
MANAGEMENT'S DISCUSSION AND ANALYSIS

Three months ended March 31, 2009

FORWARD-LOOKING AND NON-GAAP INFORMATION

This Management's Discussion and Analysis dated May 6, 2009 provides a review of the significant events and transactions that impacted our performance during the three months ended March 31, 2009 relative to the same period in 2008. Certain information contained in this MD&A 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 MD&A include, but are not limited to, statements with respect to: the timing of Alliance's receipt point near Towner, North Dakota being placed into service; 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; the timing, amount, structure and term of our proposed financing for Fort Chicago Power; 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.

This MD&A should be read in conjunction with our consolidated financial statements as at and for the years ended December 31, 2008 and 2007. Capitalized terms used herein and not otherwise defined have the same meanings attributed to them in our December 31, 2008 consolidated financial statements. All financial information is in Canadian dollars unless otherwise noted and, as it relates to our financial results, has been derived from information used to prepare our consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"). Financial information pertaining to our jointly held businesses reflects our proportionate share unless otherwise noted. Additional information concerning our business is available on SEDAR at www.sedar.com or on our website at www.fortchicago.com.

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 our annual MD&A, filed with Canadian securities regulators.

FINANCIAL AND OPERATING HIGHLIGHTS

| | Three months ended March 31 | |
|--|-----------------------------|---------|
| (\$ Thousands, except where noted) | 2009 | 2008 |
| Operating Highlights | | |
| Volumes (100%) | | |
| Pipeline | | |
| Alliance – billion cubic feet per day | 1,690 | 1,685 |
| AEGS – thousand barrels per day ⁽¹⁾ | 284.1 | 307.8 |
| NGL | | |
| Aux Sable – thousand barrels per day | 53.9 | 70.6 |
| Power | | |
| Fort Chicago Power – megawatt hours | 182,686 | 119,165 |
| NRGreen – megawatt hours | 27,396 | 8,497 |
| Financial Results | | |
| Revenues | 150,804 | 173,217 |
| Net income | 11,304 | 32,045 |
| Per Unit (\$) – basic and diluted | 0.08 | 0.24 |
| Adjusted net income ⁽²⁾ | 13,592 | 21,545 |
| Per Unit (\$) – basic and diluted | 0.10 | 0.16 |
| Cash from operating activities | 44,380 | 95,599 |
| Distributable cash ⁽²⁾ | 31,010 | 42,815 |
| Per Unit (\$) – basic and diluted | 0.23 | 0.33 |
| Distributions paid/payable ⁽²⁾ | 33,513 | 32,941 |
| Per Unit (\$) | 0.25 | 0.25 |
| Distribution account ⁽²⁾ | 76,949 | 77,064 |
| Payout ratio (%) ⁽²⁾ | 109 | 77 |
| Capital expenditures | | |
| Growth ⁽²⁾ | 7,110 | 22,775 |
| Maintenance and sustaining ⁽²⁾ | 1,409 | 5,345 |

| | As at | | |
|---|----------------|---------------|----------------|
| (\$ Thousands, except where noted) | March 31, 2009 | Dec. 31, 2008 | March 31, 2008 |
| Financial Position | | | |
| Cash and short-term investments | 76,318 | 56,064 | 110,813 |
| Total assets | 3,247,719 | 3,127,679 | 2,986,995 |
| Long-term senior debt and capital leases | 1,795,448 | 1,758,958 | 1,699,267 |
| Long-term subordinated convertible debentures | 23,945 | 23,909 | 23,799 |
| Partners' equity | 793,926 | 800,587 | 778,725 |
| Units | | | |
| Units outstanding – as at period-end ⁽³⁾ | 134,110,877 | 134,110,877 | 131,908,838 |
| Average daily volume (Units) | 207,419 | 173,621 | 188,466 |
| Price per Unit – close (\$) | 7.08 | 7.22 | 10.71 |
| Market capitalization ⁽²⁾ | 949,505 | 968,280 | 1,412,743 |

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

(2) 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 our December 31, 2008 MD&A.

(3) As at the close of markets on May 1, 2009 we had 134,667,559 Units outstanding.

OVERALL PERFORMANCE

Distributable cash and net income for the three months ended March 31, 2009, 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

| (\$ Thousands, except per Unit amounts) | Three months ended March 31 | |
|---|-----------------------------|---------------|
| | 2009 | 2008 |
| Pipeline | 34,633 | 41,440 |
| NGL | (775) | 10,240 |
| Power | 5,062 | (135) |
| Fort Chicago - Corporate | (7,910) | (8,730) |
| | 31,010 | 42,815 |
| Per Unit (\$) | 0.23 | 0.33 |

Distributable cash for the three months ended March 31, 2009 was \$31.0 million or \$0.23 per Unit compared to \$42.8 million or \$0.33 per Unit for the same period in 2008, reflecting a significant decrease in distributions from our NGL business. NGL market conditions, which experienced a severe downward shift in the fourth quarter of 2008 as a result of the global financial crisis, began to improve in February 2009. In addition to the ongoing recovery of all operating and capital costs associated with its Channahon facility and receipt of the fixed fee, provided for under the NGL Sales Agreement with BP, Aux Sable generated \$4.7 million in margin-based lease revenues under the profit-sharing mechanism of the agreement. However, under GAAP, the margin-based lease revenues can only be recognized to the extent its realization is certain. Consequently, no portion of this revenue was recognized or distributed to us during the first quarter of 2009. Further, support payments associated with the purchase, transport and sale of make-up gas increased compared to the same period last year, resulting in negative distributable cash from our NGL business. A portion of support payments will be recognized in distributable cash over the course of the year through the recognition of the deferred margin-based lease revenue.

Our Pipeline business generated solid cash flows during the first quarter and benefited from the effect of the weaker Canadian dollar. First quarter 2008 distributions from Alliance included \$10.3 million of non-recurring cash flows received in settlement from Calpine Energy Services Canada Partnership in connection with the repudiation of its Alliance transportation contracts.

Incremental cash flow from our new power facilities, Brush II and the London cogeneration facility, as well as the completion of major maintenance performed at our California cogeneration facilities in the first half of 2008, contributed to improved cash generation from our Power business.

Net Income

| | Three months ended March 31 | |
|--|-----------------------------|-----------------|
| (\$ Thousands, except per Unit amounts) | 2009 | 2008 |
| Net income (loss) before tax | | |
| Pipeline | 27,961 | 36,156 |
| NGL | (2,540) | 10,707 |
| Power | (1,986) | 5,900 |
| Fort Chicago - Corporate | | |
| General, administrative and project development | (6,738) | (4,772) |
| Interest | (2,965) | (4,619) |
| Depreciation | (1,015) | (1,212) |
| Foreign exchange losses | (688) | (6,797) |
| | <u>(11,406)</u> | <u>(17,400)</u> |
| | 12,029 | 35,363 |
| Taxes | (725) | (3,318) |
| Net income | 11,304 | 32,045 |
| Per Unit (\$) | 0.08 | 0.24 |
| Adjustments to net income for non-recurring (gains) losses | | |
| Fair value loss reclassified from other comprehensive income | 2,288 | - |
| Alliance shipper claim settlement | - | (6,840) |
| Gain on dilution of investment | - | (3,660) |
| Adjusted net income | 13,592 | 21,545 |
| Per Unit (\$) | 0.10 | 0.16 |

For the three months ended March 31, 2009 we generated net income of \$11.3 million or \$0.08 per Unit compared to \$32.0 million or \$0.24 per Unit for the same period in 2008. The decrease primarily reflects the change in NGL market conditions, resulting in no margin-based lease revenues being recognized by Aux Sable this quarter, and increased support payments as discussed above. Fort Chicago Power's contribution to first quarter net income was comparable to the same period last year, as incremental earnings from Brush II and the London cogeneration facility and the effect of the weaker Canadian dollar were offset by higher depreciation costs. First quarter net income benefited from decreased recognition of corporate foreign exchange losses, previously deferred and recorded in other comprehensive income, resulting from lower amounts of cash distributed by our U.S. businesses.

During the first quarter we transferred a \$2.3 million non-cash after-tax expense from other comprehensive income to net income, representing the fair value decrease of our investment in Pristine Power Inc. from its initial public offering in March 2008. First quarter 2008 net income included Alliance's settlement with Calpine and a non-cash dilution gain related to our investment in Pristine.

Excluding the above mentioned non-recurring items, adjusted net income for the three months ended March 31, 2009 was \$13.6 million or \$0.10 per Unit compared to \$21.5 million or \$0.16 for the same period last year.

RESULTS OF OPERATIONS - BY BUSINESS SEGMENT

Pipeline Business

| | Three months ended March 31 | |
|------------------------------------|-----------------------------|---------------|
| (\$ Thousands, except where noted) | 2009 | 2008 |
| Net income before tax | | |
| Alliance Pipeline | 26,795 | 34,795 |
| AEGS | 1,166 | 1,361 |
| | 27,961 | 36,156 |
| Volumes | | |
| Alliance Pipeline (100%) (bcf/d) | 1.690 | 1.685 |
| AEGS (mmbbls/d) ⁽¹⁾ | 284.1 | 307.8 |

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

Alliance Pipeline*Operational Highlights*

Transportation deliveries, including utilized Authorized Overrun Service (“AOS”) for the three months ended March 31, 2009 averaged 1.690 billion cubic feet per day compared to 1.685 bcf/d for the same period last year. These volumes represent a new first quarter record for Alliance, reflecting Alliance’s focus on continuous improvement in maintenance practices, linepack management and system scheduling.

Financial Highlights

Transportation revenues for the three months ended March 31, 2009 were \$97.0 million compared to \$89.1 million for the same period last year. The \$7.9 million increase primarily reflects the effect of the weaker Canadian dollar. Cost of service recoveries were relatively unchanged from the same period last year, as a reduction in interest expense and equity return, resulting from the ongoing amortization of Alliance’s long-term debt and depreciation of its investment base, respectively, was offset by higher operating costs.

Net income before tax for the three months ended March 31, 2009 was \$26.8 million compared to \$34.8 million for the same period last year. The \$8.0 million decrease primarily reflects the first quarter 2008 receipt of \$10.3 million in full settlement of Alliance’s claim in respect of Calpine’s 2006 repudiation of its transportation contracts, recorded in “Interest and Other” revenues, and the reduced equity return on investment base. These factors were partially offset by the effect of a weaker Canadian dollar.

Pecan Pipeline (North Dakota), Inc. Receipt Point

Pecan Pipeline (North Dakota), Inc. is developing a gathering pipeline that will 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. Subject to certain conditions precedent being met, Pecan North Dakota and Alliance have agreed to contractual terms for firm transportation of 40 million cubic feet per day for the first year and 80 mmcf/d thereafter, over an initial ten-year period, three years longer than Alliance’s primary shipper contracts. We anticipate the new receipt point being in service in the third quarter of 2009.

AEGS*Operational Highlights*

Toll volumes for the three months ended March 31, 2009 were 284.1 thousand barrels per day compared to 307.8 mbbbls/d for the same period last year. This decrease results from lower gas flows at the Empress, Alberta straddle plants as well as the impact of an outage at an extraction plant located at Empress, which is expected to resume operations in late second quarter 2009.

Financial Highlights

AEGS' revenues for the three months ended March 31, 2009 were \$9.7 million compared to \$10.3 million for the same period last year. The decrease in volumes delivered did not have a corresponding impact on transportation revenues due to the take-or-pay component of AEGS' toll structure. Revenues were impacted, however, by lower operating cost recoveries, driven by lower storage and maintenance costs, and lower overhead recoveries earned thereon. Net income before tax for the three months ended March 31, 2009 was \$1.2 million compared to \$1.4 million for the same period last year reflecting lower overhead recoveries.

NGL Business

| | Three months ended March 31 | |
|---|-----------------------------|-------------|
| (\$ Thousands, except where noted) | 2009 | 2008 |
| Net income (loss) before tax | (2,540) | 10,707 |
| Margin-based fees under NGL Sales Agreement | | |
| Estimated amount generated during period | 4,706 | 21,222 |
| Unrecognized margin generated in period | (4,706) | (9,848) |
| Amount recognized as revenue | - | 11,374 |
| Average daily NGL sales volumes (100%) (mbbls/d) | | |
| Ethane - indigenous | 22.4 | 39.4 |
| Propane plus | 28.3 | 26.7 |
| NGL injections | 3.2 | 4.5 |
| | 53.9 | 70.6 |

Operational Highlights

Over the first quarter of 2009 Aux Sable processed 93 percent of the natural gas delivered by Alliance. Train 2 was out of service for ten days in January for minor maintenance to improve product recoveries. In the first quarter of 2009, ethane production returned to a profitable margin and production recommenced in early February. Natural gasoline margins continued to be strong based on demand for heavy oil blendstock in Alberta.

NGL volumes were 53.9 mbbbls/d during the first quarter of 2009, down from 70.6 mbbbls/d for the same period in 2008 primarily as a result of ethane reinjection during part of the first quarter 2009. Ethane production commenced in early February when margins turned positive for the balance of the quarter. As a result, ethane volumes averaged 22.4 mbbbls/d for the first quarter of 2009, down from 39.4 mbbbls/d in the same period last year. Propane plus volumes, excluding injections, were 28.3 mbbbls/d in the first quarter of 2009 compared to 26.7 mbbbls/d in the same period of 2008.

Financial Highlights

Crude oil prices were significantly lower in the first quarter of 2009 compared to the same period last year, as a result of the world-wide financial crisis, the associated economic slowdown and weaker petroleum products demand. Natural gas prices also fell relative to the first quarter of 2008, although not to the same extent as oil, as increased domestic production continued to keep natural gas inventory levels 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 47 percent from US \$8.57 per million British thermal units in the first quarter of 2008 to US \$4.57 per mmbtu in the first quarter of 2009. Average crude oil prices decreased 56 percent from US \$97.67 per barrel in the first quarter of 2008 to US \$42.98 per barrel in the first quarter of 2009. As a result, the relative value of crude oil to natural gas for the first quarter of 2009 was lower than the same period last year, with the ratio decreasing from 11.4 to 9.4.

As crude oil prices strongly influence NGL prices, 2009 U.S. Gulf Coast fractionation margins for the three months ended March 31, 2009 decreased significantly from the same period of the prior year. Ethane fractionation margins were US \$0.04 per gallon in the first quarter of 2009, compared to US \$0.44 per gallon in the first quarter of 2008. Propane plus margins averaged US \$0.33 per gallon in the first quarter of 2009 compared to US \$0.80 per gallon in the first quarter of 2008. Mont Belvieu to Edmonton basis differentials for propane for the first quarter of 2009 decreased by US \$0.17 per gallon to US \$(0.09) per gallon versus US \$0.08 per gallon in the same period last year. These reduced margins were also driven by declines in petrochemical feedstock consumption.

For the three months ended March 31, 2009 NGL revenues amounted to \$21.5 million (2008 - \$37.9 million), including \$10.3 million of lease revenues (2008 - \$23.6 million), reflecting lower NGL revenues from transactions with counterparties other than BP and a significant decrease in margin-based lease revenues recognized. As NGL markets began to improve in the first quarter of 2009, Aux Sable generated \$4.7 million of margin-based lease revenues, none of which could be recognized to date, as GAAP only allows recognition of these revenues to the extent its realization is certain. This compares to \$21.2 million generated during the same period last year, of which \$11.4 million was recognized in that period. These decreases in first quarter revenues were partially offset by the effect of the weaker Canadian dollar.

Operations and maintenance, natural gas, NGL and transportation costs for the three months ended March 31, 2009 were \$18.3 million (2008 - \$23.0 million), reflecting lower power and fuel prices, and volumes consumed due to market conditions. These decreases were partially offset by the increased support payments associated with the purchase, transport and sale of make-up gas, a portion of which will be recovered over the course of the year through the recognition of the deferred margin-based lease revenue.

As a result of the change in NGL market conditions discussed above, net earnings decreased by \$13.2 million from net income before tax of \$10.7 million for the three months ended March 31, 2008 to a net loss before tax of \$(2.5) million for the three months ended March 31, 2009.

Power Business

| | Three months ended March 31 | |
|-------------------------------------|-----------------------------|--------------|
| (\$ Thousands, except where noted) | 2009 | 2008 |
| Net income (loss) before tax | | |
| Fort Chicago Power | 347 | 657 |
| NRGreen | 197 | 1 |
| East Windsor Cogeneration | (88) | 567 |
| Other | (2,442) | 4,675 |
| | (1,986) | 5,900 |
| Electricity Volumes (MWh) | | |
| Fort Chicago Power | 182,686 | 119,165 |
| NRGreen | 27,396 | 8,497 |

Fort Chicago Power

Operational Highlights

During the three months ended March 31, 2009, Fort Chicago Power's assets performed in line with our expectations. The Ripon and San Gabriel cogeneration facilities generated electricity volumes of 131,656 megawatt hours (2008 - 119,020 MWh). Ambient weather conditions as well as plant efficiency increases, due to recently overhauled equipment, increased electricity generated at the Ripon facility compared to the same period in 2008, while volumes generated at the San Gabriel facility were comparable to the same period last year. Brush II, which we acquired in September 2008, produced 39,943 MWh of electricity during the first quarter, reflecting higher than expected dispatch levels. The London cogeneration facility commenced operations at the end of December 2008 and produced 10,940 MWh of electricity during the first quarter, reflecting lower than anticipated production due to low electricity prices in the Ontario market.

Hot water sales volumes at the PEI district energy facility for the three months ended March 31, 2009 were 140,296 MMBtus, slightly above volumes of 135,473 MMBtus for the same period last year due to customer demand. Aggregate steam sales volumes of 202,907 thousand pounds for the three months ended March 31, 2009 decreased from 237,278 Mlbs for the same period last year due primarily to a decline in steam demand from the Ripon facility's steam host.

Financial Highlights

For the three months ended March 31, 2009 Fort Chicago Power generated \$5.7 million of earnings before interest, taxes, depreciation and amortization compared to \$3.8 million for the same period last year. The \$1.9 million increase reflects stronger results from operating activities, as well as the impact of the weaker Canadian dollar.

Fort Chicago Power recorded \$4.9 million of depreciation and amortization expense for the three months ended March 31, 2009 compared to \$2.5 million for the same period last year, reflecting higher asset balances associated with Brush II, the London cogeneration facility and the San Gabriel distilled water facility, as well as the effect of the weaker Canadian dollar.

Interest and other finance expense of \$0.4 million for the three months ended March 31, 2009 approximated amounts incurred during the same period last year.

NRGreen

Operational Highlights

In December 2008 and January 2009 each of the NRGreen units experienced outages due to extremely cold weather. A thorough investigation of the resulting turbine failures was completed at the equipment manufacturers' repair facility and all units were repaired and returned to service in January and February 2009.

Financial Highlights

For the three months ended March 31, 2009 NRGreen revenues were \$1.0 million compared to \$0.3 million for the same period last year. The increase reflects incremental revenues from the Loreburn, Estlin and Alameda units, which commenced operations on a staggered basis during the last nine months of 2008, as well as the effect of the Kerrobert facility being out of service for 26 days during the first quarter of 2008, partially offset by the impact of the first quarter 2009 outages discussed above.

Net income before tax was \$0.2 million for the three months ended March 31, 2009 compared to nil for the same period last year. During the first quarter, NRGreen received a \$0.3 million warranty claim settlement with respect to previous outages, which was recorded as a reduction to operations and maintenance expense. The warranty claim settlement and increased revenues were partially offset by higher operating costs and depreciation, resulting from four units being operational compared to one unit in the same period last year, as well as incremental borrowing costs related to amounts drawn on NRGreen credit facilities.

East Windsor Cogeneration

East Windsor Cogeneration's net loss before tax for the three months ended March 31, 2009 was \$(0.1) million and is primarily comprised of unrealized 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

During the first quarter we transferred a \$2.4 million non-cash pre-tax expense from other comprehensive income to net income, representing the fair value decrease of our investment in Pristine Power Inc. from its initial public offering in March 2008, as we considered the decline in fair value to be other than temporary. The fair value was determined based on the closing trading price for Pristine common shares at March 31, 2009. During the three months ended March 31, 2008, we recognized a dilution gain of \$4.8 million, which resulted from our non-participation in Pristine's March 2008 initial public offering of common shares.

Fort Chicago - Corporate

| (\$ Thousands) | Three months ended March 31 | |
|---------------------------|-----------------------------|---------------|
| | 2009 | 2008 |
| Net expenses | | |
| Net expenses before taxes | 11,406 | 17,400 |
| Current tax expense | 102 | 166 |
| Future tax expense | 623 | 3,152 |
| | 12,131 | 20,718 |

During the three months ended March 31, 2009 we incurred net corporate expenses of \$12.1 million compared to \$20.7 million during the same period last year. Net expenses before taxes include foreign exchange losses, which decreased by \$6.1 million from the first quarter of 2008 to \$0.7 million, resulting primarily from a significant decrease in first quarter distributions from our U.S. investments. We also incurred lower interest and other finance costs in the first quarter of 2009 compared to the same period last year resulting from lower average interest rates and the June 30, 2008 maturity of our Series A Convertible Debentures. These decreases in expenses were partially offset by higher advisory and project development costs. Future tax expense for the first quarter of 2009 amounted to \$0.6 million compared to \$3.2 million for the same period last year, primarily reflecting the impact of lower earnings from our NGL business.

UPDATE ON PROJECTS UNDER DEVELOPMENT

On May 1, 2009, Jordan Cove Energy Project L.P. and Pacific Connector Gas Pipeline L.P. received notification that the Final Environmental Impact Statement had been issued by the Federal Energy Regulatory Commission in the United States. Each of Jordan Cove and Pacific Connector had filed, in September 2007, an application to the FERC for approval to construct a liquefied natural gas import terminal at Coos Bay, Oregon and a 377-kilometre interstate natural gas transmission system from the terminal to Malin, Oregon, respectively. The FERC is expected to issue a Certificate of Public Convenience and Necessity in the third quarter of 2009. Under our current timeline, and subject to securing long-term contractual commitments, construction of the LNG terminal could commence in the second half of 2010, with an in-service date for both projects to be during 2014.

SELECTED QUARTERLY FINANCIAL INFORMATION

| (\$ Thousands, except per Unit amounts) | 2009 | | 2008 | | | | 2007 | |
|---|----------------|----------|---------|---------|---------|---------|---------|---------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Revenues | 150,804 | 168,629 | 180,900 | 178,684 | 173,217 | 173,257 | 153,814 | 135,945 |
| Net income (loss) | 11,304 | (17,949) | 27,286 | 20,117 | 32,045 | 24,910 | 24,536 | 22,809 |
| Net income (loss) per Unit (\$) | 0.08 | (0.13) | 0.20 | 0.15 | 0.24 | 0.19 | 0.19 | 0.17 |
| Distributable cash | 31,010 | 22,484 | 53,285 | 41,565 | 44,145 | 56,845 | 49,948 | 39,980 |
| Distributable cash per Unit (\$) | 0.23 | 0.17 | 0.40 | 0.31 | 0.34 | 0.43 | 0.38 | 0.30 |
| Cash from operating activities | 44,380 | 39,279 | 88,222 | 39,512 | 95,599 | 50,551 | 62,122 | 33,689 |

Significant items that impacted quarterly financial results include the following:

- First quarter 2009 reflects no NGL margin-based lease revenues recognized in net income or distributed to us.
- 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.

LIQUIDITY AND CAPITAL RESOURCES

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, 2008. 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, the latter of which are minimal at this time. 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, 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.

On March 19, 2009 we announced the reinstatement of an amended and restated Premium Distribution and Distribution Reinvestment Plan, wherein Unitholders enrolled in the Plan could direct that a portion of their distributions be reinvested at a 5 percent discount in additional Class A Units held for their account under the Plan, or have them delivered to a designated plan broker in exchange for a premium cash payment equal to 102 percent of the reinvested amount under the Premium Distribution component of the Plan. For the March 2009 distribution, Unitholders holding 36 percent of our outstanding Units elected to enroll in the DRIP Plan.

Cash and short-term investments at March 31, 2009 totaled \$76.3 million (December 31, 2008 - \$56.1 million), of which \$50.6 million (December 31, 2008 - \$24.3 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 \$12.7 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

For the three months ended March 31, 2009 cash generated from operating activities was \$44.4 million compared to \$95.6 million for the same period last year. This decrease primarily reflects lower earnings from Aux Sable and Alliance's first quarter 2008 settlement with Calpine. The decrease in cash from operating activities also reflects a significant decrease in changes in non-cash working capital, resulting primarily from the first quarter payment of approximately \$22.7 million in income taxes associated with 2008 NGL earnings and accrued at December 31, 2008.

Financing Activities

For the three months ended March 31, 2009 financing activities included: (i) the repayment of \$1.0 million of long-term debt related to scheduled principal repayments on our senior debt; (ii) the net increase of \$19.0 million in credit facilities, representing net draws of \$26.0 million by us and net repayments of \$7.0 million by Alliance; and (iii) \$33.5 million of cash distributions paid by us.

Financing activities for the same period last year included: (i) the repayment of \$2.4 million of long-term debt; (ii) the net increase of \$24.9 million in credit facilities; and (iii) \$32.9 million of cash distributions paid by us.

We are currently working with advisors in assessing the appropriate amount, structure and term of financing for Fort Chicago Power, which we initially financed through our credit facility. The current consideration is for term financing of \$100 million to \$125 million over a five to seven year period. We anticipate completing this financing in the second to third quarter of 2009.

Aux Sable's U.S. credit facility, comprised of a US \$14.9 million revolving facility and a US \$17.1 million term facility, matures on August 16, 2010. The terms of the credit facility agreement provide for a 30 percent reduction of the total term loan commitments on August 16, 2009, which would reduce the amount of the term loan facility from US \$17.1 million to US \$12.0 million. Aux Sable has entered into discussions with its lender to extend the period for this reduction to August 2010.

Investing Activities

Investing activities for the three months ended March 31, 2009 included: (i) \$8.5 million in capital expenditures (\$1.2 million - Alliance; \$0.3 million - Aux Sable; \$0.6 million - Fort Chicago Power; \$0.6 million - NRGreen; \$5.6 million East Windsor Cogeneration; \$0.2 million - Corporate); and (ii) a \$7.6 million drawdown of restricted cash to fund construction costs related to the East Windsor Cogeneration.

Investing activities for the same period last year included: (i) \$28.1 million in capital expenditures; (ii) a \$10.6 million drawdown of East Windsor Cogeneration's restricted cash; and (iii) a \$11.3 million investment in a private power company.

FINANCIAL INSTRUMENTS

There has been no significant change to the composition or valuation of our financial instruments since December 31, 2008.

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 in our December 31, 2008 MD&A.

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

| (\$ Thousands) | Three months ended March 31 | | Year ended December 31 | |
|---|-----------------------------|--------|------------------------|----------|
| | 2009 | 2008 | 2008 | 2007 |
| Cash from operating activities | 44,380 | 95,599 | 262,612 | 204,852 |
| Net income | 11,304 | 32,045 | 61,499 | 86,157 |
| Distributions paid/payable | 33,513 | 32,941 | 133,150 | 123,699 |
| Excess of cash from operating activities over distributions paid/payable | 10,867 | 62,658 | 129,462 | 81,153 |
| Shortfall of net income over distributions paid/payable | (22,209) | (896) | (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 greater 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.

| | Three months ended March 31 | |
|--|-----------------------------|---------------|
| (\$ Thousands, except per Unit amounts) | 2009 | 2008 |
| Cash inflows | | |
| Alliance distributions, prior to withholdings for capital expenditures and net of debt service | 30,888 | 37,498 |
| AEGS distributable cash, after non-recoverable capital expenditures and debt service | 3,745 | 3,942 |
| Aux Sable distributions, net of support payments, non-recoverable debt service costs and maintenance capital | (775) | 10,240 |
| Fort Chicago Power distributable cash, after maintenance capital expenditures and debt service | 4,622 | (385) |
| NRGreen distributions, prior to withholding for project development costs | 440 | 250 |
| Interest income and other | 656 | 326 |
| | 39,576 | 51,871 |
| Cash outflows | | |
| General and administrative | 4,629 | 3,066 |
| Interest and other finance | 2,963 | 5,054 |
| Taxes | 38 | 133 |
| Principal repayments on senior debt | 936 | 803 |
| | 8,566 | 9,056 |
| Distributable cash ⁽¹⁾ | 31,010 | 42,815 |
| Distributable cash per Unit (\$) ⁽²⁾ | 0.23 | 0.33 |
| Distributions paid/payable | 33,513 | 32,941 |
| Distributions paid/payable per Unit (\$) | 0.25 | 0.25 |

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

(2) 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 March 31, 2009 the average number of Units outstanding for this calculation was 134,110,877 (2008 - 131,816,446) and 136,372,498 (2008 - 136,483,012) on a basic and diluted basis, respectively. The number of Units outstanding would increase by 2,261,621 (2008 - 4,754,174) Units if the outstanding Convertible Debentures as at March 31, 2009 were converted into Units.

Distributable cash for the three months ended March 31, 2009 was \$31.0 million or \$0.23 per Unit compared to \$42.8 million or \$0.33 per Unit for the same period last year. This decrease reflects significantly lower distributions from Aux Sable, which amounted to negative \$0.8 million, representing the fixed free earned by Aux Sable, net of increased support payments. Although Aux Sable generated \$4.7 million in margin-based lease revenues during the first quarter of this year, its practice is to distribute these funds under timing consistent with the recognition of earnings as permitted under GAAP. Fort Chicago Power performed considerably better this quarter, generating \$4.6 million of distributable cash compared to negative \$0.4 million during the same period last year. This increase reflects incremental cash generated by Brush II and the London cogeneration facility, as well as significantly lower maintenance capital expenditures as major maintenance was performed at the Ripon and San Gabriel facilities during the first quarter last year. The overall decrease in distributable cash for the quarter also reflects lower distributions from Alliance, as first quarter 2008 distributions included funds received from the Calpine settlement, partially offset by the effect of the weaker Canadian dollar. Corporate costs were \$8.5 million this quarter, \$0.6 million lower than the same period last year as increases in advisory costs were more than offset by lower borrowing costs associated with our credit facilities.

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 months ended March 31, 2009 the Distribution Account decreased by \$6.0 million to \$76.9 million.

| (\$ Thousands) | Three months ended March 31 | |
|--|-----------------------------|---------|
| | 2009 | 2008 |
| Beginning balance | 82,925 | 69,799 |
| Distributable cash in excess of (less than) distributions paid/payable | (2,503) | 9,874 |
| Project development costs ⁽¹⁾ | (3,473) | (2,609) |
| Ending balance | 76,949 | 77,064 |

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

Reconciliation of Distributable Cash to Cash Flow from Operating Activities

| (\$ Thousands) | Three months ended March 31 | |
|--|-----------------------------|----------|
| | 2009 | 2008 |
| Consolidated cash flow from operating activities | 44,380 | 95,599 |
| Deduct: Cash flow generated from operating activities applicable to jointly held businesses ⁽¹⁾ | (36,969) | (53,404) |
| Cash flow from operating activities applicable to wholly-owned businesses ⁽²⁾ | 7,411 | 42,195 |
| Add (deduct) amounts applicable to wholly-owned businesses: | | |
| Project development costs | 2,764 | 2,043 |
| Change in non-cash working capital | 16,953 | (1,123) |
| Principal repayments on senior notes | (1,564) | (3,512) |
| Maintenance capital expenditures | (213) | (1,399) |
| Distributions earned greater than distributions received ⁽³⁾ | 5,659 | 4,611 |
| Distributable cash | 31,010 | 42,815 |

(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 \$2.8 million for the three months ended March 31, 2009 (2008 - \$1.1 million).

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

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 continue to monitor 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 continue to be analyzed and the impact of various alternatives is 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made in our internal controls over financial reporting during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.