



 **FortChicago**

2008 FINANCIAL REPORT

PIPELINES. NGL. POWER.

MANAGEMENT'S DISCUSSION AND ANALYSIS**Year ended December 31, 2008**

FINANCIAL AND OPERATING HIGHLIGHTS

(\$ Thousands, except where noted)	2008	2007	2006
Operating Highlights			
Average daily volumes (100%)			
Pipeline			
Alliance - billion cubic feet per day	1.609	1.598	1.592
AEGS - thousand barrels per day ⁽¹⁾	299.8	308.6	310.3
NGL			
Aux Sable - thousand barrels per day	60.9	67.7	68.8
Power			
Fort Chicago Power ⁽²⁾ - megawatt hours	505,988	157,746	-
NRGreen - megawatt hours	73,697	35,183	431
Financial Results			
Revenues	701,430	589,223	563,108
Net income	61,499	86,157	80,954
Per Unit (\$) - basic and diluted	0.46	0.66	0.62
Adjusted net income ⁽³⁾	72,104	78,019	71,254
Per Unit (\$) - basic and diluted	0.54	0.60	0.55
Cash from operating activities	262,612	204,852	228,463
Distributable cash ⁽³⁾	160,149	177,439	151,513
Per Unit (\$) - basic and diluted	1.204	1.350	1.160
Distributions paid/payable ⁽³⁾	133,135	123,699	121,404
Per Unit (\$)	1.00	0.9416	0.93
Distribution account ⁽³⁾	82,925	69,799	30,989
Payout ratio (%) ⁽³⁾	83	70	80
Capital expenditures			
Growth ⁽³⁾	119,581	97,754	39,945
Maintenance and sustaining ⁽³⁾	19,445	1,843	2,176
Taxable income allocated to Unitholders			
Per Unit ^(3,4,5)	0.9896	0.9322	0.911
Taxable portion of distributions paid (%) ^(3,4,5)	99	99	98
Financial Position			
Cash and short-term investments	56,064	47,191	44,718
Total assets	3,127,679	2,871,364	2,718,922
Long-term senior debt and capital leases	1,758,958	1,652,133	1,484,582
Long-term subordinated convertible debentures	23,909	23,783	52,922
Partners' equity	800,587	755,453	818,496
Total enterprise value ⁽³⁾	3,147,197	3,400,304	3,407,691
Units			
Units outstanding - as at year-end ⁽⁶⁾	134,110,877	131,668,086	131,030,295
Average daily volume (Units)	173,621	154,670	267,965
Price per Unit - close (\$)	7.22	10.84	11.47
Market capitalization ⁽³⁾	968,280	1,427,282	1,502,917

(1) Average daily volumes in respect of AEGS are based on toll volumes.

(2) Assets of Countryside Power Income Fund acquired August 10, 2007. Assets of Brush II Generation Facility acquired September 10, 2008.

(3) This item is not a standard measure under GAAP and may not be comparable to similar measures presented by other entities. See section entitled "Non-GAAP Financial Measures" contained in this MD&A.

(4) Based on Units being held throughout the year.

(5) Net of notional foreign income amount which is the equivalent to foreign tax credits available to Unitholders from U.S. corporate taxes paid by us.

(6) As at the close of markets on February 27, 2009 we had 134,110,877 Units outstanding.

FORWARD-LOOKING INFORMATION

Certain information contained in this Management's Discussion and Analysis constitutes forward-looking information under applicable Canadian securities laws. All information, other than statements of historical fact, which addresses activities, events or developments that we expect or anticipate may or will occur in the future, is forward-looking information. Forward-looking information typically contains statements with words such as "may", "estimate", "anticipate", "believe", "expect", "plan", "intend", "target", "project", "forecast" or similar words suggesting future outcomes or outlook. Forward-looking statements in this Management's Discussion and Analysis include, but are not limited to, statements with respect to: the sources of additional rich-gas supplies for transportation on the Alliance Pipeline and for processing at Aux Sable's Channahon facility; the sources of off-gas for processing at Aux Sable's off-gas facility; the timing of the start-up of the East Windsor cogeneration facility; the timing of and obtaining of regulatory approvals for, and the timing of the development of the Jordan Cove LNG terminal and Pacific Connector gas pipeline projects; NGL market conditions for 2009; the sufficiency of our available committed credit facilities to fund distributions and planned capital expenditures; the ability of each of our businesses to generate distributable cash in 2009; and our ability to make cash distributions. The risks and uncertainties that may affect our operations, performance, development and the results of our businesses include, but are not limited to, the following factors: our ability to successfully implement our strategic initiatives and achieve expected benefits; levels of oil and gas exploration and development activity; the status, credit risk and continued existence of contracted customers; the availability and price of capital; the availability and price of energy commodities; the availability of construction services and materials; fluctuations in foreign exchange and interest rates; our ability to successfully obtain regulatory approvals; changes in tax, regulatory, environmental, and other laws and regulations; competitive factors in the pipeline, NGL and power industries; operational breakdowns, failures, or other disruptions; and the prevailing economic conditions in North America. Additional information on these and other risks, uncertainties and factors that could affect our operations or financial results are included in our filings with the securities commissions or similar authorities in each of the provinces of Canada, as may be updated from time to time. Readers are also cautioned that the foregoing list of factors and risks is not exhaustive. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are independent and management's future course of action would depend on its assessment of all information at that time. Although we believe that the expectations conveyed by the forward-looking information are reasonable based on information available to us on the date of preparation, no assurances can be given as to future results, levels of activity and achievements. Undue reliance should not be placed on the information contained herein, as actual results achieved will vary from the information provided herein and the variations may be material. We make no representation that actual results achieved will be the same in whole or in part as those set out in the forward-looking information. Furthermore, the forward-looking statements contained herein are made as of the date hereof, and, except as required by law, we do not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise. Any forward-looking information contained herein is expressly qualified by this cautionary statement.

Certain financial information contained in this MD&A may not be standard measures under Generally Accepted Accounting Principles ("GAAP") in Canada and may not be comparable to similar measures presented by other entities. These measures are considered to be important measures used by the investment community and should be used to supplement other performance measures prepared in accordance with GAAP in Canada. For further information on non-GAAP financial measures used by us see the section entitled "Non-GAAP Financial Measures" contained in this MD&A.

OVERVIEW

We are a limited partnership committed to actively managing and growing our existing businesses and to making targeted accretive investments in long-life infrastructure assets that provide additional diversity and contribute toward stable and growing distributions. Our three principal segments include a pipeline transportation business comprised of a 50 percent ownership interest in Alliance Pipeline and a 100 percent ownership interest in the Alberta Ethane Gathering System; an NGL extraction business, comprised of a 42.7 percent ownership interest in each of Aux Sable Liquid Products and Alliance Canada Marketing, and a 50 percent ownership interest in each of Aux Sable Canada and Sable Canada; and a power business comprised primarily of a 100 percent ownership interest in Fort Chicago Power, a 50 percent ownership interest in NRGreen, and a 50 percent ownership interest in East Windsor Cogeneration.

Our pipeline business represents approximately 78 percent of our total assets at December 31, 2008 and generated approximately 64 percent of 2008 distributable cash inflows. Each of Alliance and AEGS are stable cash flow generators supported by long-term, take-or-pay transportation agreements. Alliance owns and manages an integrated, high-pressure natural gas pipeline that extends approximately 3,000 kilometres across North America. With an extensive gathering

system, Alliance delivers natural gas from the gas-rich regions of northeastern British Columbia and northwestern Alberta to delivery points near Chicago, Illinois, a major natural gas market hub. The system is capable of transporting 1.325 billion cubic feet per day of liquids-rich natural gas on a firm-service basis. AEGS is a key component of Alberta's energy infrastructure and of particular importance to Alberta's NGL extraction and petrochemical industries. AEGS is an integrated 1,324 km pipeline that transports pure ethane from various Alberta ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta and has interconnections with a third-party underground storage site and an export pipeline system.

Our NGL business, which represents approximately 6 percent of our assets at December 31, 2008 and generated approximately 32 percent of 2008 distributable cash inflows, consists of: (i) a world-scale NGL extraction and fractionation facility, referred to as the "Channahon facility", near the terminus of the Alliance pipeline, capable of recovering up to 80,000 barrels per day of ethane, propane, normal butane, iso-butane and natural gasoline; (ii) storage, downstream NGL pipelines and loading facilities (which together with the Channahon Facility are collectively referred to as the "NGL Facilities"); (iii) NGL injection facilities in Alberta and British Columbia; (iv) long-term firm natural gas transportation capacity on the Alliance pipeline; and (v) a nearly completed off-gas processing facility located near Fort Saskatchewan, Alberta. Our NGL business has long-term product sales agreements in place that provide a base level of earnings as well as a significant share of margins in excess of specified levels.

Our power business, which represents approximately 16 percent of our assets at December 31, 2008 and generated approximately four percent of 2008 distributable cash inflows, is backed by long-term energy contracts. Fort Chicago Power's assets are comprised of four gas-fired cogeneration facilities: two in California, one in Colorado, which was acquired in September 2008, and one in London, Ontario, which was placed into service in December 2008; and two district energy systems located in London, Ontario and Charlottetown, Prince Edward Island. NRGreen's assets consist of four waste heat electrical generation facilities, all of which are now in service, located at Alliance's Saskatchewan compressor sites. East Windsor Cogeneration is constructing an 84-megawatt cogeneration facility in Windsor, Ontario, which is scheduled to be placed into service in the third quarter of 2009.

We are also actively developing a number of greenfield investment opportunities, including liquefied natural gas and pipeline facilities on the U.S. west coast, Alberta-based ethane and NGL extraction facilities capable of processing off-gas produced by Alberta's oil sands upgraders, and a Nova Scotia-based underground natural gas storage facility and natural gas pipeline.

OVERALL PERFORMANCE

Distributable cash and net income for the three and 12 months ended December 31, 2008, by business segment, are highlighted in the tables below. The factors contributing to these results are discussed more fully in the section entitled "Results of Operations - By Business Segment". Cash from operating activities is discussed in the section entitled "Liquidity and Capital Resources".

Distributable Cash	Three months ended		Year ended	
	December 31		December 31	
(\$ Thousands, except per Unit amounts)	2008	2007	2008	2007
Pipeline	33,151	30,829	137,228	127,987
NGL	579	31,532	69,504	67,618
Power	856	1,872	9,943	6,472
Fort Chicago - Corporate	(12,102)	(7,388)	(56,526)	(24,638)
	22,484	56,845	160,149	177,439
Per Unit (\$)	0.168	0.432	1.204	1.35

Distributable cash for the three months ended December 31, 2008 was \$22.5 million or \$0.168 per Unit compared to \$56.8 million or \$0.432 per Unit for the same period in 2007. The emergence of the global financial crisis in the fourth quarter caused a severe downward shift in NGL market conditions, resulting in a significant decrease in Aux Sable's fourth quarter distributable cash compared to record levels achieved during the same period last year. Also contributing to lower fourth quarter distributable cash was an increase in the current tax provision pertaining to Aux Sable's 2008 earnings, which became fully taxable during the year, having utilized its remaining prior year loss carry-forwards. Although Aux Sable's 2008 fourth quarter earnings were lower in comparison to the fourth quarter of 2007, its earnings for the full year, which is the basis for recording quarterly tax provisions, were comparable to the prior year. These decreases were partially offset by higher distributions from Alliance, which reflect the effect of the weaker Canadian dollar.

Distributable cash for the year ended December 31, 2008 was \$160.1 million or \$1.204 per Unit compared to \$177.4 million or \$1.35 per Unit for 2007, reflecting increases from each of our business segments. Increased distributions from Alliance reflect funds received from the settlement of its claim against Calpine Energy Services Canada Partnership in the first quarter of 2008. Aux Sable generated record levels of distributable cash during the first nine months of the year before a downward shift in the fourth quarter, resulting in a slight year-over-year increase in Aux Sable distributable cash. 2008 distributable cash also reflects a full year's contribution from Fort Chicago Power, which performed well during the year. Offsetting these increases were higher current taxes pertaining to Aux Sable's 2008 earnings, as previously discussed. 2008 distributable cash also reflects increased corporate costs due to incremental administration and business development activity.

Net Income	Three months ended		Year ended	
	December 31		December 31	
(\$ Thousands, except per Unit amounts)	2008	2007	2008	2007
Net income (loss) before tax				
Pipeline	26,096	25,415	113,897	105,851
NGL	(1,601)	29,435	63,926	61,951
Power	(26,658)	409	(17,001)	3,586
Fort Chicago - Corporate				
General, administrative and project development	(6,346)	(5,599)	(23,530)	(19,085)
Interest	(3,652)	(3,981)	(16,671)	(13,712)
Depreciation	(1,024)	(914)	(4,278)	(3,538)
Foreign exchange losses	(7,800)	(15,166)	(27,688)	(21,676)
	(20,985)	29,599	88,655	113,377
Taxes	3,036	(4,689)	(27,156)	(27,220)
Net income (loss)	(17,949)	24,910	61,499	86,157
Per Unit (\$)	(0.13)	0.19	0.46	0.66
Adjustments to net income for non-recurring (gains) losses				
Alliance shipper claim settlement	-	-	(6,840)	-
Gain on dilution of investment	-	-	(3,660)	-
Asset impairment loss	21,105	-	21,105	-
Income tax rate reduction	-	(8,138)	-	(8,138)
Adjusted net income	3,156	16,772	72,104	78,019
Per Unit (\$)	0.02	0.13	0.54	0.60

For the three months ended December 31, 2008 we incurred a net loss of \$17.9 million or \$0.13 per Unit compared to net income of \$24.9 million or \$0.19 per Unit for the same period in 2007. The decrease primarily reflects a fourth quarter 2008 asset impairment loss of \$21.1 million or \$0.15 per Unit related to our power business (see "Results of Operations - Power Business"). Net income for the comparative period last year reflects federal income tax rate reductions of \$8.1 million or \$0.06 per Unit.

Adjusted net income for the three months ended December 31, 2008, which excludes the asset impairment loss, was \$3.2 million or \$0.02 per Unit compared to \$16.8 million or \$0.13 for the same period last year. This decrease reflects weak NGL market conditions in the fourth quarter of 2008, which resulted in no meaningful margin-based lease revenues generated by Aux Sable during this period. In comparison, Aux Sable recognized \$30.6 million of margin-based lease revenues during the fourth quarter of 2007. Adjusted net income also reflects lower earnings from Fort Chicago Power due primarily to the recognition of an unrealized fair value loss associated with its U.S. dollar-denominated Exchangeable Debentures. These losses were partially offset by decreased quarter-over-quarter recognition of corporate foreign exchange losses, previously deferred and recorded in other comprehensive income resulting from lower fourth quarter 2008 cash distributed by our U.S. businesses, and a net fourth quarter tax recovery.

Net income for the year ended December 31, 2008 was \$61.5 million or \$0.46 per Unit compared to \$86.2 million or \$0.66 per Unit for 2007. The fourth quarter 2008 asset impairment loss, discussed above, was partially offset by non-recurring gains associated with Alliance's cash settlement with Calpine and a non-cash gain arising from the dilution of our ownership interest in Pristine following its initial public offering of common shares, both of which were recognized in the first quarter of the year. Net income for 2007 reflects the income tax rate reduction discussed above.

Adjusted net income for the year ended December 31, 2008 was \$72.1 million or \$0.54 per Unit compared to \$78.0 million or \$0.60 per Unit for 2007. In spite of the significant downturn in NGL market conditions during the fourth quarter, Aux Sable's 2008 net income before tax increased in comparison to the prior year, reflecting the recognition of \$67.7 million of margin-based lease revenues compared to \$66.7 million recognized in 2007. These increases were offset by higher year-over-year corporate costs due primarily to increased recognition of foreign exchange losses, previously deferred and recorded in other comprehensive income resulting from the higher cash distributed by our U.S. businesses, incremental business development activities, administration and interest costs related to the Countryside acquisition.

RESULTS OF OPERATIONS - BY BUSINESS SEGMENT

Pipeline Business

(\$ Thousands, except where noted)	Three months ended December 31		Year ended December 31	
	2008	2007	2008	2007
Net income before tax				
Alliance Pipeline	24,735	24,214	108,392	100,863
AEGS	1,361	1,201	5,505	4,988
	26,096	25,415	113,897	105,851
Volumes				
Alliance Pipeline (100%) (bcf/d)	1.583	1.574	1.609	1.598
AEGS (mmbbls/d) ⁽¹⁾	290.1	306.1	299.8	308.6

(1) Average daily volumes for AEGS are based on toll volumes.

Alliance Pipeline

Alliance has firm-service transportation services contracts with primary terms extending to November 2015 with a group of 30 shippers. The transportation service contracts obligate each shipper to pay monthly demand charges based on their contracted firm volume, regardless of volumes actually transported. These transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including depreciation, debt financing costs and an allowed return on equity of 11.26 percent in Canada and 10.88 percent in the United States. The portion of such costs recovered each year is based on the percentage of the firm transportation capacity contracted. During 2008 and 2007, 98.5 percent, or 1.305 bcf/d, of firm capacity was contracted under long-term, firm-service transportation agreements and 1.5 percent, or 0.02 bcf/d, of the firm capacity was contracted under a short-term, firm-service agreement that currently extends to March 2010.

Operational Highlights

Since initiating operations, Alliance has concentrated on its core business and has continued to meet or exceed its previous record in all key areas of operational performance: availability, reliability, safe operations, throughput and efficiency (as measured by Authorized Overrun Service, or "AOS", being the amount of gas transported in excess of firm contracted capacity). Alliance offered shippers a level of AOS that was 21.4 percent in excess of firm contracted capacity in 2008. In 2008, transportation deliveries, including AOS, averaged 1.609 bcf/d compared with 1.598 bcf/d in 2007. This achievement reflects Alliance's focus on continuous improvement in maintenance practices, linepack management and system scheduling, along with the implementation of several asset optimization projects where Alliance has set industry standards for pipeline technology and system optimization.

Financial Highlights

Transportation revenues for the three and 12 months ended December 31, 2008 were \$108.1 million and \$380.2 million, respectively, a \$19.2 million and \$20.9 million increase compared to \$88.9 million and \$359.3 million for the same periods last year. These increases reflect higher 2008 tolls, due to increased operating cost recoveries. Effective January 1, 2008 equipment overhaul costs, which were previously capitalized and depreciated, were expensed. For the three months ended December 31, 2008, the effect of the weaker Canadian dollar also contributed to the increased transportation revenues compared to the same period last year. The quarter and annual increases were partially offset by lower cost of service recoveries in respect of interest expense due to the ongoing amortization of Alliance's long-term debt, lower income tax recoveries and a reduction in the equity return due to the depreciating investment base.

Net income before tax for the three months ended December 31, 2008 was \$24.7 million, a \$0.5 million increase compared to \$24.2 million for the same period last year, reflecting the effect of a weaker Canadian dollar, partially offset by lower income tax recoveries and a reduction in the equity return due to the depreciating investment base. For the 12 months ended December 31, 2008 net income before tax was \$108.4 million, a \$7.5 million increase compared to \$100.9 million for the same period last year. This increase reflects the first quarter receipt of \$10.3 million in full settlement of Alliance's claim in respect of Calpine's 2006 repudiation of its transportation contracts, partially offset by the reduced equity return on investment base.

BC Expansion Project

In October 2007 Alliance commenced field activities on the BC Expansion project, which was constructed in response to shipper requests for increased receipt capacity from natural gas fields in northeastern British Columbia. Construction of the project was completed in December 2008 at a cost of approximately \$16.9 million (100 percent - \$33.7 million) and, as a result, Alliance will be able to ship an incremental 150 million cubic feet per day of natural gas out of the area.

Pecan Pipeline (North Dakota), Inc. Receipt Point

Pecan Pipeline (North Dakota), Inc. is developing a gathering pipeline to connect with a new gas receipt point on the Alliance system near Towner, North Dakota. This project will bring associated rich gas from the Bakken formation onto Alliance, a gas stream that can be safely transported within the gas quality provisions of Alliance's tariff. In order to accommodate the new receipt point, in September 2008 Alliance sought Federal Energy Regulatory Commission approval to revise its Gas Tariff to allow Alliance to waive the hydrocarbon dewpoint specification under certain operating conditions. Alliance received FERC approval on November 5, 2008. Subject to certain conditions precedent being met, Pecan North Dakota and Alliance have agreed to contractual terms for firm transportation of 40 mmcf/d for the first year and 80 mmcf/d thereafter, over an initial ten-year period, three years longer than Alliance's primary shipper contracts. This transaction, and potentially others like it, will utilize existing excess capacity of 188 mmcf/d on the U.S. system, benefit existing shippers through reduced tolls, and generate increased NGL extraction opportunities at Aux Sable's downstream NGL facilities.

Rockies Alliance Pipeline

On March 25, 2008 Alliance and Questar Overthrust Pipeline Company entered into a joint memorandum of understanding to develop the Rockies Alliance Pipeline. If constructed, the proposed 42-inch pipeline, having an initial design capacity of 1.3 bcf/d of firm transportation capacity, will connect Rockies natural gas with markets in the U.S. midwest and central Canada. An open season was held from May 15 to June 16, 2008 to gauge shipper interest in the project. The results were sufficiently favourable to warrant additional marketing and regulatory work being undertaken.

AEGS

AEGS' revenues and earnings are based on long-term, take-or-pay ethane transportation agreements ("ETAs"), which extend to December 31, 2018, and provide for a minimum revenue stream based on specified committed volumes, the recovery of all operating costs, and the right for each shipper to transport ethane on the AEGS pipeline up to their committed volumes. As a consequence, AEGS is expected to generate a stable stream of earnings and distributable cash.

Operational Highlights

Toll volumes for the three and 12 months ended December 31, 2008 were 290.1 thousand barrels per day and 299.8 mbbbls/d, respectively, reflecting slight decreases compared to the same periods last year. The decrease was due primarily to lower ethane receipts from the Empress-area extraction plants during the second half of the year.

Financial Highlights

AEGS' revenues for the three and 12 months ended December 31, 2008 were \$10.8 million and \$42.6 million, respectively, a \$0.9 million and \$3.2 million increase compared to \$9.9 million and \$39.4 million for the same periods last year, reflecting increased operating and overhead cost recoveries. Net income before tax for the three and 12 months ended December 31, 2008 was \$1.4 million and \$5.5 million, respectively, reflecting increases of \$0.2 million and \$0.5 million compared to \$1.2 million and \$5.0 million for the same periods last year.

NGL Business

	Three months ended December 31		Year ended December 31	
(\$ Thousands, except where noted)	2008	2007	2008	2007
Net income (loss) before tax	(1,601)	29,435	63,926	61,951
Margin-based fees under NGL Sales Agreement				
Estimated amount generated during period (adjustment to prior period estimate)	(410)	30,588	67,713	66,739
Margin recognized from prior period	698	-	-	-
Amount recognized as revenue	288	30,588	67,713	66,739
Average daily NGL sales volumes (100%) (mbbls/d)				
Ethane - indigenous	4.0	36.7	29.7	35.6
Propane plus	24.8	28.5	27.2	27.0
NGL injections	5.4	4.6	4.0	5.1
	34.2	69.8	60.9	67.7

Pursuant to a long-term NGL Sales Agreement with BP Products North America Inc., Aux Sable sells all production from its Channahon NGL Facilities to BP. In return, BP pays Aux Sable a fixed annual fee and a percentage share of net margins in excess of the fixed fee that varies upon specified thresholds being reached. In addition, BP compensates Aux Sable for all associated operating, maintenance, and capitalized maintenance costs related to its NGL Facilities, subject to certain limits in the case of capitalized costs. In addition to supplying BP, Aux Sable is pursuing growth initiatives through the development or acquisition of pipeline and storage facilities, terminal and rail operations, as well as NGL supply and marketing opportunities.

In December 2008 we increased our ownership interest in Aux Sable Canada to 50 percent.

Operational Highlights

Over the first nine months of 2008 Aux Sable processed over 97 percent of the natural gas provided by Alliance and exceeded its ethane and propane recovery targets to produce 39 mbbbls/d of ethane and 25 mbbbls/d of propane plus. In the fourth quarter of 2008, ethane production decreased to four mbbbls/d as ethane was rejected, while propane plus production was 25 mbbbls/d as propane and butane injections partially offset the impacts of planned and unplanned maintenance in the quarter. Natural gasoline margins continued to be strong based on demand for heavy oil blendstock in Alberta. Early in 2008 a major turnaround that had been scheduled for the first quarter was deferred until the fourth quarter.

NGL volumes were 34.2 mbbbls/d during the fourth quarter of 2008, down from 69.8 mbbbls/d for the same period in 2007 predominantly as a result of ethane reinjection for most of the fourth quarter. Annual NGL volumes were 60.9 mbbbls/d in 2008 versus 67.7 mbbbls/d in 2007. Ethane volumes were 4.0 mbbbls/d for the fourth quarter of 2008 (all produced in the first two weeks of October when ethane margins were still positive), down from 36.7 mbbbls/d in the same period last year and 29.7 mbbbls/d for the year, down from 35.6 mbbbls/d last year. Propane plus volumes, excluding injections, were 24.8 mbbbls/d in the fourth quarter of 2008 compared to 28.5 mbbbls/d in the same period of 2007, while annual propane plus volumes were 27.2 mbbbls/d in 2008 versus 27.0 mbbbls/d in 2007.

Financial Highlights

The NGL business environment was extremely favourable over the first nine months of 2008 as NGL fractionation margins were at record levels for much of the time. The U.S. Gulf Coast industry margins were US 41 cents per gallon for ethane and US 84 cents per gallon for propane plus, respectively, over this period. Fourth quarter margins declined significantly and resulted in negative ethane margins from mid-October to year-end, and a 71 percent decline in propane plus margins from the atypically high margins in the first nine months. These reduced margins were driven, generally, by dramatic declines in the overall economy and energy prices, and particularly by reduced petrochemical feedstock consumption.

Crude oil prices dropped significantly in the fourth quarter of 2008 compared to the same period last year, as a result of the world-wide financial crisis, the associated economic slowdown and weakening petroleum products demand. Natural gas prices also fell, although not to the same extent as oil, as increased domestic production continued to keep natural gas inventory levels at or modestly above the five-year average and market demand was reduced with the economic slowdown. NGL prices declined along with crude oil and natural gas prices. NGL inventories, particularly ethane, built up in the U.S. Gulf Coast, depressing prices.

Average natural gas prices declined 8 percent from US \$6.92 per million British thermal units in the fourth quarter of 2007 to US \$6.39 per mmbtu in the fourth quarter of 2008. For the year ended December 31 average natural gas prices increased 27 percent from US \$6.95 per mmbtu in 2007 to US \$8.85 per mmbtu in 2008. Average crude oil prices decreased 36 percent from US \$90.79 per barrel in the fourth quarter of 2007 to US \$58.45 per barrel in the fourth quarter of 2008. As a result, the relative value of crude oil to natural gas for the fourth quarter of 2008 was lower than the same period last year, with the ratio decreasing from 13.1 to 9.1. For the year ended December 31 average crude oil prices increased 38 percent from US \$72.31 per barrel in 2007 to US \$99.73 per barrel in 2008, resulting in the annual crude oil to natural gas ratio increasing from 10.4 to 11.3.

As crude oil prices strongly influence NGL prices, 2008 U.S. Gulf Coast fractionation margins for the three months ended December 31 decreased significantly from the same period of the prior year. Ethane fractionation margins were essentially

break-even in the fourth quarter of 2008, compared to US \$0.61 per gallon in the fourth quarter of 2007. For the year ended December 31 average ethane margins decreased from US \$0.34 per gallon in 2007 to US \$0.31 per gallon in 2008. Propane plus margins averaged US \$0.25 per gallon in the fourth quarter of 2008 compared to US \$1.02 per gallon in the fourth quarter of 2007. For the year ended December 31 average propane plus margins increased from US \$0.66 per gallon in 2007 to US \$0.69 per gallon in 2008. Mont Belvieu to Edmonton basis differentials for propane for the fourth quarter of 2008 decreased by US \$0.10 per gallon to US \$0.01 per gallon versus US \$0.11 per gallon in the same period last year. For the year ended December 31 propane differentials were US \$0.10 per gallon in 2008 compared to US \$0.12 per gallon in 2007.

For the three months ended December 31, 2008 NGL revenues amounted to \$28.3 million (2007 - \$57.5 million) including \$15.8 million of lease revenues (2007 - \$41.1 million), reflecting lower NGL revenues from transactions with counterparties other than BP and a significant decrease in margin-based lease revenues. Due to the 2008 fourth quarter market conditions described above, Aux Sable did not generate any meaningful margin-based lease revenue during this period and made a \$0.4 million downward adjustment to amounts recognized in the first nine months of the year. In contrast, Aux Sable generated and recognized \$30.6 million of margin-based lease revenues during the fourth quarter of 2007. These decreases in fourth quarter revenues were partially offset by the effect of the weaker Canadian dollar.

For the year ended December 31, 2008 NGL revenues amounted to \$180.4 million (2007 - \$166.1 million), including \$120.6 million of lease revenues (2007 - \$111.8 million). This reflects increased NGL revenues from transactions counterparties other than BP, cost recoveries and, to a lesser extent, margin-based lease revenues generated and recognized relative to last year. In 2008, Aux Sable generated and recognized margin-based lease revenues of \$67.7 million, almost all of which was earned during the first nine months of the year, compared to \$66.7 million in 2007.

Operations and maintenance, natural gas, NGL and transportation costs for the three and 12 months ended December 31, 2008 were \$22.9 million and \$96.9 million, respectively (2007 - \$23.5 million and \$84.7 million), reflecting higher power and fuel costs due to increased prices.

Net income (loss) before tax for the three and 12 months ended December 31, 2008 was (\$1.6) million and \$63.9 million, respectively, compared to \$29.4 million and \$62.0 million for the same periods last year. In addition to the factors discussed above, the favourable year-over-year net income before tax variance reflects a \$1.4 million non-cash charge to 2007 depreciation, resulting from Aux Sable's decision to replace a jet engine during last year's fractionation train overhaul.

2009 Major Maintenance

Aux Sable is currently planning a major inspection-driven turnaround for the month of July 2009. After this turnaround, Aux Sable will have completed essentially all of its required major equipment inspections that are on a 10-year inspection cycle. Aux Sable fully reconditioned its two 30,000 horsepower recompressor trains in 2007 and 2008, and completed the inspection of its propane plus fractionation facilities in 2007.

Heartland Off-gas Facility

In November 2008, Aux Sable Canada curtailed construction of its Heartland Off-gas facility as a result of BA Energy Inc. suspending the construction of its upgrader. All capital costs and commitments incurred by Aux Sable Canada in respect of this off-gas facility were reimbursed by BA Energy and have been recorded as a long-term liability to BA Energy. While Aux Sable Canada retains its ownership in and control over the facility and has full discretion to optimize its future value, the ultimate use of the off-gas facility, as well as BA Energy's ability to provide off-gas, will determine the repayment conditions with respect to this amount.

Growth Projects

With the concern over high construction costs and the downturn in oil prices, new oilsands project developments and the associated upgraders have largely been put on hold. This reduces the near-term opportunities to recover NGLs from upgrader off-gases. However, we believe this business sector will recover in the longer term and are positioning Aux Sable to grow in this area.

Aux Sable is focused on a number of initiatives to ensure the optimal level of rich gas is delivered into the Alliance pipeline for processing at the Channahon facility. To date these developments have largely been focused on northwest Alberta and northeast B.C., but with new oil and gas developments in the upper U.S. Midwest (primarily North Dakota), and Saskatchewan, new NGL-rich gas supply opportunities are being developed by Aux Sable in these areas. A significant development in this area is the new Pecan Pipeline in North Dakota that EOG Resources is progressing for start-up in the second half of 2009 to bring up to 80 mmmcf of rich gas on to Alliance's US system which will be processed at Aux Sable's Channahon facility under a long-term processing agreement.

Aux Sable continues to develop its logistics infrastructure in the Chicago area through new and converted pipelines in order to more effectively manage NGL product storage and local distribution. Aux Sable is also developing several potential processing arrangements for NGL supply delivered directly to the Channahon facility by truck, rail or pipeline.

Power Business

(\$ Thousands, except where noted)	Three months ended		Year ended	
	December 31		December 31	
	2008	2007	2008	2007
Net income (loss) before tax				
Fort Chicago Power ⁽¹⁾	(25,876)	(639)	(20,984)	2,309
NRGreen	105	(82)	416	659
East Windsor Cogeneration	373	489	724	344
Other	(1,260)	641	2,843	274
	(26,658)	409	(17,001)	3,586
Electricity Volumes (MWh)				
Fort Chicago Power ⁽¹⁾	191,602	92,198	505,988	157,746
NRGreen	29,492	5,959	73,697	36,440

(1) Assets of Countryside Power Income Fund acquired August 10, 2007. Assets of Brush II Generation Facility acquired September 10, 2008.

Fort Chicago Power

Fort Chicago Power is comprised of the assets of Countryside acquired on August 10, 2007, which includes the Ripon and San Gabriel cogeneration power facilities in California and two district energy systems in Canada, and the Brush II asset acquired on September 10, 2008. Accordingly, comparative results for the year ended December 31, 2007 reflect activity from the California cogeneration facilities and the district energy systems for the period August 10, 2007 to December 31, 2007.

The Ripon and San Gabriel cogeneration facilities are each a Qualifying Facility under the regulations of the FERC and produce electricity which is sold under long-term power purchase agreements, or "PPAs".

The Ripon facility, which has generation capacity of 49.5 MW, sells capacity and electricity to Pacific Gas & Electric Company pursuant to a long-term PPA that expires in 2018. Its steam is sold to Neenah Paper Company pursuant to a steam sales agreement that also expires in 2018.

The San Gabriel facility, which has generation capacity of 44.5 MW, sells capacity and electricity to Southern California Edison Company under a long-term PPA that expires in 2016.

Our district energy systems consist of central production plants that convert fuel, such as natural gas, municipal waste, biomass, fuel oil or coal, into steam, hot water and/or chilled water, which is distributed through underground pipes to customers' buildings to provide heating, air conditioning and some industrial process uses. Customers include government offices, hospitals, educational institutions and apartment buildings, as well as commercial businesses. Over 70 percent of our district energy systems' revenues are generated under long-term agreements with government-funded entities and investment grade customers.

Brush II is a gas-fired exempt wholesale generator. It sells capacity and electricity to Xcel Energy under a tolling PPA that expires in October 2009, after which it has a 10-year and 3-month tolling PPA with Tri-State Generation and Transmission Association, Inc. to December 2019.

Operational Highlights

Since our acquisition of the Ripon and San Gabriel cogeneration facilities, we have aggressively pursued major maintenance activities at those facilities. We completed the major overhaul of the Ripon facility's gas turbine and certain key components of the San Gabriel facility's gas turbine by mid-year 2008. A distilled water facility was installed at the San Gabriel facility during 2008 to meet the FERC's requirements to establish an alternative beneficial use for the San Gabriel facility's thermal energy in order to maintain its Qualifying Facility status following the 2007 suspension of operations by its former steam host, with the entire output of this distillation facility under a long-term off-take contract.

The performance of our district energy systems during 2008 was consistent with prior years.

For the three months ended December 31, 2008 the Ripon and San Gabriel cogeneration facilities generated electricity volumes of 148,866 MWh (2007 - 92,198 MWh). Plant availability, coupled with gas pricing drove economic dispatch decisions that resulted in significantly increased electricity sales at the San Gabriel facility compared to the same period in 2007. During the three month period, Brush II's performance was consistent with expectations, producing 42,403 MWh of electricity.

For the year ended December 31, 2008 the Ripon and San Gabriel cogeneration facilities generated electricity volumes of 454,850 MWh, reflecting the planned outage at the Ripon facility and low economic dispatch during the first half of the year, offset by greater electricity sales during the fourth quarter of 2008. During the period September 10, 2008 to December 31, 2008 Brush II produced 50,291 MWh of electricity.

Financial Highlights

For the fourth quarter of 2008, Fort Chicago Power generated revenues of \$21.8 million (2007 - \$16.6 million). The Ripon and San Gabriel cogeneration facilities generated \$14.7 million of revenues during the fourth quarter of 2008 (2007 - \$11.0 million), reflecting plant availability and economic dispatch decisions that increased volumes of electricity sold, as well as the effect of the weaker Canadian dollar, partially offset by lower average fuel pricing. Our district energy systems generated \$6.0 million of revenues in the fourth quarter of 2008 (2007 - \$5.6 million) reflecting increased volumes and pricing at the London facility, offset by lower results at the PEI facility due to warmer temperatures translating into lower demand for heating. Brush II generated revenues of \$1.1 million in the fourth quarter of 2008 (2007 - nil).

For the year ended December 31, 2008, Fort Chicago Power generated revenues of \$86.0 million (period ended December 31, 2007 - \$25.6 million). The Ripon and San Gabriel cogeneration facilities generated \$61.9 million of revenues (period ended December 31, 2007 - \$17.9 million), reflecting higher fuel costs during the first nine months of the year, increased volumes of electricity sold and the effect of a stronger Canadian dollar during the first half of the year.

Our district energy systems generated \$22.7 million of revenues in 2008 (period ended December 31, 2007 - \$7.7 million) reflecting an increase in fuel pricing, and increases in steam and thermal (hot water) sales, which is used to produce chilling, due to the addition of new customer connections. Brush II generated revenues of \$1.4 million in the period September 10, 2008 to December 31, 2008 (2007 - nil).

Fuel and consumable costs were \$13.2 million for the three months ended December 31, 2008 (2007 - \$9.6 million). Increased sales volumes drove higher consumption of fuel at the Ripon and San Gabriel cogeneration facilities, and the London district energy system, which resulted in an increase in fourth quarter 2008 fuel costs compared to the same period last year. This was offset by the significant decrease in average fuel prices at the Ripon and San Gabriel cogeneration facilities.

For the year ended December 31, 2008 fuel and consumable costs were \$50.1 million (period ended December 31, 2007 - \$12.9 million), reflecting higher volumes of fuel consumed throughout the year and higher fuel prices during the first nine months of the year.

Operations and maintenance expenses amounted to \$5.6 million for the three months ended December 31, 2008 (2007 - \$3.7 million), primarily reflecting incremental costs associated with Brush II and the effect of the weaker Canadian dollar.

For the year ended December 31, 2008 operations and maintenance expenses amounted to \$15.5 million (period ended December 31, 2007 - \$5.1 million) and include approximately \$1.1 million of costs associated with accelerated major maintenance performed on the gas turbine and power turbine at the Ripon facility. Also associated with this major maintenance expense was approximately \$5.5 million in capital costs, which is net of a \$0.5 million insurance claim collected in 2008 in respect of certain costs associated with damage to the power turbine in 2007.

While 2008 fourth quarter earnings from operating activities approximated amounts earned during the same period last year, net income before tax was negatively impacted by a \$19.9 million non-cash asset impairment charge. When we acquired the Countryside assets in August 2007, we allocated \$19.9 million of the purchase price to goodwill and subsequently attributed this goodwill to Fort Chicago Power, as a reporting unit. In accordance with our accounting policy, we tested goodwill for impairment as at December 31, 2008 by forecasting future cash flows from Fort Chicago Power, based on the power purchase agreements presently in place, over periods ranging from 11 to 19 years which match the current amortization period. We based these cash flows on our latest assumptions regarding operating revenues and costs, updated from the prior year to reflect new information gained as a result of operating the facilities, and also considered cash flows required to perform regular major maintenance and to extinguish the exchangeable debentures, and inflation. These cash flows were discounted using an estimated weighted average cost of capital. As the resulting fair value of the reporting unit was less than our carrying value, we determined that the attributed value of goodwill was impaired. We have subsequently estimated the fair value of the assets and liabilities of Fort Chicago Power, using substantially the same assumptions as in the assessment of the fair value of the reporting unit, and determined the value of the goodwill to be impaired. Consequently, the \$19.9 million goodwill balance has been removed from our balance sheet as at December 31, 2008. Further, Fort Chicago Power's net income before tax reflects a \$2.4 million non-cash loss relating to our U.S. dollar-denominated exchangeable debentures.

In addition to factors discussed above, the 2008 net loss before tax reflects increased depreciation expense primarily due to capital expenditures, the impact of the Brush II property plant and equipment as well as intangibles amortization, and the write-off of certain gas and power turbine parts at the Ripon facility replaced during 2008. Net loss before tax was \$25.9 million and \$21.0 million for the three and 12 months ended December 31, 2008, respectively (\$0.6 million net loss before tax for the three months ended December 31, 2007 and \$2.3 net income before tax for the period ended December 31, 2007).

London Cogeneration Facility

Construction of the London cogeneration facility, a 17 MW net electric generation facility, was completed in December 2008. The facility operates under a 20-year contract with the Ontario Power Authority. The cogeneration facility is integrated into the London district energy system which adds thermal energy production that will provide additional steam and chilled water capacity for the overall district energy system.

NRGreen

NRGreen owns four five-MW waste heat electrical generation units situated at Alliance compressor stations in Saskatchewan, each of which generates electricity for sale to the Saskatchewan Power Corporation pursuant to PPAs with primary terms of 10 years. The first unit, located at Kerrobert, was placed into service in December 2006. Construction of the remaining three units was completed and each was placed into service at various stages during 2008. The Loreburn unit began power production in May, followed by the Estlin unit in July, and the Alameda unit at the end of October.

Operational Highlights

During 2008 each of the NRGreen units experienced outages due to equipment failures. On January 29, 2008 the Kerrobert unit experienced a 26-day outage due to a mechanical seal failure. The unit was restarted on February 24, 2008 and operated without any further issues until mid-December. Production at the Estlin unit was interrupted shortly after being

placed into service in July due to a problem with the exhaust diverter assembly. The diverter assembly was repaired under warranty and the unit was back on line on August 12, 2008. On December 14, 2008 severe cold weather in Saskatchewan resulted in equipment failures at the Kerrobert, Loreburn and Alameda units. Repairs have been made and the units were restarted in the period from late January 2009 to early February 2009. Subsequent to year end, the Estlin unit experienced a similar failure. NRGreen will be pursuing insurance and warranty claims in respect of losses incurred as a result of these outages, although no recoveries have been accrued to date.

Financial Highlights

For the three and 12 months ended December 31, 2008 NRGreen revenues were \$1.3 million and \$2.7 million, respectively, compared to \$0.2 million and \$1.4 million for the same periods last year. These increases reflect the commencement of operations at the Loreburn, Estlin and Alameda units during 2008, partially offset by the effect of the outages discussed above. The revenue impact of the fourth quarter 2008 outages was approximately \$0.3 million. Revenues for the three months ended December 31, 2007 were negatively impacted by the Kerrobert unit's 41-day outage during that period.

Net income (loss) before tax was \$0.1 million and \$0.4 million for the three and 12 months ended December 31, 2008, respectively, compared to (\$0.1) million and \$0.7 million for the same periods last year. The increases in revenues discussed above were partially offset by higher operations and maintenance costs and depreciation, resulting from four units being operational for various periods during 2008 compared to one unit in 2007, as well as incremental borrowing costs related to amounts drawn on NRGreen credit facilities.

East Windsor Cogeneration

East Windsor Cogeneration's net income (loss) before tax for the three and 12 months ended December 31, 2008 was \$0.4 million and \$0.7 million, respectively, and is primarily comprised of unrealized gains and losses related to interest rate and foreign currency hedges.

East Windsor Cogeneration continues to make good progress with the construction of its cogeneration facility. The project is expected to be completed within its original budget of \$103.5 million (100 percent - \$207 million) and to be placed into commercial service early in the third quarter of 2009. We do not expect East Windsor Cogeneration to make cash distributions in 2009 as pursuant to its financing agreement, its available cash flow must first be used to build up a Debt Service Reserve Account.

Other

For the three months ended December 31, 2008, we recognized a \$1.2 million impairment charge with respect to our investment in a private solar power company, where we considered the decline in fair value to be other than temporary. The impairment was predicated on a range of estimated recoverable values provided by the senior management of the power company. For the year ended December 31, 2008, the loss was offset by a dilution gain of \$4.2 million recognized in the first quarter, which resulted from our non-participation in Pristine's March 2008 initial public offering of common shares. As a result, our ownership interest in Pristine decreased from approximately 20 percent to approximately 11 percent. Comparative results for the three and 12 months ended December 31, 2007 represent Fort Chicago's share of Pristine income before tax for those periods.

Fort Chicago - Corporate

(\$ Thousands)	Three months ended		Year ended	
	2008	2007	2008	2007
Net expenses				
Net expenses before taxes	18,822	25,660	72,167	58,011
Current tax expense	4,595	828	24,313	1,514
Future tax expense (recovery)	(7,715)	3,906	2,694	25,519
	15,702	30,394	99,174	85,044

During the three months ended December 31, 2008 we incurred net corporate expenses of \$15.7 million compared to \$30.4 million during the same period last year. Net expenses before taxes include unrealized foreign exchange losses, which decreased by \$7.3 million from the fourth quarter of 2007 to \$7.8 million, resulting from a significant decrease in fourth quarter distributions from our U.S. investments. We also incurred lower interest and other finance costs in the fourth quarter of 2008 compared to the same period last year resulting from lower average interest rates and the June 30, 2008 maturity of the Series A Convertible Debentures. Taxes decreased by \$4.7 million, resulting in a net recovery for the fourth quarter of 2008. Current tax expense increased by \$3.8 million due to Aux Sable earnings becoming fully taxable in 2008 as a result of fully utilizing its loss carry forwards in the first quarter of the year. Future taxes decreased by \$11.6 million to a \$7.7 million recovery, reflecting lower overall earnings, the recognition of current taxes and the benefit of increased intergroup charges. 2007 fourth quarter future taxes reflect the recognition of an \$8.1 million federal tax rate reduction.

For the year ended December 31, 2008 we incurred net corporate expenses of \$99.2 million compared to \$85.0 million incurred last year. Unrealized foreign exchange losses increased by \$6.0 million from 2007 to \$27.7 million due to increased year-over-year distributions from our U.S. investments. General and administrative costs increased by \$4.6 million to \$13.4 million, reflecting incremental administration costs related to Fort Chicago Power, and higher personnel, advisory, and due diligence costs associated with increased corporate office and business development activity. Interest and other finance costs for 2008 increased by \$3.0 million to \$16.7 million reflecting a full year of borrowing costs associated with our acquisition of Countryside, as well as incremental borrowing in the fourth quarter to fund our Brush II acquisition, partially offset by the June 30, 2008 maturity of the Series A Convertible Debentures. These increases in expenses were partially offset by lower project development costs, which decreased by \$1.2 million to \$10.8 million, due primarily to lower spending on the Jordan Cove LNG terminal and Pacific Connector gas pipeline projects, partially offset by the effect of the weaker Canadian dollar during the fourth quarter of 2008. Aggregate taxes did not change materially year-over-year. However, current tax expense increased by \$22.8 million in 2008, due to Aux Sable's earnings becoming fully taxable, and future taxes decreased by \$22.7 million due to the recognition of current taxes and the benefit of increased intergroup charges, offset by the recognition of the fourth quarter 2007 federal tax rate reduction.

SELECTED QUARTERLY FINANCIAL INFORMATION

(\$ Thousands, except where noted)	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	168,629	180,900	178,684	173,217	173,257	153,814	135,945	126,207
Net income (loss)	(17,949)	27,286	20,117	32,045	24,910	24,536	22,809	13,902
Net income (loss) per Unit (\$)	(0.13)	0.20	0.15	0.24	0.19	0.19	0.17	0.11
Distributable cash	22,484	53,285	41,565	44,145	56,845	49,948	39,980	30,666
Distributable cash per Unit (\$)	0.168	0.398	0.313	0.335	0.432	0.380	0.304	0.234
Cash from operating activities	39,279	88,222	39,512	95,599	50,551	62,122	33,689	58,490

Significant items that impacted quarterly financial results include the following:

- Fourth quarter 2008 reflects a \$21.1 million asset impairment loss related to power assets, as well as the significant weakening of NGL market conditions, resulting in pre-tax losses and a small distributable cash contribution from our NGL business segment. Cash from operating activities reflects Alliance's scheduled semi-annual interest payments.
- Third quarter 2008 reflected strong NGL margins, resulting in increased amounts of margin-based lease revenues generated and recognized by Aux Sable during the period, and strong earnings and cash flows from Fort Chicago Power.
- Second quarter 2008 reflected the recognition of all margin-based lease revenues generated by Aux Sable during the period, as well as amounts generated but not recognized in the first quarter of 2008, partially offset by higher corporate costs, including foreign exchange losses and taxes. Distributable cash was also impacted by increased cash taxes as a result of Aux Sable's earnings becoming fully taxable. As is the case each second and fourth quarter, cash from operating activities reflects Alliance's scheduled semi-annual interest payments.
- First quarter 2008 reflected incremental earnings and cash flows resulting from the Calpine settlement and the recognition of a portion of the record first quarter margin-based lease revenues generated by Aux Sable during the period. Increases to net income also reflected the Pristine dilution gain, partially offset by higher foreign exchange losses related to increased distributions from our U.S. investments. Cash from operating activities was also impacted by changes in non-cash working capital.
- Fourth quarter 2007 reflected record earnings and cash flows from Aux Sable, a full quarter's contribution from the August 2007 Countryside acquisition, and the impact of the reduction in federal tax rates, partially offset by higher corporate costs.
- Third quarter 2007 reflected record earnings and cash flows from Aux Sable and the new contribution from the Countryside acquisition.
- Second quarter 2007 cash from operating activities reflected working capital changes at Aux Sable.
- First quarter 2007 reflected no recognition of the margin-based lease revenues generated by Aux Sable during the period, which were deferred and recognized over the balance of the year.

LIQUIDITY AND CAPITAL RESOURCES

(\$ Thousands, except where noted)	Year ended December 31			
	2008		2007	
Cash flows				
Operating activities	262,612		204,852	
Financing activities	(135,727)		145,710	
Investing activities	(128,851)		(343,008)	
Cash and short-term investments	56,064		47,191	
Capitalization				
Senior debt and capital leases ^(1,2)	1,873,851	68%	1,741,344	67%
Subordinated convertible debentures ⁽¹⁾	23,909	1%	46,647	2%
Other long-term liabilities	60,143	2%	42,749	2%
Partners' equity	800,587	29%	755,453	29%
	2,758,490	100%	2,586,193	100%

(1) Includes current portion.

(2) Includes Exchangeable Debentures.

Cash flows

Overall, there has not been any significant change in our financial condition or that of our businesses compared with our position as at December 31, 2007. We and each of our operating businesses maintain prudent capital structures and are well positioned to withstand the impact of the current economic environment. We expect cash from operations and from available committed credit facilities will be sufficient to fund distributions and planned capital expenditures. Furthermore, substantially all of our consolidated debt is long-term with amortization periods that are designed to provide for the orderly repayment of all principal over the estimated useful economic life of our assets. This debt has generally been issued by each of the operating businesses, on a non-recourse basis, bearing fixed rates of interest, insulating us and our operating businesses from the current higher long-term interest rate environment and reducing the default risk associated with any one operating entity. In addition, all credit facilities remain in good standing and were previously extended (see "Capitalization" below), enabling us and each of our operating businesses to maintain these facilities at attractive credit spreads relative to those available under current market conditions.

A significant portion of the operations and cash flows of our businesses are denominated in U.S. dollars. The recent depreciation of the Canadian dollar relative to the U.S. dollar will increase the Canadian value of these assets and cash flows, although this increase is partially offset by U.S. denominated debt, which serves as a partial hedge against movements in the Canadian / U.S. dollar exchange rate.

Cash and short-term investments at December 31, 2008 totalled \$56.1 million (2007 - \$47.2 million), of which \$24.3 million (2007 - \$8.6 million) represents funds held in trust accounts pursuant to applicable security and financing agreements. The majority of these trust funds are used by Alliance for current operating and working capital purposes, including scheduled principal and interest payments each June and December.

Restricted cash in the amount of \$20.3 million primarily represents East Windsor Cogeneration cash which, pursuant to its financing agreement, is restricted to funding certain expenditures related to the construction of the East Windsor Cogeneration facility and is, therefore, reported separately on our Consolidated Statement of Financial Position.

Operating Activities

During 2008, cash generated from operating activities was \$262.6 million compared to \$204.9 million for the same period last year. This increase primarily reflects higher earnings from Aux Sable during the first nine months of the year and Alliance's first quarter 2008 settlement with Calpine.

Financing Activities

For the year ended December 31, 2008 financing activities included: (i) the repayment of \$68.3 million of long-term debt, including \$5.6 million related to scheduled principal repayments on our senior debt and \$59.7 million related to scheduled principal repayments on Alliance senior debt; (ii) the net increase of \$52.0 million in credit facilities, the issuance of \$24.6 million under NRGreen's credit facilities, the issuance of \$13.3 million under Alliance's credit facilities, and the issuance of \$4.3 million under Aux Sable's U.S. credit facility; (iii) \$132.9 million of cash distributions paid by us; and (iv) \$16.0 million received by Aux Sable from BA Energy in reimbursement of capital costs incurred to construct the Heartland Off-gas facility.

Financing activities for 2007 included: (i) the issuance of \$89.5 million of senior bonds, net of issue costs, by East Windsor Cogeneration; (ii) the repayment of \$82.5 million of debt, comprised primarily of scheduled principal repayments and \$22.5 million related to the redemption of Exchangeable Debentures acquired as part of the Countryside acquisition; (iii) the net increase of \$262.0 million in credit facilities, primarily to fund the Countryside acquisition; and (iv) \$122.9 million of cash distributions paid by us.

Investing Activities

Investing activities for the year ended December 31, 2008 reflect: (i) the \$34.0 million acquisition of Brush II; (ii) capital expenditures of \$139.0 million; (iii) a \$55.7 million drawdown of restricted cash to fund construction costs related to the East Windsor Cogeneration facility; and (iv) our \$11.3 million investment in a private solar power company. The capital

expenditures relate primarily to: (i) BCX and enhancement capital in respect of Alliance (\$25.1 million); (ii) Aux Sable's Heartland Off-gas facility (\$7.5 million); (iii) Fort Chicago Power's London cogeneration facility (\$23.9 million), capital enhancements at the district energy systems (\$1.7 million) and maintenance in respect of the Ripon and San Gabriel cogeneration facilities (\$12.6 million, including \$5.6 to construct the distilled water facility at San Gabriel); (iv) NRGreen's Loreburn, Estlin, and Alameda facilities (\$6.1 million); (v) the East Windsor Cogeneration facility (\$52.8 million); and (vi) the purchase of land by Milton Clean Energy L.P., an entity in which the Partnership holds a 50 percent ownership interest (\$4.8 million).

Asset-backed Commercial Paper

In July 2007, Alliance made an investment in asset-backed commercial paper of approximately \$6.0 million (100 percent - \$12.0 million), issued by a structured investment trust. As a result of the liquidity issues arising in the ABCP market, the trust was unable to redeem this investment on its initial maturity date of August 31, 2007.

In January 2009, the Pan-Canadian Investors Committee fully implemented a restructuring plan wherein the assets held by non-bank asset-backed conduits were pooled into new asset trust vehicles, which, in turn, issued medium term notes in exchange for investment holders' non-bank ABCP. As a result, Alliance received various classes of interest-bearing notes, the majority of which carry an 'A' rating from Dominion Bond Rating Services, in exchange for its investment in the ABCP. While legal maturity of these notes is July 2056, the actual expected note repayment date is January 2017.

Capitalization

The following provides an overview of significant changes to our consolidated capitalization, which have occurred in the years ending December 31, 2008 and 2007.

Partnership

In February 2007, we extended the term of our unsecured committed revolving credit agreement with three Canadian chartered banks to April 1, 2010. Such termination date may, from time to time, be extended for further one-year periods, subject to lender consent. The maximum principal amount available under this facility is \$300 million, which can be used for general purposes, including acquisitions and distributions. On July 17, 2008 we extended the term of this facility such that it now matures on April 1, 2011. As at December 31, 2008, we had drawings of \$278.0 million (2007 - \$245.0 million), including \$1.6 million (2007 - \$0.8 million) in letters of credit, under this facility. A portion of these drawings were utilized to finance the Countryside and Brush II acquisitions, which we intend to refinance in 2009.

On December 24, 2008, we entered into an additional revolving credit and letter of credit facility with a United States-based financial institution. The maximum principal amount available under this facility is \$25 million and can be used for general corporate purposes, including supporting working capital needs and the issuance of up to \$5 million of stand-by letters of credit. Outstanding Canadian dollar advances bear interest at the Canadian prime rate plus a margin, and similarly, outstanding U.S. dollar advances at the U.S. prime rate plus a margin. This revolving credit agreement matures December 23, 2009 but contains extension provisions. The terms and conditions of this revolving credit facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

We previously had two series of convertible debentures outstanding, the Series A and Series B debentures. The 7.5 percent Series A convertible debentures, which were convertible at the holder's option into Units at a conversion price of \$9.00 per Unit, matured on June 30, 2008. During the period of January 1, 2008 to June 30, 2008, \$22.0 million of Series A convertible debentures, before issue costs, were converted into Units (year ended December 31, 2007 - \$5.7 million). The remaining \$1.0 million of Series A convertible debentures not tendered for conversion by June 30, 2008 were extinguished with a cash payment.

The 6.75 percent Series B convertible debentures, are due on December 31, 2010 and are convertible at the holder's option into Units at a conversion price of \$10.70 per Unit. During the year ended December 31, 2008, \$20 thousand of Series B convertible debentures, before issue costs, were converted into Units (2007 - \$5 thousand).

On May 2, 2008 we filed with Canadian securities regulators a short form base shelf prospectus which allows us to offer for sale, from time to time, over a 25-month period, up to \$1.5 billion of debt and equity, or a combination thereof. Proceeds therefrom are expected to be used to reduce outstanding indebtedness, to finance future growth opportunities (including acquisitions and investments) and/or for general partnership purposes. These securities may be offered for sale separately or together. The specific terms of any offering under this prospectus will be set forth in one or more prospectus supplements.

In September 2008, we filed a notice of intention to make a normal course issuer bid with the Toronto Stock Exchange which permits us to acquire up to five percent of the outstanding Class A Units during the period from September 26, 2008 to September 25, 2009 or such earlier date as we may complete our permitted purchases of Class A Units under the normal course issuer bid. We believe the normal course issuer bid provides an opportunity to strengthen Unitholder value without compromising the strength of our balance sheet. As at December 31, 2008 we had not purchased any Class A Units pursuant to the normal course issuer bid.

Alliance

Alliance's credit facilities comprise a Canadian and a U.S. extendible five-year committed revolving credit facilities. These facilities provide Alliance with up to \$100 million (100 percent - \$200 million) and US \$62.5 million (100 percent - US \$125 million), respectively. Each facility contains an expansion provision that would facilitate the timely increase in the Canadian and U.S. credit facilities to \$150 million (100 percent - \$300 million) and US \$100 million (100 percent - US \$200 million), respectively, if required. In June 2007, Alliance extended the terms of these facilities by one year such that they now mature on June 28, 2012. At December 31, 2008 \$40 million (2007 - \$40 million) of letters of credit and \$57.5 million (2007 - \$43 million) of borrowings were outstanding under the Canadian facility, while US \$30 million (2007 - US \$30 million) of letters of credit and US \$1.2 million (2007 - US \$1.9 million) of borrowings were outstanding under the U.S. facility. The letters of credit are used to satisfy debt service reserve requirements required under Alliance's financing agreements.

Aux Sable

Aux Sable's U.S. credit agreement is comprised of a US \$14.9 million revolving facility (100 percent - US \$35 million) and a US \$17.1 million term facility (100 percent - US \$40 million). The revolving facility is used for working capital requirements as well as for financing capital projects and letters of credit. The term facility is used for financing capital projects and formerly required annual principal repayments equal to 20 percent of the aggregate committed amount under this facility, commencing on the third anniversary of the facility. On March 20, 2008 Aux Sable extended the term of this facility such that it now matures on August 16, 2010. In August 2008, this facility was amended to eliminate the annual principal repayments and provide for a 20 percent reduction of the total term loan commitments on August 16, 2009, while the final maturity date remains unchanged. A further amendment in December 2008 changed the 20 percent reduction of the total term loan on August 16, 2009 to a 30 percent reduction, which would reduce the amount of the term loan facility from US \$17.1 million to US \$12.0 million on August 16, 2009.

At December 31, 2008 US \$4.7 million (2007 - US \$0.8 million) was drawn under the revolving facility. Under the term facility, US \$17.0 million (2007 - US \$17.0 million) was drawn. Aux Sable also utilizes a revolving demand loan of \$1.8 million (100 percent - \$3.5 million) to finance its Canadian working capital requirements. At December 31, 2008 no amount was outstanding under this facility (2007 - \$0.2 million).

Fort Chicago Power

Fort Chicago Power's Exchangeable Debentures are due on October 31, 2012. The payment of Exchangeable Debenture principal and interest is subordinated in right of payment to the prior payment of any senior indebtedness of Fort Chicago Power. Exchangeable Debenture holders are entitled to exchange each debenture for \$1,051 (whole Canadian dollars) up until the date of maturity. During the year ended December 31, 2008 US \$0.5 million (period from August 10 to December 31, 2007 - US \$2.7 million) Exchangeable Debentures were exchanged into cash. On or after October 31, 2010 and prior to the maturity date, the Exchangeable Debentures may be redeemed by Fort Chicago Power on not more than 60 days and

not less than 30 days prior written notice, in whole or in part, at a price equal to the principal amount thereof plus accrued and unpaid interest.

East Windsor Cogeneration

On November 2, 2007 East Windsor Cogeneration issued \$89.5 million Series 1 Senior Bonds bearing quarterly interest of 6.234 percent, maturing September 27, 2029 and fully amortizing over the life of the facility. The proceeds are being used to fund the construction of the 84 MW East Windsor Cogeneration facility.

East Windsor Cogeneration has provided covenants customary for a project financing that include, among other things, a first ranking fixed and floating charge and security interest on all of its present and future assets and meeting specified financial conditions and covenants on an ongoing basis. Additionally, limited recourse guarantees were provided by each of East Windsor Cogeneration's limited partners, supported by a pledge of their respective interests in East Windsor Cogeneration, which, in our case, will be released upon construction being completed.

East Windsor Cogeneration has also entered into a letter of credit facility with a Canadian chartered bank in the amount of \$4.6 million, maturing April 1, 2010. The terms and conditions are consistent with that of the Senior Bonds, with the exception that we have provided the bank with an indemnity. At December 31, 2008 there was \$4.6 million in letters of credit outstanding (2007 - \$4.6 million).

NRGreen

In March 2008 NRGreen entered into credit facilities comprised of a \$26.2 million construction credit facility and a \$2.5 million operating facility. Upon the commercial completion of the Loreburn, Estlin, Alameda waste heat facilities in November 2008, the construction facility converted to a two-year revolving credit facility. The operating facility is an extendible revolving facility which matures on August 31, 2011 subject to one-year extension requests on August 31 of each year. As part of any request for the extension of the term of the operating facility, NRGreen may request that all or any part of the construction facility be converted into the operating facility by increasing the operating facility commitment and decreasing the construction facility commitment by the amount of each such conversion.

The facility is secured by a first ranking floating charge over all real property of NRGreen forming part of the NRGreen credit facilities as well as an assignment of material contracts. Interest is accrued and payable based on Bankers' Acceptance rates, plus applicable margins, for terms not exceeding twelve months. Upon maturity, the interest rates are reset at the then prevailing interest rates. Amounts outstanding under the credit facility at December 31, 2008 bear interest at 3.31 percent and will be reset January 30, 2009. At December 31, 2008, \$24.6 million (100 percent - \$49.1 million) was drawn on this facility.

As at December 31, 2008 there were no defaults under these agreements.

CREDIT AND STABILITY RATINGS

Maintaining strong and stable ratings is a key aspect of our financing strategy, which provides for long-term ready access to the capital markets on attractive terms and conditions. Our current ratings and those applicable to Alliance are set out below.

	DBRS	S&P	Moody's
Fort Chicago			
Stability ratings	STA-2 (low)	SR-2	N/A
Senior debt ratings	N/A	BBB	N/A
Alliance			
Senior debt ratings	A (low)	BBB+	A3

These ratings remained unchanged during 2008. The stability ratings reflect a high level of distributable cash flow generation stability relative to other Canadian "income funds." The credit ratings represent long-term investment grade credit ratings in respect of our senior unsecured debt and Alliance's senior notes.

DISTRIBUTIONS

Policy

We pay distributions on a monthly basis to Unitholders of record as at the last business day of each month on the 23rd day of the month following such record date, or if not a business day, then on the preceding business day.

Our general distribution policy is to establish and maintain a sustainable and stable monthly distribution over time, having regard for the accumulated Distribution Account balance, forecast distributable cash and our growth capital requirements.

Sustainability of Distributions and Productive Capacity

We intend to continue to make cash distributions although such distributions are not guaranteed and do not represent a legal obligation. The sustainability of distributions is a function of several factors including, among other things: the earnings and cash flows we and our businesses generate, including Alliance Pipeline, a rate-regulated business; the ongoing maintenance of each businesses' physical and economic productive capacity; and the ability to comply with debt covenants and refinance debt as it comes due. For a complete discussion of the significant risks and uncertainties affecting us and each of our businesses, see "Risks" contained elsewhere in this MD&A.

Distributions Paid/Payable Relative to Cash from Operating Activities and Net Income

(\$ Thousands)	Three months ended		Year ended	
	2008	2007	2008	2007
		December 31		December 31
Cash from operating activities	39,279	50,551	262,612	204,852
Net income (loss)	(17,949)	24,910	61,499	86,157
Distributions paid/payable	33,532	32,132	133,150	123,699
Excess of cash from operating activities over distributions paid/payable	5,747	18,419	129,462	81,153
Shortfall of net income (loss) over distributions paid/payable	(51,481)	(7,222)	(71,651)	(37,542)

The excess of cash from operating activities over distributions paid/payable generally represents the cash used for maintenance capital expenditures, scheduled amortization of any long-term debt, and cash retained to fund growth, including cash held in trust.

Distributions paid/payable are generally more than net income because our net income includes certain non-cash expenses such as foreign exchange gains and losses, asset impairment losses, depreciation and future income taxes, which are not reflected in calculating the amount of cash available for distribution.

Determination of Distributable Cash

The amount of distributable cash we earn is comprised of and will vary depending on: (i) distributions received/receivable from our operating businesses, which, in each case, are after providing for scheduled amortization of any long-term debt and any capital expenditures that are not growth-oriented or recoverable; (ii) any operating support payments required by any of our businesses; (iii) all cash taxes and financing costs we incurred, including scheduled principal repayments on long-term debt; (iv) our general and administrative costs; and (v) any cash we hold in reserve.

The calculation of distributable cash for the three and 12 months ended December 31, 2008 and 2007 is set out below.

(\$ Thousands, except where noted)	Three months ended		Year ended	
	2008	2007	2008	2007
		December 31		December 31
Cash inflows				
Alliance distributions, prior to withholdings for capital expenditures and net of debt service	29,229	27,057	121,439	112,636
AEGS distributable cash, after non-recoverable capital expenditures and debt service	3,922	3,772	15,789	15,351
Aux Sable distributions, net of support payments, non-recoverable debt service costs and maintenance capital	579	31,532	69,504	67,618
Fort Chicago Power distributable cash, after maintenance capital expenditures and debt service ⁽¹⁾	856	1,804	8,918	5,394
NRGreen distributions, prior to withholding for project development costs	-	68	1,025	1,078
Interest income and other	127	1,301	576	2,056
	34,713	65,534	217,251	204,133
Cash outflows				
General and administrative	3,143	3,253	13,362	8,735
Interest and other finance	3,580	3,882	16,170	13,232
Taxes	4,595	828	24,313	1,514
Principal repayments on senior debt	911	726	3,257	3,213
	12,229	8,689	57,102	26,694
Distributable cash ⁽²⁾	22,484	56,845	160,149	177,439
Distributable cash per Unit ⁽³⁾	0.168	0.432	1.204	1.350
Distributions paid/payable	33,517	32,132	133,135	123,699
Distributions paid/payable per Unit (\$)	0.25	0.2441	1.00	0.9416

(1) Assets of Countryside acquired August 10, 2007. Assets of Brush II acquired September 10, 2008.

(2) See table below for reconciliation of distributable cash to cash flows from operating activities.

(3) The number of Units used to calculate distributable cash per Unit is based on the average number of Units outstanding at each record date. For the three months ended December 31, 2008 the average number of Units outstanding for this calculation was 134,110,877 (2007 - 131,635,013) and 136,372,498 (2007 - 136,483,012) on a basic and diluted basis, respectively. For the year ended December 31, 2008 the average number of Units outstanding for this calculation was 133,206,799 (2007 -131,367,847) and 136,418,546 (2007 - 136,483,012) on a basic and diluted basis, respectively. The number of Units outstanding would increase by 2,261,621 (2007 - 4,814,926) Units if the outstanding Convertible Debentures as at December 31, 2008 were converted into Units.

Distributable cash for the three months ended December 31, 2008 was \$22.5 million or \$0.168 per Unit compared to \$56.8 million or \$0.432 per Unit for the same period in 2007. The emergence of the global financial crisis in the fourth quarter caused a severe downward shift in NGL market conditions, resulting in a \$31.0 million decrease in Aux Sable's fourth quarter distributable cash compared to record levels achieved during the same period of the prior year. Also contributing to lower fourth quarter distributable cash is a \$3.8 million increase in the current tax provision pertaining to Aux Sable's 2008 earnings, which became fully taxable this year, having utilized its remaining prior year loss carry-forwards. Although Aux Sable's 2008 fourth quarter earnings were lower in comparison to the fourth quarter of 2007, its earnings for the full year, which is the basis for recording quarterly tax provisions, were comparable to last year's. Fort Chicago Power's fourth quarter distributable cash decreased \$0.9 million compared to the same period of the prior year, primarily reflecting increased operations and maintenance costs at the London district energy system. Due to the various outages experienced by NRGreen during the fourth quarter of 2008, described earlier in this MD&A, it did not generate any distributable cash. This is similar to the fourth quarter of 2007, when an outage at the Kerrobert unit also resulted in no meaningful distributable cash from NRGreen for that period. These decreases were partially offset by the effect of the weaker Canadian dollar, which contributed to a \$2.2 million increase in distributions from Alliance.

Distributable cash for the year ended December 31, 2008 was \$160.1 million or \$1.204 per Unit compared to \$177.4 million or \$1.35 per Unit for 2007. Alliance distributions increased by \$8.8 million, primarily reflecting funds received from the settlement of its claim against Calpine in the first quarter of 2008. Aux Sable generated record levels of distributable cash during the first nine months of the year before shifting downward in the fourth quarter, resulting in a \$1.9 million year-over-year increase in Aux Sable distributable cash. Fort Chicago Power's 2008 distributable cash increased by \$3.5 million compared to last year, reflecting a full year's contribution. These increases were offset by higher current taxes pertaining to Aux Sable's 2008 earnings, which increased by \$22.8 million compared to 2007. 2008 distributable cash also reflects a \$4.6 million increase in our corporate costs due to incremental administration and business development activity, and a \$2.9 million increase in interest costs related to the Countryside and Brush II acquisitions.

Reconciliation of Distributable Cash to Cash Flow from Operating Activities

(\$ Thousands)	Three months ended		Year ended	
	December 31		December 31	
	2008	2007	2008	2007
Consolidated cash flow from operating activities	39,279	50,551	262,612	204,852
Deduct: Cash flow generated from operating activities applicable to jointly held businesses ⁽¹⁾	(2,347)	7,302	(70,236)	(50,802)
Cash flow from operating activities applicable to wholly-owned businesses ⁽²⁾	36,932	57,853	192,376	154,050
Add (deduct) amounts applicable to wholly-owned businesses:				
Project development costs	3,506	3,130	11,628	11,972
Change in non-cash working capital	(5,512)	(2,798)	(19,293)	8,330
Principal repayments on senior notes	(1,523)	(1,306)	(5,657)	(5,501)
Maintenance capital expenditures	(685)	-	(7,330)	-
Distributions earned greater (less) than distributions received ⁽³⁾	(10,234)	(34)	(11,575)	8,588
Distributable cash	22,484	56,845	160,149	177,439

(1) Represents cash flow from operating activities applicable to jointly held businesses which is not under our sole control and, as a consequence, is not included in distributable cash until such time as distributions are declared by the jointly held businesses.

(2) Net of support payments made to Alliance Canada Marketing of \$0.8 million and \$3.0 million for the three and 12 months ended December 31, 2008, respectively (2007 - \$1.3 million and \$2.8 million, respectively).

(3) Represents the difference between distributions declared by jointly held businesses and distributions received.

Distributions Paid

The table below summarizes the distributions that we declared and paid to holders of Units in respect of 2008 and 2007.

(\$ Thousands, except where noted)

Record date	Payment date	Distribution per Unit (\$)	Total distribution paid/payable
2008			
January 31, 2008	February 22, 2008	0.0833	10,975
February 29, 2008	March 20, 2008	0.0833	10,978
March 31, 2008	April 23, 2008	0.0833	10,988
April 30, 2008	May 23, 2008	0.0833	10,998
May 30, 2008	June 23, 2008	0.0833	11,014
June 30, 2008	July 23, 2008	0.0833	11,171
July 31, 2008	August 22, 2008	0.0833	11,171
August 29, 2008	September 23, 2008	0.0833	11,171
September 30, 2008	October 23, 2008	0.0833	11,171
October 31, 2008	November 21, 2008	0.0833	11,171
November 28, 2008	December 23, 2008	0.0833	11,171
December 31, 2008	January 23, 2009	0.0833	11,171
		<u>1.0000</u>	<u>133,150</u>
2007			
January 31, 2007	February 23, 2007	0.0775	10,162
February 28, 2007	March 23, 2007	0.0775	10,165
March 30, 2007	April 23, 2007	0.0775	10,168
April 30, 2007	May 23, 2007	0.0775	10,169
May 31, 2007	June 22, 2007	0.0775	10,174
June 29, 2007	July 23, 2007	0.0775	10,176
July 31, 2007	August 23, 2007	0.0775	10,182
August 31, 2007	September 21, 2007	0.0775	10,183
September 28, 2007	October 23, 2007	0.0775	10,188
October 31, 2007	November 23, 2007	0.0775	10,198
November 30, 2007	December 21, 2007	0.0833	10,966
December 31, 2007	January 23, 2008	0.0833	10,968
		<u>0.9416</u>	<u>123,699</u>

Distribution Account

Our Distribution Account reflects the extent to which distributable cash earned by our operating businesses exceeds distributions paid/payable and project development costs, in each case, since inception. Project development costs are funded from the Distribution Account and are excluded from the calculation of distributable cash as they represent discretionary costs, the recoverability of which has not been established, and are incurred to assess the commercial viability of greenfield business initiatives unrelated to our existing operating businesses. The Distribution Account does not represent a cash balance, as cash we retain is generally used to reduce debt or fund investments, including acquisitions, expected to generate additional distributable cash and earnings. During the three and 12 months ended December 31, 2008 the Distribution Account decreased by \$15.5 million and increased by \$13.1 million, respectively, to \$82.9 million.

(\$ Thousands)	Three months ended		Year ended	
	December 31		December 31	
	2008	2007	2008	2007
Beginning balance	98,407	48,948	69,799	30,989
Distributable cash in excess of (less than) distributions paid/payable	(11,033)	24,713	27,014	53,740
Project development costs ⁽¹⁾	(4,449)	(3,862)	(13,888)	(14,930)
Ending balance	82,925	69,799	82,925	69,799

(1) Reflects project development costs funded by the Partnership, the majority of which relate to Jordan Cove and Pacific Connector.

Restrictions on Distributions

Our ability to make cash distributions to holders of Units is dependent on the applicable terms of certain financing and security agreements applicable to us, certain intermediary subsidiaries and our businesses. As at December 31, 2008 no "Default" or "Event of Default" under any of these arrangements had occurred or was continuing that would restrict distributions being paid.

Our revolving credit facilities restrict us from making a cash distribution to holders of Units when a "Default" or an "Event of Default" has occurred or is continuing.

Our investments in our operating businesses have been made through debt and equity investments in subsidiary partnerships and corporations. In general, there are no legal or practical restrictions on such subsidiary partnerships or corporations from transferring funds received from the operating businesses to us except that the subsidiary corporations must meet liquidity and solvency tests under applicable corporate law. Two of our subsidiaries, which hold direct investments in Alliance, are issuers of the Series A and Series B Senior Notes. The ability of each such issuer to make distributions to its parent is, at the time of each payment, dependent upon there not being any "Event of Default," as defined in the related note agreements, or any event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an "Event of Default."

The ability of Alliance to make distributions to its limited partners is subject to the terms of a Common Agreement, which sets out the common provisions applicable to Alliance's senior debt financing. Under this agreement, quarterly distributions are permitted provided certain conditions are met including, among other things: (i) no "Event of Default" or event, which, with the giving of notice or passage of time or both, could become an "Event of Default," shall have occurred and be continuing; (ii) certain debt service accounts and debt service reserve accounts are fully funded; and (iii) certain debt service coverage ratios and projected debt service coverage ratios are met.

The ability of AEGS to make distributions to its parent is subject to the terms of a note purchase agreement relating to the AEGS Notes issued in May 2005. Under this agreement, AEGS is permitted to make distributions provided certain conditions are met including, among other things: (i) no "Default" or "Event of Default" has occurred and is continuing and no "Default" or "Event of Default" will occur as a result of such distribution; and (ii) certain debt and debt service coverage ratios are being met.

The ability of Fort Chicago Power to make distributions to its parent is subject to the terms of the Indenture of the Exchangeable Debentures, where funds are required to first satisfy interest payable on the Exchangeable Debentures and redemption at maturity or, upon an Event of Default, will be deducted and withheld from the amount that would otherwise be available for distribution.

The ability of Aux Sable to make distributions to its limited partners is subject to the terms of its U.S. Facility. Under the terms of this facility, Aux Sable is permitted to make distributions from available cash flow subject to certain restrictions, which include, among other things: (i) no Event of Default has occurred and is continuing or would result from the making of a distribution; (ii) no circumstance or event that could reasonably be expected to have a Material Adverse Effect shall have occurred and be continuing; (iii) a certain debt service reserve account is fully funded; and (iv) certain debt and debt service ratios are being met.

The ability of NRGreen to make distributions is subject to the terms of its credit facility. Distributions are permitted provided that no Default or Event of Default exists prior to making such distribution and no Default or Event of Default will exist or could reasonably be expected to exist upon making such distribution.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

In 2006 East Windsor Cogeneration was awarded a Combined Heat and Power contract under a request for proposal process conducted by the Ontario Power Authority. Under this CHP, East Windsor Cogeneration is committed to construct an 84 megawatt cogeneration plant located in Windsor, Ontario. The cogeneration facility will provide power for a 20-year period upon the commencement of commercial operations. We have pledged guarantees to the utility provider as security on this commitment. At December 2008 \$4.5 million of contractual commitments exist in respect of East Windsor Cogeneration facility construction costs.

In 2008 Fort Chicago Power and East Windsor each entered into agreements with natural gas suppliers to purchase specified minimum volumes of natural gas per day. Fort Chicago Power has entered into three contracts that are effective between two and 14 years. East Windsor's agreement is effective for five years and we have pledged security as a guarantee to the supplier.

In 2008 Alliance and Aux Sable each entered into equipment maintenance agreements effective for seven years. At December 31, 2008 outstanding commitments in respect of these agreements amounted to \$74.8 million.

Payments due for contractual obligations in each of the next five years and thereafter are as follows:

(\$ Thousands)	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 Years
Long-term senior debt	1,834,628	89,177	535,736	231,225	978,490
Subordinated convertible debentures and exchangeable debentures	51,427	-	24,199	27,228	-
Capital leases	10,026	1,086	2,123	2,066	4,751
Operating leases	66,540	8,173	11,653	10,748	35,966
Other long-term obligations	120,239	15,214	51,843	21,600	36,582
	2,087,860	113,650	625,554	292,867	1,055,789

CRITICAL ACCOUNTING POLICIES

Alliance Pipeline is subject to rate regulation in Canada and the United States. Our consolidated financial statements are prepared in accordance with GAAP, which include specific provisions applicable to rate-regulated businesses, such as Alliance. As a consequence, these principles may differ from those used by non-rate-regulated entities. In order to achieve a proper matching of revenues and expenses, certain revenues and expenses are recognized differently than would otherwise be expected under GAAP applicable to non-regulated businesses.

Alliance transportation contracts are designed to provide toll revenues sufficient to recover all prudently incurred costs, including an 11.26 percent return on equity in Canada and a 10.88 percent return on equity in the United States. The period in which costs are recovered from toll receipts may differ from the period when these costs are expensed under GAAP. Differences between the recorded toll revenue and actual toll receipts give rise to receivable or payable balances. In the case of Alliance's Canadian rate-regulated business, the taxes payable method is used to recover tax expense and, as such, Alliance's Canadian tolls do not include the recovery of future income taxes. As a consequence, future income taxes in respect of Alliance's Canadian rate-regulated operations are not recorded in our consolidated financial statements

as it is expected that all future income taxes will be recovered in rates when they become payable. GAAP requires the recognition of future income tax liabilities and future income tax assets in the absence of rate regulation. For purposes of calculating tolls, depreciation of the Alliance pipeline is based on negotiated rates contained in the transportation contracts, while depreciation expense under GAAP is recorded on a straight-line basis at a rate of four percent per annum commencing on the in-service date. The negotiated depreciation rates are generally less than the straight-line rate in earlier years resulting in accrued revenues and receivables in those years. These receivables are expected to be recovered from shippers in subsequent years when the negotiated depreciation in the toll exceeds the depreciation recorded for financial statement purposes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements requires management to make judgements, estimates and assumptions about future events when applying GAAP that affect the recorded amounts of certain assets, liabilities, revenues and expenses. These judgements, estimates and assumptions are subject to change as the events occur or new information becomes available. The following highlights our more significant accounting estimates. Readers should also refer to note 3 of our consolidated financial statements for a list of the significant accounting policies.

Impairment of Long-lived Assets

We evaluate our long-term assets for impairment when events or changes in circumstances indicate, in our judgement, that the carrying value of such assets may not be recoverable. If we determine the recoverability of the asset's carrying value has been impaired, the amount of the impairment is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. Judgements and assumptions are inherent in the determination of the recoverability of such assets and the estimate of their fair value. In December 2008 we recognized impairment losses of \$19.9 million with respect to goodwill, which arose from our acquisition of power assets in August 2007, and \$3.4 million with respect to our investment in a private power company. In our view, at December 31, 2008 there has not been an impairment in the carried value of our remaining assets.

Asset Retirement Obligation

The estimated fair value of legal obligations associated with the retirement of tangible long-lived assets is to be recognized in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The asset retirement cost, deemed to be the fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived assets and is amortized over the remaining life of these assets. This amortization is included in depreciation and amortization in the consolidated statement of income and cumulative income. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion expense in depreciation and amortization in the consolidated statement of income and cumulative income, over the estimated time period until settlement of the obligation. Actual expenditures incurred are charged against the accumulated asset retirement obligation.

A provision for asset retirement obligations has been recognized in our consolidated financial statements with respect to AEGS and East Windsor Cogeneration. No provision for asset retirement obligations has been recognized with respect to the Alliance pipeline or Aux Sable, as it is not currently possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the respective asset retirements and, with respect to Aux Sable, the expected legal obligations are not material. We believe it is reasonable to assume that all asset retirement obligations associated with the Alliance pipelines will be recoverable through future tolls.

Depreciation and Amortization

Our pipeline, plant and other capital assets and intangible assets are depreciated and amortized based on their estimated useful lives. A change in the estimation of useful lives could have a material impact on our consolidated financial statements, including transportation revenue and receivables.

Regulatory Asset

We have recorded a long-term receivable for the cumulative difference between depreciation expense included in our consolidated financial statements and depreciation expense included in Alliance's transportation tolls. The carrying value of this asset reflects our assessment as to the ultimate recoverability of this receivable.

NEW ACCOUNTING STANDARDS ADOPTED IN 2008

Information about our changes in accounting policies is included in Note 3 of our 2008 Annual Consolidated Financial Statements.

FUTURE ACCOUNTING STANDARDS

Accounting for the Effects of Rate Regulation

In August 2007, the Canadian Accounting Standards Board published its decision in respect of Rate Regulated Operations. Much of the existing accounting guidance related to rate-regulated operations have been retained, however, the exemption from the requirement to record future income taxes, as currently provided in CICA Handbook Section 3465, *Income Taxes*, and the exemption from CICA Handbook section 1100, *Generally Accepted Accounting Principles*, will be removed, effective January 1, 2009. The Partnership adopted these changes on January 1, 2009 and the principal effect is the balance sheet recognition of future Canadian income tax liabilities associated with Alliance, equally offset by regulatory assets.

International Financial Reporting Standards

Effective January 1, 2011 Canadian publicly accountable enterprises are required to adopt International Financial Reporting Standards. Some Canadian standards will change to converge with IFRS prior to the conversion date. Our consolidated financial statements up to and including the consolidated financial statements for the year ending December 31, 2010 will continue to be reported in accordance with Canadian GAAP as it exists at each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be reported in accordance with IFRS.

In order to transition to IFRS, we have established a project team and formed an executive steering committee. A plan to convert the consolidated financial statements to IFRS has been developed. Training is being provided to key employees and will continue to be provided throughout the conversion process. We are monitoring the effect of the transition on information systems, internal controls over financial reporting and disclosure controls and procedures. Differences between IFRS and our current accounting policies are being analyzed with the impact of various alternatives being assessed. Changes in accounting policy are likely and may materially impact the consolidated financial statements. Due to anticipated changes in IFRS prior to the conversion date, the final impact of the conversion on our consolidated financial statements cannot be measured at this time.

RECENT TAX DEVELOPMENTS

On June 22, 2007 Bill C-52, an Act to implement certain tax legislation relating to the taxation of specified investment flow-through entities, became law. Consequently, a portion of our taxable income will be subject to a 29.5 percent tax, similar to that of a corporation, commencing in 2011, provided it complies with the related "normal growth" guidelines. GAAP requires the estimated future tax liability related to this legislation to be recorded commencing in the period such legislation is substantially enacted. As at December 31, 2008 there were no temporary differences applicable to us that required the recognition of an additional future tax liability. To the extent that temporary differences change in subsequent periods, future tax will be recorded at that time.

While this legislation is expected to impose an additional cash expense on us, it does not change our long-term strategy to optimize existing assets and invest in long-life, stable cash flow generating assets. Nor does it impact the strong fundamentals of our businesses, which have supported our track record of delivering stable and growing distributions to our Unitholders and made us one of the premier income-generating funds in Canada. We remain committed to our growth agenda and are confident we have the capacity to fund the strategic growth initiatives currently under development.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A are not measures recognized under GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP. Investors are further cautioned not to place undue reliance on any one financial measure.

The following non-GAAP financial measures are provided to assist investors with their evaluation of us, including their assessment of our ability to generate distributable cash to fund monthly distributions. We consider these non-GAAP financial measures together with other financial measures calculated in accordance with GAAP to be important factors that assist investors in assessing performance.

Adjusted Net Income - represents net income adjusted for specific items that are significant, but are not reflective of our underlying operations. Specific items are subjective, however, we use our judgement and informed decision-making when identifying items to be included or excluded in calculating adjusted net income, some of which may recur. Specific items may include, but are not limited to, certain income tax adjustments, bankruptcy settlements, gains or losses on sales of assets, and certain fair value adjustments, including asset impairment losses.

Distributable Cash - represents the cash we have available for distribution to holders of Units after providing for debt service obligations and any capital expenditures that are not growth oriented or recoverable but does not include distribution reserves, if any, available in jointly held businesses, or project development costs, which represent discretionary costs, the recoverability of which has not been established, incurred to assess the commercial viability of greenfield business initiatives unrelated to our operating businesses. Distributable cash is an important measure used by the investment community to assess the source and sustainability of our cash distributions. A reconciliation of distributable cash to cash flow from operating activities is provided elsewhere in this MD&A.

Distributable Cash per Unit - reflects the per Unit amount of distributable cash calculated based on the average number of Units outstanding on each record date.

Distributions Paid/Payable - represents the distributions declared by the Board of Directors of our General Partner in respect of a period and which have been paid or are payable. Commencing in January 2004, distributions have been declared and paid on a monthly basis. This measure is used by the investment community to calculate the annualized yield of the Units, determined by dividing distributions paid/payable per Unit (annualized) by the current quoted per Unit market price of the Units.

Distributions Paid/Payable per Unit - represents the distributions per Unit declared by the Board of Directors of our General Partner for a given distribution. For a period covering several distributions, it reflects the aggregate per Unit amount of each distribution paid/payable during such period.

Distribution Account - is calculated on a cumulative basis, since inception, and represents distributable cash we have earned in excess of: (i) distributions paid/payable; and (ii) amounts incurred to fund project development costs, the recovery of which has yet to be established. It is not intended to represent a cash balance as cash we retain is generally used to reduce debt or fund investments, including acquisitions, expected to generate additional distributable cash and earnings. This measure, together with other measures, is used by the investment community to assess the sustainability of our current distribution.

EBITDA - refers to earnings before interest, taxes, depreciation and amortization. EBITDA is reconciled to net income before tax by deducting interest, depreciation, and amortization. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions.

Enterprise Value - represents the aggregate market value of our assets, on the applicable date, and is calculated based on the total assets reported in the consolidated financial statements adjusted to reflect any differences between the market value and book value in respect of our consolidated debt and Units. This measure, together with other measures, is used by the investment community to assess the overall market value of a business.

Growth Capital Expenditures - are generally defined as capital expenditures that expand existing capacity and/or increase earnings. This measure is used by the investment community to assess the extent of discretionary capital spending.

Market Capitalization - is determined, on the applicable date, by multiplying the closing price per Unit by the total number of Units outstanding. This measure, together with other measures, is used by the investment community to assess the market value of the Units.

Maintenance and Sustaining Capital Expenditures - are generally defined as expenditures that involve an enhancement to existing assets without any associated increase in earnings, or new assets that provide support to operations without any associated increase in earnings. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

Payout Ratio - represents distributions paid/payable as a percentage of distributable cash earned for any given period. This measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

Total Unitholder Return - represents the percentage total return on investment earned by a Unitholder over a specified period. This return is calculated based on an investment in Units being made at the closing price reported by the TSX on the trading day immediately preceding the first day of the relevant period, the reinvestment of all distributions paid by us during such period, based on the relevant closing price reported by the TSX on the date the distribution is paid, and the closing price reported by the TSX on the last trading day of such period. This measure, together with other measures, is used by the investment community to assess relative performance.

Taxable Income (Losses) Allocated To Unitholders per Unit - represents the amount of taxable income or losses allocated to a Unitholder on a per-Unit basis for a given year, assuming that the Unitholder held the Unit throughout the year. This measure, together with other measures, is used by the investment community to assess the relative tax efficiency and after-tax returns.

Taxable Portion of Distribution - represents taxable income allocated to a Unitholder on a per-Unit basis as a percent of distributions paid/payable, for a given period, to a Unitholder during such period. This measure, together with other measures, is used by the investment community to assess the relative tax efficiency and after-tax returns.

RISKS

In the course of operating our businesses, we are subject to various risks and uncertainties, which can impact our financial condition and operating results. Our objective is to manage these risks and uncertainties in a balanced manner with a view to maximizing total Unitholder returns. The effective management of each businesses' risk, including the development of risk management strategies, policies, processes and systems, is the responsibility of the senior management team and the applicable functional head within each business. It is not necessarily the case that the management approach taken by each business will identify and eliminate all risks, or that the strategies adopted or actions taken to mitigate these risks will be successful. In some circumstances, we may choose to reduce our financial risk through specific insurance or hedging programs where the cost is considered reasonable in relation to the associated risks and rewards. In other circumstances, the appropriate risk management strategy may be more fundamental or strategic in nature, based on longer-term considerations. Some risks and uncertainties are market-related risks, while others are either common to all of our businesses or unique to our pipeline, NGL or power businesses. Set out below are the more significant business risks and uncertainties affecting our businesses.

Market Pricing Risks

Commodity Price

Our earnings, cash flows and capital project costs are subject to movements in certain commodity prices. Our most significant commodity price exposures are in our NGL business where NGL margins are driven primarily by the relationship between the price of natural gas, being the largest cost component of producing NGL, and the prices of ethane, propane, butane and condensate, which are impacted by a variety of factors, including supply and demand for these products, and the price of crude oil. We are also exposed to movements in energy costs in some of our non-rate regulated power businesses where the cost of fuel is not fully recoverable. In 2005, we made a strategic decision to enter into a long-term NGL Sales Agreement with BP Products North America Inc. which, in addition to enhancing our commercial alignment, eliminated the downside risk of low NGL prices while retaining significant upside when NGL margins are strong. To further reduce our exposure to commodity price movements, we may occasionally use derivative instruments, including swaps, futures, and options, to hedge such exposures. These activities are subject to senior management or risk committee oversight as well as specific risk management policies and controls. To the extent these hedges are deemed to be effective, any such gains or losses are recorded in other comprehensive income.

Capital Funding and Liquidity

To fund our existing businesses and future growth, we rely on the cash flows generated by our businesses and on the availability of competitive and reasonably priced debt and equity from capital markets, which to date has been within North America. Conditions within these markets can change dramatically, affecting both the availability and cost of this capital. Higher capital costs directly impact our earnings and cash flows and, in turn, may impact total Unitholder returns. To reduce these risks, we prepare forecasts to confirm our capital requirements and adhere to a financing strategy that supports being able to access capital on a timely and cost effective basis. This includes maintaining a prudent capital structure supported by investment grade credit ratings; ready access to public capital markets by maintaining a current shelf prospectus with securities regulators; and sufficient liquidity through cash balances, excess cash flow, and committed revolving credit facilities to meet our obligations so as to avoid having to raise additional capital or incur losses, the costs or terms of which, or upon terms that, would be regarded as being unacceptable.

Foreign Currency

A significant portion of our assets, net earnings and cash flows are denominated in U.S. dollars and, as a result, their accounting and economic values vary with changes in the U.S./Canadian exchange rate. To reduce this risk, a portion of our U.S. assets are funded with U.S. dollar denominated debt, which serves as a natural hedge against movements in the U.S./Canadian dollar exchange rate. To date, we have not entered into any foreign currency hedges to further reduce our currency risk in respect of our net U.S. dollar investment and net cash flows although from time to time we

have entered into short-term foreign currency transactions to hedge the Canadian cost of certain capital investments. Net cash flows from our foreign operations, supplemented where necessary with U.S. dollar borrowings, are generally used to fund our U.S. dollar capital expenditures and debt service requirements. Where applicable, U.S. dollar borrowings have been designated as a hedge against our U.S. dollar net investment in self-sustaining foreign operations. To the extent these hedges are deemed to be effective, any such gains or losses are recorded in other comprehensive income. In 2008, the U.S./Canadian dollar exchange rate averaged \$1.0671, ranging from a low of \$0.9719 to a high of \$1.2969. At December 31, 2008 approximately 48 percent of our net assets were denominated in U.S. dollars. For the year ended December 31, 2008 foreign exchange losses of \$24.2 million and \$31.5 million were recognized in other comprehensive income and net earnings, respectively. Based on results for the year ended December 31, 2008 our sensitivity to a one Canadian cent movement in the foreign exchange rate with the U.S. in respect of total assets, net income, and distributable cash is \$11.4 million, \$0.6 million, and \$0.8 million, respectively.

Interest Rate

A portion of our assets are financed with debt, including floating rate debt. To the extent interest is not recoverable, we are exposed to fluctuations in interest rates on floating rate debt and to potentially higher fixed rates at the time existing debt obligations need to be refinanced. To reduce this exposure, we maintain investment grade credit ratings and generally fund long-term assets utilizing long-term, fixed rate debt. Our floating rate debt is comprised of draw downs under various committed bank credit facilities which, if more permanent in nature, will be refinanced over time. To further reduce our exposure to interest rate fluctuations, we may occasionally use derivative instruments, including interest rate swaps, collars and forward rate agreements, to hedge against the effect of future interest rate movements. To the extent these hedges are deemed to be effective, any such gains or losses are recorded in other comprehensive income. At December 31, 2008, 20 percent of our consolidated long-term debt was floating-rate debt. As a result, our annualized sensitivity to floating interest rates is low with the expected impact of a one percent change in interest rates on each of 2008 pre-tax net income and distributable cash being \$3.1 million.

Financial Instruments

Information about financial instruments outstanding at year end including the fair values, principal amounts and maturities are shown in Note 19 of our consolidated financial statements for the year ended December 31, 2008. At year end 2008, we had no outstanding financial derivative-based hedges.

Common Business Risks

Investment

Our business strategy includes optimizing the value of our existing assets and investing in new and existing long-life energy infrastructure assets. Our ability to achieve accretive growth is influenced by a variety of risks, including our ability to secure the necessary regulatory and environmental approvals and permits; integrate acquisitions in an optimal manner and achieve expected synergies; access capital on a cost competitive basis; complete greenfield projects on time and within budget; and achieve expected operating and financial performance.

To reduce these risks, we utilize our key personnel and outside experts, where necessary, to perform a detailed assessment of the risks and rewards associated with all significant investments, including detailed financial modeling and an assessment of its impact on our financial results, risk profile and capital structure. Each major investment is reviewed by senior management and the applicable board of directors to ensure it meets our key investment criteria. These activities require substantial management resources, which, from time to time, may strain our ability to manage existing operations and possibly other strategic opportunities. Periodic assessments of previous investments are undertaken to enhance our execution in respect of future growth initiatives.

Counterparty

Through the course of operating our businesses and managing our financial risks, we are exposed to counterparty risks that give rise to market pricing and credit related exposures should any counterparty, whether a customer, debtor, financial intermediary or otherwise, be unable or unwilling to fulfill their contractual obligations or such agreements are otherwise terminated and not replaced with agreements on substantially the same terms. Our trade credit exposures are spread across numerous counterparties, the majority of which are with investment grade entities operating within the energy sector and are subject to the normal credit risks associated with this sector. In most cases, the contractual arrangements with our customers and the related exposures are long-term in nature. In the case of Alliance, this exposure has been reduced by requiring shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or a suitable financial position. In the case of AEGS, we are primarily dependent on two large customers, being NOVA Chemicals Corporation and Dow Chemical Canada Inc. While NOVA Chemicals is currently a sub-investment grade credit, AEGS represents a critical component in securing ethane feedstock for NOVA's low cost, world-scale petrochemical facilities located at Joffre, Alberta which serves to partially mitigate this risk. We estimate our maximum exposure to NOVA is in the range of \$1.2 million to \$3.6 million. In the case of our NGL business, earnings and cash flows are primarily dependent upon the long-term NGL Sales Agreement with BP, a strong investment grade company and one of the largest integrated energy companies in the world. The counterparty exposures associated with our power business are diverse, spread across numerous entities including a number of government entities in the case of our district energy facilities, and individual counterparties with investment grade entities in respect of each of our power generating facilities. Additional measures are undertaken to manage our credit risks. These measures are generally guided by short-term investment policies and counterparty credit policies and include: assessing the financial strength of new and existing counterparties; setting limits on exposures to individual counterparties; seeking collateral; and using agreements that permit netting of exposures associated with a single counterparty as well as other remedies.

Operations

All of our businesses are subject to risks in the operation of their facilities. Operating risks include: the breakdown or failure of equipment, information systems or processes; the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects); failure to maintain adequate supplies of spare parts; operator error; labour disputes, fires, explosions, fractures, acts of terrorists and saboteurs, and other similar events, many of which are beyond our control. The occurrence or continuance of any of these events could reduce earnings and cash flows.

Competition

All of our businesses are situated in competitive markets and compete with other companies. Although all of our businesses have entered into long-term contractual agreements with varying maturities that serve to reduce the potential impact of this competition, no assurances can be given that such agreements will remain in effect or will be replaced with agreements on substantially the same terms. As a result, our future earnings and cash flows are exposed to competitive market forces, particularly at the time any of our existing contracts mature.

Income Tax

Our businesses operate in Canada and the U.S., are generally owned indirectly through a number of subsidiary intermediary entities, and in some instances utilize inter-company interest bearing debt. As a result, we are subject to potential changes in tax laws (including the recent changes that impact specified investment flow-through entities and the changes introduced by the recent protocol amending the tax treaty between Canada and the U.S.), judicial interpretations in respect thereof, and the administrative and/or assessing practices of tax authorities in each jurisdiction. These tax changes may negatively impact our earnings and cash flows. With our structure as a partnership, the amount of taxable income allocated to Unitholders and the amount of tax payable in respect of distributions to Unitholders may also be affected by these

tax changes. These tax risks are proactively managed and monitored by in-house tax professionals and outside tax experts. As a result of the changes impacting the taxation of specified investment flow-through entities, structural changes have and will continue to be made prior to 2011 in order to preserve tax pools and ensure we maintain an optimal organizational structure.

Environmental, Health and Safety

Our businesses are subject to extensive environmental, health and safety laws and regulations typical for the industry and jurisdictions within which they operate. Failure to maintain compliance with these laws and regulations could result in operational interruptions; physical injury to our employees, contractors, or general public; fines or penalties; environmental contamination clean-up costs; and additional costs being incurred to achieve compliance. We are also exposed to potential changes in future laws and regulations, such as those related to greenhouse gas emissions, which could result in more stringent and costly compliance requirements. We are committed to complying with all applicable laws and regulations and maintaining a healthy and safe work environment for our employees and the community within which we operate. To support this commitment, we have established policies, programs, practices, including performance targets and reporting to senior management and the applicable board, which are managed by experienced personnel and periodically reviewed and modified to ensure they conform with current laws, regulations, and industry practices.

Abandonment

Each of our businesses is responsible for monitoring and complying with all laws and regulations concerning the abandonment of its facilities at the end of their respective economic lives and are therefore exposed to the costs associated with any future such abandonment. The costs of abandonment will be a function of then applicable regulatory requirements, which cannot be accurately predicted. Where reasonably determinable, we accrue the costs associated with these legal obligations. At present, no accruals have been made in respect of Alliance and Aux Sable due to the indeterminate timing and scope of their respective asset abandonments. In the future, it may be necessary to establish and fund a reserve to cover these costs. In some instances, these costs may not be fully recoverable, although we believe the asset retirement costs associated with our pipeline business will be recoverable in future tolls.

Insurance

In the normal course of managing our businesses, we purchase and maintain insurance coverage to reduce certain risks with limits and deductibles that are considered reasonable and prudent. Our insurance does not cover all eventualities as a result of customary exclusions and/or limited availability, and in some instances, our view that the cost of certain insurance coverage is excessive in relation to the risk being covered. Further, there can be no assurance that insurance coverage will continue to be available on commercially reasonable terms, that such coverage will ultimately be sufficient, or that insurers will be able to fulfill their obligations should a claim be made.

Joint Ownership

Some of our businesses are jointly held and are governed by partnership and shareholder agreements. As a result, certain decisions regarding these businesses require a simple majority, while others require 66 2/3 percent, 75 percent, 80 percent or 100 percent approval of the owners. In the case of Alliance and NRGreen, all decisions require the agreement of both owners. In the case of Aux Sable, most decisions are made with the agreement of the two controlling owners, of which we are one.

Risks Specific to Our Pipeline Business

Extension of Transportation Contracts; Supply and Demand

Alliance Pipeline and AEGS derive revenues from long-term transportation contracts, the vast majority of which have primary terms ending on November 30, 2015 and December 31, 2018, respectively, unless extended. Beyond such terms, the transportation commitments and the associated revenues will depend on various factors, including the supply of, and the demand for, natural gas and ethane, respectively, produced from the Western Canadian Sedimentary Basin (WCSB) and the ability of Alliance and AEGS to compete at the supply and demand ends of their respective systems.

Supply depends on a number of factors including the level of exploration, drilling, reserves and production in the WCSB; the price of WCSB natural gas; the price and composition of natural gas available from alternative Canadian and United States sources; the availability of natural gas in excess of domestic demand for export; and the regulatory environments in Canada and the United States.

Demand for natural gas in the midwestern and northeastern United States depends, among other things, on weather, price and consumption, and availability of alternative energy sources. Upon maturity of the existing transportation contracts, Alliance faces competition in pipeline transportation to Chicago area delivery points from both existing and proposed projects.

The demand for ethane shipped on AEGS is driven by NOVA Chemicals and Dow Chemical, each of whom own and operate world-class petrochemical facilities in Alberta. If for any reason either NOVA Chemicals or Dow Chemical, or their successors, ceased to operate these facilities or otherwise reduced or eliminated the quantities of ethane purchased by them, this could have a negative effect on the quantity of ethane transported on AEGS and our earnings and cash flows.

If supply and demand dynamics or other general market conditions result in shippers not extending their respective transportation contracts, our pipeline business may be forced to lower their respective rates and/or shorten contract duration to retain such shippers.

Rate Regulation

Alliance is subject to Canadian and United States federal regulation by the NEB and FERC, respectively. AEGS is subject to Canadian provincial regulation by the Alberta Utilities Commission. Changes in the regulation of our pipeline business, including changes in interpretations of existing regulations by courts or regulators; the exclusion of any cost of service amounts; any other adverse change to the rates on the respective rate structures or terms and conditions of service; and, in the case of Alliance, a reduction in the negotiated rate of return on equity could adversely affect our pipelines' ability to generate earnings and cash flows.

Risk Specific to Alliance and Aux Sable

Interdependency

There is a significant degree of interdependency between Alliance and Aux Sable, which are related parties through common controlling ownership interests. On one hand, should Aux Sable fail to provide heat content management services to Alliance U.S. for any reason, Alliance Pipeline and its shippers may experience operational issues, including in certain circumstances, an interruption or curtailment of transportation service on the Alliance pipeline. On the other hand, the volume and composition of inlet natural gas available to Aux Sable is dependent on the volumes transported on the Alliance pipeline, which is subject to supply and demand factors, including competitive pressures from other pipeline systems, and the operating performance of the Alliance pipeline.

Risks Specific to the Power Business

SRAC Pricing

Each of the Ripon and San Gabriel facilities sells power pursuant to long-term power purchase agreements. Under the agreements, the Ripon and San Gabriel facilities receive energy payments based upon the full short-run avoided cost (SRAC) energy pricing formula, which is generally based on California natural gas price indexes, utility system heat rates and applicable time-of-use factors. The SRAC energy pricing formula is subject to regulation by the California Public Utilities Commission and may be modified from time to time, including on a retroactive basis. A change in the SRAC energy pricing formula which reduces the price we receive for energy payments may reduce our earnings from these facilities. Failure to meet specified performance criteria could result in a facility being de-rated and its capacity payment reduced or suspended, and expose the facility to refund obligations plus interest, which in turn may reduce earnings and cash flows.

Qualifying Facility Status

Each of the Ripon and San Gabriel facilities is a Qualifying Facility as defined under legislation implemented by FERC. The temporary or permanent loss of status as a Qualifying Facility may trigger defaults under the power purchase agreement for each facility and result in penalties under such agreements plus interest. Furthermore, a regulated utility could refuse to purchase electricity at the SRAC rate and may be entitled to certain remedies, including the right to terminate the power purchase agreement. FERC could also order the refund of payments previously made to a Qualifying Facility under a power purchase agreement during periods when the facility was not in compliance. The loss of Qualifying Facility status could also result in the loss of the exemption from utility-type regulation and expose a facility to regulation by FERC under other legislation, which could result in substantial regulatory burdens and other impediments, and may increase the costs of operation and reduce earnings. In addition, any repeal or amendment of the current legislation which governs Qualifying Facilities, without "grand-fathering" protection to ensure that such change would not affect the obligation of our customers to purchase electricity from such facilities under the existing power purchase agreements, may reduce earnings and cash flows.

The utilization of thermal energy is required in order for each of the Ripon and San Gabriel facilities to maintain its status as a Qualifying Facility. During 2007 the steam host of the San Gabriel facility terminated its steam sales agreement. During 2008, while operating under a waiver issued by FERC of certain Qualifying Facility requirements, we installed a distilled water plant to utilize the San Gabriel facility's thermal energy and commenced sales of distilled water to a local manufacturing plant. In 2009 we will make a filing with FERC to self-recertify the San Gabriel facility's status as a Qualifying Facility reflecting the distillation plant and distilled water sales arrangements. Failure of the steam host of the Ripon facility to meet its contractual obligations could similarly lead us to take steps to maintain the Qualifying Facility status of that facility.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President & Chief Executive Officer (“CEO”) and Vice President, Controller & Acting Chief Financial Officer (“CFO”), on a timely basis so that appropriate decisions can be made regarding public disclosure.

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision of our CEO and CFO. Based on this evaluation, we concluded that the disclosure controls and procedures, as defined in National Instrument 52-109, were effective as of December 31, 2008.

INTERNAL CONTROL OVER FINANCIAL REPORTING

We are responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. We assessed the design and effectiveness of internal controls over financial reporting as at December 31, 2008, and based on that assessment determined that the design and operating effectiveness of internal controls over financial reporting was effective.

No changes were made to internal control over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

MANAGEMENT'S REPORT

To the Unitholders of Fort Chicago Energy Partners L.P.

The consolidated financial statements of Fort Chicago Energy Partners L.P. ("Fort Chicago") and all information contained in this annual report are the responsibility of the management of Fort Chicago Energy Management Ltd. (the "General Partner"), the general partner of Fort Chicago.

The consolidated financial statements have been prepared by the management of the General Partner in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Actual results may differ from these estimates and judgements. Management has ensured that these consolidated financial statements are presented fairly in all material respects.

Management maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information contained in this annual report is, in all material respects, relevant, reliable and accurate, and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the General Partner is responsible for reviewing and approving Fort Chicago's annual consolidated financial statements and, primarily through its Audit Committee, for ensuring that management fulfills its responsibilities for financial reporting and internal control.

The Audit Committee is comprised of six independent and financially literate board members that meet regularly during the year with management and the external auditors to satisfy itself that management's responsibilities are being discharged; to review and approve the interim consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's interim reports prior to their release; and to review the annual consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's Annual Report, as well as its Annual Information Form prior to submitting them to the Board of Directors for approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders of Fort Chicago to express an opinion as to whether the consolidated financial statements of Fort Chicago present fairly, in all material respects, its financial position as at December 31, 2008 and 2007 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Stephen H. White
President and Chief Executive Officer
March 4, 2009



Theresa Jang
Vice President, Controller and Acting Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Fort Chicago Energy Partners L.P.

We have audited the consolidated statement of financial position of Fort Chicago Energy Partners L.P. (the "Partnership") as at December 31, 2008 and 2007 and the consolidated statements of income and cumulative income, of comprehensive income and cumulative other comprehensive income and of cash flows for each of the years in the two year period ended December 31, 2008. These consolidated financial statements are the responsibility of the management of the Partnership's general partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these financial statements based on our audits.

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

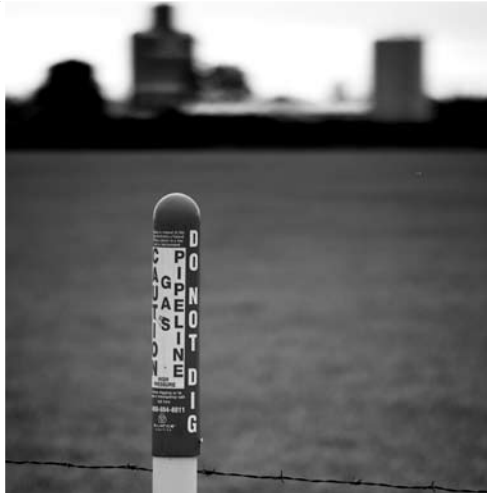
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

March 4, 2009



strength. stability. growth.



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