

**ENBRIDGE INCOME FUND HOLDINGS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2011**

## **MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

This Management's Discussion and Analysis (MD&A) for Enbridge Income Fund Holdings Inc. (ENF or the Company) should be read in conjunction with the unaudited interim financial statements of ENF as at and for the three and nine months ended September 30, 2011 which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the audited financial statements and notes thereto contained in ENF's Annual Report for the year ended December 31, 2010 which have been prepared in accordance with Part V – Pre-changeover accounting standards of the Canadian Institute of Chartered Accountants (CICA) Handbook (Part V or Canadian GAAP).

All financial measures presented in this MD&A are expressed in thousands of Canadian dollars, unless otherwise indicated.

Additional information, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is dated November 7, 2011.

### **ADOPTION OF IFRS**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the CICA Handbook. In 2010, the CICA Handbook was revised to incorporate IFRS and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in its interim financial statements beginning January 1, 2011, including full restatement of comparative figures.

Note 10 of the Company's interim financial statements for the three and nine months ended September 30, 2011 discusses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including a reconciliation of financial statements previously prepared under Canadian GAAP to those under IFRS for the period from March 26, 2010, the date of incorporation, to December 31, 2010.

### **OVERVIEW**

ENF was incorporated on March 26, 2010 under the laws of the Province of Alberta for the sole purpose of participating in the Plan of Arrangement (the Plan) to restructure Enbridge Income Fund (the Fund). The Plan was effective on December 17, 2010 on which date all publicly held units of the Fund and 5,000,000 units held by Enbridge Inc. (Enbridge) were exchanged on a one-for-one basis for common shares of the Company, resulting in the Company owning 25,125,000, or 72.6%, of the Fund's issued and outstanding trust units. The Company's common shares commenced trading on the Toronto Stock Exchange on December 21, 2010 under the symbol ENF.

Subsequent to the period ended September 30, 2011, the Company subscribed for an additional 14,616,000 trust units of the Fund in connection with the Fund's acquisition of three renewable power generation facilities (the Renewable Assets) from Enbridge (the Transaction). Following the Transaction and related equity financing by the Fund, the Company owns 39,741,000, or 80.7%, of the Fund's issued and outstanding trust units.

The Company's business is limited to ownership of its interest in the Fund and its objective is to pay out a high proportion of available cash in the form of dividends to shareholders. The Fund is involved in the generation and transportation of energy through its 50% interest in the Canadian segment of Alliance Pipeline (Alliance Canada), its crude oil and liquids pipelines business in Saskatchewan (Saskatchewan System) and investment in green power generation facilities (Green Power). In October 2011, the Fund substantially increased its Green Power business through the Transaction with Enbridge.

The Company is managed by Enbridge Management Services Inc. (EMSI or the Manager), a wholly-owned subsidiary of Enbridge. EMSI also manages the Fund and the Fund's subsidiary Enbridge Commercial Trust (ECT).

### ENF Financial Performance

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<i>(thousands of Canadian dollars, except per share amounts)</i>				
Earnings	6,846	-	20,526	-
Earnings per common share, basic and diluted	0.27	-	0.82	-
Cash flow from operating activities	14,459	-	23,154	-
Dividends declared	7,236	-	21,708	-
Dividends per common share	\$0.288	-	\$0.864	-
Number of common shares outstanding <sup>1</sup>	25,125,000	25,125,000	25,125,000	25,125,000

<sup>1</sup> As at September 30, 2011 and December 31, 2010.

The Company's earnings and cash flows are derived from its investment in the Fund. Earnings for the three and nine months ended September 30, 2011 of \$6,846 (\$0.27 per common share) and \$20,526 (\$0.82 per common share), respectively, represented cash distributions on the 25,125,000 Fund trust units owned by the Company, net of income taxes. The Fund declared distributions of \$26,080, or \$1.038 per unit, for the nine months ended September 30, 2011. In turn, the Company declared dividends to common shareholders of \$21,708 (\$0.864 per share) for the nine months ended September 30, 2011.

### Enbridge Income Fund Financial Performance

A summary of financial information of the Company's investee, Enbridge Income Fund, derived from the Fund's consolidated financial statements prepared in accordance with Canadian GAAP, for the three and nine months ended September 30, 2011 and 2010 is provided below. Readers are also encouraged to read the Fund's financial statements and MD&A which have been filed on SEDAR at [www.sedar.com](http://www.sedar.com).

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<i>(thousands of Canadian dollars)</i>				
Cash available for distribution, Enbridge Income Fund <sup>1</sup>				
Alliance Canada	17,335	18,500	54,405	55,100
Saskatchewan System	21,117	10,639	58,007	30,090
Green Power	567	1,330	3,302	4,200
Corporate	(12,103)	(3,361)	(31,803)	(14,611)
Cash available for distribution, Enbridge Income Fund	26,916	27,108	83,911	74,779
ECT preferred unit distributions	(13,156)	(10,953)	(39,468)	(32,853)
Cash retained	(1,780)	(6,154)	(8,500)	(11,985)
Cash distributions declared to trust unit holders, Enbridge Income Fund	11,980	10,001	35,943	29,941
Percentage of units held by ENF	72.56%	-	72.56%	-
Distribution income, ENF	8,693	-	26,080	-
Other income	9	-	8	-
Income tax	(1,856)	-	(5,562)	-
Earnings, ENF	6,846	-	20,526	-

<sup>1</sup> See non-GAAP measures on page 4.

The Fund's cash available for distribution (CAFD) totaled \$83,911 for the nine months ended September 30, 2011 compared with \$74,779 for the same period of 2010, an increase of 12.2%. The most significant contributor to the increase in cash flow was higher toll revenue on the Fund's crude oil transportation system resulting from the Phase II Expansion project. Corporate costs included increased interest expense on higher debt balances used to finance the project and higher current taxes as well as

acquisition-related advisory and professional fees incurred in connection with the Transaction. CAFD for the third quarter of 2011 of \$26,916 decreased slightly from the third quarter of 2010 as a result of the non-recurring acquisition-related advisory and professional fees.

#### **FORWARD-LOOKING INFORMATION**

*In the interest of providing the Company's shareholders and potential investors with information about the Company and its investee, the Fund, and the Fund's subsidiaries and joint ventures, including management's assessment of future plans and operations of the Company and the Fund, certain information provided in this MD&A constitutes forward-looking statements or information (collectively, "forward-looking statements"). This information may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. In particular, forward-looking statements include:*

- *expected costs related to projects under construction;*
- *expected scope and in-service dates for projects under construction;*
- *expected timing and amount of recovery of capital costs of assets;*
- *expected capital expenditures;*
- *expected future dividends and Fund distributions;*
- *the Fund's expected cash available for distribution.*

*Although the Company believes that these forward-looking statements are reasonable based on the information available on the date such statements are made and the processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Material assumptions include assumptions about: the expected supply and demand for crude oil, natural gas and natural gas liquids; prices of crude oil, natural gas and natural gas liquids; expected exchange rates; inflation; interest rates; the availability and price of labour and pipeline construction materials; operational reliability; customer project approvals; maintenance of support and regulatory approval for the Fund's projects; anticipated in-service dates and weather. Assumptions regarding the expected supply and demand of crude oil, natural gas and natural gas liquids, and the prices of these commodities, are material to and underlay all forward-looking statements. These factors are relevant to all forward-looking statements as they may impact current and future levels of demand for the Fund's services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which the Company and the Fund operates, may impact levels of demand for the Fund's services and cost of inputs, and are therefore inherent in all forward-looking statements. Due to the interdependencies and correlation of these macroeconomic factors, the impact of any one assumption on a forward-looking statement cannot be determined with certainty, particularly with respect to expected earnings and associated per unit or per share amounts, or estimated future distributions or dividends. The most relevant assumptions associated with forward-looking statements on projects under construction, including estimated in-service dates and expected capital expenditures, include: the availability and price of labour and pipeline construction materials; the effects of inflation on labour and material costs; the effects of interest rates on borrowing costs; and the impact of weather, customers and regulatory approvals on construction schedules.*

*The Company's forward-looking statements, and forward looking statements with respect to the Fund, are subject to risks and uncertainties pertaining to operating performance, regulatory parameters, project approval and support, weather, economic conditions, exchange rates, interest rates and commodity prices, including but not limited to those risks and uncertainties discussed in this MD&A and in the other filings of the Company and the Fund with Canadian securities regulators. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent of the future course of action of the Company and the Fund, depends on management's assessment of all information available at the relevant time. Except to the extent required by law, the Company and the Fund assume no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements whether written or oral, attributable to the Company or the Fund or persons acting on the Company's or the Fund's behalf, are expressly qualified in their entirety by these cautionary statements.*

#### **NON-GAAP MEASURES**

*This MD&A contains references to the Fund's cash available for distribution. Cash available for distribution represents the Fund's cash available to fund distributions on Trust Units and ECT Preferred Units as well as for debt repayments and reserves. Cash available for distribution consists of operating cash flow from the Fund's underlying businesses less deductions for maintenance capital expenditures, the Fund's administrative and operating expenses, corporate segment interest expense, applicable taxes and other reserves determined by the Manager. This measure is important to shareholders as the Company's objective is to provide a predictable flow of dividends to shareholders and the Company's cash flows are derived from its investment in the Fund. Cash available for distribution is not a*

*measure that has standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and is not considered a GAAP measure. Therefore, this measure may not be comparable with similar measures presented by other issuers.*

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's primary source of liquidity is the cash distributions it receives from its investment in the Fund. Additional liquidity to finance future investment in the Fund, if necessary, is expected to be available through access to equity markets and bank credit. The Company's objective is to payout a high proportion of its available cash in the form of dividends to its shareholders.

In September 2011, in connection with the Transaction, the Company sold 11,707,000 subscription receipts at a price of \$18.75 per subscription receipt for gross proceeds of \$219.5 million. The gross proceeds were held in escrow pending completion of the Transaction. In October 2011, shareholders of the Company approved the Transaction and each holder of a subscription receipt automatically received one common share of the Company. The Company sold an additional 2,909,000 common shares on a private placement basis to Enbridge at the same price as the subscription receipts. The aggregate gross proceeds of \$274.0 million were used to subscribe for additional units of the Fund and the Fund in turn used these proceeds to complete the Transaction.

Cash flows from operating activities totalled \$14,459 for the three months ended September 30, 2011 and \$23,154 for the nine months ended September 30, 2011. Cash flows from operating activities represented distributions received from the Fund, net of income taxes and changes in operating assets and liabilities. The Fund declared distributions of \$0.346 per unit in each of the first and second quarters of 2011. The Fund amended the frequency of its distributions commencing in July 2011 and declared distributions of \$0.115 per unit for each of July, August and September 2011.

The Company declared dividends of \$0.288 per share in each of the first and second quarters of 2011. The Company amended its dividend payment frequency from quarterly to monthly commencing in July 2011 and declared dividends of \$0.096 per share for each of July, August and September 2011.

Subsequent to the third quarter of 2011, the Company increased its monthly dividend to \$0.103 per share, an increase of 7.3%. The dividend increase is effective for the month of November 2011, and will be paid on December 15, 2011 to shareholders of record on November 30, 2011.

The Company did not have any outstanding long-term debt as at September 30, 2011 or December 31, 2010.

## **RECENT DEVELOPMENTS AND OUTLOOK**

The following summarizes recent developments at the Company and the Fund, the Company's investee.

### **Renewable Assets Transaction**

In October 2011, the Fund acquired three renewable power generation facilities owned by direct and indirect wholly-owned subsidiaries of Enbridge for an aggregate price of \$1.23 billion. The assets acquired were the 190-MW Ontario Wind Project, the 80-MW Sarnia Solar Project and the 99-MW Talbot Wind Project. The Renewable Assets are long-life assets with future power sales contracted under separate long-term power purchase agreements with the Ontario Power Authority with remaining terms of not less than 17 years. The Renewable Assets also have long-term maintenance and operating contracts that mitigate operational risks and provide operating cost certainty. Enbridge and its affiliates will continue to manage the Renewable Assets pursuant to a five-year renewable management and administration agreement.

### **Bakken Expansion Program**

A joint project to further expand crude oil pipeline capacity to accommodate growing production from the Bakken and Three Forks formations located in Montana, North Dakota, Saskatchewan and Manitoba is being undertaken by the Fund and Enbridge Energy Partners L.P. (EEP), a party related to the Fund. The Bakken Expansion Program will increase takeaway capacity from the Bakken area by an initial 145,000 bpd, which can be readily expanded to 325,000 bpd. The Bakken Expansion Program will involve construction of facilities in the United States undertaken by EEP at a cost of approximately US\$0.4 billion and construction of facilities in Canada undertaken by the Fund at a cost of approximately \$0.2 billion. Regulatory approvals were received for the United States program and construction activities commenced on schedule in July. In Canada, the National Energy Board ("NEB") oral public hearing concluded on October 5, 2011 with a response expected by January 2012. Construction on the Canadian portion of the project is scheduled to commence in the spring of 2012.

As a first step to providing immediate capacity to growing Bakken production in Montana and North Dakota, the Fund completed the reactivation and reversal of Line Ex-02 during the second quarter of 2011, which has provided capacity to transport through the Saskatchewan System, an initial 25,000 bpd of North Dakota production. The Bakken Expansion Program is expected to be completed in the first quarter of 2013.

### **Regulatory Matters**

On December 17, 2010, the Saskatchewan System filed amended Westspur tariffs with the NEB with an effective date of February 1, 2011. In January 2011, a shipper on the Westspur system requested the NEB make the tolls "interim" effective February 1, 2011 pending discussions between the shipper and the Saskatchewan System on information requests put forward by the shipper. Subsequently, the shipper filed a complaint with the NEB on the basis that the information provided by the Fund was not adequate to allow an assessment to be made of the reasonableness of the tolls. Six parties have filed letters with the NEB supporting the shipper's complaint. The NEB directed additional discussion among the parties and, as of November 7, 2011, the Fund continues to discuss the reasonableness of its Westspur tolls with shippers.

### **Whitecourt Recovered Energy Project**

The Whitecourt Recovered Energy Project is a new waste heat recovery facility which will be built by NRGreen along the Alliance Pipeline near Whitecourt, Alberta. The total cost of the Whitecourt Recovered Energy Project is expected to be \$63.8 million of which \$7.0 million will be funded with a grant from the Climate Change and Emissions Management Corporation under its Energy Efficiency Projects grant program. The Whitecourt Recovered Energy Project is expected to be in service during the third quarter of 2013.

### **RELATED PARTY TRANSACTION**

In September 2011, the Company entered into an agreement with the Fund whereby the Fund would make assistance payments to the Company for share issue costs incurred in connection with the offering of 11,707,000 subscription receipts. The Fund made an assistance payment to the Company of \$4.4 million during the third quarter of 2011. An additional \$4.9 million of share issue costs are expected to be incurred by the Company and related assistance payment made by the Fund in the fourth quarter of 2011.

### **FINANCIAL INSTRUMENTS**

The fair value of financial instruments reflects the Company's best estimates of market value based on valuation techniques, supported by observable market prices where available. The fair value of cash and cash equivalents, loans and receivables and other financial liabilities approximate their carrying value due to the short period to maturity.

The fair value of the Company's available-for-sale equity securities not traded in an active market is determined using a valuation technique which references the fair value of another instrument which is substantially the same, being the quoted market price of the Company's common shares to establish the fair value of its available-for-sale investment.

The fair value measurement of the Investment in Enbridge Income Fund is classified as level 2, as the valuation technique references observable inputs, primarily the quoted market price of the Company's common shares, and adjusts for assets and liabilities not applicable to the Fund and other factors as required.

## RISK MANAGEMENT

The Company's other comprehensive income (OCI) is subject to market price risk resulting from changes in the fair value of the Company's investment in the Fund, which is referenced to the Company's common share price. The Company does not typically manage this risk. A \$1.00 increase or decrease in the Company's common share price at September 30, 2011 and December 31, 2010 would have resulted in a \$25,125 increase or decrease in OCI, before income taxes, due to the revaluation of the investment.

## CHANGE IN ACCOUNTING POLICIES

### Future Accounting Policies

IFRS 9, Financial Instruments, addresses classification and measurement of financial assets. IFRS 9 replaces the model for measuring equity instruments and will require recognition of the Company's investment in the Fund at fair value through earnings. This standard is effective for accounting periods beginning on or after January 1, 2015.

IFRS 13, Fair Value Measurement, defines fair value and provides a single IFRS framework for the measurement and disclosure of fair value within IFRS standards. This standard is effective for accounting periods beginning on or after January 1, 2013.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. Based on the requirements of National Instrument 52-109 (NI 52-109), EMSI, the Manager of ENF, evaluated the effectiveness of ENF's disclosure controls and procedures (as defined in NI 52-109). Based on that evaluation, EMSI concluded that ENF's disclosure controls and procedures were effective as of September 30, 2011. Disclosure controls and procedures have not required significant modification as a result of the Company's adoption of IFRS.

The conversion to IFRS from Canadian GAAP impacts the way the Company presents financial results. As such, the Company has evaluated the impact of the conversion on accounting and financial reporting processes and has updated applicable processes to enable reporting for future periods under IFRS.

## SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents a summary of quarterly financial results from the Company's date of incorporation on March 26, 2010 to September 30, 2011. The Company did not have any business activities prior to the completion of the Plan on December 17, 2010.

	2011			2010			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>(thousands of Canadian dollars, except per share amounts)</i>							
Revenues	<b>8,702</b>	8,693	8,693	-	-	-	-
Earnings	<b>6,846</b>	6,840	6,840	-	-	-	-
Earnings per common share, basic and diluted	<b>0.27</b>	0.27	0.27	-	-	-	-
Dividends declared, per common share	<b>0.288</b>	0.288	0.288	-	-	-	-

## OUTSTANDING SHARE DATA

As at November 7, 2011, 39,741,000 common shares and 1 special voting share of the Company were issued and outstanding. Outstanding share data reflects equity issued in connection with the Transaction which closed in October 2011.

**ENBRIDGE INCOME FUND HOLDINGS INC.**

**FINANCIAL STATEMENTS**

**September 30, 2011**

**ENBRIDGE INCOME FUND HOLDINGS INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
<i>(unaudited; thousands of Canadian dollars, except per share amounts)</i>				
Distribution and other income <i>(Note 4)</i>	8,702	-	26,088	-
Income tax	(1,856)	-	(5,562)	-
Earnings	6,846	-	20,526	-
Other comprehensive income				
Unrealized fair value change in available-for-sale investment	(14,321)	-	7,537	-
Income taxes <i>(Note 6)</i>	1,790	-	(942)	-
	(12,531)	-	6,595	-
Comprehensive income/(loss)	(5,685)	-	27,121	-
Basic and diluted earnings per common share	0.27	-	0.82	-

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

**ENBRIDGE INCOME FUND HOLDINGS INC.  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Nine months ended September 30,	
	2011	2010
<i>(unaudited; thousands of Canadian dollars)</i>		
Share capital		
Common shares (Note 5)	251,250	-
Special voting share (Note 5)	-	-
Share premium (Note 5)	192,458	-
Deficit		
Balance at beginning of period	-	-
Earnings	20,526	-
Common share dividends declared	(21,708)	-
Balance at end of period	(1,182)	-
Accumulated other comprehensive income		
Balance at beginning of period	9,673	-
Other comprehensive income	6,595	-
Balance at end of period	16,268	-
<b>Total shareholders' equity</b>	<b>458,794</b>	<b>-</b>

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

## ENBRIDGE INCOME FUND HOLDINGS INC. STATEMENTS OF CASH FLOWS

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<i>(unaudited; thousands of Canadian dollars)</i>				
Operating activities				
Earnings	6,846	-	20,526	-
Deferred income taxes	402	-	1,206	-
Changes in operating assets and liabilities				
Accounts receivable	(10)	-	29	-
Distributions receivable	5,794	-	(2,899)	-
Accounts payable and accrued liabilities	(25)	-	(64)	-
Income taxes payable	1,452	-	4,356	-
	14,459	-	23,154	-
Financing activities				
Subscription receipts issued <i>(Note 5)</i>	219,506	-	219,506	-
Change in restricted cash <i>(Note 5)</i>	(219,506)	-	(219,506)	-
Common share dividends declared <i>(Note 5)</i>	(7,236)	-	(21,708)	-
Change in dividends payable <i>(Note 5)</i>	(4,824)	-	2,412	-
	(12,060)	-	(19,296)	-
Change in cash and cash equivalents	2,399	-	3,858	-
Cash and cash equivalents at beginning of period	1,459	-	-	-
Cash and cash equivalents at end of period	3,858	-	3,858	-

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

# ENBRIDGE INCOME FUND HOLDINGS INC.

## STATEMENTS OF FINANCIAL POSITION

	September 30, 2011	December 31, 2010
<i>(unaudited; thousands of Canadian dollars)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	3,858	-
Restricted cash <i>(Note 5)</i>	219,506	-
Accounts receivable and other	36	65
Distributions receivable <i>(Note 4)</i>	2,899	-
	<b>226,299</b>	65
Investment in Enbridge Income Fund <i>(Note 4)</i>	<b>462,300</b>	454,763
	<b>688,599</b>	454,828
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	1	65
Income taxes payable	4,356	-
Dividends payable <i>(Note 5)</i>	2,412	-
Subscription receipts payable <i>(Note 5)</i>	219,506	-
	<b>226,275</b>	65
Deferred income taxes	<b>3,530</b>	1,382
	<b>229,805</b>	1,447
Shareholders' equity		
Share capital <i>(Note 5)</i>	251,250	251,250
Share premium <i>(Note 5)</i>	192,458	192,458
Deficit	(1,182)	-
Accumulated other comprehensive income	16,268	9,673
	<b>458,794</b>	453,381
	<b>688,599</b>	454,828

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

# ENBRIDGE INCOME FUND HOLDINGS INC.

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

### 1. GENERAL BUSINESS DESCRIPTION

Enbridge Income Fund Holdings Inc. (ENF or the Company) is a publicly traded corporation, incorporated on March 26, 2010 under the laws of the Province of Alberta. The Company's common shares commenced trading on the Toronto Stock Exchange on December 21, 2010. The Company holds an investment in Enbridge Income Fund (the Fund), which is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Company's registered office is 3000, 425 – 1<sup>st</sup> Street SW, Calgary, Alberta.

The business of ENF is limited to investment in the Fund. The Fund is involved in the generation and transportation of energy through its 50% interest in the Canadian segment of the Alliance Pipeline, its crude oil and liquids pipelines business in Saskatchewan and investments in green power generation facilities.

### 2. BASIS OF PREPARATION AND ADOPTION OF IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

Amounts are stated in thousands of Canadian dollars, the Company's functional and presentation currency, unless otherwise indicated.

These interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The Company's financial statements were previously prepared in accordance with Canadian GAAP. Note 10 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the period ended December 31, 2010.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of November 7, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements.

The unaudited interim financial statements should be read in conjunction with the Company's Canadian GAAP financial statements for the period ended December 31, 2010.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Measurement**

These financial statements have been prepared under the historical cost convention except for the revaluation of available-for-sale financial assets to fair value.

## **Cash and Cash Equivalents**

Cash and cash equivalents include short-term investments with an initial term to maturity of three months or less.

## **Financial Instruments**

The Company classifies financial assets and liabilities as held for trading, available-for-sale, loans and receivables and financial liabilities at amortized cost. All financial instruments are initially recorded at fair value on the statement of financial position. Subsequent measurement of the financial instrument is based on its classification.

### *Available-for-Sale*

Available-for-sale financial assets are non-derivatives that are not classified in any of the other categories. The Company's available-for-sale assets are comprised of an investment in the Fund. Available-for-sale financial assets are recognized initially at fair value plus transaction costs and subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (OCI). Distributions from available-for-sale instruments are recognized in earnings when the Company's right to receive payment is established.

The Company accounts for its investment in trust units of the Fund as an available-for-sale financial asset rather than under the equity method of accounting, which would typically apply in situations where an investor has significant influence over an investee, due to the redeemable nature of the trust units. The Fund trust units do not qualify as equity instruments under IFRS due to the redemption feature which permits holders to redeem trust units for cash, subject to certain limitations. Further, the Company does not consolidate its investment in the Fund as its investment does not confer control. Enbridge Inc. (Enbridge) is the controlling party for accounting purposes through the combination of its direct and indirect equity interests and preferred unit investment in the Fund, as well as through Enbridge's role as manager of the Fund.

### *Loans and Receivables*

Loans and receivables, which include cash and cash equivalents, accounts receivable and distributions receivable, are measured at amortized cost, using the effective interest rate method, net of any impairment losses recognized.

### *Financial Liabilities at Amortized Cost*

Other financial liabilities are recorded at amortized cost using the effective interest rate method and include accounts payable and accrued liabilities and dividends payable.

### *Impairment*

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

For available-for-sale financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the asset is impaired. If any such evidence of impairment exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in earnings, is removed from OCI and recognized in earnings. Impairment losses on available-for-sale equity instruments are not reversed.

## **Income Taxes**

The liability method of accounting for income taxes is followed. Deferred income tax assets and liabilities are recorded based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Deferred income tax assets and liabilities are measured using the tax rate that is expected to apply when the temporary differences reverse.

## Earnings per Share

Basic and diluted earnings per share is calculated by dividing earnings for the period by the weighted average number of common shares outstanding during the period. At September 30, 2011 and 2010, no potentially dilutive instruments were outstanding.

## Dividends

Dividends on common shares are recognized in the Company's financial statements in the period in which the dividends are approved by the Board of Directors of the Company.

## Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities in the financial statements. Significant estimates and assumptions used in preparation of the financial statements include, but are not limited to: the fair value of available-for-sale financial assets (*Note 8*) and income taxes (*Note 6*). Actual results could differ from these estimates.

## Future Accounting Policy Changes

IFRS 9, *Financial Instruments* addresses classification and measurement of financial assets. IFRS 9 replaces the model for measuring equity instruments and will require recognition of the Company's investment in the Fund at fair value through earnings. This standard is effective for accounting periods beginning on or after January 1, 2015.

IFRS 13, *Fair Value Measurement* defines fair value and provides a single IFRS framework for the measurement and disclosure of fair value within IFRS standards. This standard is effective for accounting periods beginning on or after January 1, 2013.

## 4. INVESTMENT IN ENBRIDGE INCOME FUND

	September 30, 2011	December 31, 2010
<i>(unaudited, thousands of Canadian dollars)</i>		
Balance at beginning of period	454,763	-
Investment acquired under the Plan	-	443,708
Fair value change for the period <sup>1</sup>	7,537	11,055
Balance at end of period	462,300	454,763

<sup>1</sup> 2010 comparative period represents the period from the date of the Plan, December 17, 2010, to December 31, 2010.

## Plan of Arrangement

On December 17, 2010, a plan of arrangement (the Plan) to restructure the Fund became effective. Under the Plan, all publicly held trust units of the Fund and 5,000,000 trust units of the Fund held by Enbridge were exchanged on a one-for-one basis for common shares of the Company, resulting in the Company owning 25,125,000, or 72.6%, of the Fund's issued and outstanding trust units. The Company's common shares commenced trading on the Toronto Stock Exchange on December 21, 2010.

## Renewable Energy Acquisition

In September 2011, following review and unanimous recommendation by a joint special committee of independent trustees and directors, the respective boards of the Fund and ENF approved the acquisition by the Fund of interests in three renewable power generation facilities owned by direct and indirect wholly-owned subsidiaries of Enbridge (the Transaction) for an aggregate price of \$1.23 billion. The Transaction will be partly financed by ENF who will subscribe for 14,616,000 trust units of the Fund at a price of \$18.75 per unit (\$274.0 million). At September 30, 2011, approval of the Transaction was subject to a shareholder vote which was subsequently received in October 2011 (*Note 11*).

## Enbridge Income Fund

The Fund's operating segments through which it transports and distributes energy are Alliance Canada, Saskatchewan System and Green Power. Alliance Canada represents the Fund's 50% interest in the Canadian segment of the Alliance Pipeline which transports natural gas from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois. The Saskatchewan System includes four crude oil and liquids pipeline systems which connect to the Enbridge mainline at Cromer, Manitoba. The Green Power segment includes the Fund's 33% to 50% interests in three wind power projects in Saskatchewan and southern Alberta, as well as a 50% interest in NRGreen, which operates waste heat recovery power generation facilities in Saskatchewan.

Summarized financial information of the Fund, derived from the Fund's consolidated financial statements prepared in accordance with Canadian GAAP, is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
<i>(unaudited, thousands of Canadian dollars)</i>				
Revenues	92,400	81,175	264,434	238,701
Earnings	7,741	3,456	31,325	8,514

	September 30, 2011	December 31, 2010
<i>(unaudited, thousands of Canadian dollars)</i>		
Total assets	1,987,633	1,975,521
Total liabilities	1,547,866	1,486,111

The Fund's summarized financial information, as prepared in accordance with Canadian GAAP, would differ had it been prepared under IFRS. The most significant differences between Canadian GAAP and IFRS applicable to the Fund are as follows:

### *Rate Regulation*

The operations of Alliance Canada and certain assets within the Saskatchewan System are subject to regulation by various authorities which exercise statutory authority over matters such as construction, rates and ratemaking and agreements with customers. The timing of recognition of certain revenues and expenses impacted by regulation and the recognition of regulatory assets and liabilities under Canadian GAAP differs from IFRS. IFRS preparers have not historically recognized regulatory assets and liabilities. IFRS also prohibits recognition of the equity component of allowance for funds used during construction (AFUDC) as is permitted under Canadian GAAP. At September 30, 2011, the Fund's net regulatory asset as presented in accordance with Canadian GAAP was approximately \$189,167 (December 31, 2010: \$202,453) including an equity component of AFUDC. The earnings impact of rate regulation was an approximate after tax increase of \$1,686 for the three months ended September 30, 2011 (2010: \$227), and an approximate after tax decrease of \$9,950 for the nine months ended September 30, 2011 (2010: \$3,196 increase).

Further, certain regulators prescribe the pool method of accounting for property, plant and equipment. Under Canadian GAAP similar assets are grouped and depreciated as a pool. Gains or losses are not recognized when the assets are disposed or retired. IFRS does not permit the pool method of accounting and would require gains or losses on retirement to be recognized in earnings.

### *Trust Unit Presentation*

Under Canadian GAAP, the Fund's trust units were presented as equity at September 30, 2011 and December 31, 2010. Under IFRS, the Fund's trust units would be recognized at amortized cost and presented as a liability by virtue of the holders' right to redeem the trust units for cash, subject to certain limitations. Under IFRS, adjustments to estimated future cash flows of a financial liability carried at amortized cost are recognized in earnings.

### Preferred Unit Presentation

At December 31, 2010, the liability and equity components of the Fund's preferred units were recognized at \$88,140 and \$583,658, respectively, under Canadian GAAP. Under Canadian GAAP, the liability component is carried at amortized cost, with the value accreted over time to the June 30, 2033 redemption value of \$380,238. At September 30, 2011, the liability component was \$92,238 and the equity component remained at \$583,658. Under IFRS, the preferred units would be designated as a financial liability at fair value through profit or loss.

### Distribution Income

The Fund declared distributions of \$1.038 per unit during the nine months ended September 30, 2011. As a result, the Company's distribution income on its 25,125,000 Fund trust units held totalled \$26,080 (2010 - \$nil) for the nine months ended September 30, 2011.

## 5. SHARE CAPITAL AND SHARE PREMIUM

### Issued and Outstanding

	September 30, 2011		December 31, 2010	
	Number of Shares	Amount	Number of Shares	Amount
<i>(unaudited, thousands of Canadian dollars except number of shares)</i>				
Common shares				
Balance at beginning of period	25,125,000	251,250	-	-
Issued pursuant to the Plan	-	-	25,125,000	251,250
Balance at end of period <sup>1</sup>	25,125,000	251,250	25,125,000	251,250
Special voting share <sup>1</sup>	1	-	1	-
Balance at end of period	25,125,000	251,250	25,125,001	251,250

<sup>1</sup> 5,000,000 common shares and the special voting share are owned by Enbridge.

### Plan of Arrangement

The Company's initial equity capitalization was established under the provisions of the Plan pursuant to which all 20,125,000 trust units of the Fund held by public unit holders, together with 5,000,000 trust units of the Fund held by Enbridge, were exchanged for 25,125,000 common shares of the Company.

The initial stated capital of the Company for purposes of the Business Corporations Act (Alberta) (BCA) was established to be \$251,250, as determined at the discretion of the Company's Board of Directors. The residual amount of \$192,458 by which the fair value of the consideration received exceeded the stated capital was assigned to Share Premium. The Board may elect in the future to reinstate Share Premium to stated capital under certain circumstances.

### Dividends

The Board of Directors of the Company declared dividends of \$0.288 per share for each of the first and second quarters of 2011. The Company amended its dividend payment frequency from quarterly to monthly commencing with the July 2011 dividend. The Board of Directors of the Company declared dividends of \$0.096 per share for each of the months of July, August and September 2011. No dividends were declared for the three and nine months ended September 30, 2010.

### Subscription Receipts

In September 2011, the Company completed a bought deal underwriting offering of 11,707,000 subscription receipts at a price of \$18.75 per subscription receipt for gross proceeds of \$219.5 million. The gross proceeds were held by an escrow agent pending closing of the Transaction and are reported on the Statements of Financial Position as Restricted Cash at September 30, 2011. Had the Transaction failed to close, each subscription receipt would have been terminated and subscription receipt holders would have been entitled to receive \$18.75 per subscription receipt held. Each subscription receipt holder was entitled to automatically receive one common share of the Company immediately prior to closing the Transaction and such exchange occurred in October 2011 (Note 11).

## **6. INCOME TAXES**

The initial acquisition of Fund trust units under the Plan did not constitute a business combination, nor did the transaction affect earnings. As such, recognition of the resulting deferred income tax liability relating to the estimated taxable temporary difference of \$71,356 which arose on initial recognition of the investment in the Fund is not permitted.

At September 30, 2011 and December 31, 2010, deferred income taxes represented the difference in accounting and tax bases of the Investment in Enbridge Income Fund, less the deferred income tax liability not recognized on initial acquisition of the investment on December 17, 2010.

Income tax expense for the three months ended September 30, 2011 was comprised of current income tax expense of \$1,454 and deferred income tax expense of \$402. Income tax expense for the nine months ended September 30, 2011 was comprised of current income tax expense of \$4,356 and deferred income tax expense of \$1,206.

No cash taxes were paid for the three and nine month periods ended September 30, 2011 and September 30, 2010.

## **7. RISK MANAGEMENT**

### **Market Price Risk**

The Company's OCI is subject to market price risk resulting from changes in the fair value of the Company's investment in the Fund, which is referenced to the Company's common share price. The Company does not typically manage this risk. A \$1.00 increase or decrease in the Company's common share price at September 30, 2011 and December 31, 2010 would have resulted in a \$25,125 increase or decrease in OCI, before income taxes, due to the revaluation of the investment.

## **8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial instruments reflects the Company's best estimates of market value based on valuation techniques, supported by observable market prices where available. The fair value of cash and cash equivalents, loans and receivables and other financial liabilities approximate their carrying value due to the short period to maturity.

The fair value of the Company's available-for-sale equity securities not traded in an active market is determined using a valuation technique which references the fair value of another instrument which is substantially the same, being the quoted market price of the Company's common shares and adjusts for assets and liabilities not applicable to the Fund and other factors as required to establish the fair value of its available-for-sale investment.

The fair value measurement of the Investment in Enbridge Income Fund is classified as level 2, as the valuation technique references observable inputs, primarily the quoted market price of the Company's common shares, and adjusts for assets and liabilities not applicable to the Fund and other factors as required.

## **9. RELATED PARTY TRANSACTIONS**

ENF has an agreement with Enbridge Commercial Trust (ECT) whereby ECT reimburses ENF for certain corporate costs. At September 30, 2011, accounts receivable from ECT were \$36 (2010: \$65).

In September 2011, ENF entered into an agreement with the Fund whereby the Fund would make assistance payments to ENF for share issue costs incurred in connection with the offering by the Company, of 11,707,000 subscription receipts. The Fund made an assistance payment to ENF of \$4.4 million during the third quarter of 2011.

## 10. TRANSITION TO IFRS

The Company has applied the same IFRS accounting policies as described in Note 2 from the date of its incorporation on March 26, 2010 throughout all periods presented.

IFRS 1, *First-time Adoption of International Financial Reporting Standards*, prohibits retrospective application with respect to estimates, and the Company's estimates in accordance with IFRS as at and for the period ended December 31, 2010 are consistent with estimates made for the same period in accordance with Canadian GAAP. No discretionary transition exemptions permitted by IFRS 1 were applied by the Company.

### Reconciliation of Equity and Comprehensive Income

A reconciliation of equity as previously reported under Canadian GAAP to equity in accordance with IFRS at December 31, 2010 and comprehensive income for the period from March 26, 2010, the date of incorporation, to December 31, 2010 is as follows:

	Period ended December 31, 2010
<i>(unaudited, thousands of Canadian dollars)</i>	
Equity as reported under Canadian GAAP	143,174
IFRS adjustments:	
Investment in Enbridge Income Fund	311,589
Deferred income taxes	(1,382)
Equity as reported under IFRS	453,381

	Period ended December 31, 2010
<i>(unaudited, thousands of Canadian dollars)</i>	
Comprehensive income as reported under Canadian GAAP	564
IFRS adjustments:	
Reverse Canadian GAAP equity earnings	(1,162)
Reverse Canadian GAAP other comprehensive loss from equity investees	598
Fair value of investment in Enbridge Income Fund	11,055
Deferred income taxes	(1,382)
Comprehensive income as reported under IFRS	9,673

The transition from Canadian GAAP to IFRS had no significant impact on the cash flows of the Company.

### *Investment in Enbridge Income Fund*

The Investment in Enbridge Income Fund was initially recognized at \$142,610 under Canadian GAAP, a carrying amount derived from historic net asset values of the Fund. Subsequently, the investment was accounted for using the equity method of accounting. Equity earnings and other comprehensive loss from equity investees for the period from March 26, 2010 to December 31, 2010 were \$1,162 and \$598, respectively, resulting in an ending investment balance of \$143,174 at December 31, 2010 under Canadian GAAP.

Under IFRS, although the Company has significant influence over the Fund and provides disclosures required by IAS 28, *Investments in Associates*, it is precluded from accounting for its Investment in Enbridge Income Fund using the equity method of accounting because the Fund trust units do not qualify as equity instruments for purposes of IAS 28 due to the redemption feature which permits holders to redeem trust units for cash, subject to certain limitations. Accordingly, under IFRS, the Company accounts for its Investment in Enbridge Income Fund as an available-for-sale financial asset. The Company recognized its investment acquired under the Plan at an initial fair value of \$443,708 at December 17, 2010.

Under IFRS, available-for-sale financial assets are remeasured each period, with fair value changes recognized in OCI. Fair value changes of \$11,055, along with associated income taxes of \$1,382, were recognized in OCI for the period ended December 31, 2010.

#### *Deferred Income Taxes*

Deferred income taxes represent the income tax effect of the change in accounting treatment of the Investment in Enbridge Income Fund as described above. The deferred income tax liability which resulted from the initial acquisition of the Investment in the Fund was not permitted to be recognized under IFRS.

## **11. SUBSEQUENT EVENTS**

In October 2011, shareholders of the Company approved the Transaction, the gross proceeds from the subscription receipt offering of \$219.5 million were released from escrow and each holder of a subscription receipt automatically received one common share of the Company. Enbridge also subscribed for an additional 2,909,000 common shares at a price of \$18.75 per common share for gross proceeds of \$54.5 million. The Company used the aggregate gross proceeds of \$274.0 million to subscribe for additional units of the Fund and the Fund in turn used these proceeds to complete the Transaction.