

## Management's Discussion & Analysis

Three months ended March 31, 2010

### FINANCIAL AND OPERATING HIGHLIGHTS

(\$ Thousands, except where noted)	Three months ended March 31	
	2010	2009
<b>Operating Highlights</b>		
Average daily volumes (100%)		
Pipeline		
Alliance – billion cubic feet per day	<b>1.680</b>	1.690
AEGS – thousand barrels per day <sup>(1)</sup>	<b>283.7</b>	284.1
NGL		
Aux Sable – thousand barrels per day	<b>76.7</b>	53.9
Power		
Fort Chicago Power – megawatt hours	<b>87,510</b>	182,686
NRGreen – megawatt hours	<b>39,569</b>	27,396
East Windsor Cogeneration – megawatt hours	<b>22,530</b>	–
<b>Financial Results</b>		
Revenues	<b>159,977</b>	150,804
Net income	<b>14,074</b>	11,304
Per Unit (\$) – basic and diluted	<b>0.10</b>	0.08
Adjusted net income <sup>(2) (3)</sup>	<b>14,074</b>	13,592
Per Unit (\$) – basic and diluted	<b>0.10</b>	0.10
Cash from operating activities	<b>66,267</b>	44,380
Distributable cash <sup>(2) (4)</sup>	<b>31,709</b>	31,010
Per Unit (\$) – basic and diluted	<b>0.23</b>	0.23
Distributions paid/payable	<b>35,012 <sup>(6)</sup></b>	33,513 <sup>(6)</sup>
Per Unit (\$)	<b>0.25</b>	0.25
Capital expenditures		
Growth <sup>(2) (5)</sup>	<b>5,332</b>	7,110
Maintenance and sustaining <sup>(2) (5)</sup>	<b>1,709</b>	1,409

	Mar. 31, 2010	Dec. 31, 2009	As at Mar. 31, 2009
<b>Financial Position</b>			
Cash and short-term investments	<b>80,780</b>	57,945	76,318
Total assets	<b>2,917,548</b>	2,864,899	3,247,719
Senior debt	<b>1,736,074</b>	1,679,703	1,886,628
Subordinated convertible debentures	<b>24,090</b>	24,054	23,945
Exchangeable debentures	<b>23,581</b>	25,248	25,217
Partners' equity	<b>690,303</b>	698,726	793,926
<b>Units</b>			
Units outstanding – as at period end <sup>(7)</sup>	<b>140,745,029</b>	138,955,646	134,110,877
Average daily volume (Units)	<b>320,223</b>	414,224	207,419
Price per Unit – close (\$)	<b>10.82</b>	9.98	7.08

(1) Average daily volume for AEGS is 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" in this MD&A.

(3) We have provided a reconciliation of adjusted net income to net income in the "Non-GAAP Financial Measures" section of this MD&A.

(4) We have provided a reconciliation of distributable cash to cash from operating activities in the "Non-GAAP Financial Measures" section of this MD&A.

(5) The sum of growth, and maintenance and sustaining capital expenditures equals total capital expenditures on our consolidated statement of cash flows.

(6) Includes \$20.1 million of distributions satisfied through the issuance of Units under our Distribution Reinvestment Plan (2009 - \$3.8 million).

(7) As at the close of markets on April 27, 2010 we had 141,525,826 Units outstanding.

## FORWARD-LOOKING AND NON-GAAP INFORMATION

*This Management's Discussion and Analysis dated April 28, 2010 provides a review of the significant events and transactions that affected our performance during the three months ended March 31, 2010 relative to the same period in 2009. Some of the information contained in this MD&A is forward-looking information under Canadian securities laws. All information that addresses activities, events or developments which 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 statements about:*

- *the sources of additional rich-gas supplies for transportation on the Alliance pipeline and for processing at Aux Sable's Channahon facility;*
- *the ability of Aux Sable to recognize margin-based lease revenues over the balance of the year;*
- *the timing of inspection work to be performed at Aux Sable's Channahon facility;*
- *the timing of in-service and capital cost of Aux Sable's Septimus pipeline;*
- *our ability to renew our 2008 Credif Facility when it matures in July 2010;*
- *the sufficiency of our liquidity;*
- *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;*
- *our ability to make cash distributions; and*
- *the impact of adoption of International Financial Reporting Standards.*

*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. We caution readers 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 the expectations conveyed by the forward-looking information are reasonable based on information available to us on the date of preparation, we can give no assurances as to future results, levels of activity and achievements. Readers should not place undue reliance on the information contained in this MD&A, 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. We expressly qualify any forward-looking information contained in this MD&A 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, 2009 and 2008. 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. Financial information pertaining to our jointly held businesses reflects our proportionate share unless otherwise noted. Capitalized terms used in this MD&A that have not been defined have the same meanings attributed to them in our 2009 consolidated financial statements. Additional information concerning our business is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on our website at [www.fortchicago.com](http://www.fortchicago.com).

Certain financial information contained in this MD&A may not be standard measures under 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.

## OVERALL PERFORMANCE

### Net Income

(\$ Thousands, except per Unit amounts)	Three months ended March 31	
	2010	2009
Net income (loss) before tax		
Pipeline	24,579	27,961
NGL	9,390	(2,540)
Power	1,380	(1,986)
Fort Chicago - Corporate	(17,228)	(11,406)
	18,121	12,029
Tax expense	(4,047)	(725)
<b>Net income</b>	<b>14,074</b>	11,304
<b>Per Unit (\$)</b>	<b>0.10</b>	0.08
Adjustments to net income for non-recurring (gains) losses (net of tax)		
Fair value loss reclassified from other comprehensive income	—	2,288
<b>Adjusted net income <sup>(1)</sup></b>	<b>14,074</b>	13,592
<b>Per Unit (\$)</b>	<b>0.10</b>	0.10

(1) See the reconciliation of adjusted net income to net income in the "Non-GAAP Financial Measures" section of this MD&A.

For the three months ended March 31, 2010, we generated net income of \$14.1 million or \$0.10 per Unit compared to \$11.3 million or \$0.08 per Unit for the same period in 2009. The increase primarily reflects improved NGL market conditions, resulting in Aux Sable generating \$24.9 million of margin-based lease revenues this quarter of which it recognized \$11.9 million. This reflects a significant improvement from the same period last year when Aux Sable generated \$4.7 million of margin-based lease revenues but was unable to recognize any of these revenues during that period. Barring a significant downward shift in NGL market conditions, we expect Aux Sable to recognize the remaining \$13.0 million in margin-based lease revenues over the balance of this year.

The increase in first quarter earnings from our power business reflects the recognition of a non-cash fair value gain on our exchangeable debentures, coupled with the effect of last year's \$2.4 million pre-tax fair value loss related to our investment in Pristine Power Inc.

These increases were partially offset by:

- the effect of the stronger Canadian dollar compared to the same period last year;
- higher corporate interest costs due to our July 2009 \$200 million senior note issuance; and
- the increased recognition of corporate foreign exchange losses, previously deferred and recorded in other comprehensive income, resulting from higher amounts of cash distributed by our U.S. businesses.

For the three months ended March 31, 2010, 73 percent of our net income was generated by our U.S.-based businesses. At March 31, 2010, if the Canadian currency had strengthened or weakened by one cent against the U.S. dollar, with all other variables constant, net income would have been \$0.1 million lower or higher.

**Distributable Cash <sup>(1)</sup>**

(\$ Thousands, except per Unit amounts)	Three months ended March 31	
	2010	2009
Pipeline	33,961	34,633
NGL	10,787	(775)
Power	1,782	5,062
Fort Chicago - Corporate	(9,360)	(7,872)
Taxes	(5,461)	(38)
	<b>31,709</b>	31,010
<b>Per Unit (\$)</b>	<b>0.23</b>	0.23

(1) See the reconciliation of distributable cash to cash from operating activities in the "Non-GAAP Financial Measures" section of this MD&A.

Distributable cash for the three months ended March 31, 2010 was \$31.7 million or \$0.23 per Unit, which approximated amounts generated for the same period in 2009, reflecting:

- comparable distributable cash generated from our pipeline business;
- significantly higher first quarter distributions from Aux Sable due to the relative strength of NGL market conditions;
- lower distributable cash from our power business due to reduced energy margins at our California cogeneration facilities;
- higher corporate costs;
- higher cash taxes associated with higher Aux Sable earnings; and
- the effect of a stronger Canadian dollar.

**Cash from Operating Activities**

(\$ Thousands)	Three months ended March 31	
	2010	2009
Pipeline	73,752	66,848
NGL	12,234	1,553
Power	1,369	9,440
Fort Chicago - Corporate	(21,088)	(33,461)
	<b>66,267</b>	44,380

We generated \$66.3 million of cash from operating activities for the three months ended March 31, 2010, a \$21.9 million increase from the same period last year, due to:

- higher cost of service recoveries at Alliance;
- increased operating cash flows from Aux Sable driven by improved NGL market conditions; and
- lower corporate income tax payments.

These increases were partially offset by lower Fort Chicago Power operating cash flows due to reduced energy margins at our California cogeneration facilities.

## RESULTS OF OPERATIONS - BY BUSINESS SEGMENT

### *Pipeline Business*

	Three months ended March 31	
(\$ Thousands, except where noted)	2010	2009
<b>Net income before tax</b>		
Alliance Pipeline	<b>23,602</b>	26,795
AEGS	<b>977</b>	1,166
	<b>24,579</b>	27,961
<b>Volumes</b>		
Alliance Pipeline (100%) (bcf/d)	<b>1.680</b>	1.690
AEGS (mbbls/d) <sup>(1)</sup>	<b>283.7</b>	284.1

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

### **Alliance Pipeline**

#### *Operational Highlights*

Transportation deliveries, including utilized Authorized Overrun Service, for the three months ended March 31, 2010 averaged 1.680 billion cubic feet per day compared to the first quarter record level of 1.690 bcf/d last year.

#### *Financial Highlights*

Transportation revenues for the three months ended March 31, 2010 were \$92.5 million, a \$4.5 million decrease from \$97.0 million for the same period last year. The decrease primarily resulted from the effect of the stronger Canadian dollar, which more than offset the effect of higher cost of service recoveries.

Net income before tax for the three months ended March 31, 2010 was \$23.6 million, a \$3.2 million decrease compared to \$26.8 million for the same period last year, reflecting the effect of the stronger Canadian dollar and reduced equity return on investment base.

#### *Pecan Pipeline (North Dakota), Inc. Receipt Point*

During the first quarter, Pecan Pipeline (North Dakota), Inc. completed construction of the Prairie Rose Pipeline, a gathering pipeline that connects with a new gas receipt point on the Alliance pipeline. Prairie Rose brings associated rich gas from the Bakken formation onto the Alliance system for transport to Aux Sable's Channahon fractionation facility. Alliance and Pecan have executed a 10-year firm transportation agreement, under which Pecan holds 40 mmcf/d of firm transportation capacity for the first year and 80 mmcf/d thereafter. The new receipt point was placed into service in February 2010.

### **AEGS**

#### *Operational Highlights*

Toll volumes for the three months ended March 31, 2010 were 283.7 thousand barrels per day compared to 284.1 mbbls/d for the same period last year. The slight decrease resulted from lower gas flows across Alberta during the quarter, which limited ethane production.

### Financial Highlights

AEGS generated \$9.7 million in revenues for the three months ended March 31, 2010, unchanged from the same period last year. Lower toll revenues from ethane receipts were offset by higher operating and overhead cost recoveries.

Net income before tax for the three months ended March 31, 2010 was \$1.0 million compared to \$1.2 million for the same period last year, primarily reflecting lower ethane receipts in the current quarter.

### NGL Business

	Three months ended March 31	
(\$ Thousands, except where noted)	2010	2009
<b>Net income (loss) before tax</b>	<b>9,390</b>	(2,540)
<b>Margin-based fees under NGL Sales Agreement</b>		
Estimated amount generated during period	<b>24,888</b>	4,706
Unrecognized margin generated in period	<b>(13,022)</b>	(4,706)
Amount recognized as revenue	<b>11,866</b>	–
<b>Average daily NGL sales volumes (100%) (mbbls/d)</b>		
Ethane - indigenous	<b>45.0</b>	22.4
Propane plus	<b>31.7</b>	31.5
	<b>76.7</b>	53.9
<b>Pricing Metrics</b>		
Crude oil (US\$ per bbl)	<b>78.00</b>	42.98
Natural gas (US\$ per mmbtu)	<b>5.15</b>	4.57
Crude to natural gas ratio	<b>15.1</b>	9.4
Ethane margin (US\$ per US gallon)	<b>0.39</b>	0.04
Propane plus (US\$ per US gallon)	<b>0.89</b>	0.33
Mont Belvieu to Edmonton propane differential (US\$ per US gallon)	<b>(0.02)</b>	(0.09)

### NGL Market Overview

The NGL business environment was significantly more favourable in the first quarter of 2010 compared to the same period in 2009. Average crude prices increased substantially as worldwide demand continued to improve following a steady economic recovery. On the other hand, natural gas prices did not recover to the same extent as crude as the market still perceives an oversupply of natural gas from the developing shale basins of the United States and Canada.

First quarter demand for NGL feedstocks increased by approximately 27 percent over the same period last year, driven by increased ethylene plant operating rates and more favourable NGL feedstock economics. Propane prices remained strong as foreign demand for U.S. propane helped balance inventories.

### Operational Highlights

During the three months ended March 31, 2010, Aux Sable processed nearly 100 percent (2009 – 93 percent) of the natural gas delivered by Alliance. There was no downtime for maintenance in the first quarter of 2010, while minor maintenance was performed in the same period in 2009. After performing detailed external assessments of remaining facilities to be internally inspected, Aux Sable has determined it will complete required inspection work in 2011.

Aux Sable sold 76.7 mbbls/d of NGLs during the first quarter of 2010, up from 53.9 mbbls/d for the same period in 2009. Average ethane volumes increased to 45.0 mbbls/d in the first quarter of 2010 from 22.4 mbbls/d in the first quarter of 2009 due to higher ethane recoveries. As a result of weak market conditions in the first six weeks of 2009, Aux Sable reinjected ethane for that period.

### Financial Highlights

For the three months ended March 31, 2010, Aux Sable recorded NGL revenues of \$37.6 million (2009 - \$21.5 million), including \$21.8 million of lease revenues (2009 - \$10.3 million), of which \$0.2 million related to lease revenues earned by the Septimus gas plant (2009 - nil). Aux Sable generated \$24.9 million of margin-based lease revenues during the first quarter of 2010, of which \$11.9 million was recognized. In the first quarter of 2009, Aux Sable generated \$4.7 million of margin-based lease revenues, none of which could be recognized during that period as generally accepted accounting principles only allow recognition of these revenues to the extent its realization is certain. The increase in first quarter revenues was partially offset by the effect of the stronger Canadian dollar. Barring a significant downward shift in NGL market conditions, we expect Aux Sable will recognize the remaining \$13.0 million of margin-based lease revenues over the balance of this year.

Operations and maintenance, natural gas, NGL and transportation costs for the three months ended March 31, 2010 were \$22.7 million (2009 - \$18.3 million), primarily reflecting higher NGL input costs due to increased prices.

Net income before tax for the three months ended March 31, 2010 was \$9.4 million compared to a net loss of (\$2.5) million for the same period last year.

### Septimus Gas Plant and Pipeline

On December 18, 2009, Aux Sable purchased from Crew Energy Inc. the 25 mmcf/d Septimus Gas Plant in the liquids-rich Montney region of northeast British Columbia. The purchase price was \$9.6 million (100 percent - \$19.1 million). Crew operates the facility and pays Aux Sable capital throughput fees on a take-or-pay basis. Scoping engineering related to expanding the capacity of the Septimus plant is currently underway.

On January 15, 2010, Aux Sable received approval from the BC Oil and Gas Commission to construct a 20-inch, 20-kilometre rich-gas pipeline to interconnect with the Alliance pipeline. The pipeline construction was suspended at the end of March due to warm weather conditions and is expected to resume in the second quarter of 2010. We expect the pipeline to be placed into service in the third quarter of 2010 at a capital cost of approximately \$10 million (100 percent - \$20 million). Aux Sable will collect a take-or-pay fee from Crew when the pipeline is operational.

### Other Growth Projects

In addition to the Septimus projects, 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. These developments have largely been focused on northwest Alberta and northeast B.C., but with new oil and gas developments in the Bakken region in North Dakota and Saskatchewan, Aux Sable is developing NGL-rich gas supply opportunities in these areas. A significant development in this area is the Prairie Rose Pipeline that Pecan Pipeline (North Dakota) Inc. constructed and placed into operation on February 4, 2010. Prairie Rose is currently delivering over 15 mmcf/d of high heat content gas (greater than 1,400 btu per cubic feet) onto the U.S. portion of Alliance's pipeline system.

### Power Business

	Three months ended March 31	
(\$ Thousands, except where noted)	2010	2009
<b>Net income (loss) before tax</b>		
Fort Chicago Power	472	347
NRGreen	664	197
East Windsor Cogeneration	244	(88)
Other	-	(2,442)
	<b>1,380</b>	(1,986)
<b>Electricity Volumes (MWh)</b>		
Fort Chicago Power	87,510	182,686
NRGreen	39,569	27,396
East Windsor Cogeneration	22,530	-

## Fort Chicago Power

Fort Chicago Power is comprised of our wholly-owned power facilities.

On March 18, 2010, we acquired a 100 percent interest in Northbrook New York, LLC, which owns the Glen Park facility, a 33 megawatt hydro-power generation facility. The aggregate purchase price, including transaction costs, was \$83.1 million, which we financed from existing bank credit facilities.

### *Operational Highlights*

Fort Chicago Power produced lower energy volumes in the three months ended March 31, 2010 compared to the same period last year.

For the three months ended March 31, 2010, the Ripon and San Gabriel cogeneration facilities generated electricity volumes of 70,162 MWh compared to 131,656 MWh during the same period last year. Under the new Short Run Avoided Cost energy reimbursement formula, which came into effect in August 2009, it is less economic to dispatch these facilities during non-peak periods. While this limits our ability to earn energy margins, it does not affect capacity payments, which comprise the majority of EBITDA from these facilities.

Brush did not produce any electricity in the first quarter of 2010 compared to 39,943 MWh in the first quarter of 2009, reflecting the dispatch profile under its toll agreement. London Cogeneration generated 4,831 MWh compared to 10,940 MWh during the same period last year reflecting continued electricity pricing weakness in the Ontario market. The majority of earnings for Brush and London Cogeneration are comprised of fixed capacity payments. As such, their earnings and cash flows are not significantly influenced by the volume of electricity generated.

From the date of acquisition to March 31, 2010, Glen Park generated 12,309 MWh of electricity, which is comparable to volumes generated during the same period of the prior year.

### *Financial Highlights*

For the three months ended March 31, 2010, Fort Chicago Power generated \$4.2 million of earnings before interest, taxes, depreciation and amortization compared to \$5.7 million during the same period last year. The \$1.5 million decrease is due primarily to reduced energy margins at the California cogeneration facilities, resulting from the new SRAC formula and the effect of the stronger Canadian dollar, partially offset by a \$0.4 million contribution from Glen Park and a \$1.5 million non-cash fair value gain relating to our U.S. dollar-denominated exchangeable debentures (2009 – \$0.5 million gain).

Net income before tax was \$0.5 million for the three months ended March 31, 2010 compared to \$0.3 million for the same period last year. The decrease in EBITDA was offset by lower depreciation and amortization, which resulted from the reduced carrying value of the California cogeneration facilities.

## NRGreen

### *Operational Highlights*

NRGreen generated 39,569 MWh of electricity in the first quarter of 2010, up from 27,396 MWh in the same period last year. The increase reflects improved reliability of the four waste heat electrical generation units.

### *Financial Highlights*

For the three months ended March 31, 2010, NRGreen revenues were \$1.5 million compared to \$1.0 million for the same period last year. The increase reflects improved reliability of the units during the current period.

Net income before tax was \$0.7 million for the three months ended March 31, 2010 compared to \$0.2 million for the same period last year, primarily due to the increase in revenues discussed above.

---

## East Windsor Cogeneration

### Operating Highlights

East Windsor Cogeneration's 86 MW gas-fired cogeneration facility commenced operations on November 6, 2009. East Windsor Cogeneration did not produce a significant amount of electricity in the current quarter due to low energy demand in the Ontario market. Under its combined heat and power agreement with the Ontario Power Authority, East Windsor Cogeneration earns capacity payments which are not influenced by the volume of electricity.

### Financial Highlights

For the three months ended March 31, 2010, East Windsor Cogeneration revenues and EBITDA were \$5.5 million and \$2.5 million, respectively.

Net income before tax was \$0.2 million for the three months ended March 31, 2010 compared to a net loss of (\$0.1) million for the same period last year. East Windsor Cogeneration recorded \$1.4 million of interest costs on its senior bonds and \$0.8 million of depreciation in the first quarter of 2010. In the first quarter of 2009, interest costs were capitalized as the facility was still under construction. The first quarter 2009 net loss was primarily comprised of unrealized losses related to interest rate and foreign currency hedges.

## Fort Chicago - Corporate

(\$ Thousands)	Three months ended March 31	
	2010	2009
<b>Net expenses</b>		
Net expenses before taxes	<b>17,228</b>	11,406
Current tax expense	<b>5,562</b>	102
Future tax expense (recovery)	<b>(1,515)</b>	623
	<b>21,275</b>	12,131

During the three months ended March 31, 2010 we incurred \$17.2 million of net corporate expenses before taxes compared to \$11.4 million during the same period last year. The variance resulted primarily from:

- a \$2.2 million increase in interest and other finance costs largely due to our \$200 million senior note issuance in July 2009;
- a \$1.7 million increase in project development costs; and
- a \$2.0 million increase in foreign exchange losses, due primarily to higher recognition of translation losses previously deferred and recorded in other comprehensive income as a result of greater amounts of cash distributed by our U.S. businesses.

Net tax expenses increased by \$3.3 million, primarily reflecting higher Aux Sable earnings.

## SELECTED QUARTERLY FINANCIAL INFORMATION

(\$ Thousands, except where noted)	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	<b>159,977</b>	185,873	163,166	149,290	150,804	168,629	180,900	178,684
Net income (loss)	<b>14,074</b>	(24,454)	30,766	19,959	11,304	(17,949)	27,286	20,117
Net income (loss) per Unit (\$)	<b>0.10</b>	(0.18)	0.23	0.15	0.08	(0.13)	0.20	0.15
Distributable cash	<b>31,709</b>	34,001	45,435	38,619	31,010	22,484	53,285	41,565
Distributable cash per Unit (\$)	<b>0.23</b>	0.25	0.33	0.29	0.23	0.17	0.40	0.31
Cash from operating activities	<b>66,267</b>	43,867	89,449	33,227	44,380	39,279	88,222	39,512

Significant items that affected quarterly financial results include the following:

- First quarter 2010 reflected strong NGL market conditions resulting in \$11.9 million of NGL margin-based lease revenues recognized in net income and distributable cash.
- Fourth quarter 2009 net income reflected the \$50.8 million (after-tax) asset impairment loss recorded in relation to our California cogeneration facilities; distributable cash and cash from operating activities reflected strong cash flow generation from Aux Sable.
- Third quarter 2009 reflected continued strengthening of NGL market conditions resulting in \$22.1 million of NGL margin-based lease revenues recognized in net income and distributable cash.
- Second quarter 2009 reflected a strengthening of NGL market conditions resulting in \$6.8 million of NGL margin-based lease revenues recognized in net income and distributable cash.
- First quarter 2009 reflected no NGL margin-based lease revenues recognized in net income or distributed to us.
- Fourth quarter 2008 reflected 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 reflected 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.

## 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, 2009.

Cash and short-term investments at March 31, 2010 totaled \$80.8 million (December 31, 2009 - \$57.9 million), of which \$52.5 million (December 31, 2009 - \$23.3 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.

At March 31, 2010 we had a working capital deficiency of \$163.5 million (December 31, 2009 - \$152.3 million). We do not believe this balance sheet condition affects our liquidity. Our working capital will generally be in a negative position as the majority of our long-term debt is amortizing debt, resulting in a significant amount of debt being due within one year. A large portion of our debt relates to Alliance, for which scheduled repayments of long-term debt have been designed to match the depreciation of its rate base. Depreciation is recovered through Alliance's firm transportation toll and is utilized to fund the debt repayments. Our 2008 Credit Facility matures on July 14, 2010. As such, the \$50.1 million balance drawn at March 31, 2010 is classified as current. Discussions regarding the renewal of this facility are underway. Our series B convertible debentures are classified as current as they mature on December 31, 2010. Until that time, debenture holders have the option of exchanging these debentures for Units. Further, our exchangeable debentures are classified as current since exchangeable debenture holders have the right to redeem these instruments for cash at any time up until the date of maturity.

**Cash from Operating Activities**

(\$ Thousands)	Three months ended March 31	
	2010	2009
Alliance	<b>68,783</b>	60,150
AEGS	<b>4,969</b>	6,698
Aux Sable	<b>12,234</b>	1,553
Fort Chicago Power	<b>(748)</b>	9,301
Other Power	<b>2,117</b>	139
Corporate	<b>(21,088)</b>	(33,461)
	<b>66,267</b>	44,380

For the three months ended March 31, 2010, cash generated from operating activities was \$66.3 million compared to \$44.4 million for the same period last year.

Alliance's operating cash flows decreased for the three months ended March 31, 2010 compared to the same period last year, primarily reflecting higher cost of service recoveries and the impact of changes in non-cash working capital, partially offset by the strengthening of the Canadian dollar.

AEGS' operating cash flows decreased for the first quarter compared to the same period last year, reflecting the timing of annual insurance renewal payments.

Aux Sable's cash from operating activities for the three months ended March 31, 2010 increased significantly compared to the same period last year as improved NGL market conditions resulted in higher margin-based lease revenues.

Fort Chicago Power generated lower operating cash flows for the three months ended March 31, 2010 due to reduced energy margins generated by the California cogeneration facilities and the effect of the first quarter 2009 receipt of funds previously held by Brush's customer as a security deposit.

Our other power businesses generated higher operating cash flows during the first quarter of 2010 due to improved NRGreen unit reliability and the East Windsor Cogeneration facility being fully operational.

Lower corporate cash outflows for the first quarter of 2010 reflect the timing of income tax payments which relate primarily to Aux Sable earnings. Aux Sable's earnings became currently taxable in 2008. This, in conjunction with the record earnings generated by Aux Sable in 2008, resulted in a significant tax payment in the first quarter of 2009.

*Financing Activities*

For the three months ended March 31, 2010, our financing activities included:

- senior debt repayments of \$1.5 million;
- a net increase in credit facility drawings of \$72.5 million, primarily to fund our acquisition of Glen Park; and
- \$17.4 million of cash distributions.

Financing activities for the same period last year included:

- senior debt repayments of \$1.0 million;
- a net increase in credit facility drawings of \$19.0 million; and
- \$33.5 million of cash distributions.

### Investing Activities

Investing activities for the three months ended March 31, 2010 included:

- \$80.7 million acquisition of Glen Park, net of \$1.9 million cash acquired and excluding \$0.5 million of transaction costs paid in 2009; and
- capital expenditures of \$7.0 million, primarily related to:
  - o construction of Aux Sable's Septimus pipeline (\$3.3 million); and
  - o steam and chilled water expansion projects at Fort Chicago Power's London district energy system (\$1.3 million) and maintenance capital expenditures at the San Gabriel facility (\$0.7 million).

Investing activities for the same period last year included:

- \$8.5 million in capital expenditures; and
- a \$7.6 million drawdown of restricted cash to fund construction of the East Windsor cogeneration facility.

## 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 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;
- ongoing maintenance of each business' physical and economic productive capacity; and
- 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 2009 MD&A.

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

(\$ Thousands)	Three months ended March 31	
	2010	2009
Cash from operating activities	66,267	44,380
Net income	14,074	11,304
Distributions paid/payable	35,012	33,513
Less distributions paid in Units under Distribution Reinvestment Plan	(20,095)	(3,763)
Net distributions paid/payable	14,917	29,750
Excess of cash from operating activities over net distributions paid/payable	51,350	14,630
Shortfall of net income over net distributions paid/payable	(843)	(18,446)

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

Net distributions paid/payable are generally greater than net income as 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:

- distributions received/receivable from our operating businesses, which, in each case, are after providing for scheduled amortization of long-term debt and capital expenditures that are not growth-oriented or recoverable;
- operating support payments required by each of our businesses;
- cash taxes and financing costs we incur, including scheduled principal repayments on long-term debt;
- our general and administrative costs; and
- cash we hold in reserve.

The calculation of distributable cash for the three months ended March 31, 2010 and 2009 is set out below.

### Distributable Cash

	Three months ended March 31	
(\$ Thousands, except where noted)	2010	2009
Cash inflows		
Alliance distributions, prior to withholdings for capital expenditures and net of debt service	30,426	30,888
AEGS distributable cash, after non-recoverable capital expenditures and debt service	3,535	3,745
Aux Sable distributions, net of support payments, non-recoverable debt service costs and maintenance capital	10,787	(775)
Fort Chicago Power distributable cash, after maintenance capital expenditures and debt service	1,217	4,622
NRGreen distributions, prior to withholding for project development costs	565	440
Interest income and other	—	656
	<b>46,530</b>	39,576
Cash outflows		
General and administrative	3,904	4,629
Interest and other finance	4,667	2,963
Taxes	5,461	38
Principal repayments on senior debt	789	936
	<b>14,821</b>	8,566
Distributable cash <sup>(1)</sup>	<b>31,709</b>	31,010
Distributable cash per Unit (\$) <sup>(2)</sup>	<b>0.23</b>	0.23
Distributions paid/payable <sup>(3)</sup>	<b>35,012</b>	33,513
Distributions paid/payable per Unit (\$)	<b>0.25</b>	0.25

(1) See "Non-GAAP Financial Measures" 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, 2010 the average number of Units outstanding for this calculation was 140,101,723 (2009 - 134,110,877) and 142,363,354

(2009 - 136,372,498) on a basic and diluted basis, respectively. The number of Units outstanding would increase by 2,261,621 (2009 - 2,261,621) Units if the outstanding Convertible Debentures on March 31, 2010 were converted into Units.

- (3) Includes \$20.1 million of distributions for the three months ended March 31, 2010 (2009 - \$3.8 million) satisfied through the issuance of Units under our Distribution Reinvestment Plan.

Distributable cash for the three months ended March 31, 2010 was \$31.7 million or \$0.23 per Unit, which is comparable to distributable cash for the same period in 2009 and reflects:

- consistent distributions from Alliance as higher income tax recoveries were offset by the effect of the stronger Canadian dollar;
- comparable distributable cash from AEGS;
- higher distributions from Aux Sable, reflecting continued strength in NGL markets;
- lower distributable cash from Fort Chicago Power, reflecting lower energy margins at the California cogeneration facilities and the effect of the stronger Canadian dollar;
- lower corporate general and administrative costs;
- increased corporate interest costs, due primarily to the senior notes issued in July 2009; and
- increased current taxes related to Aux Sable's first quarter 2010 earnings.

## FINANCIAL INSTRUMENTS

There has been no significant change to the composition or valuation of our financial instruments since December 31, 2009.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no new material contractual obligations or commitments entered into since December 31, 2009.

## 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. We will continue to prepare our consolidated financial statements for periods up to and including the year ending December 31, 2010 in accordance with Canadian GAAP as it exists at each reporting date. Financial statements for the three months 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. We are implementing our plan to convert the consolidated financial statements to IFRS. We have provided training to key employees and this will be ongoing 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 and do not anticipate significant changes. We continue to review debt covenants and other agreements to determine what changes may be required upon adoption of IFRS. Where changes are necessary we anticipate amending agreements prior to adoption of IFRS on January 1, 2011.

In accordance with our IFRS project plan, and as a result of 2009 year end reporting requirements, no further progress was completed on our IFRS project in the first quarter of 2010.

## IFRS Accounting Policies

We continue to analyze differences between IFRS and our current accounting policies and to assess the impact of various alternatives. There are several accounting policy changes which may materially impact our consolidated financial statements, as described in our December 31, 2009 MD&A. Changes in IFRS and our continued assessments between now and December 31, 2011 may result in further accounting policy changes with material impacts on our consolidated financial statements. Two significant areas of uncertainty are outlined below.

Several of our investments, including Alliance and Aux Sable, are entities which we control jointly with other owners. We currently proportionately consolidate these entities so each line of our financial statements includes our proportionate share of amounts recorded by each joint venture. Under current IFRS standards, we can choose between using proportionate consolidation and the equity method to account for joint ventures. There is presently an IFRS Exposure Draft outstanding which would eliminate the use of proportionate consolidation and require the use of equity accounting for interests in jointly controlled entities. Under the equity method, investments in jointly controlled entities are recorded on one line on the balance sheet, and income from jointly controlled entities is recorded on one line on the income statement. Similarly, the statement of cash flows reflects investments in and distributions received from jointly controlled entities rather than our proportionate share of their cash flows on a line-by-line basis. While this change in policy would not, in and of itself, change the amount of net assets or net income, we would expect almost every line item on the balance sheet, income statement and statement of cash flows to change, many by a material amount. The impact of all other accounting policy changes resulting from the adoption of IFRS cannot be quantified until the accounting standard for jointly controlled entities is known. We will determine our IFRS accounting policy after the Exposure Draft is finalized and an adoption date and transition rules are published with the final standard.

Alliance has certain rate-regulated accounting policies which vary from policies otherwise permitted under Canadian GAAP. IFRS does not presently address rate-regulated entities. An IFRS standard is currently scheduled to be released in late 2011, and will not likely be required to be adopted at the time that we initially report under IFRS. We expect that *Improvements to IFRS*, scheduled to be issued in April 2010, will include an exemption permitting rate-regulated entities to use their Canadian GAAP capital asset balances at January 1, 2010 as their opening IFRS deemed cost amounts. However, the treatment of regulatory assets and liabilities under IFRS cannot presently be determined. While we continue to monitor developments regarding rate-regulated accounting under IFRS, at this time we cannot determine the impact of adopting IFRS for Alliance.

## 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. We caution investors not to construe these non-GAAP financial measures as alternatives to other measures of financial performance calculated in accordance with GAAP. We further caution investors not to place undue reliance on any one financial measure.

We provide the following non-GAAP financial measures 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. Specific items may include, but are not limited to, certain income tax adjustments, bankruptcy settlements, gains or losses on sales of assets, certain fair value adjustments, and asset impairment losses. We believe our use of adjusted net income provides useful information to us and our investors by improving the ability to compare financial results among reporting periods, and by enhancing the understanding of our operating performance and our ability to fund distributions. The following is a reconciliation of adjusted net income to net income.

### Reconciliation of Adjusted Net Income to Net Income

(\$ Thousands)	Three months ended March 31	
	2010	2009
<b>Net income</b>	<b>14,074</b>	11,304
Adjustments to net income for non-recurring (gains) losses		
Power – fair value loss reclassified from other comprehensive income <sup>(1)</sup>	–	2,442
Taxes <sup>(2)</sup>	–	(154)
	–	2,288
<b>Adjusted net income</b>	<b>14,074</b>	13,592

(1) Net income for the three months ended March 31, 2009 included a non-cash expense transferred from other comprehensive income to net income, representing the fair value decrease of our investment in Pristine Power Inc. from Pristine's initial public offering in March 2008. As we consider such permanent decreases in the fair value of our investments to be non-typical, we have added this amount back to net income in arriving at adjusted net income.

(2) Represents the related taxes on the adjusting items described above.

**Distributable Cash** – represents the cash we have available for distribution to Unitholders after providing for debt service obligations and any maintenance and sustaining capital expenditures. Distributable cash does not include distribution reserves, if any, available in jointly held businesses or project development costs. Project development costs are discretionary, non-recoverable costs incurred to assess the commercial viability of greenfield business initiatives unrelated to our operating businesses. The investment community uses distributable cash to assess the source and sustainability of our cash distributions. The following is a reconciliation of distributable cash to cash flow from operating activities.

### Reconciliation of Distributable Cash to Cash From Operating Activities

(\$ Thousands)	Three months ended March 31	
	2010	2009
Consolidated cash flow from operating activities	<b>66,267</b>	44,380
Deduct: Cash flow generated from operating activities applicable to jointly held businesses <sup>(1)</sup>	<b>(44,873)</b>	(36,969)
Cash flow from operating activities applicable to wholly-owned businesses <sup>(2)</sup>	<b>21,394</b>	7,411
Add (deduct) amounts applicable to wholly-owned businesses:		
Project development costs <sup>(3)</sup>	<b>4,499</b>	2,764
Change in non-cash working capital	<b>4,610</b>	16,953
Principal repayments on senior notes	<b>(1,446)</b>	(1,564)
Maintenance capital expenditures	<b>(867)</b>	(213)
Distributions earned greater than distributions received <sup>(4)</sup>	<b>3,519</b>	5,659
<b>Distributable cash</b>	<b>31,709</b>	31,010

(1) Represents cash flow from operating activities applicable to jointly held businesses which is not under our sole control and, consequently, is not included in distributable cash until 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, 2010 (2009 – \$2.8 million).

(3) Represents costs incurred by us and our wholly-owned businesses in relation to projects where the recoverability of such costs has not yet been established. Amounts incurred for the three months ended March 31, 2010 relate primarily to the Jordan Cove LNG terminal project, the Pacific Connector Gas Pipeline project, and the Alton Gas Storage project.

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

**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.

**EBITDA** – refers to earnings before interest, taxes, depreciation and amortization. EBITDA is reconciled to net income before tax by deducting interest, depreciation and amortization, and asset impairment losses, if any. The investment community uses this measure, together with other measures, to assess the source and sustainability of cash distributions.

**Growth Capital Expenditures** – are generally defined as capital expenditures that expand existing capacity and/or increase earnings. The investment community uses this measure to assess the extent of discretionary capital spending.

**Maintenance and Sustaining Capital Expenditures** – are generally defined as expenditures that enhance existing assets or support operations without any associated increase in earnings. The investment community uses this measure to assess the extent of non-discretionary capital spending.

## **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, Finance and Chief Financial Officer (CFO), on a timely basis so 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 the disclosure controls and procedures, as defined in National Instrument 52-109, were effective as of March 31, 2010.

## **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 March 31, 2010, and, based on that assessment, determined the design and operating effectiveness of internal controls over financial reporting was effective. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

No changes were made to internal control over financial reporting during the period ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

---