | **(66.8)** | **(40.6)** | **(3.0)** | **-** | **(110.4)** |
| Management and administrative | **-** | **-** | **-** | **(11.3)** | **(11.3)** |
| Depreciation and amortization | **(63.9)** | **(26.2)** | **(4.2)** | **-** | **(94.3)** |
| | **100.1** | **20.8** | **2.5** | **(11.3)** | **112.1** |
| Other income/(expense) | **0.3** | **(0.2)** | **0.3** | **-** | **0.4** |
| Interest expense | **(43.3)** | **-** | **(0.4)** | **(13.2)** | **(56.9)** |
| ECT preferred unit distributions | **-** | **-** | **-** | **(43.8)** | **(43.8)** |
| Income tax recovery/(expense) | **0.2** | **2.8** | **0.1** | **(2.3)** | **0.8** |
| Earnings | **57.3** | **23.4** | **2.5** | **(70.6)** | **12.6** |
| | | | | | |
| Goodwill | **308.1** | **-** | **-** | **-** | **308.1** |
| Total assets | **1,488.6** | **411.9** | **74.0** | **1.0** | **1,975.5** |
| Additions to Property, Plant and Equipment | **(1.4)** | **129.6** | **0.4** | **-** | **128.6** |

| Year ended December 31, 2009 | Alliance Canada | Saskatchewan System | Green Power | Corporate | Consolidated |
|---|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | | |
| Revenues | 224.7 | 78.8 | 11.3 | - | 314.8 |
| Operating and maintenance | (59.4) | (38.3) | (3.3) | - | (101.0) |
| Management and administrative | - | - | - | (9.7) | (9.7) |
| Depreciation and amortization | (63.8) | (23.4) | (4.1) | - | (91.3) |
| | 101.5 | 17.1 | 3.9 | (9.7) | 112.8 |
| Other income/(expense) | 1.0 | (0.4) | 0.4 | 0.1 | 1.1 |
| Interest expense | (43.3) | - | (0.4) | (12.3) | (56.0) |
| ECT preferred unit distributions | - | - | - | (43.8) | (43.8) |
| Income tax recovery/(expense) | 0.1 | 3.0 | 0.1 | (4.3) | (1.1) |
| Earnings | 59.3 | 19.7 | 4.0 | (70.0) | 13.0 |
| | | | | | |
| Goodwill | 308.1 | - | - | - | 308.1 |
| Total assets | 1,550.0 | 274.8 | 76.4 | 14.1 | 1,915.3 |
| Additions to Property, Plant and Equipment | 1.7 | 36.3 | 2.2 | - | 40.2 |

## 5. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

**General Information on Rate Regulation and its Economic Effects**

*Alliance Canada*

Shippers on the Alliance System entered into 15-year transportation contracts, expiring in December 2015, which set out the cost of service toll methodology used to calculate annual tolls. Alliance Canada is regulated by the NEB, with whom Alliance files toll adjustments annually. The tolls include a return on equity component of 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 SMER 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 recognition of the following regulatory assets and liabilities:

| December 31, | 2010 | 2009 | Estimated Settlement Period (years) | Earnings Impact[2] 2010 | 2009 |
|---|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | | |
| **Regulatory Assets/(Liabilities)** | | | | | |
| Alliance Canada | | | | | |
| Future income taxes[1] | **96.5** | 103.0 | **-** | **(4.9)** | 85.0 |
| Deferred transportation revenue[3] | **97.8** | 91.5 | **15** | **4.7** | 8.7 |
| Transportation revenue adjustment[4] | **(1.5)** | (2.3) | **1** | **0.6** | (0.2) |
| Saskatchewan System | | | | | |
| Future income taxes | **(2.8)** | (4.8) | **-** | **1.4** | (3.5) |
| Transportation revenue adjustment[4] | **13.9** | (0.2) | **1** | **10.3** | 0.4 |

[1] The regulatory asset is the corresponding balance to a future income tax liability that relates primarily to future income taxes associated with property, plant and equipment. The balance has been recognized as a regulatory asset since the flow-through treatment of taxes for rate-setting purposes would ensure eventual recovery of these balances as the temporary differences reverse. The recovery period will depend on the period in which the future income tax amounts reverse. In the absence of rate regulation, the liability method of accounting for income taxes would be utilized and future income tax expense would be accrued.

[2] The effect of rate regulation resulted in an increase/(decrease) in after tax reported earnings.

[3] 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. This regulatory asset is not included in the rate base.

[4] 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.

*Allowance for Funds Used During Construction (AFUDC)*

To date, an equity component of $67.5 million (2009 – $67.6 million) is included in the cost of property, plant and equipment. AFUDC net of accumulated depreciation is $45.2 million (2009 – $47.5 million).

## 6. PROPERTY, PLANT AND EQUIPMENT

| **December 31, 2010** | Weighted Average Depreciation Rate | Cost | Accumulated Depreciation | Net |
|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | |
| Alliance Canada | | | | |
| Pipeline in service | **4.0%** | **1,247.7** | **(395.7)** | **852.0** |
| Plant assets | **20.8%** | **14.8** | **(13.1)** | **1.7** |
| Other assets | **23.5%** | **10.1** | **(3.5)** | **6.6** |
| | | **1,272.6** | **(412.3)** | **860.3** |
| Saskatchewan System | | | | |
| Pipeline in service | **4.4%** | **496.9** | **(134.6)** | **362.3** |
| Under construction | **-** | **16.9** | **-** | **16.9** |
| | | **513.8** | **(134.6)** | **379.2** |
| Green Power | | | | |
| Machinery and equipment | **4.0%** | **78.3** | **(14.6)** | **63.7** |
| Other assets | **4.5%** | **2.1** | **(0.2)** | **1.9** |
| | | **80.4** | **(14.8)** | **65.6** |
| | | **1,866.8** | **(561.7)** | **1,305.1** |

| December 31, 2009 | Weighted Average Depreciation Rate | Cost | Accumulated Depreciation | Net |
|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | |
| Alliance Canada | | | | |
| Pipeline in service | 4.0% | 1,249.1 | (342.7) | 906.4 |
| Plant assets | 19.3% | 13.8 | (11.1) | 2.7 |
| Other assets | 23.5% | 11.7 | (1.6) | 10.1 |
| | | 1,274.6 | (355.4) | 919.2 |
| Saskatchewan System | | | | |
| Pipeline in service | 6.6% | 352.5 | (110.6) | 241.9 |
| Under construction | - | 30.9 | - | 30.9 |
| | | 383.4 | (110.6) | 272.8 |
| Green Power | | | | |
| Machinery and equipment | 4.6% | 76.8 | (9.5) | 67.3 |
| Other assets | 4.7% | 2.1 | (0.2) | 1.9 |
| | | 78.9 | (9.7) | 69.2 |
| | | 1,736.9 | (475.7) | 1,261.2 |

The cost and accumulated depreciation of property, plant and equipment under operating leases at December 31, 2010 was $34.7 million and $4.7 million, respectively (2009 – cost – $34.6 million, accumulated depreciation – $2.9 million).

## 7. INTANGIBLE ASSETS

| **December 31, 2010** | Weighted Average Amortization Rate | Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | |
| Alliance Canada | | | | |
| Long term transportation agreements | **4.4%** | **116.0** | **(38.7)** | **77.3** |
| Software | **30.7%** | **16.4** | **(14.1)** | **2.3** |
| Saskatchewan System | | | | |
| Software | **32.1%** | **1.8** | **(0.6)** | **1.2** |
| Green Power | | | | |
| Production incentive agreements | **8.4%** | **4.0** | **(1.4)** | **2.6** |
| | | **138.2** | **(54.8)** | **83.4** |

| December 31, 2009 | Weighted Average Amortization Rate | Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | |
| Alliance Canada | | | | |
| Long term transportation agreements | 4.4% | 116.0 | (33.5) | 82.5 |
| Software | 31.0% | 16.7 | (13.1) | 3.6 |
| Saskatchewan System | | | | |
| Software | 30.2% | 0.5 | (0.4) | 0.1 |
| Green Power | | | | |
| Production incentive agreements | 8.4% | 4.0 | (1.1) | 2.9 |
| | | 137.2 | (48.1) | 89.1 |

Total amortization expense for intangible assets was $6.7 million for the year ended December 31, 2010 (2009 – $6.8 million).

## 8. LONG-TERM DEBT

| December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Medium Term Notes | | |
| 5.25% due December 22, 2014 | **90.0** | 90.0 |
| 5.00% due June 22, 2017 | **100.0** | - |
| 4.85% due November 12, 2020 | **100.0** | - |
| Credit Facilities | **130.0** | 197.0 |
| Affiliate Credit Facility | **-** | 11.7 |
| Deferred Financing Charges and Other | **(4.3)** | (2.6) |
| Total Long-Term Debt | **415.7** | 296.1 |

**Medium Term Notes**

In 2010, the Fund issued $200.0 million unsecured MTNs in separate issuances of $100.0 million each, due 2017 and 2020, respectively. Concurrent with each of the issuances in 2010, a related pre-issuance hedge was terminated.

The MTNs are unsecured and redeemable by the Fund prior to maturity, in whole or in part, from time to time, at the option of the Fund at a price equal to the greater of the applicable Government of Canada yield plus a premium and par. Interest on the MTNs due 2017 and 2014 are payable semi-annually in June and December. Interest on the MTN due 2020 is payable semi-annually in May and November.

At December 31, 2010, the MTNs have a fair value of $295.1 million (2009 – $94.2 million) based on quoted market prices.

**Credit Facilities**
During the second quarter of 2010, the Fund amended one of its existing unsecured third party credit facilities to establish a new $300.0 million unsecured revolving standby credit facility with a syndicate of commercial banks. As a result, a $50.0 million 364-day third party credit facility and a $100.0 million affiliate credit facility provided by Enbridge were both cancelled. The new facility has an initial term of 364 days that is extendable annually at the lenders' option. The Fund has the option to extend the maturity date of the outstanding amounts drawn under the facility by an additional year from the end of the applicable revolving term.

Consistent with previous credit facilities, the Fund's new credit facility includes covenants that limit outstanding debt to a multiple of EBITDA (earnings before interest, taxes, depreciation and amortization). At December 31, 2010, $0.4 million (2009 – $1.4 million) of letters of credit were outstanding under the Fund's credit facilities and $169.6 million (2009 – $89.9 million) was undrawn and available. The weighted average interest rate on indebtedness incurred on all of the Fund's credit facilities for the year ended December 31, 2010 was 1.0% (2009 – 1.4%).

The $100.0 million credit facility provided by Enbridge in 2009 had initial revolving terms of 364 days that were extendable annually. There was a one-year term-out at the end of the applicable revolving terms. The Fund could receive advances on the new credit facility up to an aggregate principal amount of the credit limit by requesting prime rate advances, United States dollar base rate advances, LIBOR loans, and CDOR rate loans. Interest was charged at a rate per annum, dependent on the type of advance requested plus applicable margin. The applicable margins ranged from 1.5% to 2.75%. The Enbridge affiliate credit facility was cancelled in 2010.

## 9. NON–RECOURSE LONG-TERM DEBT

| December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Alliance Canada | | |
| Bank credit facility | **1.0** | 1.0 |
| Senior notes | | |
| 7.230% due 2015 | **81.7** | 98.2 |
| 4.928% due 2019 | **60.0** | 60.0 |
| 7.181% due 2023 | **161.8** | 165.7 |
| 5.546% due 2023 | **93.1** | 100.4 |
| 7.217% due 2025 | **129.6** | 132.5 |
| 6.765% due 2025 | **148.1** | 151.4 |
| NRGreen | | |
| Bank credit facility | **23.1** | 24.0 |
| | **698.4** | 733.2 |
| Fair Value Increment on Long-Term Debt Acquired | **29.2** | 33.7 |
| Deferred Financing Charges | **(3.4)** | (3.9) |
| Total Non-recourse Debt | **724.2** | 763.0 |
| Current Portion of Non-recourse Debt | **(36.3)** | (57.9) |
| Non-recourse Long-term Debt | **687.9** | 705.1 |

Non-recourse long-term debt maturities for the years ending December 31, 2011 through 2015 are $36.3 million, $39.9 million, $39.9 million, $41.7 million, and $44.2 million, respectively, and $496.4 million thereafter.

At December 31, 2010, Alliance Canada senior notes have a fair value of $757.8 million (2009 – $727.1 million) based on quoted market prices.

**Alliance Canada Bank Credit Facility**

Alliance Canada maintains an unsecured 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 the maturity date by one additional year on each anniversary of the closing date. The existing credit facility matures on 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, 2010 bear interest at an average rate of 1.64% (2009 – 0.85%).

At December 31, 2010 and 2009, Alliance Canada's credit facility had $80.0 million of letters of credit outstanding and $118.0 million in undrawn credit available, of which the Fund's proportionate share is 50%. The outstanding letters of credit secure six months of interest and principal payments on Alliance Canada's senior notes.

**Alliance Canada Affiliate Credit Facility**

In March 2010, Alliance Canada cancelled the 365-day unsecured credit facility that allowed Alliance Canada to borrow up to US$20.0 million from Alliance Pipeline L.P., an affiliated entity.

**Alliance Canada Senior Notes**

The Fund recorded the senior notes at their fair value on the date of 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.

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 $60.0 million of unsecured senior notes due in 2019, is payable semi-annually in June and December in arrears on June 16 and December 16 of each year. The bonds are non-amortizing with the entire principal due and payable upon maturity.

Interest on the remaining senior notes are 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. As at December 31, 2010 and 2009, Alliance Canada is compliant with all conditions and covenants.

**NRGreen Bank Credit Facility**

In the fourth quarter of 2010, NRGreen converted its revolving credit facility of $52.0 million and its operating credit facility of $5.0 million into a single operating facility of $52.0 million maturing on November 14, 2012, in accordance with its extension terms. The maturity date of the operating facility may be extended by one year on November 14th of each year. 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 bear interest at 2.95%.

The facility is secured by a first ranking floating charge over all property of NRGreen 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.

## 10. INTEREST EXPENSE

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Interest expense on: | | |
| Long-term debt | **13.0** | 10.2 |
| Non-recourse long-term debt | **47.4** | 47.7 |
| Amortization of deferred financing fees and bank charges | **2.5** | 3.0 |
| ECT Preferred Unit accretion (Note 11) | **0.3** | - |
| Capitalized interest | **(1.9)** | (0.3) |
| Amortization of the fair value increment on debt | **(4.4)** | (4.6) |
| | **56.9** | 56.0 |

Capitalized interest relates primarily to Saskatchewan System expansion activities.

Interest obligations on long-term debt for each of the years ending December 31, 2011 through 2015 are $14.8 million, $14.7 million, $14.7 million, $14.7 million and $41.7 million, respectively. Interest obligations on non-recourse long-term debt for the years ending December 31, 2011 through 2015 are $45.4 million, $41.9 million, $39.2 million, $36.4 million and $33.5 million, respectively.

## 11. ECT PREFERRED UNITS

The ECT Preferred Units are entitled to non-cumulative distributions when declared by ECT. The ECT Preferred Units have no direct voting rights except in limited circumstances 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 preferred unit. At December 31, 2010 and 2009, 38,023,750 ECT Preferred Units were outstanding. Cash distributions of $43.8 million (2009 – $43.8 million) were declared on the ECT preferred units during the year ended December 31, 2010 and reflected as an expense on the consolidated statements of earnings.

Prior to December 17, 2010, the date of the Plan, the ECT Preferred Units provided the holder, Enbridge, the option to request redemption (the Liquidity Right) based on a redemption price referenced to the market value of a trust unit. Any such redemption was to be paid in cash. No redemptions were requested from June 30, 2003, the date of the inception of the Fund, to December 17, 2010.

Pursuant to the Plan completed on December 17, 2010, amendments to the attributes of the ECT Preferred Units were made, resulting in the elimination of the Liquidity Right and the creation of the Exchange Right. The Exchange Right provides Enbridge, the holder of the ECT Preferred Units, with the right to exchange such ECT Preferred Units for Trust Units on a one-for-one basis at any time prior to redemption. No change was made to the June 30, 2033 maturity date or the terminal redemption value of $10 per preferred unit as a result of these amendments.

The Plan recognized that the ECT Preferred Unit Exchange Right and the Liquidity Right were economically equivalent, both entitling the holder to realize the current market value of a Trust Unit. The Plan simply amended the settlement terms to occur in the equivalent value of Trust Units as opposed to a cash payment. Should the holder exercise the Exchange Right, they would be entitled to the rights described in Note 13.

The Liquidity Right was originally required to be recorded at the fair value on the date of issue, June 30, 2003, and was therefore assigned a value of nil at the time the Fund was created. Subsequent re-measurement of the Liquidity Right was precluded in accordance with the transitional provisions of CICA Handbook Section 3855, under which the Fund chose, as permitted, March 31, 2004 as its transition date for embedded derivatives. The December 17, 2010 amendment was deemed to be an extinguishment for accounting purposes and the deemed issuance of the amended ECT Preferred Units to Enbridge was recorded at fair value, with recognition of the liability and equity components of $87.8 million and $583.7 million, respectively. The resultant difference in the carrying values of the instruments exchanged with Enbridge, a related party, was reflected as a $291.3 million charge to retained deficit. The above noted liability component of the ECT Preferred Units is carried at amortized cost, using a discount rate of 6.5%, with the value accreted over time to the June 30, 2033 redemption value of $380.2 million. Accretion expense of $0.3 million (2009 – nil) is reflected in interest expense for the year ended December 31, 2010.

## 12. ASSET RETIREMENT OBLIGATIONS

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Obligations at beginning of year | **12.4** | 10.9 |
| Liabilities incurred | **1.7** | 0.7 |
| Accretion expense | **1.0** | 0.8 |
| Obligations at end of year | **15.1** | 12.4 |

A legal obligation exists for the retirement of certain assets within the Saskatchewan System and Green Power operating segments. The undiscounted amount of expected cash flows required to settle the asset retirement obligations related to assets in the Saskatchewan System and Green Power segments is estimated at $84.4 million (2009 – $43.0 million) with the majority estimated to be settled beginning in the year 2034. The liability for the expected cash flows as recognized in the financial statements reflects a weighted average discount rate of 8.53%.

Although a legal obligation exists for costs associated with retirement of the Alliance Canada pipeline and certain other assets, 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

| December 31, | **2010** | | 2009 | |
|---|---|---|---|---|
| *(millions of Canadian dollars except number of units)* | Number of Units | Amount | Number of Units | Amount |
| Common Trust Units[1] | **34,625,000** | **333.4** | 34,625,000 | 333.4 |

[1] 9,500,000 (2009 – 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 are voting and have equal rights and privileges. At any given time, the Fund is required to reserve a sufficient number of Trust Units to satisfy the Exchange Right.

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. Subsequent to December 17, 2010, the date of the Plan, the redemption price is calculated with reference to the market price of EIFH common shares. The total amount payable by the Fund in respect of redemptions in any calendar month may 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 Fund may satisfy the redemption price by distributing a pro-rata number of ECT notes or other assets held by the Fund.

During the year ended December 31, 2010, the Fund made monthly distributions to unitholders. The amount of cash distributed monthly consisted of all amounts received by the Fund including income, interest, dividends, return of capital, if any, from investments held by the Fund, less amounts paid by the Fund in connection with any cash redemptions or repurchase of trust units and amounts which the administrator or Trustees of ECT may hold as reserves. Beginning in 2011, the Fund expects to declare and pay distributions to unitholders on a quarterly basis.

For the year ended December 31, 2010 and 2009, the Fund declared $39.9 million in cash distributions to trust unitholders.

## 14. INCOME TAXES

### Income Tax Rate Reconciliation

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Earnings before income taxes | **11.8** | 14.1 |
| Combined statutory income tax rate | **28.0%** | 29.0% |
| Income taxes at statutory rate | **3.3** | 4.1 |
| Increase/(decrease) resulting from: | | |
| Interest deductions of subsidiaries arising from intercorporate debt | **(27.1)** | (25.3) |
| Legislated tax changes on future income tax balances | **(0.3)** | (0.5) |
| Distributions on ECT Preferred Units | **12.3** | 12.7 |
| Deductions allocated to unitholders | **7.3** | 6.5 |
| Future income taxes related to regulated operations | **3.7** | 3.6 |
| Income tax expense (recovery) | **(0.8)** | 1.1 |
| Effective income tax rate | **(6.8%)** | 7.7% |

**Components of Future Income Taxes**

| December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Future income tax liabilities/(assets) | | |
| Differences in accounting and tax bases of: | | |
| Property, plant and equipment and intangible assets | **115.8** | 123.5 |
| Regulatory liabilities, net | **45.7** | 46.0 |
| Fair value increment on long-term debt acquired | **(7.5)** | (8.7) |
| Asset retirement obligations | **(3.1)** | (2.7) |
| Cash flow hedges | **-** | (1.6) |
| Other | **1.4** | 0.6 |
| | **152.3** | 157.1 |

Current income taxes for the year ended December 31, 2010 was a recovery of $0.6 million (2009 – an expense of $0.7 million). During the year ended December 31, 2010, the Fund recognized the benefit of federal unused loss carry forwards of $12.3 million. Unused tax loss carry forwards expire in the year ending December 31, 2030.

## 15. 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.

**Net Assets**

| December 31, | Ownership Interest | **2010** | 2009 |
|---|---|---|---|
| *(millions of Canadian dollars)* | | | |
| Alliance Canada | 50% | **660.0** | 676.3 |
| Green Power | | | |
| NRGreen | 50% | **8.7** | 8.8 |
| Wind Power Assets | 33% - 50% | **34.8** | 37.2 |
| | | **703.5** | 722.3 |

**Earnings**

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Revenues | **240.5** | 234.2 |
| Operating and maintenance | **(69.8)** | (62.7) |
| Depreciation and amortization | **(68.1)** | (67.9) |
| Interest expense | **(43.7)** | (43.7) |
| Other income | **0.9** | 1.3 |
| Proportionate share of net earnings | **59.8** | 61.2 |

**Cash Flows**

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Cash provided by operating activities | **115.2** | 112.5 |
| Cash used in investing activities | **(1.2)** | (9.2) |
| Cash used in financing activities | **(36.8)** | (100.8) |
| Proportionate share of increase in cash and cash equivalents | **77.2** | 2.5 |

**Financial Position**

| December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Current assets | **44.5** | 41.1 |
| Property, plant and equipment, net | **922.4** | 983.3 |
| Intangible assets | **82.3** | 89.0 |
| Goodwill | **308.1** | 308.1 |
| Deferred amounts and other assets | **103.1** | 96.2 |
| Future income tax asset | **7.6** | 8.8 |
| Current liabilities | **(51.4)** | (73.6) |
| Non-recourse long-term debt | **(687.8)** | (705.1) |
| Long-term liabilities | **(4.3)** | (2.8) |
| Asset retirement obligations | **(0.9)** | (0.3) |
| Future income tax liability | **(19.8)** | (22.4) |
| Proportionate share of net assets | **703.8** | 722.3 |

Included in the Fund's proportionate share of cash from Alliance Canada is $15.6 million (2009 – $13.7 million) of cash 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.

## 16. RISK MANAGEMENT

### Market Price Risk

The Fund's earnings, cash flows and OCI 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 such risks.

*Interest Rate Risk*

The Fund is exposed to cash flow interest rate risk and fair value interest rate risk as a result of fluctuations in market interest rates. Cash flows are impacted by changes in market interest rates on the cost of variable rate debt and anticipated fixed rate debt issues. The Fund may enter into interest rate derivatives such as floating to fixed interest rate swaps and forward rate agreements to mitigate the interest rate risk associated with this debt. The Fund has implemented a hedging program to mitigate its exposure to long term interest rate variability on select forecast term debt issuances through 2013. The total notional principal of interest rate derivative instruments outstanding at December 31, 2010 was $75.0 million (2009 – $350.0 million), related to short-term borrowings that have been hedged through to December 2013, at an average rate of 3.62%. The fair value of existing fixed rate long-term debt is also impacted by changes in market interest rates. The Fund does not typically manage the fair value risk of its debt instruments as they are classified as financial liabilities and recorded at amortized cost.

At December 31, 2010, a 1.0% increase across the interest rate yield curve at that date, with all other variables constant, would have caused a $1.5 million increase (2009 – $12.2 million) in OCI in the year due to the revaluation of interest rate derivatives at December 31, 2010, and a

$1.1 million decrease (2009 – $0.8 million) in after-tax earnings due to increased interest expense related to the Fund's variable rate debt outstanding at December 31, 2010, excluding Alliance Canada', assuming the variable rate debt outstanding had been outstanding for the entire period. 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 was $154.1 million at December 31, 2010 (2009 – $233.8 million), of which $1.0 million relates to Alliance Canada's variable rate debt (2009 – $1.0 million).

*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 certain wind power assets. To manage this exposure, the Fund uses fixed price power agreements that convert the floating price received when power is sold to a fixed rate.

The Fund is also exposed to movements in the price of natural gas through commitments to purchase and sell natural gas in connection with capacity held on the Alliance Pipeline. To manage this exposure, the Fund entered into two natural gas swaps in 2010. These financial instruments are not designated hedges for accounting purposes and thus are recorded at their fair value with changes reflected in the consolidated statement of earnings.

For the year ended December 31, 2010, a $5/MWh increase in the price of power would have no impact to after-tax earnings (2009 – $0.2 million increase) and would have decreased other comprehensive income by $1.4 million (2009 – $1.7 million). In order to derive the impact of this change, the Fund used observable market inputs to estimate future power prices, and discounted the expected cash flows.

For the year ended December 31, 2010, a $1.00/mmbtu increase in the price of natural gas would have increased after-tax earnings by $0.1 million (2009 – nil). In order to derive the impact of this change, the Fund used observable market inputs to derive future gas prices, and discounted the expected cash flows.

**Foreign Exchange Risk**
The Fund's earnings, cash flows, and OCI are subject to foreign exchange rate variability, primarily due to Alliance Canada euro-denominated maintenance contracts. In 2010, Alliance Canada entered into derivative contracts to mitigate this volatility and these derivative instruments are designated as cash flow hedges for accounting purposes. For the year ended December 31, 2010, a $0.01 strengthening of the Canadian dollar relative to the euro would have decreased OCI by $0.1 million.

The Fund is also exposed to volatility in foreign exchange rates related to one of the natural gas swaps, contracted in 2010 within the SNGL Services joint venture to manage its exposure to volatility in natural gas prices. For the year ended December 31, 2010, a $0.01 strengthening of the Canadian dollar against the United States dollar would have had a minimal impact on after-tax earnings.

### Summary of Derivative Instruments used for Risk Management

The Fund has entered into the following cash flow hedges to manage fluctuations in power prices, interest rates, natural gas prices, and foreign exchange.

| **Year ended December 31, 2010** | Maturity | Notional Principal or Quantity | Fair Value Receivable/ (Payable)[1] | Realized Gains /(Losses)[2] | Unrealized Gains /(Losses)[2] |
|---|---|---|---|---|---|
| *(millions of Canadian dollars, unless otherwise noted)* | | | | | |
| Chin Chute Power Swap (MW/H) | *2017* | **2.0** | **0.5** | **0.1** | **0.3** |
| Magrath Power Swap (MW/H) | *2024* | **2.8** | **1.1** | **0.3** | **1.2** |
| Interest Rate Swaps | *2013* | **75.0** | **(3.0)** | **0.1** | **1.3** |
| Euro Foreign Exchange Forwards | *2011-2012* | **4.6** | **(0.1)** | **-** | **(0.1)** |
| | | | **(1.5)** | **0.5** | **2.7** |
| Income taxes | | | | **-** | **(1.6)** |
| | | | | **0.5** | **1.1** |
| Settled derivatives[3] | | | | **(0.7)** | **(17.1)** |
| Gains (losses) reflected in OCI, net of tax | | | | **(0.2)** | **(16.0)** |

[1]See Note 17 Financial Instruments for a description of the methodology used in deriving the fair value of these instruments.

[2] Changes in the fair value of effective cash flow hedging instruments are recorded in OCI and reclassed to earnings when the hedged item impacts earnings.

[3] Primarily represents pre-issuance hedges that were settled concurrently with MTN issuances. The gain or loss on settlement is amortized to earnings over the life of the related long-term debt.

| Year ended December 31, 2009 | Maturity | Notional Principal or Quantity | Fair Value Receivable/ (Payable)[1] | Realized Gains /(Losses)[2] | Unrealized Gains /(Losses)[2] |
|---|---|---|---|---|---|
| *(millions of Canadian dollars, unless otherwise noted)* | | | | | |
| Chin Chute Power Swap (MW/H) | *2017* | 2.0 | 0.2 | (0.2) | 3.4 |
| Magrath Power Swap (MW/H) | *2024* | 2.8 | (0.1) | (0.2) | 8.1 |
| Interest Rate Swaps | *2010-2013* | 350.0 | (4.3) | 0.1 | (4.3) |
| | | | (4.2) | (0.3) | 7.2 |
| Income taxes | | | | - | 2.2 |
| | | | | (0.3) | 9.4 |
| Settled derivatives | | | | (0.2) | (3.4) |
| Gains (losses) reflected in OCI, net of tax | | | | (0.5) | 6.0 |

Realized gains or losses on derivative instruments used as cash flow hedges are reported within revenues for the power swaps, operating and maintenance for foreign exchange forwards, and interest expense for the interest rate swaps, on the consolidated statement of earnings. The current portion of the fair value payable of $1.4 million is included in accounts payable and accrued liabilities (2009 – a payable of $3.8 million and a receivable of $0.1 million). The Fund estimates these current balances related to cash flow hedges within AOCI will be reclassified to earnings in the next 12 months. Actual amounts reclassified to earnings depend on the power prices and interest rates in effect when derivative contracts that are currently outstanding mature. The long-term portion of the fair value receivable of $1.6 million and a fair value payable of $1.7 million (2009 – a payable of $0.5 million) are included in deferred amounts and other assets and long-term liabilities, respectively.

Concurrent with the issuances of a $100.0 million MTN in June 2010 and a $100.0 million MTN in November 2010, the Fund settled related pre-issuance hedges. Accumulated gains or losses at the time of settlement remain in OCI and are reflected in earnings over the term of the related debt.

The estimated net amount of existing losses reported in accumulated other comprehensive income that is expected to be reclassified to net income within the next 12 months is $2.1 million as at December 31, 2010 (2009 – nil).

**Unrealized Gains and Losses on Non-Qualifying 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 of the derivative instrument are recorded in current period earnings. At December 31, 2010, the Fund held two offsetting 1MW power swaps which both mature in 2017, that were classified as non-qualifying derivatives.

Additionally, the Fund classified two natural gas swaps, with notional values of 10,000 mmbtu/day as non-qualifying. The natural gas swaps mature in 2011.

The Fund recognized an unrealized derivative loss of $0.1 million net of tax, for the year ended December 31, 2010 (2009 – $0.6 million gain after tax) related to non-qualifying derivatives not designated as hedging instruments. Gains and losses on the non-qualifying derivatives are reported in revenues. These instruments have a fair value payable of $0.4 million at December 31, 2010 (2009 – $0.3 million). The current and long-term portions of this payable are reported within accounts payable and accrued liabilities and long-term liabilities, respectively.

**Liquidity Risk**
Liquidity risk is the risk that the Fund will not be able to meet its financial obligations, including commitments (see Note 20), 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 facilities and medium-term note issuances. The Fund maintains a current shelf prospectus with Canadian securities regulators, which enables, subject to market conditions, ready access to Canadian public debt markets. Cash flow from operations in combination with available committed standby credit facilities and debt capital markets funding, if required, is expected to be sufficient to meet the forecast liquidity and capital resource requirements of the Fund.

*Maturities of Financial Instruments*
The Fund generally has no financial instruments, other than derivative instruments, maturing beyond one year with the exception of its long-term debt (Note 8) and non-recourse long-term debt (Note 9).

The Fund has estimated the following undiscounted cash flows will arise from its derivative instruments based on valuation at the balance sheet date:

| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
|---|---|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | | | |
| Cash inflows | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 1.3 |
| Cash outflows | (1.7) | (1.2) | (0.8) | (0.1) | (0.1) | (0.2) |
| Net cash flows | (1.5) | (1.0) | (0.5) | 0.2 | 0.1 | 1.1 |

**Credit Risk**
Entering into derivative financial instruments can result in exposure to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations and is limited to those contracts where the Fund would incur a loss in replacing the instrument. The Fund enters into risk management transactions only with institutions that possess investment grade credit ratings. Credit risk relating to derivative counterparties is mitigated by utilization of credit exposure

limits, contractual requirements and frequent assessment of counterparty credit worthiness. At December 31, 2010 the Fund's exposure to credit risk related to its derivative instruments in a receivable position is equal to its carrying amount of $1.6 million.

The Fund is exposed to credit risk through Alliance Canada's investment in MAV notes. Due to the lack of active market for these instruments and the uncertainties regarding the fair value of the underlying assets, there is risk that Alliance Canada will not receive the carrying value for the instruments upon maturity. The fair value of the MAV notes are evaluated on a regular basis as outlined in Note 17, Fair Value of Financial Instruments.

Accounts receivable are also subject to credit risk. Generally, the Fund classifies receivables older than 30 days as past due. The maximum exposure to credit risk related to non-derivative financial assets is their carrying value, as disclosed in Note 17, Fair Value of Financial Instruments.

Alliance Canada's 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, 2010, Alliance Canada held $20.2 million in letters of credit and cash deposits as security from its 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 use of counterparty credit exposure limits and by requiring less creditworthy shippers to provide credit enhancement which may include letters of credit, posting of collateral, netting provisions or other contractual requirements.

Green Power is exposed to concentrations of 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 the counterparty.

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, 2010 and December 31, 2009, accounts receivable in excess of 90 days represented less than 1% of the total balance.

## 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the Fund's financial instrument carrying and fair values and provides a reconciliation to the balance sheet.

| **December 31, 2010** | Held for Trading | Loans and Receivables | Other Financial Liabilities | Derivatives | Non-Financial Instruments | Total | Fair Value[1] |
|---|---|---|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | **21.4** | **-** | **-** | **-** | **-** | **21.4** | **21.4** |
| Accounts receivable and other | **-** | **52.3** | **-** | **-** | **2.7** | **55.0** | **52.3** |
| Deferred amounts and other assets | **4.5** | **-** | **-** | **1.6** | **192.3** | **198.4** | **6.1** |
| **Liabilities** | | | | | | | |
| Accounts payable and accrued liabilities | **-** | **-** | **71.4** | **1.5** | **-** | **72.9** | **72.9** |
| Distributions payable | **-** | **-** | **3.3** | **-** | **-** | **3.3** | **3.3** |
| Long-term debt | **-** | **-** | **415.7** | **-** | **-** | **415.7** | **425.1** |
| Non-recourse long-term debt | **-** | **-** | **724.2** | **-** | **-** | **724.2** | **780.7** |
| ECT Preferred Units | **-** | **-** | **88.1** | **-** | **-** | **88.1** | **688.2** |
| Long-term liabilities | **-** | **-** | **4.1** | **1.6** | **4.7** | **10.4** | **1.6** |

[1]Fair value does not include non-financial instruments.

| December 31, 2009 | Held for Trading | Loans and Receivables | Other Financial Liabilities | Derivatives | Non-Financial Instruments | Total | Fair Value[1] |
|---|---|---|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 17.6 | - | - | - | - | 17.6 | 17.6 |
| Accounts receivable and other | - | 37.2 | - | - | 1.3 | 38.5 | 37.2 |
| Deferred amounts and other assets | 4.8 | - | - | - | 189.8 | 194.6 | 4.8 |
| **Liabilities** | | | | | | | |
| Accounts payable and accrued liabilities | - | - | 45.3 | 3.6 | 4.4 | 53.3 | 48.9 |
| Distributions payable | - | - | 3.3 | - | - | 3.3 | 3.3 |
| Long-term debt | - | - | 296.1 | - | - | 296.1 | 302.9 |
| Non-recourse long-term debt | - | - | 763.0 | - | - | 763.0 | 789.0 |
| ECT Preferred Units | - | - | 380.2 | - | - | 380.2 | 505.7 |
| Long-term liabilities | - | - | - | 0.6 | 2.3 | 2.9 | 0.9 |

The fair value of financial instruments reflects the Fund's best estimates based on generally accepted valuation techniques or models and supported by observable market prices and rates, where available. When such prices are not available, the Fund uses discounted cash flow analysis from applicable yield curves based on observable market inputs. The fair value of financial instruments, other than derivatives, represents the 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 quoted market prices for instruments of similar yield, credit risk and tenure.

The fair value of the ECT Preferred Units was derived from the quoted market price of EIFH common shares at December 31, 2010. In 2009, the fair value of the ECT Preferred Units was calculated based on the quoted market price of the Fund Trust Units.

The fair value of the Fund's derivative financial instruments and investment in the MAV notes through Alliance Canada reflects the Fund's best estimates of market value based on generally accepted valuation techniques or models and supported by observable market prices, if available, for commodities.

The fair value of other financial assets and liabilities other than derivative instruments approximate their cost due to their short term to maturity.

*Held for Trading Investment*
Alliance Canada holds various classes of Master Asset Vehicle (MAV) notes which were received in exchange for Alliance Canada's investment in asset-backed commercial paper (ABCP) that was unable to be redeemed upon maturity in 2007, due to the deterioration of liquidity in the ABCP market. The MAV notes consist of 49% MAV2 Class A-1 notes, 41% MAV2 Class A-2 notes, 7% MAV2 Class B notes and 3% MAV2 Class C notes. The Class A-1 has been assigned an "A" rating from DBRS and A-2 notes have been assigned a "BBB" rating from DBRS and 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.

The investment in the MAV notes is classified as held for trading and therefore, is measured at fair value. Due to the lack of an active market for the investment, there is uncertainty regarding the fair value of the assets underlying the MAV notes and the estimate of fair value may differ from the actual fair value that will be realized. Upon receipt of the MAV notes in January 2009, Alliance Canada recorded the investment at an estimated fair value of $10.0 million, of which the Fund's proportionate share was $5.0 million, or 50%. As at December 31, 2010, Alliance Canada's MAV notes are recognized on the Fund's consolidated statement of financial position at their estimated fair value of $4.5 million and fair value declines of $0.3 million and $0.2 million have been reflected in earnings for the years ended December 31, 2010 and 2009, respectively.

The Fund does not anticipate that the investment in the MAV notes will have a significant impact on Alliance Canada's operations or ability to meet future debt obligations. The MAV notes are included in Deferred amounts and other assets.

**Categorization of Financial Instruments Measured at Fair Value**
The Fund categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

*Level 1*
Level 1 includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. At December 31, 2010 and 2009, the Fund did not have any Level 1 assets or liabilities, with the exception of cash and cash equivalents.

*Level 2*
Level 2 includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Financial instruments in this category are valued using models or other industry standard valuation techniques derived from observable market data. Such valuation techniques include inputs such as quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. Instruments valued using Level 2 inputs include the Fund's interest rate swaps, natural gas purchase price swaps and Alliance Canada's foreign exchange forward contracts.

*Level 3*
Level 3 includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value. Generally, Level 3 valuations are longer dated transactions, occur in less active markets, occur at locations where pricing information is not available, or have no binding broker quote to support Level 2 classification. Methodologies have been developed, benchmarked to industry standards, to determine the fair value for these contracts based on extrapolation of observable future prices and rates. Instruments valued using Level 3 inputs include the Chin Chute and Magrath power swaps, Alliance Canada's MAV notes and the natural gas price swaps entered into in association with the Alliance Capacity.

When possible the estimated fair value is based on quoted market prices, and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Levels 2 and 3, standard valuation techniques are used to calculated fair value. These methods include discounted cash flows for forwards and swaps. Primary inputs to these techniques include observable market prices (interest rates and commodity prices) and volatility, depending on the type of derivative and nature of the underlying risk. Inputs and data used by willing market participants are used when valuing derivatives, as well, the Fund's own credit default swap spread and those of its counterparties are used in the determination of fair value. Where possible the Fund uses observable inputs.

The Fund has categorized its financial instruments measured at fair value as follows:

| **December 31, 2010** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | |
| Financial Assets: | | | | |
| Cash and cash equivalents | **21.4** | **-** | **-** | **21.4** |
| Long-term derivative assets | **-** | **-** | **1.6** | **1.6** |
| Alliance Canada's MAV notes | **-** | **-** | **4.5** | **4.5** |
| Financial Liabilities: | | | | |
| Current derivative liabilities | **-** | **(1.5)** | **-** | **(1.5)** |
| Long-term derivative liabilities | **-** | **(1.6)** | **-** | **(1.6)** |
| Total net asset/(liability) | **21.4** | **(3.1)** | **6.1** | **24.4** |

| December 31, 2009 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| *(millions of Canadian dollars)* | | | | |
| Financial Assets: | | | | |
| Cash and cash equivalents | 17.6 | - | - | 17.6 |
| Alliance Canada's MAV notes | - | 4.8 | - | 4.8 |
| Financial Liabilities: | | | | |
| Current derivative liabilities | - | (3.8) | 0.2 | (3.6) |
| Long-term derivative liabilities | - | (0.5) | (0.4) | (0.9) |
| Total net asset/(liability) | 17.6 | 0.5 | (0.2) | 17.9 |

Changes in the net fair value of assets and liabilities classified as Level 3 in the fair value hierarchy were as follows:

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Balance at beginning of year | **(0.2)** | (13.2) |
| Total gains/(losses), realized and unrealized | | |
| Included in earnings | **0.1** | 1.8 |
| Included in other comprehensive income | **1.7** | 11.7 |
| Settlements | **-** | (0.5) |
| Transfers into level 3 | **4.5** | - |
| Balance at end of year | **6.1** | (0.2) |

## 18. CAPITAL DISCLOSURES

The Fund defines capital as unitholders' equity (excluding AOCI), long-term debt (exclusive 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:

| Year ended December 31, | **2010** | 2009 |
|---|---|---|
| *(millions of Canadian dollars)* | | |
| Long-Term Debt[1] | **415.7** | 298.7 |
| Unitholders' Equity, net of AOCI[3] | **509.7** | 244.6 |
| ECT Preferred Units | **88.1** | 380.2 |
| Cash and Cash Equivalents[2] | **(3.0)** | - |
| | **1,010.5** | 923.5 |

[1] Includes the current portion of long-term debt and is exclusive of transaction costs.

[2] Excludes cash and cash equivalents of the Fund's joint venture interests.

[3] Includes the equity component of the ECT Preferred Units.

The Fund balances several objectives when managing capital including:

a) enabling its businesses to operate at the highest efficiency;
b) ensuring liquidity and access to capital for growth opportunities; and
c) providing acceptable 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. The relative amount of debt and equity in the Fund's structure is managed with a view to adhering to such limits as well as maintaining credit metrics within parameters established by the rating agencies and lenders. The Fund's credit facilities include covenants that limit outstanding debt to a multiple of EBITDA (earnings before interest, taxes, depreciation and amortization). As at December 31, 2010 and 2009, the Fund was in full compliance with its covenants.

## 19. RELATED PARTY TRANSACTIONS

All related party transactions are provided in the normal course of business and, unless otherwise noted, measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Alliance Canada has contracts with shippers who are also affiliates of the Fund through common ownership interests of Enbridge, a related party by virtue of its ECT Preferred Units and Trust Unit investment in the Fund. The Fund's share of Alliance Canada's revenue from affiliates for the year ended December 31, 2010 is $16.0 million (2009 – $13.3 million) of which $1.7 million (2009 – $1.1 million) was included in accounts receivable and other at December 31, 2010. 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 the agreements. 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, 2010 was $15.0 million (2009 – $14.1 million) of which $2.1 million (2009 – $1.4 million) was included in accounts receivable and other as at December 31, 2010.

Administrative and facility support services are provided by Alliance Canada to Aux Sable Canada LP and Aux Sable Liquid Products LP, which are entities related to the Fund through common ownership. The Fund's share of amounts charged to Aux Sable Canada LP and Aux Sable Liquid Products LP during the year ended December 31, 2010 were $0.2 million (2009 – $0.2 million) and $0.1 million (2009 – $0.1 million), respectively.

The Saskatchewan System does not have any employees and uses the services of Enbridge for managing and operating the business. These services, which are charged at cost in accordance with service agreements, were $20.5 million for 2010 (2009 – $18.0 million) of which $1.8 million (2009 – $1.5 million) was included in accounts payable and accrued liabilities at December 31, 2010.

Certain wind power projects do not have any employees and use the services of Enbridge for managing and operating the business. These services, which are charged at cost, were $0.3 million for 2010 (2009 – $0.4 million) with $0.2 million (2009 – nil) included in accounts payable and accrued liabilities at December 31, 2010.

The Fund has a contract to sell to Enbridge all available emission reduction credits generated by the Fund's interest in the Chin Chute and Magrath projects. The contract has an initial 20-year term ending October 1, 2026 and provides for a fixed price of $5 per tonne of avoided $CO_2$ emissions, based on a negotiated rate of converting megawatts generated to tonnes of emissions reduced, plus applicable taxes. The Fund earned $0.2 million (2009 – $0.3 million) for the sale of these emission reduction credits in the year ended December 31, 2010.

One of the Fund's wind power projects, Magrath, has a long-term Power Purchase Agreement (PPA), expiring in 2024, with Enbridge Pipelines Inc., a wholly owned subsidiary of Enbridge. The terms of the PPA are for the sale of the project's total wind power production at a fixed price. Revenues of $0.3 million (2009 – $0.2 million) related to this PPA are reported within the Fund's revenue for the year ended December 31, 2010.

Under the management and administrative agreements with EMSI, a wholly owned subsidiary of Enbridge, an incentive fee was 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, 2010, incentive fees were $8.3 million (2009 – $8.3 million) which were fully paid as of December 31, 2010, (2009 – $8.3 million was included in the accounts payable and accrued liabilities). 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, 2010. In connection with the Plan, the incentive fee calculation was amended such that the future fees will not differ materially from that which would have been paid had the restructuring not occurred.

In June 1, 2010, a newly created joint venture entity, Sable NGL Services L.P. (SNGL Services) in which the Fund holds a 50% interest and an unrelated third party holds the other 50% interest, secured 20 million cubic feet per day (mmcf/d) of firm capacity on the Alliance System (the Alliance Capacity) at tolls equal to those charged to third party shippers under 15-year transportation service agreements. Under renewals of that arrangement, this capacity has been contracted through to March 2011. Concurrent with obtaining this Alliance Capacity, SNGL Services entered into an agency agreement with a subsidiary of Enbridge to manage the Alliance Capacity on its behalf, including the purchase and sale of natural gas, in return for a management fee. In connection with this transaction, SNGL Services is eligible for inducements offered by an affiliate of Enbridge for transporting natural gas with higher heating values to supply the natural gas extraction facility located at the terminus of the Alliance System. Revenues and expenses of $0.1 million and $0.1 million, respectively, are reported within the Fund revenue and expenses for the year ended December 31, 2010. At December 31, 2010, $0.2 million was included in accounts payable and accrued liabilities.

During 2010, ECT entered into an agreement with EIFH, under which it agreed to reimburse EIFH for certain general administrative costs. As at December 31, 2010, $0.1 million was included in accounts payable and accrued liabilities.

## 20. COMMITMENTS

At December 31, 2010, the Fund had operating lease obligations as detailed below:

| | Total | Less than 1 year | 2 years | 3 years | 4 years | 5 years | Thereafter |
|---|---|---|---|---|---|---|---|
| *(millions of dollars)* | | | | | | | |
| Operating Leases | 34.6 | 4.3 | 3.8 | 3.5 | 3.0 | 3.0 | 17.0 |

Alliance Canada has a service agreement for maintenance activities on Alliance Canada's compressor equipment which expires in December 2017. The Fund's share of Alliance Canada's monthly commitments related to this contract are approximately US$0.3 million ($0.3 million) per month and €0.1 million ($0.3 million) per month in 2010. The monthly fees may escalate annually based on an indexed price formula in the contract.

In 2009, Alliance Canada signed an agreement for the replacement of the control units used to operate all compressors along the pipeline. The Fund's share of Alliance Canada's outstanding commitment under this contract is approximately €0.9 million ($1.2 million) in 2011 and €1.4 million ($1.8 million) in 2012. This project is expected to be completed by 2013.