

**ENBRIDGE INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2013**

# **MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013**

This Management's Discussion and Analysis (MD&A) dated July 30, 2013 should be read in conjunction with the unaudited consolidated financial statements and notes thereto of Enbridge Income Fund (the Fund) as at and for the three and six months ended June 30, 2013, which are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). It should also be read in conjunction with the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2012. Unless otherwise noted, all financial information is presented in Canadian dollars. Additional information related to the Fund, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

In connection with the preparation of the Fund's first quarter consolidated financial statements, an error was identified in the manner in which the Fund's investee, Alliance Canada, recorded deferred regulatory assets associated with the difference between depreciation expense calculated in accordance with U.S. GAAP and negotiated depreciation rates recovered in transportation tolls. The related amount was not material to any of the Fund's previously issued consolidated financial statements; however, as discussed in Note 2 – Revision of Prior Period Financial Statements to the Consolidated Financial Statements as at and for the three and six months ended June 30, 2013, prior year comparative financial statements have been revised to correct its effect. This non-cash revision did not impact cash flows or cash available for distribution for any prior period. The discussion and analysis included herein is based on revised financial results for the three and six months ended June 30, 2012 and for other comparative periods as indicated.

## **OVERVIEW**

The Fund is involved in the generation, transportation and storage of energy through its interests in 524 megawatts (MW) of renewable and alternative power generation capacity (Green Power), its liquids transportation and storage business in Western Canada (Liquids Transportation and Storage) and its natural gas transmission business comprised of a 50% interest in the Canadian segment of Alliance Pipeline (Alliance Canada).

The unitholders of the Fund are Enbridge Income Fund Holdings Inc. (ENF), a public company listed on the Toronto Stock Exchange (TSX), and Enbridge Inc. (Enbridge), a North American transporter, distributor and generator of energy listed on the TSX and the New York Stock Exchange. Enbridge's total economic interest in the Fund was 67.3% as at June 30, 2013 and July 30, 2013 based on its holdings of common units of the Fund (Fund Units), its indirect interest in the Fund through ENF, and its interest in preferred units of a subsidiary of the Fund, Enbridge Commercial Trust (ECT).

## **FINANCIAL OVERVIEW**

In December 2012, the Fund completed a \$1.168 billion acquisition of crude oil storage facilities and wind and solar power generation facilities (the 2012 Acquisition) consisting of the Hardisty Contract Terminals, the Hardisty Storage Caverns, the 99 MW Greenwich Wind Project, the 15 MW Amherstburg Solar Project and the 5 MW Tilbury Solar Project (the Crude Oil Storage and Renewable Energy Assets).

The Fund reports under U.S. GAAP which requires the acquirer in an acquisition of entities under common control to present the results of operations of the assets as if the acquirer had always owned the assets. Under U.S. GAAP, the 2012 Acquisition qualifies as a transaction among entities under common control as the assets were purchased from Enbridge and its subsidiaries. As such, earnings for 2012 comparative periods report the results of the Fund and the Crude Oil Storage and Renewable Energy Assets on a combined basis as though the 2012 Acquisition occurred on January 1, 2010. Accordingly, earnings for the three and six months ended June 30, 2012 include retrospective adjustments as identified in the following table. The retrospective adjustments may not be comparable to results generated under the Fund's direct ownership as historic performance would have been influenced by assets financed differently and assets not constructed or in service at the beginning of the period. The

impacts of these retrospective adjustments have been eliminated from the determination of cash available for distribution (CAFD).

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(millions of Canadian dollars)</i>				
<b>Earnings<sup>1</sup></b>				
Green Power	27.6	20.5	53.7	43.9
Liquids Transportation and Storage	18.0	12.5	20.9	24.7
Alliance Canada	14.2	12.7	26.5	25.8
Corporate	(32.6)	(29.3)	(60.3)	(60.1)
	27.2	16.4	40.8	34.3
<b>Retrospective Adjustments</b>				
Green Power – 2012 Acquisition	-	5.2	-	10.7
Liquids Transportation and Storage – 2012 Acquisition	-	3.9	-	7.6
	27.2	25.5	40.8	52.6
<b>Cash available for distribution<sup>2</sup></b>				
Green Power	43.3	33.3	84.5	69.3
Liquids Transportation and Storage	33.9	19.0	67.0	38.2
Alliance Canada	17.1	17.8	35.0	36.0
Corporate	(23.3)	(17.9)	(45.3)	(35.0)
	71.0	52.2	141.2	108.5

<sup>1</sup> Earnings for the 2012 comparative periods have been revised. See Note 2 to the consolidated financial statements for the three and six months ended June 30, 2013.

<sup>2</sup> See definition within "Non-GAAP Measures" section, as well as the reconciliation to Cash Provided by Operating Activities.

Green Power earnings for the three and six months ended June 30, 2013 were higher than the comparable periods of 2012, reflecting incremental cash flows from the Greenwich Wind Project, Amherstburg Solar Project and Tilbury Solar Project following their acquisition from wholly-owned subsidiaries of Enbridge in December 2012. Stronger wind resource at the Ontario and Talbot Wind Projects also contributed to the increase for both periods, offset partially by lower earnings from the Sarnia Solar Project due to weaker solar resource.

During the six months ended June 30, 2013, the Fund's Liquids Transportation and Storage business was impacted by an extraordinary pre-tax write-off of \$16.5 million as a consequence of discontinuing rate regulated accounting for the Westspur System. On April 1, 2013, the Fund announced it concluded a settlement (the Settlement) with a group of shippers relating to new tolls on the Westspur System. The Settlement resulted in the discontinuance of rate regulated accounting for the Westspur System and the Fund recorded a write-off related to a deferred regulatory asset which will not be collected under the terms of the Settlement, which decreased earnings for the six months ended June 30, 2013 compared to the same period of the prior year. The impact of the write-off was partially offset by positive contributions from the Hardisty Contract Terminals and Hardisty Storage Caverns acquired in December 2012. For the quarter ended June 30, 2013, earnings increased to \$18.0 million from \$12.5 million in the comparable period, driven mainly by incremental earnings from the crude oil storage assets acquired in the fourth quarter of 2012. This was partially offset by lower earnings from the Westspur System as throughput levels, which now directly impact earnings for Westspur under the new market-based toll structure that commenced on April 1, 2013, continued to be below 2012 levels, reflecting the impact of historically wide crude oil price differentials that resulted from capacity constraints on downstream pipelines.

Alliance Canada earnings were \$14.2 million and \$26.5 million for the three and six months ended June 30, 2013, an increase from the comparable periods in 2012 due to increased equity income driven by negotiated depreciation rates recovered in transportation tolls exceeding depreciation expense calculated in accordance with U.S. GAAP as discussed in Note 2 – Revision of Prior Period Financial Statements to the Consolidated Financial Statements as at and for the three and six months ended June 30, 2013. For the six months ended June 30, 2013, this was partially offset by the National Energy Board's (NEB) denial of the recovery of indirect costs incurred by Alliance Canada, resulting in a one-time charge to the Fund's earnings of \$2.1 million in the first quarter of 2013. The indirect costs related to the 2012 planned system outage to accommodate the relocation of a segment of the Alliance pipeline as required by the NEB.

Corporate costs, which include taxes, financing costs and management and administrative expenses, increased in the second quarter of 2013 as compared to the same period of 2012 due to higher interest expense arising from the long-term debt incurred in the fourth quarter of 2012 to partially finance the 2012 Acquisition, as well as higher incentive fees resulting from a per unit increase in distributions. For the six months ended June 30, 2013, Corporate costs increased compared to the comparable period of the prior year. This increase was attributable to a higher interest expense associated with the higher long-term debt balances than in 2012. This was partially offset by a \$4.5 million deferred tax recovery in connection with the Westspur System deferred regulatory asset write-off in the first quarter of 2013.

The Fund's CAFD totaled \$71.0 million and \$141.2 million for the three and six months ended June 30, 2013, respectively, increases of 36.0% and 30.0% on the respective prior year periods. The increases were driven primarily by higher contributions from the Crude Oil Storage and Renewable Energy Assets acquired in December 2012, partially offset by increased interest expense associated with the higher debt balances used to finance a portion of the 2012 Acquisition.

Effective with the December 2012 distribution, the Fund's monthly distribution increased to \$0.134 per unit. This increase was supported by incremental cash flow from the 2012 Acquisition.

### **Forward-Looking Information**

*In the interest of providing the Fund's unitholders and potential investors with information about the Fund, its subsidiaries and joint ventures, including management's assessment of the Fund, its subsidiaries' and joint ventures' future plans and operations, 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 included or incorporated by reference in this document include, but are not limited to, statements with respect to:*

- *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 levels of demand for the Fund's products and services;*
- *expected future earnings and cash flows;*
- *expected future actions of regulators;*
- *expected future distributions to unitholders and the taxability thereof; and*
- *expected cash available for distribution.*

*Although the Fund believes that these forward-looking statements are reasonable based on the information available on the date such statements are made and 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, natural gas liquids and green energy; prices of crude oil, natural gas, natural gas liquids and green energy; expected exchange rates; inflation; interest rates; the availability and price of labour and 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, natural gas liquids and green energy, 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 products and services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which the Fund operates, may impact levels of demand for the Fund's products, 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 amounts, or estimated future distributions. 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 construction materials; the effects of inflation on labour and material costs; the effects of interest rates on borrowing costs; and the impact of weather and customer and regulatory approvals on construction schedules.*

*The Fund's forward-looking statements are subject to risks and uncertainties pertaining to operating performance, regulatory parameters, project approval and support, weather, economic and competitive conditions, exchange rates, interest rates, commodity prices and supply and demand for commodities, including but not limited to those risks and uncertainties discussed in this MD&A and in the Fund's other filings 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 and the Fund's future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by law, the Fund assumes 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 Fund or persons acting on 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 (CAFD). CAFD represents the Fund's cash available to fund distributions on trust units and ECT preferred units as well as for debt repayments and reserves. CAFD 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 unitholders as the Fund's objective is to provide a predictable flow of distributable cash to unitholders. Please refer to the CAFD reconciliation within this MD&A. CAFD is not a measure that has standardized meaning prescribed by United States Generally Accepted Accounting Principles (U.S. GAAP) and is not considered a GAAP measure. Therefore, this measure may not be comparable with similar measures presented by other issuers.*

### **FUND DESCRIPTION**

The Fund is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Fund commenced operations on June 30, 2003. Enbridge Management Services Inc. (EMSI or the Manager), a wholly-owned subsidiary of Enbridge, administers the Fund. EMSI also serves as the manager of ECT and ENF.

On December 17, 2010, the Fund was restructured pursuant to a plan of arrangement (the Plan). Under the Plan, 20,125,000 publicly held trust units of the Fund, as well as 5,000,000 trust units held by Enbridge, were exchanged on a one-for-one basis for shares of ENF, a taxable publicly-traded Canadian corporation. Concurrently, the Fund's trust units ceased trading on the Toronto Stock Exchange, and the ENF shares were listed. Subsequent to implementation of the Plan, the Fund ceased to be a specified investment flow-through (SIFT) entity and therefore is not subject to SIFT tax legislation.

The following table presents the direct and indirect ownership of the Fund, ECT and ENF. The ECT preferred units are exchanged for Fund Units on a one-for-one basis, in whole or in part, at any time.

	<b>At July 30, 2013</b>
<b>Enbridge Income Fund Holdings Inc.</b> <i>(number of common shares outstanding)</i>	
Held by public	<b>45,249,000</b>
Held by Enbridge	<b>11,242,000</b>
	<b>56,491,000</b>
<b>Enbridge Income Fund</b> <i>(number of common units outstanding)</i>	
Held by Enbridge	<b>9,500,000</b>
Held by Enbridge Income Fund Holdings Inc.	<b>56,491,000</b>
	<b>65,991,000</b>
<b>Enbridge Commercial Trust</b> <i>(number of preferred units outstanding)</i>	
Held by Enbridge	<b>72,465,750</b>
<b>Total number of common units and ECT preferred units outstanding</b>	<b>138,456,750</b>

## **GREEN POWER**

### **Overview**

Green Power includes assets that produce electricity from renewable and alternative energy sources and consists of the following assets:

#### *Wind Projects*

The Fund has a 100% interest in the following projects which have an aggregate power generation capacity of 388 MW:

- The Ontario Wind Project, which has an aggregate capacity of 190 MW;
- The Talbot Wind Project, which has an aggregate capacity of 99 MW;
- The Greenwich Wind Project, which has an aggregate capacity of 99 MW.

All power produced from these wind projects is sold to the Ontario Power Authority (OPA) pursuant to long-term power purchase agreements (PPA).

The Fund also has interests in three wind power projects with a net capacity of 26 MW including:

- a 50% interest in the SunBridge Wind Project, which has an aggregate capacity of 11 MW (6 MW net to the Fund);
- a 33% interest in each of the Magrath and Chin Chute Wind Projects, which have an aggregate capacity of 30 MW per project (10 MW per project net to the Fund).

The power from SunBridge is delivered into the Saskatchewan power grid under a long-term PPA, while the energy produced at Magrath and Chin Chute is delivered into the Alberta power grid pursuant to power price swap agreements.

#### *Solar Projects*

The Fund has a 100% interest in the following solar generation projects with an aggregate capacity of 100 MW:

- The Sarnia Solar Project, which has an aggregate capacity of 80 MW;
- The Amherstburg Solar Project, which has an aggregate capacity of 15 MW;
- The Tilbury Solar Project, which has an aggregate capacity of 5 MW.

All power produced from these solar projects is sold pursuant to long-term PPAs with the OPA.

### NRGreen

The Fund also has a 50% interest in NRGreen. NRGreen operates four waste heat recovery facilities with an aggregate capacity of 20 MW (10 MW net to the Fund), all of which are located in Saskatchewan at compressor stations along the Alliance Pipeline. The power generated from the NRGreen facilities is sold under long-term PPAs.

The Whitecourt Recovered Energy Project is a new waste heat recovery facility being constructed by NRGreen, adjacent to a compressor station on the Alliance Pipeline near Whitecourt, Alberta. The total cost of the Whitecourt Recovered Energy Project is expected to be approximately \$76 million. The project is partially funded with a \$7 million grant from the Climate Change and Emissions Management Corporation under its Energy Efficiency Projects grant program. The Fund's 50% share of the cost of the Whitecourt Recovered Energy Project is approximately \$34 million, of which the Fund has contributed approximately \$32 million as at June 30, 2013. The Whitecourt Recovered Energy Project is expected to go into service in the third quarter of 2013.

### Results of Operations

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Financial highlights</b> (millions of Canadian dollars)				
Earnings <sup>1</sup>	27.6	20.5	53.7	43.9
Retrospective Adjustments – 2012 Acquisition	-	5.2	-	10.7
	27.6	25.7	53.7	54.6
<b>Operating highlights</b> <sup>1</sup> (thousands of megawatt hours produced)				
Wind Projects (including joint ventures)	274.0	185.3	628.3	483.5
Solar Projects	49.1	45.3	73.0	68.3
Waste Heat Projects (50%)	16.2	16.5	35.4	36.1
	339.3	247.1	736.7	587.9

<sup>1</sup> Presented before the effects of retrospective adjustments.

Green Power earnings for the three and six months ended June 30, 2013 were higher than the comparable periods of 2012, reflecting positive contributions from the Greenwich Wind Project, the Amherstburg Solar Project and the Tilbury Solar Project following their acquisition from wholly-owned subsidiaries of Enbridge in December 2012 as well as strong wind resource from the Ontario and Talbot Wind Projects. This was offset partially by lower earnings from the Sarnia Solar Project due to weaker solar resource. Performance from the Greenwich Wind Project was also impacted by low wind resource during the 2013 periods.

Total Green Power production for the three and six months ended June 30, 2013 increased from the same periods in 2012, due to the 2012 Acquisition of the wind and solar assets, offset partially by lower solar resource at the Sarnia Solar Project.

### Ontario Power Authority Settlement

In response to amendments passed by the Independent Electricity System Operator (IESO) in November 2012 which would allow IESO to curtail intermittent generators in times of surplus generation by the system operator, the Fund and other renewable power generators reached an agreement with the IESO to amend existing power purchase agreements to include both annual and contract term curtailment caps beyond which renewable power generators will be compensated for lost production. The Fund expects uncompensated curtailment, which will impact the Ontario Wind Project, Talbot Wind Project and Greenwich Wind Project, to be less than 1% of the operating hours of the affected assets both annually and over the life of the PPAs.

## LIQUIDS TRANSPORTATION AND STORAGE

### Overview

The Fund's Liquids Transportation and Storage business serves customers in Western Canada and includes the Saskatchewan System which transports crude oil and natural gas liquids (NGLs) from producing fields and facilities in southeastern Saskatchewan, southwestern Manitoba and North Dakota to Cromer, Manitoba where the crude oil and NGLs enter Enbridge's Mainline System to be transported to the United States or eastern Canada. Liquids Transportation and Storage also includes related terminals and tankage facilities in Saskatchewan and the Hardisty Contract Terminals and Hardisty Storage Caverns located near Hardisty, Alberta, a key crude pipeline hub in Western Canada.

Collectively referred to as the Saskatchewan System, the Saskatchewan Gathering, Westspur, Weyburn and Virden pipeline systems include approximately 420 kilometres of trunk line and approximately 1,900 kilometres of gathering pipeline as well as the Canadian portion of the Bakken Expansion, 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. The capacity of each of the Saskatchewan Gathering and the Westspur Systems is 255,000 bpd, the capacity of the Weyburn and Virden Systems is approximately 47,000 bpd and 37,000 bpd, respectively, and the capacity of the Bakken Expansion is 145,000 bpd.

Storage assets include terminals and tankage facilities in Saskatchewan and the Hardisty Contract Terminals and Hardisty Storage Caverns located in Hardisty, Alberta, which collectively have storage capacity of approximately 11 million barrels. The storage facilities in Saskatchewan include 25 above ground storage tanks with total capacity of approximately 450,000 barrels. The Hardisty Contract Terminals are located adjacent to Enbridge's Mainline System terminal and are comprised of 18 above ground crude oil storage tanks, ranging in size from 250,000 to 560,000 barrels, and one above ground condensate storage tank which together have an aggregate storage capacity of 7.5 million barrels. The Hardisty Storage Caverns are comprised of four underground salt caverns and two above ground storage tanks, with approximately 3.5 million barrels of storage capacity.

### Results of Operations

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Financial highlights</b> (millions of Canadian dollars)				
Earnings before extraordinary item <sup>1</sup>	18.0	12.5	37.4	24.7
Extraordinary item	-	-	(16.5)	-
Earnings <sup>1</sup>	18.0	12.5	20.9	24.7
Retrospective Adjustments – 2012 Acquisition	-	3.9	-	7.6
	18.0	16.4	20.9	32.3
<b>Operating highlights</b> <sup>1</sup> (thousands of barrels per day)				
Liquids Transportation and Storage <sup>1,2</sup>				
Westspur System	158.1	173.4	159.7	194.3
Saskatchewan Gathering System	113.2	128.8	112.6	137.5
Weyburn System	30.8	31.9	31.3	31.9
Virden System	22.3	23.4	23.5	24.0
Bakken Expansion	5.9	-	3.0	-

<sup>1</sup> Presented before the effects of retrospective adjustments.

<sup>2</sup> Totals are not presented as the same volumes can be transported through a combination of the pipelines comprising the Liquids Transportation and Storage segment.



Liquids Transportation and Storage earnings before extraordinary item for the three and six months ended June 30, 2013 realized incremental contributions from the Hardisty Contract Terminals and Hardisty Storage Caverns following the 2012 Acquisition.

Throughout 2011 and 2012, the Fund continued to review the structure of its tolls with shippers following a shipper complaint in early 2011. On April 1, 2013, the Fund announced it concluded a settlement with a group of shippers relating to new tolls on the Westspur System. Pursuant to the Settlement, the tolls on the Westspur System are fixed and increased annually with reference to a pre-identified inflation index, subject to throughput remaining within a volume band close to volumes recently transported on the Westspur System. At the request of certain shippers who did not execute the Settlement, the NEB has not removed the interim status from the historical tolls and has made the new tolls interim as well. As of July 30, 2013, the Fund continues to work with shippers to resolve the matter and finalize the tolls.

The Settlement establishes a toll methodology for an initial term of five years and will renew for additional one year terms thereafter unless otherwise terminated. Pursuant to the Settlement, the tolls on the Westspur System are fixed and increased annually with reference to a pre-identified inflation index, subject to throughput remaining within a volume band close to volumes recently transported on the Westspur System. To preserve a relatively stable cash flow profile, toll surcharges or discounts will be applied should throughput increase or decrease on a sustained basis outside the pre-defined band. Additionally, tolls will be increased should integrity or regulatory costs exceed defined thresholds or if new capital projects are undertaken.

Management believes that as a result of the Settlement, the discontinuance of rate regulated accounting for the Westspur System is probable, and as such the Liquids Transportation and Storage segment recorded a pre-tax write-off of \$16.5 million related to previously-recorded deferred revenue which will not be collected under the terms of the Settlement. The financial impact of the Settlement is not expected to materially affect the Fund's consolidated financial prospects, distribution coverage or practices.

Throughput volumes decreased for the Westspur and Saskatchewan Gathering Systems for the three and six months ended June 30, 2013 compared to the same periods of the prior year due to customers using alternative transportation options, primarily rail. The increased use of rail at present is attributable to historically wide crude oil price differentials between local delivery points and access to world market prices at tidewater which is the result of a lack of capacity on downstream pipelines. Management expects throughput to substantially recover on these systems as expansions on downstream pipelines and new market projects relieve bottlenecks and reduce price discounts for producers delivering into the Saskatchewan System. Volumes on the Weyburn System and Virden System for the three and six months ended June 30, 2013 were down slightly from the same periods of the prior year. Throughput variances do not directly impact earnings on the Saskatchewan Gathering System since this system is currently cost of service based. Prior to the filing of the new tolls for the Westspur System with the NEB on April 1, 2013, throughput variances also did not impact earnings for the Westspur System. As a consequence of the discontinuance of rate regulated accounting for the Westspur System, throughput levels directly impacted earnings for Westspur beginning in the second quarter of 2013. Similarly, throughput levels directly impact earnings of the Weyburn and Virden systems, which operate on a basis similar to a common carrier and charge a market-based toll per barrel of crude oil transported.

### **Bakken Expansion**

The Bakken Expansion is 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. This project, undertaken by the Fund in Canada and Enbridge Energy Partners (EEP), a party related to Enbridge, in the United States, reversed and expanded an existing pipeline, running from Berthold, North Dakota, to Steelman, Saskatchewan, and constructed a new 16-inch pipeline from a new pump station near Steelman to the Enbridge terminal near Cromer, Manitoba. It was placed into service in March 2013, providing capacity of 145,000 barrels per day (bpd) to producers in North Dakota. Expenditures incurred by the Fund for the Canadian portion of the project through June 30, 2013 were approximately \$160 million. After completion of site remediation and post-implementation

expenditures, the total cost of the Canadian portion of the Bakken Expansion Project is expected to be under its original budget of approximately \$190 million.

As a result of high crude oil differentials at markets serviced by downstream pipelines, capacity was not well utilized in the first half of 2013. Crude differentials have narrowed and throughputs are expected to improve modestly in the second half of 2013. The Fund continues to collect cash tolls regardless of actual system throughput pursuant to firm take-or-pay commitments totaling 100,000 bpd, a portion of which are subject to a waiver of 25% of the take-or-pay amount in 2013.

## ALLIANCE CANADA

### Overview

Alliance Canada consists of 1,560 kilometres of the Alliance System's natural gas mainline pipeline beginning near Gordondale, Alberta and connecting to Alliance US at the Canada/United States border near Elmore, Saskatchewan. Alliance Canada also includes the Alliance System's lateral pipelines, which connect the mainline to a number of upstream receipt points, primarily at natural gas processing facilities in northwestern Alberta and northeastern British Columbia, and related infrastructure.

The Alliance System is designed to transport 1,325 million cubic feet per day of natural gas on a firm service basis primarily from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois. Additional transportation capacity is available to shippers for no additional cost other than the cost of the associated fuel requirements through Alliance Canada's Authorized Overrun Service (AOS).

Alliance Canada has transportation service agreements (TSAs) with shippers for substantially all of its available firm transportation capacity. Alliance Canada's TSAs are designed to provide toll revenues sufficient to recover prudently incurred costs of service, including operating and maintenance, depreciation, an allowance for income tax, costs of indebtedness and an allowed return on equity of 11.26% after tax, based on a deemed 70/30 debt/equity ratio. The initial term of the TSAs expires in December 2015, with the exception of a small proportion of shippers who have elected to extend their contracts beyond 2015.

Tolls and tariffs for Alliance Canada are regulated by the NEB. Toll adjustments, based on variances between the cost of service forecast used to calculate the toll and the actual cost of service, are made annually. Following consultation with shippers, amended tolls are filed annually with the regulator.

### Results of Operations

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Financial highlights</b> (millions of Canadian dollars)				
Earnings <sup>1</sup>	14.2	12.7	26.5	25.8
<b>Operating highlights</b> (millions of cubic feet per day)				
Alliance Canada	1,554.0	1,536.0	1,593.0	1,582.0

<sup>1</sup> Earnings for the 2012 comparative periods have been revised. See Note 2 to the consolidated financial statements for the three and six months ended June 30, 2013.

Alliance Canada earnings were \$14.2 million and \$26.5 million for the three and six months ended June 30, 2013, an increase from the comparable periods in 2012 due to increased equity income driven by negotiated depreciation rates recovered in transportation tolls exceeding depreciation expense calculated in accordance with U.S. GAAP as discussed in Note 2 – Revision of Prior Period Financial Statements to the Consolidated Financial Statements as at and for the three and six months ended June 30, 2013. For the six months ended June 30, 2013, this was partially offset by the NEB's denial of the recovery of indirect costs incurred by Alliance Canada, resulting in a one-time charge to the Fund's earnings of \$2.1 million in the first quarter of 2013. The indirect costs related to the 2012 planned system outage to accommodate the relocation of a segment of the Alliance pipeline as required by the NEB.

Alliance Canada throughput volumes increased for the three and six months ended June 30, 2013 as compared to the same periods of 2012 due to lower maintenance work in 2013.

### **Alliance Pipeline Recontracting**

On July 15, 2013, Alliance Pipeline announced that beginning on August 15, 2013 customers could express interest in shipping on the Alliance System for periods following the December 2015 expiry of the majority of existing contracts. Alliance Pipeline further outlined the services to be offered as well as the precedent agreement process to be followed.

## **CORPORATE**

### **Overview**

Corporate costs are comprised of corporate financing costs, management and administrative costs, which include incentive fees, and current and deferred income taxes.

### **Results of Operations**

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(millions of Canadian dollars)</i>				
Interest expense and other	18.2	13.4	35.8	27.9
Management and administrative	5.9	3.8	11.3	7.2
Income taxes	8.5	12.1	13.2	25.0
Corporate costs	32.6	29.3	60.3	60.1

The primary driver for increased Corporate costs for the quarter ended June 30, 2013 was higher interest expense associated with the long-term debt incurred in the fourth quarter of 2012 to partially finance the 2012 Acquisition, as well as higher management and administrative costs compared to the second quarter of 2012. Management and administrative expense included incentive fees which are based on distributions declared by the Fund compared to a predetermined distribution target. As such, incentive fees increased due to higher monthly distributions of \$0.134 per unit effective with the December 2012 distribution as compared to \$0.121 per unit in the second quarter of 2012. These increases were partially offset by lower income taxes for the period.

For the six months ended June 30, 2013, the increase in Corporate costs was attributable mainly to higher interest expense associated with the long-term debt incurred in the fourth quarter of 2012 to partially finance the 2012 Acquisition as well as higher incentive fees in the 2013 period. Incentives fees were \$9.8 million for the six months ended June 30, 2013 as compared to \$6.2 million in 2012. This increase was partially offset by lower deferred income taxes and a \$4.5 million tax recovery resulting from the Westspur deferred revenue write-off of \$16.5 million in the first quarter of 2013. In 2012 periods, the Fund was able to utilize tax pools assumed from the renewable assets acquired in 2011 from Enbridge to offset taxable income which resulted in deferred income taxes. In 2013 periods, the Fund continues to utilize tax pools but to a lesser extent as a portion of distributions to unitholders is taxable.

## **LIQUIDITY AND CAPITAL RESOURCES**

In keeping with its low risk value proposition, the Fund actively monitors and manages exposure to financial risks. The Fund's financing strategy is to maintain strong, investment grade credit ratings and ongoing access to capital markets. To protect against more severe market disruptions, the Manager targets to maintain sufficient liquidity in the form of committed standby credit facilities to finance anticipated operating and capital requirements for at least a year without having to access long-term capital markets.

## **Cash Requirements**

Liquidity needs can be met through a variety of sources, including cash from operations and drawdowns on available capacity under the Fund's committed standby credit facilities. The Fund maintains a current medium term note (MTN) shelf prospectus with Canadian securities regulators, which enables ready access to Canadian public capital markets, subject to market conditions. These sources are expected to be sufficient to meet currently forecasted liquidity and capital resource requirements of the Fund.

## **Sources and Uses of Cash**

The Fund's primary uses of cash are distributions to unitholders, administrative and operational expenses, maintenance and enhancement capital spending, and interest and principal repayments on the Fund's long-term debt. Sources of cash include cash flows from operations, new offerings of debt and equity, as well as loans from affiliates.

### *Debt*

Long-term debt consists of MTNs and a committed credit facility. No MTNs were issued in the first six months of 2013.

In June 2013, the Fund amended its existing \$500.0 million, 3-year standby credit facility with a syndicate of commercial banks, which extends the maturity date to June 28, 2016. On an annual basis, the Fund may request the option to extend the applicable maturity date of the facility by one year.

The Fund is subject to several covenants under its credit facility. Certain covenants were modified in the amended facility including the addition of a covenant that limits outstanding debt to a percentage of the Fund's consolidated capitalization and the elimination of a covenant which limited outstanding debt to a multiple of EBITDA (earnings before interest, taxes, depreciation and amortization). The Fund is in compliance with all covenants as at June 30, 2013.

At June 30, 2013, \$475.0 million remained undrawn under this facility and was available to meet liquidity requirements.

### *Equity*

During the six months ended June 30, 2013, the Fund issued trust units to ENF for gross proceeds of \$119.2 million and ECT preferred units to Enbridge for gross proceeds of \$130.8 million primarily to repay debt used to fund capital expenditures and to partially fund ongoing capital expenditures associated with the Fund's organic expansion strategy.

### *Distributions*

Effective with the December 2012 distribution, the Fund's monthly distribution increased to \$0.134 per trust unit and ECT preferred unit as compared to \$0.121 per unit in the first six months of 2012.

### *Capital expenditures*

The Fund's capital expenditures (including contributions to equity investees to fund expansion projects) were \$19.2 million for the three months ended June 30, 2013 (2012 – \$16.0 million, which included \$0.8 million of retrospective adjustments) and \$35.2 million for the six months ended June 30, 2013 (2012 – \$24.7 million, which included \$1.8 million of retrospective adjustments). Approximately \$20 million (2012 – \$7 million) was directed to the Bakken Expansion Program during the first half of 2013. Maintenance capital expenditures on the Saskatchewan System and the Green Power segment totalled \$1.5 million (2012 – \$2.5 million) and \$2.7 million (2012 – \$4.4 million) for the three and six months ended June 30, 2013, respectively. The Fund also made contributions to NRGreen to partially fund the Whitecourt Recovered Energy Project of \$3.7 million (2012 – \$3.0 million) and \$11.2 million (2012 – \$6.0 million) during the three and six months ended June 30, 2013, respectively. Additionally, the Fund incurred capital expenditures for organic growth projects, including customer connections.

## CASH AVAILABLE FOR DISTRIBUTION<sup>1</sup>

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<i>(millions of Canadian dollars)</i>				
Cash provided by operating activities	85.5	75.7	135.1	136.3
Crude Oil Storage and Renewable Energy Assets pre-Acquisition cash flows from operating activities <sup>2</sup>	-	(24.2)	-	(46.6)
Green Power maintenance capital expenditures <sup>3</sup>	(0.4)	-	(0.5)	(0.2)
Green Power joint venture cash distributed /(retained) <sup>4</sup>	-	0.8	(0.1)	1.0
Liquids Transportation and Storage maintenance capital expenditures <sup>3</sup>	(1.1)	(2.5)	(2.2)	(4.2)
Change in operating assets and liabilities in the period <sup>5</sup>	(13.0)	2.4	8.9	22.2
Cash available for distribution	71.0	52.2	141.2	108.5
Cash available for distribution is comprised of the following:				
Alliance Canada distributions	17.1	17.8	35.0	36.0
Liquids Transportation and Storage operating income before depreciation and amortization	35.0	21.5	69.2	42.4
Liquids Transportation and Storage maintenance capital expenditures	(1.1)	(2.5)	(2.2)	(4.2)
Green Power operating income before depreciation and amortization	42.9	32.0	83.2	66.0
Green Power maintenance capital expenditures	(0.4)	-	(0.5)	(0.2)
Green Power joint venture distributions	0.8	1.3	1.8	3.5
Corporate management and administrative expense	(5.9)	(3.8)	(11.3)	(7.2)
Corporate interest expense	(16.8)	(14.2)	(33.2)	(27.5)
Corporate current income tax recovery/(expense)	(0.6)	0.1	(0.8)	(0.3)
Cash available for distribution	71.0	52.2	141.2	108.5
ECT preferred unit distributions declared	29.1	19.6	57.6	39.2
Trust unit distributions declared	26.6	17.8	52.5	35.6
Cash distributions declared	55.7	37.4	110.1	74.8
Payout ratio	78.5%	71.6%	78.0%	68.9%

<sup>1</sup> See Non-GAAP measures.

<sup>2</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Acquisition. Cash provided by operating activities of the Crude Oil Storage and Renewable Energy Assets prior to their acquisition date have been deducted from CAFD as these cash flows were not available for distribution by the Fund.

<sup>3</sup> Maintenance capital expenditures reduce CAFD since these expenditures are funded through cash from operations.

<sup>4</sup> The cash retained or distributed by certain Green Power joint ventures reflects the cash from operations of these segments that has not been distributed to the Fund or distributions in excess of cash earnings in the period. While this cash from operations is proportionately consolidated and included in the Fund's cash provided by operating activities, it is not available for distribution by the Fund until it has been received.

<sup>5</sup> Change in operating assets and liabilities in the period reflect changes in non-cash working capital related to operating activities. The change has been added back to CAFD since fluctuations in working capital are expected each period and are not indicative of changes in cash available to be distributed.

As set out in the previous table, CAFD 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. CAFD represents cash available to fund distributions on trust units and ECT preferred units, as well as for debt repayments and reserves.

For the three and six months ended June 30, 2013, cash distributions declared represented 78.5 % and 78.0% of CAFD, respectively, compared with 71.6 % and 68.9% for the same periods in 2012, respectively. The Fund targets to distribute a high proportion of CAFD each calendar year, after prudently reserving for contingencies and debt repayment.

## ANALYSIS OF CASH DISTRIBUTIONS DECLARED

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(millions of Canadian dollars)</i>				
Cash provided by operating activities <sup>1</sup>	85.5	75.7	135.1	136.3
Earnings <sup>1, 2</sup>	27.2	25.5	40.8	52.6
Cash distributions declared	55.7	37.4	110.1	74.8
Excess of cash provided by operating activities over cash distributions declared	29.8	38.3	25.0	61.5
Shortfall of earnings over cash distributions declared	(28.5)	(11.9)	(69.3)	(22.2)

<sup>1</sup> Cash provided by operating activities and earnings have been retrospectively adjusted to furnish comparative information related to the 2012 Acquisition as prescribed by U.S. GAAP for common control transactions.

<sup>2</sup> Earnings for the 2012 comparative periods have been revised. See Note 2 to the consolidated financial statements for the three and six months ended June 30, 2013.

For the three and six months ended June 30, 2013, cash provided by operating activities exceeded cash distributions declared by \$29.8 million (2012 – \$38.3 million) and \$25.0 million (2012 – \$61.5 million), respectively. Excess cash was reserved for debt payments, working capital requirements and maintenance capital expenditures, as well as cash retained by joint ventures. The comparative periods of 2012 included retrospective adjustments totaling \$28.7 million and \$43.8 million, respectively, which were not available to distribute.

Earnings were \$28.5 million (2012 – \$11.9 million) and \$69.3 million (2012 – \$22.2 million) lower than cash distributions for the three and six months ended June 30, 2013, respectively. Earnings reflected non-cash items such as the extraordinary loss associated with the write-off of Westspur deferred revenue in the first quarter of 2013, amortization of deferred financing costs, depreciation and deferred income taxes, all of which do not impact cash flow. Depreciation does not necessarily represent the cost of maintaining productive capacity; therefore, cash required for maintenance is generally lower than depreciation expense. Earnings also included retrospective adjustments totaling \$9.1 million and \$18.3 million for the three and six months ended June 30, 2012, respectively.

## RELATED PARTY TRANSACTIONS

In connection with the February 2013 offering of 3,820,000 common shares by ENF, a unitholder of the Fund, the Fund agreed to reimburse ENF for share issue costs of \$4.2 million. Proceeds from the offering of common shares were used by ENF to purchase additional trust units of the Fund.

In 2013, ENF has advanced \$8.8 million to subsidiaries of the Fund pursuant to a subordinated demand loan. At June 30, 2013, \$15.6 million was outstanding. Interest on the demand loan was charged at 4.25%.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### MARKET PRICE RISK

The Fund's earnings, cash flows and other comprehensive income (OCI) are subject to movements in interest rates, foreign exchange rates and commodity prices (collectively, market price risk). Formal risk management policies, processes and systems have been designed to mitigate these risks.

The following summarizes the types of market price risks to which the Fund is exposed and the risk management instruments used to mitigate them.

### Interest Rate Risk

The Fund's earnings and cash flows are exposed to short term interest rate variability due to the regular repricing of its variable rate debt, primarily credit facilities. Floating to fixed interest rate swaps are used to hedge against the effect of future interest rate movements. The Fund has implemented a program to significantly mitigate the volatility of short-term interest rates on interest expense through 2016 at an average swap rate of 1.72%.

The Fund's earnings and cash flows are also exposed to variability in longer term interest rates ahead of anticipated fixed rate debt issuances. Forward starting interest rate swaps may be used to hedge against the effect of future interest rate movements. At June 30, 2013 and December 31, 2012, no future fixed rate term debt issuances had been hedged.

The Fund uses qualifying derivative instruments to manage interest rate risk.

### Foreign Exchange Risk

The Fund's earnings, cash flows and OCI are subject to foreign exchange rate variability due to certain United States dollar denominated revenues and expenses. The Fund uses qualifying derivative instruments to manage foreign exchange rate risk.

### Commodity Price Risk

The Fund's earnings and cash flows are exposed to changes in commodity prices due to certain power generation operations and related floating rate supply agreements, as well as through commitments to purchase and sell natural gas in connection with capacity held on the Alliance System. The Fund uses power and natural gas derivative instruments to fix a portion of the variable price exposures that may arise from these activities. The Fund uses a combination of qualifying and non-qualifying derivative instruments to manage commodity price risk.

### Effect of Derivative Instruments on the Statements of Earnings and Comprehensive Income

The following table presents the effect of cash flow hedges on the Fund's consolidated earnings and comprehensive income.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(millions of Canadian dollars)</i>				
Amount of unrealized gain/(loss) recognized in OCI				
Interest rate contracts	2.4	(7.1)	1.7	(1.5)
Foreign exchange contracts	0.5	0.3	0.7	0.2
Commodity contracts	(2.1)	1.5	(1.7)	3.9
<b>Total unrealized gain/(loss) recognized in OCI</b>	<b>0.8</b>	<b>(5.3)</b>	<b>0.7</b>	<b>2.6</b>
Amount of gain/(loss) reclassified from accumulated other comprehensive income (AOCI) to earnings <i>(effective portion)</i>				
Interest rate contracts <sup>1</sup>	1.3	0.9	2.6	1.8
Commodity contracts <sup>2</sup>	0.7	(0.3)	0.6	(0.6)
<b>Total gain reclassified from AOCI to earnings <i>(effective portion)</i></b>	<b>2.0</b>	<b>0.6</b>	<b>3.2</b>	<b>1.2</b>

<sup>1</sup> Reported within Interest Expense in the Consolidated Statements of Earnings.

<sup>2</sup> Reported within Revenues in the Consolidated Statements of Earnings.

## **LIQUIDITY RISK**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations, including commitments, as they become due. In order to manage this risk, the Fund forecasts the cash requirements over the near and long term to determine whether sufficient funds will be available when required. The Fund's primary sources of liquidity and capital resources are funds generated from operations, draws under committed credit facilities and the issuance of medium term notes. The Fund maintains a current shelf prospectus with Canadian securities regulators, which enables, subject to market conditions, ready access to Canadian public capital markets. Cash flow from operations, in combination with available committed credit facilities, and if required, capital markets funding, is expected to be sufficient to meet the forecast liquidity and capital resource requirements of the Fund.

## **CREDIT RISK**

Entering into derivative financial instruments may result in exposure to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations. The Fund enters into risk management transactions primarily with institutions that possess investment grade credit ratings. Credit risk relating to derivative counterparties is mitigated by utilization of credit exposure limits and frequent assessment of counterparty credit ratings.

Credit risk also arises from trade and other receivables and is mitigated through credit exposure limits and by requiring less creditworthy counterparties to provide credit enhancement which may include letters of credit, posting of collateral, netting provisions or other contractual requirements. The maximum exposure to credit risk related to non-derivative financial assets is their carrying value.

## **FAIR VALUE MEASUREMENTS**

The Fund uses the most observable inputs available to estimate the fair value of its derivative instruments. When possible, the Fund estimates the fair value of its derivative instruments based on quoted market prices. If quoted market prices are not available, the Fund uses estimates from third party brokers. For non-exchange traded derivatives classified in Levels 2 and 3, the Fund uses standard valuation techniques to calculate the estimated fair value. These methods include discounted cash flows for forwards and swaps. Depending on the type of derivative instrument and nature of the underlying risk, the Fund uses observable market prices (interest and foreign exchange rates and commodity prices) and volatility as primary inputs to these valuation techniques. Finally, the Fund considers its own credit default swap spread as well as the credit default swap spreads associated with its counterparties in its estimation of fair value.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Regulation**

Both Alliance Canada and the systems comprising the Saskatchewan System are subject to regulation by various authorities, including the NEB, Saskatchewan Ministry of Economy and Manitoba Innovation, Energy and Mines. Regulatory bodies exercise statutory authority over matters such as construction, rates and ratemaking and agreements with customers. To recognize the economic effects of the actions of the regulator, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under U.S. GAAP for entities that are not rate-regulated.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates. Long-term regulatory assets are recorded in deferred amounts and other assets and current regulatory assets are recorded in accounts receivable and other. Long-term regulatory liabilities are recorded in other long-term liabilities and current regulatory liabilities are recorded in accounts payable and other. Regulatory assets are assessed for impairment if the Fund identifies an event indicative of possible impairment. The recognition of regulatory assets and liabilities is based on the actions or expected future actions of the regulator. To the extent that the regulator's actions differ from the Fund's expectations, the timing and amount of recovery or settlement of regulatory balances could differ significantly from those recorded. In the absence of rate regulation, the Fund would generally not recognize regulatory assets or liabilities and the earnings impact would be recorded in the period the expenses are incurred or revenues are earned. The Settlement relating to new tolls on the Westspur



System resulted in the discontinuance of rate regulated accounting for the Westspur System during the six months ended June 30, 2013, and the Liquids Transportation and Storage segment recorded a pre-tax write-off of \$16.5 million related to previously-recorded deferred revenue which will not be collected under the terms of the Settlement. As at June 30, 2013, the Fund's net regulatory assets totalled \$59.7 million (December 31, 2012 – \$72.9 million).

### **Asset Retirement Obligations**

In May 2009, the NEB released a report on the financial issues associated with pipeline abandonment and established a goal for pipelines regulated under the NEB Act to begin collecting and setting aside funds to cover future abandonment costs no later than January 1, 2015. Since then, the NEB has issued revised "base case assumptions" based on feedback from member companies. Companies have the option to follow the base case assumptions or to submit pipeline specific applications.

On May 31, 2013, Group 2 pipeline companies, which include certain pipelines in the Saskatchewan System and Alliance Canada, filed both their set-aside and collection mechanism applications as required by the NEB. Once the set aside and collection mechanism is approved by the NEB, both Group 1 and Group 2 companies can start to recover these costs from shippers through tolls in accordance with the NEB's determination that abandonment costs are a legitimate cost of providing service and are recoverable upon NEB approval from users of the system. The collections are expected to begin in 2015.

All applications by the Fund will require NEB approval. The specific toll impacts are uncertain at this time as the Fund anticipates the NEB filings in mid-2013 will go to hearing prior to NEB approval.

Currently, for certain of the Fund's assets, there is insufficient data or information to reasonably determine the timing of a settlement for estimating the fair value of the asset retirement obligation (ARO). In such cases, the ARO cost is considered indeterminate for accounting purposes as there is no data or information that can be derived from past practice, industry practice or the estimated economic life of the asset.

## **CHANGES IN ACCOUNTING POLICIES**

### **Balance Sheet Offsetting**

Effective January 1, 2013, the Fund adopted Accounting Standards Updates (ASU) 2011-11 and 2013-01, which require enhanced disclosures on the effect or potential effect of netting arrangements on an entity's financial position. As the adoption of these updates impacted disclosure only, there was no impact to the Fund's financial position for the current or prior periods presented.

### **Accumulated Other Comprehensive Income**

Effective January 1, 2013, the Fund adopted ASU 2013-02, which requires enhanced disclosures on amounts reclassified out of AOCI. As the adoption of this update impacted disclosure only, there was no impact to the Fund's presentation of comprehensive income or the Fund's consolidated financial statements, for the current or prior periods presented.

### **Future Accounting Policy Changes**

#### *Obligations Resulting from Joint and Several Liability Arrangements*

ASU 2013-04 was issued in February 2013 and provides both measurement and disclosure guidance for obligations with fixed amounts at a reporting date resulting from joint and several liability arrangements. The adoption of the pronouncement is not anticipated to have a material impact on the Fund's consolidated financial statements. This accounting update is effective for annual and interim periods beginning after December 15, 2013 and is to be applied retrospectively.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	2013			2012			2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(millions of Canadian dollars)</i>								
Revenue <sup>1</sup>	<b>104.4</b>	102.6	93.8	91.2	101.2	103.4	97.5	82.9
Earnings <sup>1, 2</sup>	<b>27.2</b>	13.6	16.6	20.5	25.5	27.1	27.2	32.4
Cash distributions declared <sup>3</sup>	<b>55.7</b>	54.4	42.2	37.4	37.4	37.4	36.9	25.1

*1 Revenues and earnings have been retrospectively adjusted to furnish comparative information related to the 2011 and 2012 Acquisitions as prescribed by U.S. GAAP for common control transactions.*

*2 Earnings for the 2012 and 2011 comparative periods have been revised. See Note 2 to the consolidated financial statements for the three and six months ended June 30, 2013.*

*3 Cash distributions declared on trust units and ECT preferred units.*

Significant items that have impacted quarterly financial information are as follows:

- Revenues and earnings for the periods have been retrospectively adjusted and combine the results of operations of the Crude Oil Storage and Renewable Energy Assets with the Fund for all periods presented. The Fund completed a similar transaction of wind and solar assets owned by wholly-owned subsidiaries of Enbridge in 2011 (the 2011 Acquisition), which also qualifies as a transaction among entities under common control under U.S. GAAP. As such, revenues and earnings have been retrospectively adjusted and combine the results of operations of these assets with the Fund in 2011.
- The Fund's earnings were impacted by a regulatory asset write-off of \$12.0 million after tax in relation to discontinuing rate regulated accounting for the Westspur System in the first quarter of 2013.
- The Fund issued an additional 4,768,000 trust units and 5,232,000 ECT preferred units in February 2013. The proceeds from the issuance were used to repay debt used to fund capital expenditures and to partially fund ongoing capital expenditures associated with the Fund's organic expansion strategy.
- The Fund issued an additional 11,982,000 trust units and 13,159,000 ECT preferred units in December 2012 in connection with the 2012 Acquisition. Incremental cash flow from the acquisition enabled the Fund to increase the monthly distribution per unit to \$0.134 effective with the December 2012 distribution. The increase in units outstanding and the increase in the amount of the monthly distribution per unit resulted in a corresponding increase in cash distributions declared.
- The Fund issued an additional 14,616,000 trust units and 16,051,000 ECT preferred units in October 2011 in connection with the 2011 Acquisition. Incremental cash flows generated by the Renewable Assets enabled the Fund to increase the monthly distribution per unit to \$0.121 effective with the November 2011 distribution. The increase in units outstanding and the increase in the amount of the monthly distribution per unit resulted in a corresponding increase in cash distributions declared.
- The Greenwich Wind Project commenced operations in the fourth quarter of 2011, resulting in an increase in revenues.
- Revenues and earnings generated by the Green Power segment may be subject to seasonal variations. Wind resources are typically higher in the first and fourth quarters while solar resources are typically stronger in the second and third quarters.
- Fourth quarter revenues from the Fund's regulated entities, which included the Westspur System and the Saskatchewan Gathering System, are typically higher than other quarters due to higher cost of service recoveries. The maintenance schedule of the Saskatchewan System has some seasonal variance which generally results in more maintenance projects being undertaken in the latter half of the year.

**ENBRIDGE INCOME FUND**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**June 30, 2013**

## CONSOLIDATED STATEMENTS OF EARNINGS

	Three months ended June 30,		Six months ended June 30,	
	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars)</i>				
<b>Revenues</b>				
Transportation and other services	53.3	50.7	107.7	100.7
Electricity sales	51.1	50.5	99.3	103.9
	104.4	101.2	207.0	204.6
<b>Expenses</b>				
Operating and maintenance	26.0	23.5	53.3	46.5
Management and administrative	5.9	3.8	11.3	7.2
Depreciation and amortization	32.7	30.7	63.4	61.1
	64.6	58.0	128.0	114.8
	39.8	43.2	79.0	89.8
Income from equity investments	14.1	12.7	27.0	26.2
Other income	-	0.3	0.1	0.4
Interest expense	(18.3)	(16.0)	(35.9)	(33.2)
	35.6	40.2	70.2	83.2
Income taxes <i>(Note 10)</i>	(8.4)	(14.7)	(17.4)	(30.6)
Earnings before extraordinary item	27.2	25.5	52.8	52.6
Extraordinary loss, net of tax <i>(Note 13)</i>	-	-	(12.0)	-
<b>Earnings</b>	<b>27.2</b>	<b>25.5</b>	<b>40.8</b>	<b>52.6</b>

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the Acquisition. See Note 4.

<sup>2</sup> The accompanying notes are an integral part of these unaudited consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended June 30,		Six months ended June 30,	
	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars)</i>				
Earnings	27.2	25.5	40.8	52.6
Other comprehensive income				
Change in unrealized loss on cash flow hedges, net of tax <sup>2</sup> (Note 9)	1.3	(5.5)	1.0	2.0
Reclassification of cash flow hedges to earnings, net of tax <sup>3</sup> (Note 9)	1.9	0.7	3.1	1.3
Other comprehensive income/(loss)	3.2	(4.8)	4.1	3.3
Comprehensive income	30.4	20.7	44.9	55.9

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the Acquisition. See Note 4.

<sup>2</sup> Tax expense/(recovery) was (\$0.5) million (2012 – \$0.2 million) and (\$0.3) million (2012 - \$0.6 million) for the three months and six months ended June 30, 2013, respectively.

<sup>3</sup> Tax expense/(recovery) was \$0.1 million (2012 – (\$0.1) million) for the three and six months ended June 30, 2013.

<sup>4</sup> The accompanying notes are an integral part of these unaudited consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

Six months ended June 30,	2013	2012 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Deficit</b>		
Balance at beginning of period	(2,631.5)	(1,026.3)
Earnings	40.8	52.6
ECT preferred unit distributions	(57.6)	(39.2)
Distributions to trust unitholders	(52.5)	(35.6)
Redemption value adjustment attributable to ECT preferred units <i>(Note 7)</i>	38.7	(130.7)
Redemption value adjustment attributable to trust units <i>(Note 8)</i>	31.0	(119.2)
Equity of former owners of acquired entities	-	13.4
<b>Balance at end of period</b>	<b>(2,631.1)</b>	<b>(1,285.0)</b>
<b>Accumulated other comprehensive loss</b>		
Balance at beginning of period	(23.4)	(31.3)
Other comprehensive income, net of tax	4.1	3.3
<b>Balance at end of period</b>	<b>(19.3)</b>	<b>(28.0)</b>
<b>Total unitholders' deficit</b>	<b>(2,650.4)</b>	<b>(1,313.0)</b>

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the Acquisition. See Note 4.

<sup>2</sup> The accompanying notes are an integral part of these unaudited consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars)</i>				
Operating activities				
Earnings	27.2	25.5	40.8	52.6
Charges/(credits) not affecting cash				
Depreciation and amortization	32.7	30.7	63.4	61.1
Cash distributions in excess of equity earnings	3.1	5.3	8.4	10.5
Deferred income taxes <i>(Note 10)</i>	7.8	17.1	16.6	32.7
Regulatory asset write-off, net of tax <i>(Note 13)</i>	-	-	12.0	-
Other	1.7	(0.5)	2.8	1.6
Changes in operating assets and liabilities <i>(Note 11)</i>	13.0	(2.4)	(8.9)	(22.2)
	85.5	75.7	135.1	136.3
Investing activities				
Additions to property, plant and equipment	(19.2)	(16.0)	(35.2)	(24.7)
Additions to intangible assets	(0.3)	-	(0.3)	-
Long-term investments	(3.7)	(3.1)	(11.6)	(6.5)
Change in construction payable	6.3	0.6	(15.5)	(13.5)
	(16.9)	(18.5)	(62.6)	(44.7)
Financing activities				
Net change in bank indebtedness	84.3	43.4	129.4	64.4
Net change in credit facility draws, net	(16.3)	(10.0)	(225.5)	(15.0)
Issuance of medium term notes, net	-	0.2	-	497.4
ECT Preferred units issued <i>(Note 7)</i>	-	-	130.8	-
Trust units issued, net <i>(Note 8)</i>	-	-	115.0	-
ECT preferred unit distributions declared	(29.1)	(19.6)	(57.6)	(39.2)
Trust unit distributions declared	(26.6)	(17.8)	(52.5)	(35.6)
Change in distributions payable	-	-	1.4	-
Repayment of affiliate loans	-	-	-	(500.0)
Demand loan advances received from unitholder	9.6	5.6	8.8	5.6
Contributions received and shares issued by				
Acquired Entities <i>(Note 4)</i>	-	-	-	8.5
Distributions paid by Acquired Entities <i>(Note 4)</i>	-	(19.1)	-	(19.1)
	21.9	(17.3)	49.8	(33.0)
Increase in cash and cash equivalents	90.5	39.9	122.3	58.6
Cash and cash equivalents at beginning of period	221.4	92.3	189.6	73.6
Cash and cash equivalents at end of period	311.9	132.2	311.9	132.2

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the Acquisition. See Note 4.

<sup>2</sup> The accompanying notes are an integral part of these unaudited consolidated financial statements.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2013	December 31, 2012
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	311.9	189.6
Accounts receivable and other, net	51.5	46.8
Deferred income taxes	12.2	16.7
	375.6	253.1
Property, plant and equipment, net	2,363.1	2,389.5
Long-term investments	215.8	212.6
Deferred amounts and other assets	70.1	83.1
Intangible assets	28.0	28.9
Goodwill	28.8	28.8
Long-term note receivable from equity investee	3.7	3.7
Deferred income taxes	0.5	0.7
	3,085.6	3,000.4
<b>Liabilities and unitholders' equity</b>		
Current liabilities		
Bank indebtedness	296.2	166.8
Accounts payable and other	56.5	63.4
Due to affiliates	34.7	29.8
Distributions payable	18.6	17.2
	406.0	277.2
Long-term debt	1,639.2	1,864.2
Other long-term liabilities	22.6	22.9
Deferred income taxes	392.5	391.4
	2,460.3	2,555.7
Commitments and contingencies <i>(Note 14)</i>		
ECT preferred units <i>(Note 7)</i>	1,714.4	1,622.3
Trust units <i>(Note 8)</i>	1,561.3	1,477.3
	3,275.7	3,099.6
Unitholders' deficit		
Deficit	(2,631.1)	(2,631.5)
Accumulated other comprehensive loss	(19.3)	(23.4)
	(2,650.4)	(2,654.9)
	3,085.6	3,000.4

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



# NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Enbridge Income Fund (the Fund) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements and should be read in conjunction with the Fund's consolidated financial statements and notes thereto for the year ended December 31, 2012. In the opinion of management, the interim consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which management considers necessary to present fairly the Fund's financial position as at June 30, 2013 and results of operations and cash flows for the three and six month periods ended June 30, 2013 and 2012. These interim consolidated financial statements follow the same significant accounting policies as those included in the Fund's consolidated financial statements as at and for the year ended December 31, 2012, except as described in Note 3, Changes in accounting policies. Amounts are stated in Canadian dollars unless otherwise noted.

## 2. REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

In connection with the preparation of the Fund's consolidated financial statements for the three months ended March 31, 2013, an error was identified in the manner in which the Fund's investee, Alliance Canada, recorded a deferred regulatory asset associated with the difference between depreciation expense calculated in accordance with U.S. GAAP and negotiated depreciation rates recovered in transportation tolls. This resulted in an overstatement of the Fund's carrying value of its investment in Alliance Canada. Further, a deferred income tax liability and an offsetting regulatory asset was recognized by the Fund related to the carrying value of its investment. In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 99, Materiality) the Fund assessed the error and concluded that the related amount was not material to any of its previously issued consolidated financial statements. In accordance with guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), the Fund revised its previously issued consolidated financial statements to correct the effect of this error. This non-cash revision does not impact cash flows for any prior period. The effects which flow through to the Consolidated Statements of Cash Flows are not significant and have no effect on the Fund's cash flows from operating activities.

The following table presents the effect of this correction on the Fund's Consolidated Statements of Financial Position:

	As at December 31, 2012			As at December 31, 2011		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
<i>(unaudited; millions of Canadian dollars)</i>						
Long-term investments	311.3	(98.7)	212.6	315.0	(100.6)	214.4
Deferred amounts and other assets	116.7	(33.6)	83.1	101.7	(34.2)	67.5
Deferred income taxes	425.0	(33.6)	391.4	351.1	(34.2)	316.9
Deficit	(2,532.8)	(98.7)	(2,631.5)	(925.7)	(100.6)	(1,026.3)

The following tables present the effect of this correction on the Fund's Consolidated Statements of Earnings:

	Three months ended June 30, 2012			Three months ended June 30, 2011		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	<i>(unaudited; millions of Canadian dollars)</i>					
Income from equity investments	12.4	0.3	12.7	14.1	(0.7)	13.4
Earnings	25.2	0.3	25.5	43.4	(0.7)	42.7
	Six months ended June 30, 2012			Six months ended June 30, 2011		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	<i>(unaudited; millions of Canadian dollars)</i>					
Income from equity investments	25.7	0.5	26.2	28.2	(1.4)	26.8
Earnings	52.1	0.5	52.6	86.5	(1.4)	85.1
	Three months ended September 30, 2012			Three months ended September 30, 2011		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	<i>(unaudited; millions of Canadian dollars)</i>					
Income from equity investments	13.4	0.2	13.6	13.9	(0.7)	13.2
Earnings	20.3	0.2	20.5	33.1	(0.7)	32.4
	Nine months ended September 30, 2012			Nine months ended September 30, 2011		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	<i>(unaudited; millions of Canadian dollars)</i>					
Income from equity investments	39.1	0.7	39.8	42.1	(2.1)	40.0
Earnings	72.4	0.7	73.1	119.6	(2.1)	117.5
	Year ended December 31, 2012			Year ended December 31, 2011		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
	<i>(unaudited; millions of Canadian dollars)</i>					
Income from equity investments	51.9	1.9	53.8	55.5	(2.8)	52.7
Earnings	87.8	1.9	89.7	147.5	(2.8)	144.7
	Year ended December 31, 2010					
	As Previously Reported	Adjustment	As Revised			
	<i>(unaudited; millions of Canadian dollars)</i>					
Income from equity investments	61.0	(6.4)	54.6			
Earnings	117.5	(6.4)	111.1			

### **3. CHANGES IN ACCOUNTING POLICIES**

#### **BALANCE SHEET OFFSETTING**

Effective January 1, 2013, the Fund adopted Accounting Standards Updates (ASUs) 2011-11 and 2013-01, which require enhanced disclosures on the effect or potential effect of netting arrangements on an entity's financial position. As the adoption of these updates impacted disclosure only, there was no impact to the Fund's financial position for the current or prior periods presented.

#### **ACCUMULATED OTHER COMPREHENSIVE INCOME**

Effective January 1, 2013, the Fund adopted ASU 2013-02, which requires enhanced disclosures on amounts reclassified out of accumulated other comprehensive income (AOCI). As the adoption of this update impacted disclosure only, there was no impact to the Fund's presentation of comprehensive income or the Fund's consolidated financial statements for the current or prior periods presented.

#### **FUTURE ACCOUNTING POLICY CHANGES**

##### **Obligations Resulting from Joint and Several Liability Arrangements**

ASU 2013-04 was issued in February 2013 and provides both measurement and disclosure guidance for obligations with fixed amounts at a reporting date resulting from joint and several liability arrangements. The adoption of the pronouncement is not anticipated to have a material impact on the Fund's consolidated financial statements. This accounting update is effective for annual and interim periods beginning after December 15, 2013 and is to be applied retrospectively.

### **4. CRUDE OIL STORAGE AND RENEWABLE ENERGY ENTITIES ACQUISITION**

On December 10, 2012, the Fund acquired 100% interests in the following entities which were wholly-owned by Enbridge Inc. (Enbridge) or subsidiaries of Enbridge (the Acquisition): Enbridge Midstream Inc., Hardisty Caverns Ltd., Hardisty Caverns Limited Partnership, Greenwich Windfarm GP Inc., Greenwich Windfarm, LP, Tilbury Solar Project LP, 7243341 Canada Inc., Project AMBG2 Inc. and Project AMBG2 LP (collectively the Crude Oil Storage and Renewable Energy Entities). The Acquisition of the Crude Oil Storage and Renewable Energy Entities was accounted for as a transaction between entities under common control, similar to a pooling of interests, whereby the assets and liabilities of the Crude Oil Storage and Renewable Energy Entities were recorded at Enbridge's historic carrying values and the Fund's historical financial information has been retrospectively adjusted to present the results of operations for the Fund and the Crude Oil Storage and Renewable Energy Entities on a combined basis for all periods presented.

The incremental effect of retrospectively adjusting the Fund's consolidated financial statements to include the results of operations of Crude Oil Storage and Renewable Energy Entities for the periods prior to the Acquisition is as follows:

	Three months ended June 30, 2012	Six months ended June 30, 2012
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Earnings</b>		
Revenues	29.8	60.3
Operating and administrative	(6.0)	(12.0)
Depreciation and amortization	(9.4)	(18.8)
Interest expense and other	(2.5)	(5.3)
Income tax expense	(2.8)	(5.9)
<b>Earnings</b>	<b>9.1</b>	<b>18.3</b>

	Three months ended June 30, 2012	Six months ended June 30, 2012
<i>(unaudited; millions of Canadian dollars)</i>		
Cash provided from operating activities	28.7	43.8
Cash used in investing activities	(0.8)	(11.6)
Cash provided by financing activities	(23.7)	(18.0)
	4.2	14.2

## 5. SEGMENTED INFORMATION

<b>Three months ended June 30, 2013</b>	Liquids				Consolidated
	Green Power	Transportation and Storage	Alliance Canada	Corporate	
<i>(unaudited; millions of Canadian dollars)</i>					
Transportation and other services	-	53.3	-	-	53.3
Electricity sales	51.1	-	-	-	51.1
Operating and maintenance	(7.7)	(18.3)	-	-	(26.0)
Management and administrative	-	-	-	(5.9)	(5.9)
Depreciation and amortization	(15.6)	(17.1)	-	-	(32.7)
	27.8	17.9	-	(5.9)	39.8
Income from equity investments	(0.2)	-	14.3	-	14.1
Other income/(expense)	-	-	(0.1)	0.1	-
Interest expense and other	-	-	-	(18.3)	(18.3)
Income tax recovery/(expense)	-	0.1	-	(8.5)	(8.4)
<b>Earnings</b>	<b>27.6</b>	<b>18.0</b>	<b>14.2</b>	<b>(32.6)</b>	<b>27.2</b>
<b>Total assets</b>	<b>1,450.1</b>	<b>1,119.0</b>	<b>212.3</b>	<b>304.2</b>	<b>3,085.6</b>
Additions to property, plant and equipment	0.2	19.0	-	-	19.2
Goodwill	-	28.8	-	-	28.8

Three months ended June 30, 2012 <sup>1</sup>	Liquids				Consolidated
	Green Power	Transportation and Storage	Alliance Canada	Corporate	
<i>(unaudited; millions of Canadian dollars)</i>					
Transportation and other services	-	50.7	-	-	50.7
Electricity sales	50.5	-	-	-	50.5
Operating and maintenance	(7.5)	(16.0)	-	-	(23.5)
Management and administrative	-	-	-	(3.8)	(3.8)
Depreciation and amortization	(15.8)	(14.9)	-	-	(30.7)
	27.2	19.8	-	(3.8)	43.2
Income from equity investments	0.1	-	12.6	-	12.7
Other income	0.1	0.1	0.1	-	0.3
Interest expense and other	-	(2.6)	-	(13.4)	(16.0)
Income tax expense	(1.7)	(0.9)	-	(12.1)	(14.7)
<b>Earnings</b>	<b>25.7</b>	<b>16.4</b>	<b>12.7</b>	<b>(29.3)</b>	<b>25.5</b>
<b>Total assets</b>	<b>1,509.0</b>	<b>1,034.3</b>	<b>238.0</b>	<b>67.2</b>	<b>2,848.5</b>
Additions to property, plant and equipment	-	16.0	-	-	16.0
Goodwill	-	28.8	-	-	28.8

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the Acquisition. See Note 4.

<b>Six months ended June 30, 2013</b>	Liquids				Consolidated
	Green Power	Transportation and Storage	Alliance Canada	Corporate	
<i>(unaudited; millions of Canadian dollars)</i>					
Transportation and other services	-	<b>107.7</b>	-	-	<b>107.7</b>
Electricity sales	<b>99.3</b>	-	-	-	<b>99.3</b>
Operating and maintenance	<b>(14.8)</b>	<b>(38.5)</b>	-	-	<b>(53.3)</b>
Management and administrative	-	-	-	<b>(11.3)</b>	<b>(11.3)</b>
Depreciation and amortization	<b>(31.3)</b>	<b>(32.1)</b>	-	-	<b>(63.4)</b>
	<b>53.2</b>	<b>37.1</b>	-	<b>(11.3)</b>	<b>79.0</b>
Income from equity investments	<b>0.6</b>	-	<b>26.4</b>	-	<b>27.0</b>
Other income/(expense)	<b>(0.1)</b>	-	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Interest expense and other	-	-	-	<b>(35.9)</b>	<b>(35.9)</b>
Income tax recovery/(expense)	-	<b>0.3</b>	-	<b>(17.7)</b>	<b>(17.4)</b>
Earnings before extraordinary item	<b>53.7</b>	<b>37.4</b>	<b>26.5</b>	<b>(64.8)</b>	<b>52.8</b>
Extraordinary item, net of tax	-	<b>(16.5)</b>	-	<b>4.5</b>	<b>(12.0)</b>
<b>Earnings</b>	<b>53.7</b>	<b>20.9</b>	<b>26.5</b>	<b>(60.3)</b>	<b>40.8</b>
<b>Total assets</b>	<b>1,450.1</b>	<b>1,119.0</b>	<b>212.3</b>	<b>304.2</b>	<b>3,085.6</b>
Additions to property, plant and equipment	<b>0.4</b>	<b>34.8</b>	-	-	<b>35.2</b>
Goodwill	-	<b>28.8</b>	-	-	<b>28.8</b>

Six months ended June 30, 2012 <sup>1</sup>	Liquids			Corporate	Consolidated
	Green Power	Transportation and Storage	Alliance Canada		
<i>(unaudited; millions of Canadian dollars)</i>					
Transportation and other services	-	100.7	-	-	100.7
Electricity sales	103.9	-	-	-	103.9
Operating and maintenance	(14.9)	(31.6)	-	-	(46.5)
Management and administrative	-	-	-	(7.2)	(7.2)
Depreciation and amortization	(31.6)	(29.5)	-	-	(61.1)
	57.4	39.6	-	(7.2)	89.8
Income from equity investments	0.7	-	25.5	-	26.2
Other income	-	0.1	0.3	-	0.4
Interest expense and other	-	(5.3)	-	(27.9)	(33.2)
Income tax expense	(3.5)	(2.1)	-	(25.0)	(30.6)
<b>Earnings</b>	<b>54.6</b>	<b>32.3</b>	<b>25.8</b>	<b>(60.1)</b>	<b>52.6</b>
<b>Total assets</b>	<b>1,509.0</b>	<b>1,034.3</b>	<b>238.0</b>	<b>67.2</b>	<b>2,848.5</b>
Additions to property, plant and equipment	0.7	24.0	-	-	24.7
Goodwill	-	28.8	-	-	28.8

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the Acquisition. See Note 4.

## 6. LONG-TERM DEBT

In June 2013, the Fund amended its existing \$500.0 million, 3-year standby credit facility with a syndicate of commercial banks, which extends the maturity date to June 28, 2016. On an annual basis, the Fund may request the extension of the applicable maturity date of the facility by one year.

The Fund is subject to several covenants under its credit facility. Certain covenants were modified in the amended facility including the addition of a covenant that limits outstanding debt to a percentage of the Fund's consolidated capitalization and the elimination of a covenant which limited outstanding debt to a multiple of EBITDA (earnings before interest, taxes, depreciation and amortization). The Fund is in compliance with all covenants as at June 30, 2013.

## 7. ECT PREFERRED UNITS

June 30, <i>(unaudited; millions of Canadian dollars, number of units in millions)</i>	2013		2012	
	Number of Units	Amount	Number of Units	Amount
ECT preferred units, series 1				
Balance, beginning of period	38.0	894.8	38.0	764.3
Redemption value adjustment	-	4.7	-	91.9
Balance, end of period	38.0	899.5	38.0	856.2
ECT preferred units, series 2				
Balance, beginning of period	16.1	377.7	16.1	322.6
Redemption value adjustment	-	2.1	-	38.8
Balance, end of period	16.1	379.8	16.1	361.4
ECT preferred units, series 3				
Balance, beginning of period	13.2	349.8	-	-
Redemption value adjustment	-	(38.5)	-	-
Balance, end of period	13.2	311.3	-	-
ECT preferred units, series 4				
Issued	5.2	130.8	-	-
Redemption value adjustment	-	(7.0)	-	-
Balance, end of period	5.2	123.8	-	-
<b>Total ECT preferred units</b>	<b>72.5</b>	<b>1,714.4</b>	<b>54.1</b>	<b>1,217.6</b>

On February 26, 2013 the Fund issued 5,232,000 ECT preferred units, series 4, priced at \$25.00 per unit for gross proceeds of \$130.8 million, used to repay indebtedness.

## 8. TRUST UNITS

June 30, <i>(unaudited; millions of Canadian dollars, number of units in millions)</i>	2013		2012	
	Number of Units	Amount	Number of Units	Amount
Common trust units, beginning of period	61.2	1,477.3	49.2	989.7
Issued	4.8	119.2	-	-
Share issue costs	-	(4.2)	-	-
Redemption value adjustment	-	(31.0)	-	119.2
Common trust units, end of period <sup>1</sup>	66.0	1,561.3	49.2	1,108.9

<sup>1</sup> Enbridge owned 9.5 million common trust units at June 30, 2013 (2012 – 9.5 million)

On February 26, 2013 the Fund issued 4,768,000 trust units priced at \$25.00 per unit for gross proceeds of \$119.2 million, used to repay indebtedness.

## **9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

### **MARKET PRICE RISK**

The Fund's earnings, cash flows and other comprehensive income (OCI) are subject to movements in interest rates, foreign exchange rates and commodity prices (collectively, market price risk). Formal risk management policies, processes and systems have been designed to mitigate these risks.

The following summarizes the types of market price risks to which the Fund is exposed and the risk management instruments used to mitigate them.

### **Interest Rate Risk**

The Fund's earnings and cash flows are exposed to short term interest rate variability due to the regular repricing of its variable rate debt, primarily credit facilities. Floating to fixed interest rate swaps are used to hedge against the effect of future interest rate movements. The Fund has implemented a program to significantly mitigate the volatility of short-term interest rates on interest expense through 2016 at an average swap rate of 1.72%.

The Fund's earnings and cash flows are also exposed to variability in longer term interest rates ahead of anticipated fixed rate debt issuances. Forward starting interest rate swaps may be used to hedge against the effect of future interest rate movements. At June 30, 2013 and December 31, 2012, no future fixed rate term debt issuances had been hedged.

The Fund uses qualifying derivative instruments to manage interest rate risk.

### **Foreign Exchange Risk**

The Fund's earnings, cash flows and OCI are subject to foreign exchange rate variability due to certain United States dollar denominated revenues and expenses. The Fund uses qualifying derivative instruments to manage foreign exchange rate risk.

### **Commodity Price Risk**

The Fund's earnings and cash flows are exposed to changes in commodity prices due to certain power generation operations and related floating rate supply agreements, as well as through commitments to purchase and sell natural gas in connection with capacity held on the Alliance System. The Fund uses power and natural gas derivative instruments to fix a portion of the variable price exposures that may arise from these activities. The Fund uses a combination of qualifying and non-qualifying derivative instruments to manage commodity price risk.



## TOTAL DERIVATIVE INSTRUMENTS

The following table summarizes the balance sheet location and carrying value of the Fund's derivatives instruments. The Fund did not have any outstanding fair value hedges or net investment hedges as at June 30, 2013 or December 31, 2012.

The Fund enters into individual International Swaps and Derivatives Association, Inc. (ISDA) agreements, or other similar derivative agreements, with certain of its derivative counterparties. These agreements provide for the net settlement of derivative instruments outstanding with specific counterparties in the event of bankruptcy or other significant credit event, and would reduce the Fund's credit risk exposure on derivative asset positions outstanding with the counterparties in these particular circumstances. The following table also summarizes the maximum potential settlement in the event of these specific circumstances. All amounts are presented gross in the Consolidated Statements of Financial Position.

	Derivative Instruments used as Cash Flow Hedges	Non- Qualifying Derivative Instruments	Total Derivative Instruments	Amounts Available for Offset	Total Net Derivative Instruments
<b>June 30, 2013</b>					
<i>(unaudited; millions of Canadian dollars)</i>					
Accounts receivable and other					
Commodity contracts	-	0.6	0.6	(0.6)	-
	-	0.6	0.6	(0.6)	-
Deferred amounts and other assets					
Interest rate contracts	2.4	-	2.4	-	2.4
Foreign exchange contracts	0.1	-	0.1	-	0.1
Commodity contracts	0.2	0.1	0.3	-	0.3
	2.7	0.1	2.8	-	2.8
Accounts payable and other					
Interest rate contracts	(1.1)	-	(1.1)	-	(1.1)
Commodity contracts	(0.4)	(0.8)	(1.2)	0.6	(0.6)
	(1.5)	(0.8)	(2.3)	0.6	(1.7)
Other long-term liabilities					
Commodity contracts	(0.5)	(0.3)	(0.8)	-	(0.8)
	(0.5)	(0.3)	(0.8)	-	(0.8)
Total net derivative asset/(liability)					
Interest rate contracts	1.3	-	1.3	-	1.3
Foreign exchange contracts	0.1	-	0.1	-	0.1
Commodity contracts	(0.7)	(0.4)	(1.1)	-	(1.1)
	0.7	(0.4)	0.3	-	0.3

December 31, 2012	Derivative Instruments used as Cash Flow Hedges	Non- Qualifying Derivative Instruments	Total Derivative Instruments	Amounts Available for Offset	Total Net Derivative Instruments
<i>(unaudited; millions of Canadian dollars)</i>					
Deferred amounts and other assets					
Interest rate contracts	0.6	-	0.6	(0.4)	0.2
Commodity contracts	0.8	0.2	1.0	-	1.0
	1.4	0.2	1.6	(0.4)	1.2
Accounts payable and other					
Interest rate contracts	(1.7)	-	(1.7)	-	(1.7)
Foreign exchange contracts	(0.1)	-	(0.1)	-	(0.1)
Commodity contracts	(0.2)	(0.1)	(0.3)	-	(0.3)
	(2.0)	(0.1)	(2.1)	-	(2.1)
Other long-term liabilities					
Interest rate contracts	(0.5)	-	(0.5)	0.4	(0.1)
Foreign exchange contracts	(0.5)	-	(0.5)	-	(0.5)
Commodity contracts	-	(0.4)	(0.4)	-	(0.4)
	(1.0)	(0.4)	(1.4)	0.4	(1.0)
Total net derivative asset/(liability)					
Interest rate contracts	(1.6)	-	(1.6)	-	(1.6)
Foreign exchange contracts	(0.6)	-	(0.6)	-	(0.6)
Commodity contracts	0.6	(0.3)	0.3	-	0.3
	(1.6)	(0.3)	(1.9)	-	(1.9)

The following table summarizes the maturity and notional principal or quantity outstanding related to the Fund's derivative instruments.

<b>June 30, 2013</b>	2013	2014	2015	2016	2017	Thereafter
<i>(unaudited; millions of Canadian dollars)</i>						
Interest rate contracts - short-term borrowings	100.0	202.0	200.0	182.0	-	-
U.S. dollar forwards <i>(millions of United States dollars)</i>	1.0	2.1	2.1	2.1	2.1	6.2
Commodity contracts - power <i>(megawatts per hour)</i>	4.8	4.8	4.8	4.8	4.8	2.8
Commodity contracts - natural gas <i>(bcf)</i>	0.1	-	-	-	-	-
<hr/>						
December 31, 2012	2013	2014	2015	2016	2017	Thereafter
<i>(unaudited; millions of Canadian dollars)</i>						
Interest rate contracts - short-term borrowings	209.0	202.0	200.0	182.0	-	-
U.S. dollar forwards <i>(millions of United States dollars)</i>	2.0	2.1	2.1	2.1	2.2	6.2
Commodity contracts - power <i>(megawatts per hour)</i>	4.8	4.8	4.8	4.8	4.8	3.0

## Effect of Derivative Instruments on the Statements of Earnings and Comprehensive Income

The following table presents the effect of cash flow hedges on the Fund's consolidated earnings and comprehensive income.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(unaudited; millions of Canadian dollars)</i>				
Amount of unrealized gain/(loss) recognized in OCI				
Interest rate contracts	2.4	(7.1)	1.7	(1.5)
Foreign exchange contracts	0.5	0.3	0.7	0.2
Commodity contracts	(2.1)	1.5	(1.7)	3.9
<b>Total unrealized gain/(loss) recognized in OCI</b>	<b>0.8</b>	<b>(5.3)</b>	<b>0.7</b>	<b>2.6</b>
Amount of gain/(loss) reclassified from AOCI to earnings				
<i>(effective portion)</i>				
Interest rate contracts <sup>1</sup>	1.3	0.9	2.6	1.8
Commodity contracts <sup>2</sup>	0.7	(0.3)	0.6	(0.6)
<b>Total gain reclassified from AOCI to earnings (effective portion)</b>	<b>2.0</b>	<b>0.6</b>	<b>3.2</b>	<b>1.2</b>

<sup>1</sup> Reported within Interest Expense in the Consolidated Statements of Earnings.

<sup>2</sup> Reported within Revenues in the Consolidated Statements of Earnings.

The estimated net amount of existing losses reported in accumulated OCI that is expected to be reclassified to net income within the next 12 months is \$1.5 million. Actual amounts reclassified to earnings depend on the interest rates, foreign exchange rates and commodity prices in effect when derivative contracts that are currently outstanding are settled.

## Non-Qualifying Derivatives

The following table presents the unrealized gains and losses associated with changes in the fair value of the Fund's non-qualifying derivatives.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<i>(unaudited; millions of Canadian dollars)</i>				
Commodity contracts <sup>1</sup>	(0.1)	(0.2)	(0.1)	-
<b>Total unrealized derivative fair value gain</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>-</b>

<sup>1</sup> Reported within Revenues in the Consolidated Statements of Earnings.

## LIQUIDITY RISK

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations, including commitments (Note 14), as they become due. In order to manage this risk, the Fund forecasts the cash requirements over the near and long term to determine whether sufficient funds will be available when required. The Fund's primary sources of liquidity and capital resources are funds generated from operations, draws under committed credit facilities and the issuance of medium term notes. The Fund maintains a current shelf prospectus with Canadian securities regulators which enables, subject to market conditions, ready access to Canadian public capital markets. Cash flow from operations, in combination with available committed credit facilities and if required, capital markets funding, is expected to be sufficient to meet the forecast liquidity and capital resource requirements of the Fund.

## CREDIT RISK

Entering into derivative financial instruments may result in exposure to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations. The Fund enters into risk management transactions primarily with institutions that possess investment grade credit ratings. Credit risk relating to derivative counterparties is mitigated by utilization of credit exposure limits and frequent assessment of counterparty credit ratings.

At June 30, 2013 and December 31, 2012 the Fund had group credit concentrations and maximum credit exposure in the following counterparty segments:

	June 30, 2013	December 31, 2012
<i>(unaudited; millions of Canadian dollars)</i>		
Canadian financial institutions	2.0	0.5
United States financial institutions	0.6	-
Enbridge affiliate	0.1	0.8
	2.7	1.3

Credit risk also arises from trade and other receivables and is mitigated through credit exposure limits and by requiring less creditworthy counterparties to provide credit enhancement which may include letters of credit, posting of collateral, netting provisions or other contractual requirements. The maximum exposure to credit risk related to non-derivative financial assets is their carrying value.

## FAIR VALUE MEASUREMENTS

The Fund's financial assets and liabilities measured at fair value on a recurring basis include derivative instruments. The Fund also discloses the fair value of other financial instruments not measured at fair value. The fair value of financial instruments reflects the Fund's best estimates of market value based on generally accepted valuation techniques or models and supported by observable market prices and rates. When such values are not available, the Fund employs discounted cash flow analysis using applicable yield and/or curves based on observable market inputs to estimate fair value.

The Fund categorizes those financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

At June 30, 2013, the Fund's long-term debt had a fair value of \$1,652.9 million (December 31, 2012 – \$1,927.9 million). This fair value measurement has been classified as a level 2 fair value measurement.

### Fair Value of Derivatives

#### Level 1

Level 1 includes derivative instruments measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date. An active market for a derivative instrument is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund did not have any derivative instruments categorized as Level 1 as at June 30, 2013 or December 31, 2012.

#### Level 2

Level 2 includes derivative instrument valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market data. Such valuation techniques include inputs such as quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. Derivative instruments valued using Level 2 inputs include non-exchange traded derivatives such as over-the-counter interest rate swaps for which observable inputs can be obtained.

### Level 3

Level 3 includes derivative instrument valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the derivative instruments' fair value. Generally, Level 3 derivative instruments are longer dated transactions, occur in less active markets, occur at locations where pricing information is not available or have no binding broker quote to support Level 2 classification. The Fund has developed methodologies, benchmarked against industry standards, to determine fair value for these derivative instruments based on extrapolation of observable future prices and rates. Derivative instruments valued using Level 3 inputs include long-dated commodity derivative contracts.

The Fund uses the most observable inputs available to estimate the fair value of its derivative instruments. When possible, the Fund estimates the fair value of its derivative instruments based on quoted market prices. If quoted market prices are not available, the Fund uses estimates from third party brokers. For non-exchange traded derivatives classified in Levels 2 and 3, the Fund uses standard valuation techniques to calculate the estimated fair value. These methods include discounted cash flows for forwards and swaps. Depending on the type of derivative instrument and nature of the underlying risk, the Fund uses observable market prices (interest and foreign exchange rates and commodity prices) and volatility as primary inputs to these valuation techniques. Finally, the Fund considers its own credit default swap spread as well as the credit default swap spreads associated with its counterparties in its estimation of fair value.

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

<b>June 30, 2013</b> <i>(unaudited; millions of Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
Financial assets				
Current derivative assets	-	-	0.6	0.6
Long-term derivative assets	-	2.5	0.3	2.8
Financial liabilities				
Current derivative liabilities	-	(1.8)	(0.5)	(2.3)
Long-term derivative liabilities	-	-	(0.8)	(0.8)
<b>Total net asset/(liability)</b>	<b>-</b>	<b>0.7</b>	<b>(0.4)</b>	<b>0.3</b>
<b>December 31, 2012</b> <i>(unaudited; millions of Canadian dollars)</i>	Level 1	Level 2	Level 3	Total
Financial assets				
Long-term derivative assets	-	0.6	1.0	1.6
Financial liabilities				
Current derivative liabilities	-	(1.8)	(0.3)	(2.1)
Long-term derivative liabilities	-	(1.0)	(0.4)	(1.4)
<b>Total net asset/(liability)</b>	<b>-</b>	<b>(2.2)</b>	<b>0.3</b>	<b>(1.9)</b>

The significant unobservable inputs used in the fair value measurement of Level 3 derivative instruments were as follows:

	<b>Fair value at June 30, 2013</b> <i>(millions of Canadian dollars)</i>	<b>Unobservable Input</b>	<b>Minimum Price</b>	<b>Maximum Price</b>	<b>Weighted Average Price</b>
Commodity Contracts – Financial <sup>1</sup>					
Power \$/MWH	(0.9)	Forward Power Price	40.50	95.50	56.74
Natural gas \$/mmbtu <sup>2</sup>	0.6	Forward Gas Price	3.77	3.94	3.84

<sup>1</sup> Financial forward commodity contracts are valued using a market approach valuation technique.

<sup>2</sup> One million British thermal units (mmbtu).

If adjusted, the significant unobservable inputs disclosed in the table above would have a direct impact on the fair value of the Fund's Level 3 derivative instruments. The significant unobservable inputs used in the fair value measurement of Level 3 derivative instruments consist of forward commodity prices. Changes in forward commodity prices would result in significantly different fair values for long positions, with offsetting impacts to short positions.

Changes in the net fair value of derivative instruments classified as Level 3 in the fair value hierarchy were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<i>(unaudited; millions of Canadian dollars)</i>				
Level 3 net financial asset/(liability) at beginning of period	0.6	(4.5)	0.3	(7.8)
Total gains/(losses), unrealized				
Included in earnings	0.6	(1.6)	0.6	(0.4)
Included in OCI	(1.6)	1.2	(1.3)	3.6
Settlements	-	0.3	-	-
Level 3 net financial asset/(liability) at end of period	(0.4)	(4.6)	(0.4)	(4.6)

The Fund's policy is to recognize transfers as of the last day of the reporting period. There were no transfers between levels as at June 30, 2013 and December 31, 2012.

## 10. INCOME TAXES

Income tax expense included in earnings before extraordinary loss for the three months ended June 30, 2013 comprised current income tax expense/(recovery) of \$0.6 million (2012 – (\$2.4) million) and deferred income tax expense of \$7.8 million (2012 – \$17.1 million). Income tax expense included in earnings before extraordinary loss for the six months ended June 30, 2013 comprised current income tax expense/(recovery) of \$0.8 million (2012 – (\$2.1) million) and deferred income tax expense of \$16.6 million (2012 – \$32.7 million).

The effective tax rate for the three and six months ended June 30, 2013 was 23.6% (2012 – 36.6%) and 24.8% (2012 – 36.8%), respectively. The two most significant factors contributing to the decrease in the effective tax rate are the tax effect relating to the character of income distributed by the Fund which is offset by increased tax expense relating to the effects of rate regulated accounting. This latter factor is largely attributable to the Fund's investment in Alliance.

## 11. CHANGES IN OPERATING ASSETS AND LIABILITIES

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012 <sup>1</sup>	2013	2012 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars)</i>				
Accounts receivable and other, net	8.6	(12.2)	(4.1)	(10.1)
Accounts payable and other	6.2	4.7	8.4	(1.3)
Due to affiliates	1.4	1.5	(3.9)	(8.7)
Deferred amounts and other assets	(2.8)	2.4	(8.9)	(1.7)
Other long-term liabilities	(0.4)	1.2	(0.4)	(0.4)
	13.0	(2.4)	(8.9)	(22.2)

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the Acquisition. See Note 4.

## **12. RELATED PARTY TRANSACTIONS**

In connection with the February 2013 offering of 3,820,000 common shares by Enbridge Income Fund Holdings Inc. (ENF), a unitholder of the Fund, the Fund agreed to reimburse ENF for share issue costs of \$4.2 million. Proceeds from the offering of common shares were used by ENF to purchase additional trust units of the Fund.

In 2013, ENF has advanced \$8.8 million to subsidiaries of the Fund pursuant to a subordinated demand loan. At June 30, 2013, \$15.6 million was outstanding. Interest on the demand loan was charged at 4.25%.

## **13. EXTRAORDINARY LOSS**

On April 1, 2013, the Fund announced it concluded a settlement (the Settlement) with a group of shippers relating to new tolls on the Westspur System. Pursuant to the Settlement, the tolls on the Westspur System are fixed and increased annually with reference to a pre-identified inflation index, subject to throughput remaining within a volume band close to volumes recently transported on the Westspur System. The Settlement resulted in the discontinuance of rate regulated accounting for the Westspur System and the Fund recorded an after-tax write-off of \$12.0 million in the first quarter of 2013 related to a deferred regulatory asset which will not be collected under the terms of the Settlement. At the request of certain shippers who did not execute the Settlement, the National Energy Board (NEB) has not removed the interim status from the historical tolls and has made the new tolls interim as well. As of July 30, 2013, the Fund continues to work with shippers to resolve the matter.

Prior to reaching the Settlement, revenue on the Westspur System was recognized in a manner consistent with the underlying agreements consistent with rate regulated accounting guidance. The Fund discontinued the application of rate regulated accounting to the operations of the Westspur System on a prospective basis on April 1, 2013. Pursuant to the Settlement, the Westspur System will retain exposure to potential variability in certain future costs and throughput volumes, subject to various protection mechanisms. As such, the Westspur System no longer meets all of the criteria required for the continued application of rate-regulated accounting treatment.

## **14. COMMITMENTS**

At June 30, 2013, the Fund had signed contracts for the purchase of services, pipe and other materials totaling \$7.0 million, which are expected to be paid within the year.