

**ENBRIDGE INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2014**

# MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2014

This Management's Discussion and Analysis (MD&A) dated February 9, 2015 should be read in conjunction with the audited consolidated financial statements and notes thereto of Enbridge Income Fund (the Fund) as at and for the year ended December 31, 2014, which are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). 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).

## OVERVIEW

The Fund is involved in the generation, transportation and storage of energy through its interests in 592 (530 net) megawatts (MW) of renewable and alternative power generation capacity (Green Power), its liquids transportation and storage business (Liquids Transportation and Storage) and its 50% interest in the Canadian and U.S. segments of the Alliance Pipeline (Natural Gas Transmission), which transports natural gas.

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 New York Stock Exchange. Enbridge's total economic interest in the Fund was 66.4% as at December 31, 2014 and February 9, 2015 based on its indirect interest in the Fund through ENF, its direct interest in the Fund via common units and its interest in preferred units of Enbridge Commercial Trust (ECT), a subsidiary of the Fund.

On November 7, 2014, the Fund completed a transaction whereby indirect wholly-owned subsidiaries of the Fund acquired from Enbridge a 50% equity interest in the U.S. segment of the Alliance Pipeline (Alliance US) and subscribed for and purchased Class A Units of Enbridge subsidiaries which provide a defined cash flow stream from the Southern Lights Pipeline (Southern Lights Class A Units) for \$1.76 billion (the 2014 Transaction).

## PERFORMANCE OVERVIEW

The acquisition of Enbridge's 50% equity interest in Alliance US was accounted for as an acquisition of entities under common control which required the Fund to present its results of operations as if the Fund had always owned Alliance US. Earnings for the years ended December 31, 2014 and 2013 include retrospective adjustments of \$38.6 million and \$37.6 million, respectively, to reflect the historical earnings from the Alliance US equity investment while under Enbridge's ownership. The retrospective adjustments may not be comparable to results generated under the Fund's direct ownership as historic performance would have been influenced by different financing assumptions. The impacts of the retrospective adjustments have been eliminated from the determination of cash available for distribution (CAFD) and adjusted earnings.

| (millions of Canadian dollars, except per unit amounts)           | Three months ended |         | Year ended   |         |
|---|--------------------|---------|--------------|---------|
|   | December 31,       |         | December 31, |         |
|   | 2014               | 2013    | 2014         | 2013    |
| <b>Earnings</b>   |                    |         |              |         |
| Green Power   | 18.4               | 23.6    | 89.3         | 94.2    |
| Liquids Transportation and Storage                                | 9.6                | 16.5    | 84.9         | 50.7    |
| Natural Gas Transmission  | 20.0               | 12.8    | 68.6         | 54.1    |
| Corporate   | (26.4)             | (30.8)  | (131.4)      | (119.2) |
|   | 21.6               | 22.1    | 111.4        | 79.8    |
| Retrospective Adjustments – Alliance US                           | 4.6                | 10.6    | 38.6         | 37.6    |
|   | 26.2               | 32.7    | 150.0        | 117.4   |
| <b>Adjusted earnings<sup>1</sup></b>                              |                    |         |              |         |
| Green Power   | 18.9               | 23.6    | 92.3         | 94.2    |
| Liquids Transportation and Storage                                | 19.3               | 17.3    | 82.4         | 72.4    |
| Natural Gas Transmission  | 25.6               | 12.8    | 74.2         | 56.2    |
| Corporate   | (43.3)             | (30.8)  | (138.2)      | (124.7) |
|   | 20.5               | 22.9    | 110.7        | 98.1    |
| <b>Cash available for distribution<sup>1,2</sup></b>              |                    |         |              |         |
| Green Power   | 34.2               | 38.5    | 155.6        | 155.8   |
| Liquids Transportation and Storage                                | 37.8               | 33.1    | 148.6        | 130.2   |
| Natural Gas Transmission  | 17.8               | 16.8    | 74.2         | 68.4    |
| Corporate   | (28.4)             | (23.4)  | (103.4)      | (91.2)  |
|   | 61.4               | 65.0    | 275.0        | 263.2   |
| <b>Cash provided by operating activities</b>                      | 75.8               | 87.0    | 322.6        | 306.2   |
| <b>Distributions</b>  |                    |         |              |         |
| Cash distributions declared                                       | 71.5               | 56.1    | 240.0        | 221.9   |
| Cash distributions declared per trust unit and ECT preferred unit | \$0.450            | \$0.405 | \$1.667      | \$1.612 |

<sup>1</sup> Adjusted earnings and cash available for distribution are non-GAAP measures that do not have any standardized meaning prescribed by U.S. GAAP. See definition within "Non-GAAP Measures" section, as well as the reconciliations to earnings within the "Results of Operations" for each business segment.

<sup>2</sup> Cash available for distribution includes reserves pertaining to items of an unusual or transient nature which are not indicative of the underlying or sustainable cash flows of the business.

## EARNINGS

Earnings were \$26.2 million and \$150.0 million for the three and twelve months ended December 31, 2014, respectively, as compared to \$32.7 million and \$117.4 million for the comparable periods of 2013. The Fund continued to deliver strong earnings as discussed in *Adjusted Earnings* below. However, the comparability of the Fund's earnings was impacted by a number of unusual, non-recurring and non-operating factors, the most significant of which was changes in unrealized derivative fair value gains and losses. The Fund has a comprehensive long-term economic hedging program to mitigate foreign exchange exposures associated with U.S. dollar denominated cash flows from the Southern Lights Class A Units and the equity interest in Alliance US. The changes in unrealized mark-to-market accounting for the foreign exchange hedges create volatility in short-term earnings, but the Fund believes that over the long-term, the program supports reliable cash flows. In the fourth quarter, the Fund recognized unrealized after-tax derivative losses totaling \$18.7 million. In financing the 2014 Transaction, the Fund provided a U.S. dollar loan to its new U.S.-based subsidiary. Since the loan is denominated in U.S. dollars and the Fund has a Canadian dollar functional currency, the Fund recorded an unrealized, after-tax foreign exchange gain of \$14.1 million for the three and twelve months ended December 31, 2014.

As a result of the 2014 Transaction, the Fund recognized certain non-recurring items. In the fourth quarter, the Fund recorded an after-tax gain of \$4.2 million relating to the subscription price of the Southern Lights US Class A Units whereby the Canadian dollars were at a fixed exchange rate to the U.S. dollar price. This gain was in addition to the \$8.8 million after-tax, unrealized gain recorded in the third quarter of 2014. Further, the Fund incurred advisory fees of \$0.9 million in the fourth quarter of 2014 resulting in total advisory fees of \$5.7 million for the year ended December 31, 2014 associated with the 2014 Transaction.

The Fund recognized non-cash revenues during the fourth quarter of 2014 of \$2.1 million to recognize previously deferred revenues under long-term take-or-pay contracts for the Bakken Expansion, as compared to a deferral of \$0.8 million in the fourth quarter of 2013. Green Power earnings were adjusted by \$0.5 million and \$3.0 million for the three and twelve months ended December 31, 2014, respectively, for the effects of a non-recurring transformer outage at the Greenwich Wind Facility.

The prior year period was also impacted by certain non-cash write-offs. The Fund recognized an extraordinary after-tax write-off of \$12.0 million related to the discontinuation of rate regulated accounting for the Westspur System, a one-time, after-tax charge to earnings of \$1.6 million due to the National Energy Board's (NEB) denial of recovery of certain indirect costs incurred on the Canadian segment of the Alliance Pipeline (Alliance Canada) and an after-tax non-cash charge of \$1.4 million relating to the discontinuance of a previously capitalized project at Hardisty Contract Terminal.

## **ADJUSTED EARNINGS**

Adjusted earnings for the three months ended December 31, 2014 were \$20.5 million compared to \$22.9 million for the three-month period ended December 31, 2013. Adjusted earnings were lower quarter over quarter, reflecting weaker wind resource for the Fund's Green Power assets and higher Corporate costs, including incentive fees, interest and taxes, driven by the 2014 Transaction. The Liquids Transportation and Storage segment provided a positive contribution, driven by income from the Southern Lights Class A Units and a continuing return of volumes to the Fund's crude oil pipeline systems which were partially offset by an unrealized inventory writedown due to lower crude oil prices at December 31, 2014. Adjusted earnings from Natural Gas Transmission were higher primarily due to earnings from Alliance US.

Adjusted earnings for the year ended December 31, 2014 were \$110.7 million compared to \$98.1 million for the year ended December 31, 2013. The increase in adjusted earnings was driven by stronger results from Liquids Transportation and Storage and Natural Gas Transmission. Liquids Transportation and Storage adjusted earnings improved from the same period of the prior year due to earnings from the Southern Lights Class A Units, an increase in volumes on the crude oil pipeline and storage systems, a larger rate base on which equity returns are calculated for the Saskatchewan Gathering System and a full period of contributions from the Bakken Expansion which commenced operations in March 2013. Partially offsetting the improved results for Liquids Transportation and Storage was an unrealized inventory writedown due to lower crude oil prices at December 31, 2014. Adjusted earnings from Natural Gas Transmission were higher than the comparable period of 2013 primarily due to the addition of earnings from Alliance US in the fourth quarter of 2014 and higher contributions from Sable NGL Services L.P. (Sable) during the first quarter of 2014 when abnormal winter weather caused Alberta/Chicago price differentials to widen.

Partially offsetting these increases, Green Power adjusted earnings decreased compared to the prior year period primarily as a result of weak wind resource in the fourth quarter that offset strong results earlier in 2014. Partially offsetting the weaker wind resource were stronger earnings from the Sarnia Solar Facility in 2014, reflecting negative impacts from heavy snowfall conditions in 2013 that reduced panel performance. Corporate costs for the year ended December 31, 2014 increased from the prior year due to higher incentive fees paid to Enbridge arising from an increased distribution rate commencing in November 2014, higher interest on debt issued to fund the 2014 Transaction and additional earnings subject to current and deferred tax.

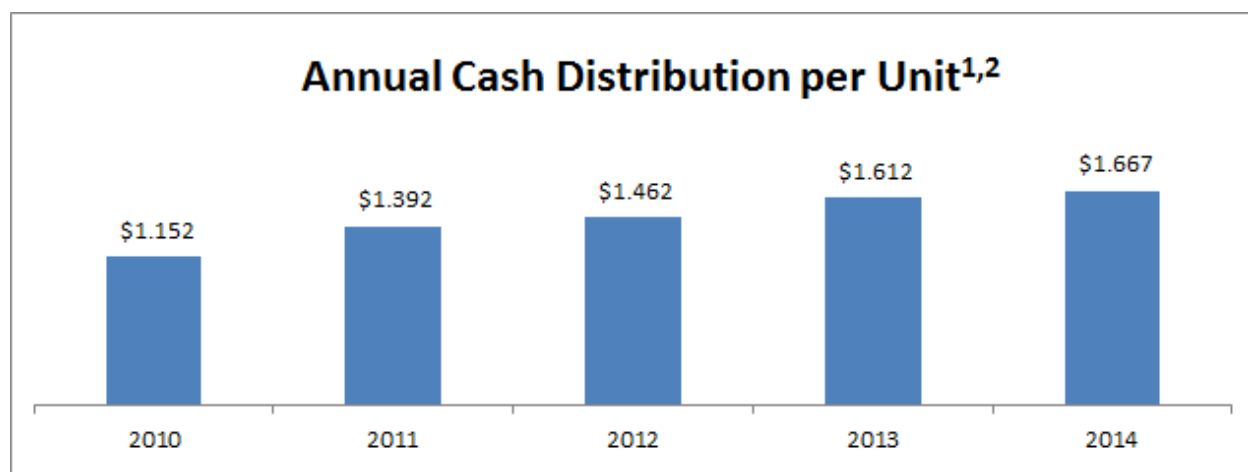
## CASH AVAILABLE FOR DISTRIBUTION

The Fund's CAFD totaled \$61.4 million and \$275.0 million for the three and twelve months ended December 31, 2014, respectively, representing a decrease of 5.5% and an increase of 4.5% from the respective prior year periods. The decrease in the fourth quarter of 2014 was primarily a result of weaker wind resources within the Green Power segment and higher corporate costs driven by increased incentive fees and interest costs resulting from the closing of the 2014 Transaction in November.

The increase in CAFD for the year ended December 31, 2014 was primarily due to contributions from the Liquids Transportation and Storage segment, driven by higher volumes in the Fund's pipeline systems, cash flows from the Southern Lights Class A Units and higher pump-out revenues from the Hardisty crude oil storage assets. The year ended December 31, 2014 also benefited from a full period of cash flow from the Bakken Expansion which commenced service on March 1, 2013 and contributions from Sable in the first quarter of 2014. Increased incentive fees, higher interest costs and current income taxes within the Corporate segment partially offset these increases in CAFD.

Effective with the November 2014 distribution, the Fund's monthly distribution increased to \$0.157 per unit. This increase was supported by incremental cash flow from the 2014 Transaction. The Fund increased its distribution to unitholders to \$0.135 per unit effective the November 2013 distribution.

Over the last five years, the Fund has declared the following annual distributions:



<sup>1</sup> Distributions may include both a return on capital and a return of capital.

<sup>2</sup> Figures present distributions on both the Fund's trust units and ECT preferred units.

## **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 future plans and operations of the Fund, its subsidiaries and joint ventures, 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:*

- *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 approval, timing and impact of asset purchase transactions;*
- *expected throughput volumes on the Fund's pipeline systems;*
- *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: expected supply, demand and prices for 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 approvals for the Fund's projects and transactions; 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, changes in tax laws and tax rates, 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 adjusted earnings and cash available for distribution. Adjusted earnings represents earnings adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. These factors, referred to as adjusting items, are reconciled and discussed in the financial results sections for the affected business segments. 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 pertaining to items of an unusual or transient nature which are not indicative of the underlying or sustainable cash flows of the business. Such reserves are determined by the Manager. CAFD is important to unitholders as the Fund's objective is to provide a predictable flow of distributions to unitholders. Management believes the presentation of adjusted earnings and CAFD provides useful information to investors and unitholders as it provides increased transparency and predictive value. Management uses adjusted earnings and CAFD to set targets, including the Fund's distribution payout target, and to assess the performance of the Fund. Adjusted earnings and CAFD are not measures that have standardized meaning prescribed by U.S. GAAP and are not considered U.S. GAAP measures. Therefore, these measures may not be comparable with similar measures presented by other issuers. Please refer to the earnings reconciliation within the financial results for each business segment and the reconciliation between the GAAP and non-GAAP measures.

## NON-GAAP RECONCILIATIONS

| Adjusted earnings <sup>1</sup>  | Three months ended |             | Year ended   |             |
|---|--------------------|-------------|--------------|-------------|
|   | December 31,       |             | December 31, |             |
|   | 2014               | 2013        | 2014         | 2013        |
| <i>(millions of Canadian dollars)</i>   |                    |             |              |             |
| Earnings <sup>2</sup>   | 26.2               | 32.7        | 150.0        | 117.4       |
| Add/(deduct) <sup>3</sup> :   |                    |             |              |             |
| Retrospective adjustments – Alliance US <sup>2</sup>                              | (4.6)              | (10.6)      | (38.6)       | (37.6)      |
| Greenwich Wind Facility transformer outage  | 0.5                | -           | 3.0          | -           |
| Changes in unrealized derivative fair value losses                                | 18.7               | -           | 18.7         | -           |
| Extraordinary item – Westspur System rate regulated accounting deferral write-off | -                  | -           | -            | 12.0        |
| Bakken Expansion make-up rights   | (2.1)              | 0.8         | (0.2)        | 3.3         |
| Hardisty Contract Terminal – non-cash project costs write-off                     | -                  | -           | -            | 1.4         |
| Realized gain on Southern Lights subscription price                               | (4.2)              | -           | (13.0)       | -           |
| Alliance Canada – unrecoverable regulatory costs                                  | -                  | -           | -            | 1.6         |
| Unrealized foreign exchange gain on intercompany loan and other                   | (14.9)             | -           | (14.9)       | -           |
| 2014 Transaction costs  | 0.9                | -           | 5.7          | -           |
| <b>Adjusted earnings</b>  | <b>20.5</b>        | <b>22.9</b> | <b>110.7</b> | <b>98.1</b> |

<sup>1</sup> Adjusted earnings and cash available for distribution are non-GAAP measures that do not have any standardized meaning prescribed by U.S. GAAP. See definition within "Non-GAAP Measures" section.

<sup>2</sup> In accordance with U.S. GAAP, earnings for all 2014 and 2013 periods have been retrospectively adjusted to furnish comparative information related to Alliance US. The impact of the retrospective adjustments has been removed from adjusted earnings to reflect earnings generated under the Fund's ownership effective November 7, 2014.

<sup>3</sup> Adjusting items are shown net of tax in this reconciliation if incurred within a taxable subsidiary corporation of the Fund.

| <b>Cash available for distribution<sup>1</sup></b>                               | Three months ended |        | Year ended    |        |
|--|--------------------|--------|---------------|--------|
|  | December 31,       |        | December 31,  |        |
|  | <b>2014</b>        | 2013   | <b>2014</b>   | 2013   |
| <i>(millions of Canadian dollars)</i>  |                    |        |               |        |
| Cash provided by operating activities <sup>2</sup>                               | <b>75.8</b>        | 87.0   | <b>322.6</b>  | 306.2  |
| Add/(deduct):  |                    |        |               |        |
| Retrospective cash flows – Alliance US <sup>2</sup>                              | <b>(15.2)</b>      | (8.5)  | <b>(53.3)</b> | (39.1) |
| Green Power maintenance capital expenditures <sup>3</sup>                        | <b>(0.6)</b>       | (0.7)  | <b>(1.0)</b>  | (1.6)  |
| Green Power joint venture cash distributed/(retained) <sup>4</sup>               | <b>(0.3)</b>       | -      | <b>(0.1)</b>  | 0.8    |
| Greenwich Wind Facility transformer outage <sup>5</sup>                          | <b>0.3</b>         | -      | <b>2.2</b>    | -      |
| Liquids Transportation and Storage maintenance capital expenditures <sup>3</sup> | <b>(5.9)</b>       | (1.8)  | <b>(12.0)</b> | (9.9)  |
| Realized gain on Southern Lights subscription price <sup>5</sup>                 | <b>(18.2)</b>      | -      | <b>(18.2)</b> | -      |
| Southern Lights Class A Units return of capital                                  | <b>1.6</b>         | -      | <b>1.6</b>    | -      |
| 2014 Transaction costs <sup>5</sup>  | <b>0.9</b>         | -      | <b>5.7</b>    | -      |
| Change in operating assets and liabilities in the period <sup>2</sup>            | <b>23.0</b>        | (11.0) | <b>27.5</b>   | 6.8    |
| <b>Cash available for distribution</b>   | <b>61.4</b>        | 65.0   | <b>275.0</b>  | 263.2  |

<sup>1</sup> Cash available for distribution is a non-GAAP measure that does not have any standardized meaning prescribed by U.S. GAAP. See definition within "Non-GAAP Measures" section.

<sup>2</sup> In accordance with U.S. GAAP, cash provided by operating activities for all 2014 and 2013 periods has been retrospectively adjusted to furnish comparative information related to Alliance US. The impact of the retrospective adjustments has been eliminated from CAFD as these cash flows were not available to distribute to unitholders.

<sup>3</sup> Maintenance capital expenditures reduce cash available for distribution 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> Cash available for distribution includes reserves pertaining to items of an unusual or transient nature which are not indicative of the underlying or sustainable cash flows of the business.

## 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 is also 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 TSX, 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:

|  | <b>At February 9, 2015</b> |
|--|----------------------------|
| <b>Enbridge Income Fund Holdings Inc.</b> <i>(number of common shares outstanding)</i> |                            |
| Held by public   | <b>56,349,000</b>          |
| Held by Enbridge   | <b>14,002,000</b>          |
|  | <b>70,351,000</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>70,351,000</b>          |
|  | <b>79,851,000</b>          |
| <b>Enbridge Commercial Trust</b> <i>(number of preferred units outstanding)</i>        |                            |
| Held by Enbridge   | <b>87,665,750</b>          |
| <b>Total number of common units and ECT preferred units outstanding</b>                | <b>167,516,750</b>         |

## FUND OBJECTIVES AND STRATEGY

The Fund's objectives are to provide a predictable flow of distributable cash and to increase, where prudent, cash distributions per trust unit through investment in and ongoing management of lower risk energy infrastructure assets.

In order to achieve the Fund's objectives, the Manager pursues three principal strategies which entail:

- maximizing the efficiency and profitability of its existing assets while ensuring safe and reliable operations;
- pursuing organic growth and expansion opportunities; and
- acquiring and developing energy infrastructure businesses that are complementary and in keeping with the risk and return profile of its existing business.

Each of the Fund's businesses is closely focused on safety, system performance and operating effectiveness. Green Power strategies are driven by the objective to manage and maintain its facilities in such a way to maximize power generation and related revenue when the relevant wind, solar or waste heat energy resource is available. The Liquids Transportation and Storage business in Saskatchewan is focused on attracting new volumes to the system through increasing customer connections while working with customers to create reliable transportation solutions and toll structures to retain and attract growing regional production over the long term. The Liquids Transportation and Storage business at Hardisty, Alberta, is situated at a major hub for aggregating and exporting crude oil out of the Western Canadian Sedimentary Basin (WCSB). It is focused on connecting Canada's oil producers to markets in eastern Canada and the United States. The Southern Lights Pipeline, owned by Enbridge, is a single stream pipeline that runs in a north westerly direction from the Enbridge Manhattan Terminal, just south of Chicago, to the Enbridge Edmonton Terminal in western Canada. The Southern Lights Class A Units are entitled to cash flows derived from the fully-contracted core rate base of the Southern Lights Pipeline. Alliance Pipeline is implementing solutions to enhance its unique capability to safely and cost-effectively transport liquids rich gas (gas with a high component of inherent natural gas liquids) to attract growing production of high-value, liquids rich gas in the WCSB and the North Dakota Bakken resource play.

The expansion and extension of existing systems and facilities has been a significant driver of growth in recent years and the Fund continued to execute on its organic expansion strategy during 2014. The Fund continues to actively search for new opportunities to profitably grow the footprint of its existing assets and in January 2014, announced the \$27 million Cromer Rail Interconnection Project. The Fund also seeks to achieve growth through acquisitions of complementary energy infrastructure. In 2014, the Fund delivered strong distribution growth through the 2014 Transaction with its sponsor, Enbridge.

On December 3, 2014, Enbridge advised the Fund and ENF that it intends to make a proposal to transfer its Canadian Liquids Pipelines business and Canadian renewable energy assets to the Fund. The Fund and ENF have not yet received a formal proposal from Enbridge. A joint special committee of independent directors has been formed to assess any proposal. The assets proposed to be transferred to the Fund include \$16 billion of combined carrying value of Canadian Liquids Pipelines assets with an associated secured growth capital program of approximately \$15 billion, plus \$1 billion of renewable energy assets. If the proposed transaction from Enbridge is completed, the Fund would become the largest midstream energy infrastructure organization in Canada, with a highly visible and robust source of long-term earnings and distribution growth. However, there can be no assurance that any proposed transaction will be completed in the manner contemplated by Enbridge, or at all, or that market conditions will not materially change the attractiveness of the proposal to either the Fund or Enbridge.

Preservation of financial flexibility will continue to be a strategic priority. Ongoing access to cost effective sources of debt and equity capital is critical to the successful execution of the Fund's strategy to expand existing assets and acquire or develop new energy infrastructure.

## **GREEN POWER**

### **Overview**

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

#### *Wind Facilities*

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

- The Ontario Wind Facility, located near Lake Huron, Ontario, utilizes 115 turbines with an aggregate capacity of 190 MW.
- The Talbot Wind Facility, located on the north shore of Lake Erie, Ontario, utilizes 43 turbines with an aggregate capacity of 99 MW.
- The Greenwich Wind Facility, located on the north shore of Lake Superior, Ontario, utilizes 43 wind turbines with an aggregate capacity of 99 MW.

All power produced from these wind facilities is sold to the Independent Electricity System Operator of Ontario (IESO), formerly the Ontario Power Authority, pursuant to power purchase agreements (PPA) which expire between 2028 and 2031.

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

- A 50% interest in the SunBridge Wind Facility at Gull Lake, Saskatchewan, which utilizes 17 turbines with an aggregate capacity of 11 MW (6 MW net to the Fund).
- A 33% interest in each of the Magrath and Chin Chute Wind Facilities in southern Alberta, each utilizing 20 turbines with an aggregate capacity of 30 MW per facility (10 MW per facility net to the Fund).

The power from SunBridge is delivered into the Saskatchewan power grid pursuant to a PPA that expires in 2022, while the energy produced at Magrath and Chin Chute is delivered into the Alberta power grid. Power price swap agreements, which are in place to mitigate the risk of fluctuating power prices in Alberta, expire between 2017 and 2024.

### Solar Facilities

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

- The Sarnia Solar Facility, an 80 MW solar facility located near Lake Huron, in Sarnia, Ontario, comprised of approximately 1.3 million thin film panels with a surface area of 966,000 m<sup>2</sup>.
- The Amherstburg Solar Facility, a 15 MW solar facility near Sarnia, Ontario, comprised of approximately 0.2 million thin film panels with a surface area of 175,700 m<sup>2</sup>.
- The Tilbury Solar Facility, a 5 MW solar facility located near Sarnia, Ontario, comprised of 0.1 million thin film panels with a surface area of 67,700 m<sup>2</sup>.

All power produced from these solar facilities is sold to the IESO pursuant to PPAs which expire between 2028 and 2031.

Various inspection and monitoring methods as well as ongoing maintenance protocols are utilized to maintain the safety and integrity of the wind turbines, solar panels and related facilities, and to minimize system disruptions. The wind and solar facilities owned by the Fund are subject to regular maintenance programs to maintain the life of the assets.

### NRGreen

The Fund also has a 50% interest in NRGreen. NRGreen operates five waste heat recovery facilities with an aggregate capacity of 33 MW (17 MW net to the Fund), which are located at compressor stations along the Alliance Pipeline. Electricity is generated by harnessing the waste heat produced by gas turbines at Alliance Canada's compressor stations and converting the waste heat to electrical energy. Four of the facilities are located in Saskatchewan and one is in Alberta. The first facility located at Kerrobert, Saskatchewan has been operating since December 2006. The three other Saskatchewan facilities, located in Loreburn, Estlin and Alameda, began operations during 2008. The Whitecourt Recovered Energy Facility located near Whitecourt, Alberta began commercial operations in December 2014.

The power generated from each of the four NRGreen facilities located in Saskatchewan is sold under long-term PPAs to SaskPower. The PPAs expire ten years after the in-service date for each facility with options to extend for two additional successive five-year terms at NRGreen's election. In December 2014, NRGreen elected to extend each of the PPA's for the first additional five-year term. Energy generated by the Whitecourt Recovered Energy Facility is sold into the Alberta Power Pool on a spot basis and certain emission reduction credits are sold under contract to Alliance Canada.

### Results of Operations

|  | Three months ended<br>December 31, |       | Year ended<br>December 31, |         |
|--|------------------------------------|-------|----------------------------|---------|
|  | 2014                               | 2013  | 2014                       | 2013    |
| <b>Financial highlights</b> (millions of Canadian dollars)         |                                    |       |                            |         |
| Adjusted Earnings <sup>1</sup>                                     | 18.9                               | 23.6  | 92.3                       | 94.2    |
| Greenwich Wind Facility transformer outage                         | (0.5)                              | -     | (3.0)                      | -       |
| Earnings   | 18.4                               | 23.6  | 89.3                       | 94.2    |
| <b>Operating highlights</b> (thousands of megawatt hours produced) |                                    |       |                            |         |
| Wind Facilities (including joint ventures)                         | 324.0                              | 350.8 | 1,099.6                    | 1,149.0 |
| Solar Facilities   | 20.5                               | 23.3  | 152.1                      | 147.8   |
| Waste Heat Facilities (50%)  | 20.8                               | 19.7  | 70.9                       | 70.7    |
|  | 365.3                              | 393.8 | 1,322.6                    | 1,367.5 |

<sup>1</sup> Income tax expense associated with adjustments to earnings was recognized within the Corporate segment.

Green Power adjusted earnings for the three months ended December 31, 2014 decreased compared to the three months ended December 31, 2013, reflecting weaker wind resource across the portfolio and higher operating costs due to timing of certain expenditures. Green Power adjusted earnings for the year

ended December 31, 2014 were lower than the comparable period of 2013 largely due to weaker wind resources at Ontario Wind Facility and Talbot Wind Facility, partially offset by stronger performance from the Sarnia Solar and Amherstburg Solar facilities. The 2013 comparable period was negatively impacted by heavy snowfall conditions at the Sarnia Solar Facility which reduced panel performance.

Green Power earnings were adjusted for the effects of a non-recurring transformer outage at the Greenwich Wind Facility. Earnings for the three and twelve months ended December 31, 2014 were negatively impacted by \$0.5 million and \$3.0 million, respectively, due to a partial loss of production and incremental repairs and maintenance expenses. The transformer was fully reinstalled in the third quarter of 2014. A claim was made under the business interruption insurance policy to recover losses relating to this outage.

### **Business Risks**

The risks identified below are specific to the Green Power segment. General risks that affect the Fund as a whole are described under Risk Management.

#### *Regulatory*

Renewable generators are classified as intermittent generators under the IESO Market Rules. Amendments to the IESO Market Rules were passed on November 29, 2012, to allow for curtailment of intermittent generators in times of surplus base-load generation. The Fund and other renewable power generators reached an agreement with the OPA in February 2013 to amend certain existing power purchase agreements to include both annual and contract term curtailment caps beyond which renewable power generators will be compensated for forgone production. Uncompensated curtailment impacts less than 1% of the operating hours of the Ontario Wind Facility, Talbot Wind Facility and Greenwich Wind Facility, and is expected to remain consistent over the life of the PPAs.

#### *Asset Utilization*

Earnings from the Fund's wind and solar assets are highly dependent on weather and atmospheric conditions as well as continued operational availability of these energy producing assets. While the expected energy yields for the Green Power assets are predicted using long-term historical data, wind and solar resources will be subject to natural variation from year to year and from season to season. Any prolonged reduction in wind or solar resources at any of the Fund's facilities could lead to decreased earnings for the Fund. Additionally, inefficiencies or interruptions of the Fund's facilities due to operational disturbances or outages could also impact earnings. The Fund mitigates the risk of operational availability by establishing Operations and Maintenance contracts with the original equipment manufacturers that include a negotiated operational performance asset guarantee. The Fund also monitors the operational reliability of the assets on a 24-hour basis.

#### *Transmission Systems*

The ability to deliver electricity is affected by the availability of the various transmission and distributions systems in the areas in which it operates. The failure of existing transmission or distribution facilities or lack of adequate transmission or distribution capacity could have a material adverse effect on the ability to deliver electricity and receive payment under the PPAs.

## **LIQUIDS TRANSPORTATION AND STORAGE**

### **Overview**

The Fund's Liquids Transportation and Storage business serves customers in Western Canada and North Dakota and includes the South Prairie Region (formerly 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 products 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 Terminal and Hardisty Storage Caverns located near Hardisty, Alberta, a key crude pipeline hub in Western Canada and the Fund's investment in Southern Lights Class A Units.

Collectively referred to as the South Prairie Region, the Saskatchewan Gathering, Westspur, Weyburn and Virden pipeline systems, as well as the Canadian portion of the Bakken Expansion, comprise in aggregate approximately 545 kilometres of trunk line and approximately 1,800 kilometres of gathering pipeline. The Bakken Expansion is a joint project which provides crude oil pipeline capacity to growing production from the Bakken and Three Forks formations located in North Dakota. The capacity of each of the Saskatchewan Gathering and the Westspur Systems is 255,000 barrels per day (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. The South Prairie Region also includes storage terminals and tankage facilities in Saskatchewan, comprised of 21 above ground storage tanks with total capacity of approximately 450,000 barrels.

The Hardisty Contract Terminal, located adjacent to Enbridge's Mainline System terminal in Hardisty, Alberta, is 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 with a capacity of 250,000 barrels 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. Each of the Hardisty assets has long-term take-or-pay storage contracts in place with credit-worthy counterparties in respect of substantially all of their storage capacity.

On November 7, 2014, indirect wholly-owned subsidiaries of the Fund subscribed for and purchased the Southern Lights Class A Units which provide a defined cash flow stream, that represents the equity cash flows derived from the core rate base of the Southern Lights Pipeline until June 30, 2040. Payments are received quarterly, each of which is comprised of return on and return of capital components. The return on capital is included in income for the period and the return of capital reduces the balance of the investment on the Consolidated Statements of Financial Position. Enbridge guaranteed payment of the distributions except in circumstances of force majeure, certain regulatory actions and shipper defaults that remain unrecovered under the shipper contracts. The Fund has options to negotiate extensions for two additional 10-year terms beyond 2040 and to participate in equity returns from future expansions of the Southern Lights Pipeline.

## Results of Operations

|   | Three months ended |             | Year ended   |             |
|---|--------------------|-------------|--------------|-------------|
|   | December 31,       |             | December 31, |             |
|   | 2014               | 2013        | 2014         | 2013        |
| <b>Financial highlights</b> (millions of Canadian dollars)                        |                    |             |              |             |
| Adjusted Earnings <sup>1,2</sup>  | 19.3               | 17.3        | 82.4         | 72.4        |
| Extraordinary item – Westspur System rate regulated accounting deferral write-off | -                  | -           | -            | (16.5)      |
| Realized gain on Southern Lights subscription price                               | 7.7                | -           | 21.8         | -           |
| Changes in unrealized derivative fair value losses                                | (19.5)             | -           | (19.5)       | -           |
| Bakken Expansion make-up rights   | 2.1                | (0.8)       | 0.2          | (3.3)       |
| Hardisty Contract Terminal – non-cash project costs write-off                     | -                  | -           | -            | (1.9)       |
| <b>Earnings</b>   | <b>9.6</b>         | <b>16.5</b> | <b>84.9</b>  | <b>50.7</b> |
| <b>Operating highlights</b> (thousands of barrels per day)                        |                    |             |              |             |
| <b>Liquids Transportation and Storage</b> <sup>3</sup>                            |                    |             |              |             |
| Westspur System   | 184.4              | 170.6       | 180.8        | 164.3       |
| Saskatchewan Gathering System   | 147.1              | 130.1       | 141.9        | 119.5       |
| Weyburn System  | 30.0               | 31.6        | 31.3         | 31.5        |
| Virден System   | 20.1               | 26.4        | 21.5         | 24.5        |
| Bakken Expansion <sup>4</sup>   | 77.5               | 4.1         | 49.6         | 9.8         |

<sup>1</sup> Adjusted earnings is a non-GAAP measure that does not have any standardized meaning prescribed by U.S. GAAP. See definition within "Non-GAAP Measures" section.

<sup>2</sup> Income tax expense associated with adjustments to earnings was recognized within the Corporate segment.

<sup>3</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.

<sup>4</sup> Bakken Expansion pipeline financial performance is largely not volume sensitive since invested capital is underpinned by long term take-or-pay committed contracts.

Adjusted earnings from Liquids Transportation and Storage increased for the three and twelve months ended December 31, 2014 as compared to the same periods of 2013. For the quarter ended December 31, 2014, the Fund benefited from earnings recorded in respect of the Southern Lights Class A Units as well as from improved throughputs due to customers partially returning volumes to the South Prairie Region from alternative transportation options, primarily rail. This was partially offset by an unrealized inventory writedown as a result of lower crude oil prices at December 31, 2014. The trends described for the fourth quarter also affected the full year period with the additional benefit of contributions for the full year from the Bakken Expansion which commenced operations in March 2013, a higher rate base for the Saskatchewan Gathering System and higher pump-out revenues combined with lower operating costs for the Hardisty storage assets.

Earnings from the Liquids Transportation and Storage segment for the three and twelve months ended December 31, 2014 were adjusted for a realized gain on foreign exchange related to the 2014 Transaction. The subscription price for the Southern Lights US Class A Units fixed the exchange rate of Canadian dollars to the U.S. dollar price. The Fund recorded other income of \$7.7 million and \$21.8 million for the three and twelve months ended December 31, 2014, respectively. In order to manage the foreign exchange exposure associated with the current and future U.S. dollar cash flows from the Southern Lights US Class A Units, the Fund implemented economic hedges and recorded unrealized fair value losses of \$19.5 million in the fourth quarter of 2014. The changes in unrealized mark-to-market accounting for the foreign exchange hedges create volatility in short-term earnings, but the Fund believes that over the long-term, the program supports reliable cash flows.

The Bakken Expansion has firm take-or-pay committed contracts which provide that when committed shippers do not utilize committed capacity in a given period, they receive make-up rights which entitle them to utilize unused capacity commitments for a period of twelve months. Committed shippers are only entitled to use make-up rights to the extent that their volumes exceed their minimum commitments for that period and spot shippers have not used the available capacity. For the three and twelve months ended

December 31, 2014, the Fund recognized previously deferred revenue of \$2.1 million and \$0.2 million, respectively, reflecting expected make-up rights utilization.

Adjustments to earnings in 2013 include an extraordinary write-off related to the discontinuance of rate regulated accounting for the Westspur System and Hardisty Contract Terminal project costs write-off. On April 1, 2013, the Fund announced that it had concluded a settlement (the Settlement) with a group of shippers relating to new tolls on the Westspur System, which the NEB subsequently ordered final on February 6, 2014. Pursuant to the Settlement, the tolls on the Westspur System were fixed and increase annually with reference to a pre-identified inflation index, subject to throughput remaining within a volume band. The Settlement resulted in the discontinuance of rate regulated accounting for the Westspur System and the Fund recorded a write-off of \$16.5 million in the first quarter of 2013 related to a deferred regulatory asset which was not collected under the terms of the Settlement. During the third quarter of 2013, the Fund and regulator determined that an in-progress regulatory-directed project at Hardisty Contract Terminal was no longer required, resulting in a non-cash charge of \$1.9 million.

Throughput volumes increased on the Westspur System, Saskatchewan Gathering System and Bakken Expansion for the three and twelve months ended December 31, 2014 compared to the same periods of the prior year due to higher volumes on these systems. Throughputs in 2013 periods reflected increased use of rail by shippers attributable to wide crude oil price differentials between local delivery points and delivery points with access to world market prices at tidewater due to the absence of pipeline infrastructure to those markets. The improvement, particularly in the second quarter of 2014, was attributable to narrowing price differentials. Management expects throughput to further recover on these systems as expansions on downstream pipelines and new market access projects should relieve bottlenecks and further reduce price discounts for producers delivering into the South Prairie Region.

Throughput variances do not directly impact earnings on the Saskatchewan Gathering System since this system is based on cost of service. Prior to the filing of 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 new tolling structure and the discontinuance of rate regulated accounting, earnings on the Westspur System became more sensitive to volumetric throughput beginning in the second quarter of 2013. Volume risk is somewhat mitigated for the Westspur System as toll surcharges or discounts will be applied should throughput increase or decrease on a sustained basis outside a pre-defined band. 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. The Fund continues to collect cash tolls with respect to the Bakken Expansion regardless of actual throughput pursuant to firm take-or-pay commitments totaling 100,000 bpd.

#### **Cromer Rail Interconnection Project**

On January 29, 2014, the Fund announced plans to construct a pipeline interconnection to connect the Westspur System and Bakken Expansion to a crude oil rail terminal near Cromer, Manitoba. The project is estimated to cost \$27 million and is expected to be in-service in the first quarter of 2015. The project is fully backstopped by the operator of the crude oil rail terminal pursuant to a five-year Financial Support Agreement. In addition, the Fund has an option to acquire 50% of the rail terminal, which is capable of handling 30,000 bpd and is being expanded to 60,000 bpd.

#### **Regulatory and Tolling Matters**

The Saskatchewan Gathering System is regulated by the Saskatchewan Ministry of Economy (SME). The Saskatchewan Gathering System tolling agreement is based on a cost of service methodology, designed to provide toll revenues sufficient to recover operating costs, depreciation, deemed interest expense, deemed income tax and to provide an administrative expense allowance as well as a return on the asset base. The rate base upon which the equity return is calculated will change over time due to depreciation as well as maintenance and enhancement capital additions and expansions.

The Westspur System is regulated by the NEB. Tolls on the Westspur System are based upon the Settlement, which was signed with a group of shippers on April 1, 2013 and resulted in tolls no longer being subject to the cost of service methodology. On February 6, 2014, the NEB ordered historical and new tolls final in respect of the Settlement.

The Weyburn System and Virden System are regulated by the SME and Manitoba Innovation, Energy and Mines, respectively. Rates are established based on signed customer agreements and are updated to reflect changing market conditions when warranted. As a result, earnings from these systems reflect toll revenue less costs incurred.

The Bakken Expansion is regulated by the NEB. Tolls on the Bakken Expansion are based on long-term take-or-pay agreements with anchor shippers.

Regulators also exercise authority over various matters such as construction, operations, rates and ratemaking agreements with customers, and underlying accounting principles.

### **Business Risks**

The risks identified below are specific to Liquids Transportation and Storage. General risks that affect the Fund as a whole are described under Risk Management.

#### *Asset Utilization*

The Fund is exposed to throughput risk under certain tolling agreements applicable to the South Prairie Region assets. A decrease in volumes transported can directly and adversely affect revenues and earnings. Factors such as changing market fundamentals, capacity bottlenecks, operational incidents, regulatory restrictions, system maintenance and increased competition can all impact the utilization of the South Prairie Region assets. The market access and expansion projects under development by Enbridge are expected to reduce capacity bottlenecks and introduce new markets for customers.

Market fundamentals, such as commodity prices and price differentials, weather, gasoline price and consumption, alternative energy sources and global supply disruptions, outside of the Fund's control can impact both the supply of and demand for crude oil and other liquid hydrocarbons transported on the South Prairie Region assets.

The Fund seeks to mitigate utilization risks within its control, including working with the shipper community on tolling agreements that protect to various degrees the impact of volume fluctuations on revenue.

#### *Competition*

Competition may result in a reduction in demand for the South Prairie Region's services or assumption of risk that results in weaker or more volatile financial performance than expected. The South Prairie Region faces competition in pipeline transportation from other pipelines as well as other forms of transportation, most notably rail. These alternative transportation options could charge rates or provide service to locations that result in greater net profit for shippers, thereby reducing shipments on the South Prairie Region systems or resulting in pressure to reduce tolls. While the crude price differentials resulting from downstream bottlenecks may cause production to move to rail or other transportation options, the Fund believes its tolls will be competitive relative to alternative transportation options over the longer term due to the South Prairie Region's right-of-way and its ability to undertake relatively low cost expansions and extensions.



### *Operational and Economic Regulation*

Operational regulation risks relate to failing to comply with applicable operational rules and regulations from government organizations and could result in fines, operating restrictions and/or an overall increase in operating and compliance costs.

Regulatory scrutiny over the integrity of Liquids Transportation and Storage assets has the potential to increase operating costs or limit future projects. Any regulatory changes could have an impact on the Fund's future earnings and the cost to construct new projects. The Fund and its sponsor, Enbridge, believe operational regulation risk is mitigated by active monitoring and consulting on potential regulatory requirement changes, directly with regulators or through industry associations. The Fund and its sponsor also develop robust response plans to regulatory changes or enforcement actions. While the Fund believes the safe and reliable operation of its assets and adherence to existing regulations is the best approach to managing operational regulatory risk, the potential remains for regulators to make unilateral decisions that could have a financial impact on the Fund.

Broadly defined, economic regulation risk relates to the ability of regulators or other government entities to change or reject proposed or existing commercial arrangements. Certain pipelines within the South Prairie Region are subject to the actions of various regulators, including the NEB. Actions of regulators related to tariffs, tolls and facilities impact earnings and the success of expansion projects. Delays in regulatory approvals could result in cost escalations and construction delays. Changes in regulation, including decisions by regulators on the applicable tariff structure or changes in interpretations of existing regulations by courts or regulators, could adversely affect the results of the Fund's operations.

The Fund believes that economic regulatory risk is reduced through the negotiation of long-term agreements with shippers. The Fund also involves its legal and regulatory teams in the review of new projects to ensure compliance with applicable regulations as well as in the establishment of tariffs and tolls on new and existing pipelines. However, despite the best efforts of the Fund to mitigate economic regulation risk, there remains a risk that a regulator could overturn long-term agreements between the Fund and shippers or deny the approval and permits for new projects.

## **Natural Gas Transmission**

### **Overview**

Natural Gas Transmission consists of the Alliance Pipeline, a 3,000 km natural gas mainline pipeline, which includes the Canadian and United States segments of the pipeline and approximately 860 km of lateral pipelines and related infrastructure. The Alliance Canada segment begins near Aiken Creek, British Columbia and connects to Alliance US at the Canada/United States border near Elmore, Saskatchewan. The Alliance US segment continues to the Aux Sable gas processing plant near Chicago, Illinois and the Alliance Chicago Exchange hub. Alliance Canada and Alliance US have firm transportation service shipping contract capacity of 1,325 million cubic feet per day and 1,466 million cubic feet per day, respectively. Additional transportation capacity is periodically available to firm transportation shippers through Authorized Overrun Service (AOS). In September 2013, Alliance US completed construction of the Tioga Lateral which facilitates delivery of natural gas from the Tioga field processing plant in the Bakken to downstream markets.

Indirect wholly-owned subsidiaries of the Fund acquired a 50% interest in Alliance US from indirect wholly-owned subsidiaries of Enbridge on November 7, 2014.

Alliance Canada has transportation service agreements (TSAs) with shippers for substantially all of its available firm transportation capacity. The 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 (ROE) 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 that have elected to extend their contracts beyond 2015. Alliance US has similar TSAs which allow for the recovery of the cost of service, which includes operating and maintenance costs, the cost of financing, an allowance for income tax, an annual

allowance for depreciation and an allowed ROE of 10.88%. In addition, Alliance US negotiated non-renewal charges that are an exit fee for shippers that did not elect to extend their transportation contracts.

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 NEB. Rates and tariffs for Alliance US are regulated by the Federal Energy Regulatory Commission (FERC). Alliance US charges shippers a monthly amount calculated to recover all costs on an annual basis. Alliance US consults with shippers and files amended rates annually with the FERC.

## Results of Operations

|   | Three months ended<br>December 31, |         | Year ended<br>December 31, |         |
|---|------------------------------------|---------|----------------------------|---------|
|   | 2014                               | 2013    | 2014                       | 2013    |
| <b>Financial highlights</b> (millions of Canadian dollars)      |                                    |         |                            |         |
| Adjusted Earnings   | 25.6                               | 12.8    | 74.2                       | 56.2    |
| Changes in unrealized derivative fair value losses <sup>1</sup> | (5.6)                              | -       | (5.6)                      | -       |
| Unrecoverable regulatory costs <sup>1</sup>                     | -                                  | -       | -                          | (2.1)   |
|   | 20.0                               | 12.8    | 68.6                       | 54.1    |
| Retrospective adjustments – Alliance US                         | 4.6                                | 10.6    | 38.6                       | 37.6    |
| Earnings  | 24.6                               | 23.4    | 107.2                      | 91.7    |
| <b>Operating highlights</b> (millions of cubic feet per day)    |                                    |         |                            |         |
| Alliance Canada   | 1,547.0                            | 1,552.0 | 1,556.0                    | 1,565.0 |
| Alliance US   | 1,693.0                            | 1,636.0 | 1,682.0                    | 1,652.0 |

<sup>1</sup> Income tax expense associated with adjustments to earnings was recognized within the Corporate segment.

Adjusted earnings from Natural Gas Transmission increased for the three and twelve months ended December 31, 2014 as compared to the same periods of 2013. The increase in adjusted earnings was primarily driven by the addition of earnings from Alliance US in the fourth quarter of 2014. The comparable twelve-month period was also positively impacted by a \$3.0 million contribution from Sable, an equity investment in which the Fund owns a 50% interest. Sable holds 20 mmcf/d of firm capacity on the Alliance Pipeline at tolls equal to those charged to third party shippers through to December 2015. Pursuant to an agreement with an affiliate of Enbridge, Sable's share of costs are fixed, while still providing for participation in earnings if Alberta/Chicago natural gas price differentials exceed a pre-defined threshold. During the first quarter of 2014, Alberta/Chicago natural gas price differentials widened significantly above the pre-defined threshold due to abnormal winter weather conditions, resulting in higher than normal earnings for the period.

Natural Gas Transmission earnings were adjusted by an unrealized fair value loss on derivative instruments used to hedge U.S. dollar cash flows from Alliance US, retrospective restatement of earnings as a result of the common control acquisition of Enbridge's 50% interest in Alliance US and a one-time charge of \$2.1 million to earnings due to the NEB denial in 2013 of the recovery of indirect costs incurred by Alliance Canada in connection with the relocation of a segment of the Alliance pipeline.

### 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 Pipeline for periods following the December 2015 expiry of the majority of the existing contracts. Alliance Pipeline outlined the services to be offered as well as the precedent agreement process to be followed. On May 22, 2014, Alliance Canada filed an application with the NEB for regulatory approval of its new services offering and the related tolls and tariff provisions required to implement the new services. Alliance US intends to file an application with the FERC in mid-2015 regarding its new services offering. Given its unique ability to cost-effectively transport liquids rich natural gas, and the supply growth in basins it runs through, it is expected that the Alliance Pipeline will be well-utilized for the foreseeable future as evidenced by good progress made in securing precedent

agreements with shippers. As of January 2015, over 90% of total targeted capacity, a combination of receipt and full path, has been secured with an average contract length of almost five years.

## **Regulatory Matters**

### *Transportation Contracts*

Alliance Canada has long-term, take-or-pay contracts to transport substantially all its 1,325 million cubic feet per day of natural gas capacity. The majority of these long-term contracts expire November 30, 2015. These contracts permit Alliance Canada, whose operations are regulated by the NEB, to recover the cost of service, which includes operating and maintenance costs, the cost of financing, an allowance for income tax, an annual allowance for depreciation and an allowed return on equity of 11.26% after tax. Alliance US has similar TSAs expiring on November 30, 2015 which allow for the recovery of the cost of service, which includes operating and maintenance costs, the cost of financing, an allowance for income tax, an annual allowance for depreciation and an allowed ROE of 10.88%.

## **Business Risks**

The risks identified below are specific to Natural Gas Transmission. General risks that affect the Fund as a whole are described under Risk Management.

### *Asset Utilization*

Currently, natural gas pipeline capacity out of the WCSB exceeds supply. Alliance Pipeline to date has been relatively unaffected by the excess supply environment, as substantially all of its long-term capacity contracts extend until late 2015. However, excess capacity and depressed natural gas and crude prices have led to the prospect of a reduction or deferral of investment in upstream gas development, and could negatively impact the ability of Alliance Pipeline to recontract when its newly secured contracts expire beyond 2015. Additionally, increased supply from new shale developments including the Marcellus and Utica shale plays could displace gas from the WCSB to the United States Midwest, further increasing re-contracting risk.

Re-contracting risk is partially mitigated as the Alliance Pipeline is well positioned to deliver incremental liquids-rich gas production from developments in the Montney, Duvernay and Bakken regions to the Aux Sable NGL fractionation plant. The Alliance Pipeline is also engaged with market participants in developing new receipt facilities and services to expand its reach in transporting liquids-rich gas to premium markets. As noted above, Alliance Pipeline has made good progress and has secured over 90% of total targeted capacity, a combination of receipt and full path, has been secured with an average contract length of almost five years.

### *Competition*

The Alliance Pipeline faces competition for pipeline transportation services to the Chicago area from both existing and proposed pipeline projects to transport gas from existing and new gas developments throughout North America. Any new or upgraded pipelines could either allow shippers greater access to natural gas markets or offer natural gas transportation services that are more desirable than those provided by the Alliance Pipeline because of location, facilities or other factors. In addition, any new or upgraded pipelines could charge tolls or rates or provide transportation services to locations that result in greater net profit for shippers, with the effect of reducing future supply for the Alliance Pipeline. The ability of the Alliance Pipeline to cost-effectively transport liquids-rich gas serves to enhance its competitive position.

### *Economic Regulation*

Alliance Pipeline is subject to regulation by the NEB in Canada and the FERC in the United States. If tolls, rates, or tariffs are protested, the timing and amount of recovery or refund of amounts recorded on the Consolidated Statements of Financial Position could be different from the amounts that are eventually recovered or refunded. In addition, future profitability of the entities could be negatively impacted. On a yearly basis, following consultation with shippers, Alliance Pipeline files its annual rates with the NEB and FERC for approval.

## CORPORATE

### Overview

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

### Results of Operations

|   | Three months ended<br>December 31, |      | Year ended<br>December 31, |       |
|---|------------------------------------|------|----------------------------|-------|
|   | 2014                               | 2013 | 2014                       | 2013  |
| <i>(millions of Canadian dollars)</i>   |                                    |      |                            |       |
| Interest expense and other  | 24.3                               | 18.9 | 78.1                       | 73.5  |
| Management and administrative   | 8.2                                | 5.5  | 26.2                       | 21.8  |
| Income taxes  | 10.8                               | 6.4  | 33.9                       | 29.4  |
| Adjusted corporate costs  | 43.3                               | 30.8 | 138.2                      | 124.7 |
| Tax on changes in derivative fair value losses  | (6.4)                              | -    | (6.4)                      | -     |
| Unrealized foreign exchange gain on intercompany loan and other, net of tax                       | (14.9)                             | -    | (14.9)                     | (1.0) |
| Tax on realized gain on Southern Lights subscription price  | 3.5                                | -    | 8.8                        | -     |
| 2014 Transaction costs  | 0.9                                | -    | 5.7                        | -     |
| Extraordinary item – tax recovery on Westspur System rate regulated accounting deferral write-off | -                                  | -    | -                          | (4.5) |
| Corporate costs   | 26.4                               | 30.8 | 131.4                      | 119.2 |

For the three and twelve months ended December 31, 2014, adjusted corporate costs increased over the same periods of 2013 primarily due to increased incentive fees from higher distributions beginning in November 2014, higher interest on debt assumed to partially finance the 2014 Transaction and additional income taxes on higher earnings subject to tax.

Management and administrative expense included incentive fees of \$7.4 million and \$22.8 million (2013 – \$4.9 million and \$19.6 million) for the three and twelve months ended December 31, 2014, respectively. Incentive fees are based on distributions declared by the Fund compared to a predetermined distribution target. As such, the increase in incentive fees was due to two increases in the monthly distribution rate during the current and comparative period. Commencing with the November 2013 distribution, monthly distributions were \$0.135 per unit as compared to \$0.134 per unit in the first 10 months of 2013. In November 2014, the Fund further increased the distribution to \$0.157 per unit.

Corporate costs were adjusted for advisory fees related to the 2014 Transaction of \$0.9 million and \$5.7 million for the three and twelve months ended December 31, 2014. Corporate costs included tax expense of \$8.8 million on the gain realized in the fourth quarter of 2014 for the valuation of the fixed foreign exchange rate included in the Southern Lights US Class A Units subscription price. Deferred tax recoveries on the unrealized fair value losses on the foreign exchange hedging program of \$6.4 million were adjusted in Corporate costs. In financing the subscription for and purchase of the Southern Lights US Class A Units and the acquisition of a 50% equity interest in Alliance US, the Fund provided a U.S. dollar loan to its new U.S.-based subsidiary. Since the loan is denominated in U.S. dollars and the Fund has a Canadian dollar functional currency, the Fund recorded an unrealized, after-tax foreign exchange gain of \$14.9 million. Further, Corporate costs in the first quarter of 2013 reflected an extraordinary item comprised of a \$4.5 million tax recovery resulting from the discontinuance of rate regulated accounting for the Westspur System.

## 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.

|                                       | Total          | Less than 1 year | 2 years      | 3 years      | 4 years      | 5 years      | Thereafter     |
|---------------------------------------|----------------|------------------|--------------|--------------|--------------|--------------|----------------|
| <i>(millions of Canadian dollars)</i> |                |                  |              |              |              |              |                |
| Long-term debt                        | 2,544.1        | -                | 330.0        | 325.0        | 125.0        | 300.0        | 1,464.1        |
| Operating leases                      | 2.7            | 1.3              | 0.9          | 0.5          | -            | -            | -              |
| Maintenance agreements                | 42.5           | 12.5             | 11.6         | 10.0         | 4.3          | 2.2          | 1.9            |
| Land lease commitments                | 34.1           | 1.8              | 2.4          | 2.4          | 2.5          | 2.5          | 22.5           |
| <b>Total</b>                          | <b>2,623.4</b> | <b>15.6</b>      | <b>344.9</b> | <b>337.9</b> | <b>131.8</b> | <b>304.7</b> | <b>1,488.5</b> |

### 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, draws under committed credit facilities, as well as loans from affiliates.

#### Debt

Long-term debt consists of MTNs and a committed credit facility. In November 2014, the Fund issued a \$1,080 million multi-tranche debt offering of senior unsecured MTNs in the Canadian debt capital markets, comprised of: \$330 million of 2-year floating rate notes, \$500 million of 10-year unsecured MTNs at a fixed interest rate of 3.95% and \$250 million of 30-year unsecured MTNs at a fixed interest rate of 4.87%. The proceeds of the offering was used to repay the \$878 million bridge loan provided by Enbridge in connection with the 2014 Transaction and to refinance a \$200 million MTN that matured in November 2014.

In June 2014, the Fund amended its existing \$500 million, 3-year standby credit facility with a syndicate of commercial banks to extend the maturity date to June 27, 2017. The facility includes a feature under which up to \$250 million of additional standby credit may be provided at the lender's consent on the same terms and conditions as the existing facility. At December 31, 2014, letters of credit totaling \$3.6 million were outstanding and \$356.4 million remained undrawn under the credit facility, available to meet liquidity requirements.

The Fund is subject to several covenants under its credit facility, including a covenant that limits outstanding debt to a percentage of the Fund's consolidated capitalization. The Fund is in compliance with all covenants under the credit facility as at December 31, 2014.

#### Equity

During the three and twelve months ended December 31, 2014, the Fund issued trust units to ENF for gross proceeds of \$420.7 million and ECT issued preferred units to Enbridge for proceeds of \$461.3 million. During the year ended December 31, 2013, the Fund issued trust units to ENF for gross proceeds of \$119.2 million and ECT issued preferred units to Enbridge for proceeds of \$130.8 million.

#### Distributions

Commencing with the November 2013 distribution, the monthly distribution rate on the Fund's trust units and ECT's preferred units increased to \$0.135 per unit from \$0.134 per unit and commencing with the November 2014 distribution, the monthly distribution rate further increased to \$0.157 per unit.

### Capital expenditures

The Fund's total capital expenditures before changes in construction payable were \$41.4 million (2013 – \$76.8 million) for the twelve months ended December 31, 2014. Bakken Expansion capital expenditures for the twelve months ended December 31, 2014 were \$3.1 million (2013 – \$25.3 million). Expenditures for the Cromer Rail Interconnection Project were \$12.8 million (2013 – nil) for the 2014 year-to-date period. The Fund also contributed \$5.0 million to NRGreen during the twelve months ended December 31, 2014 compared to \$21.1 million in the same period of 2013. The contributions were used to partially fund construction of the Whitecourt Recovered Energy Facility.

The Fund expects to incur capital expenditures of approximately \$89.0 million in 2015 related to organic growth projects including the Cromer Rail Interconnection Project, new connections for the South Prairie Region and maintenance capital expenditures.

|   | Expected 2015 | Actual 2014 | Actual 2013 |
|---|---------------|-------------|-------------|
| <i>(millions of Canadian dollars)</i>         |               |             |             |
| Green Power                                   | 4.0           | 1.9         | 23.6        |
| Liquids Transportation and Storage            | 85.0          | 39.5        | 53.2        |
| Natural Gas Transmission                      | -             | -           | -           |
| <b>Total capital expenditures<sup>1</sup></b> | <b>89.0</b>   | <b>41.4</b> | <b>76.8</b> |

<sup>1</sup> Capital expenditures represent cash additions to property, plant and equipment before changes in construction payable.

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

|   | Year ended<br>December 31, |              |
|---|----------------------------|--------------|
|   | 2014                       | 2013         |
| <i>(millions of Canadian dollars)</i>   |                            |              |
| Cash available for distribution is comprised of the following:                              |                            |              |
| Green Power operating income before depreciation and amortization                           | 151.6                      | 153.7        |
| Green Power maintenance capital expenditures  | (1.0)                      | (1.6)        |
| Green Power joint venture distributions   | 5.0                        | 3.7          |
| Liquids Transportation and Storage operating income<br>before depreciation and amortization | 160.6                      | 140.1        |
| Liquids Transportation and Storage maintenance capital expenditures                         | (12.0)                     | (9.9)        |
| Natural Gas Transmission distributions  | 74.2                       | 68.4         |
| Corporate management and administrative expense   | (26.2)                     | (21.8)       |
| Corporate interest expense  | (72.8)                     | (68.3)       |
| Corporate current income tax expense  | (4.4)                      | (1.1)        |
| <b>Cash available for distribution</b>  | <b>275.0</b>               | <b>263.2</b> |
| ECT preferred unit distributions declared   | 125.6                      | 116.1        |
| Trust unit distributions declared   | 114.4                      | 105.8        |
| <b>Cash distributions declared</b>  | <b>240.0</b>               | <b>221.9</b> |
| <b>Payout ratio</b>   | <b>87.3%</b>               | <b>84.3%</b> |

<sup>1</sup> Cash available for distribution is a non-GAAP measure that does not have any standardized meaning prescribed by U.S. GAAP. See definition within "Non-GAAP Measures" section.

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 pertaining to items of an unusual or transient nature which are not indicative of the underlying or sustainable cash flows of the business. Such reserves are 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 twelve months ended December 31, 2014, cash distributions declared represented 87.3% of CAFD, compared with 84.3% for the same period in 2013. 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

|  | Year ended<br>December 31, |         |
|--|----------------------------|---------|
|  | 2014                       | 2013    |
| <i>(millions of Canadian dollars)</i>  |                            |         |
| Cash provided by operating activities <sup>1</sup>                               | 322.6                      | 306.2   |
| Earnings <sup>1</sup>  | 150.0                      | 117.4   |
| Cash distributions declared  | 240.0                      | 221.9   |
| Excess of cash provided by operating activities over cash distributions declared | 82.6                       | 84.3    |
| Shortfall of earnings over cash distributions declared                           | (90.0)                     | (104.5) |

<sup>1</sup> Cash provided by operating activities and earnings have been retrospectively adjusted to furnish comparative information related to the 2014 Transaction as prescribed by U.S. GAAP for common control transactions.

For the twelve months ended December 31, 2014, cash provided by operating activities exceeded cash distributions declared by \$82.6 million (2013 – \$84.3 million). Changes in non-cash working capital which are included in cash provided by operating activities reflect fluctuations in working capital that are expected each period. Included in cash provided by operating activities for 2014 and 2013 were retrospective adjustments of \$53.3 million and \$39.1 million, respectively, which were not available to distribute.

Earnings were \$90.0 million lower than cash distributions for the year ended December 31, 2014 (2013 – \$104.5 million). Earnings reflected non-cash items such as 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 for the years ended December 31, 2014 and December 31, 2013 also included retrospective adjustments totaling \$38.6 million and \$37.6 million, respectively.

### Taxation of Distributions and Dividends

Under Canadian tax laws, a component of the Fund's cash distributions is taxable in the hands of the unitholder, with the remaining portion treated as a return of capital. In addition, a portion of the distribution can take the form of a non-taxable inter-corporate dividend.

### Sustainability of Distributions and Productive Capacity

The current level of distributions may change based on the performance of the Fund's businesses, the level of continued investment or the Fund's ability to raise capital. The ECT Board of Trustees periodically approves changes to distributions. Distributable cash flow is defined to generally mean cash from operating, investing and financing activities, less certain items, including repayment of any indebtedness required in the period and any cash withheld as a reserve as determined by the Manager.

The sustainability of the Fund's distributions is a function of several factors: the demand for the services provided by its businesses; the effective maintenance of the productive capacity of its assets; its ability to economically obtain financing to fund growth; operational requirements; its ability to comply with covenants in its debt agreements; and its ability to repay or refinance debt as it comes due.

Each operating segment maintains its productive capacity and ensures the future sustainability of its distributions through regular maintenance programs and periodic maintenance capital expenditures. Maintenance capital expenditures are funded through cash from operations. Refer to the "Capital Expenditures" sections within the Liquidity and Capital Resources section for further discussion on planned maintenance and enhancement capital activities for 2015.

## SELECTED ANNUAL FINANCIAL INFORMATION

(millions of Canadian dollars, except where otherwise noted)

|  | 2014    | 2013    | 2012    |
|--|---------|---------|---------|
| Revenues <sup>1</sup>  | 415.7   | 403.2   | 389.6   |
| Earnings <sup>1</sup>  | 150.0   | 117.4   | 122.7   |
| Total assets <sup>1</sup>  | 4,081.4 | 2,957.9 | 3,181.3 |
| Total long-term liabilities <sup>1</sup>                             | 3,011.4 | 1,875.1 | 2,368.2 |
| Cash distributions declared <sup>2</sup>                             | 240.0   | 221.9   | 154.4   |
| Cash distributions declared per unit (dollars per unit) <sup>2</sup> | 1.667   | 1.612   | 1.462   |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction and Alliance US.

<sup>2</sup> Includes distributions declared on trust units and ECT preferred units.

Significant items that have impacted the selected annual financial information are as follows:

- The increase in earnings, total assets and long-term liabilities in 2014 was a result of the 2014 Transaction.
- 2013 revenues reflect incremental contributions from the start-up of the Bakken Expansion in the first quarter of 2013.
- The decrease in total long-term liabilities in 2013 resulted from \$290.0 million in MTNs becoming classified as current liabilities, due to maturity dates in 2014.
- The increase in total long-term liabilities in 2012 resulted from the 2012 Transaction, which was partly financed with a \$582.0 million long-term loan from Enbridge.
- 2012 revenues reflected the full year of contributions from the 2012 Transaction.

## RELATED PARTY TRANSACTIONS

Unless otherwise noted, the following related party transactions are provided in the normal course of business and, unless otherwise noted, measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The 2012 Transaction and the Alliance US portion of the 2014 Transaction were accounted for as transactions among entities under common control.

On November 7, 2014, the Fund completed the 2014 Transaction with indirect wholly-owned subsidiaries of Enbridge. The subscription price for the Southern Lights US Class A Units was at a fixed exchange rate of Canadian dollars to the US dollar price. Given exchange rates on the date of closing, the Fund recorded a realized foreign exchange gain in the fourth quarter 2014.

### Affiliate Loans

In 2014, ENF advanced \$6.4 million, net of repayments, (2013 – \$17.5 million) to a subsidiary of the Fund pursuant to a subordinated demand loan. At December 31, 2014, \$30.6 million (December 31, 2013 – \$24.3 million) was outstanding to ENF. Interest on the demand loan was charged at 4.25% per annum. Interest expense on the loan was \$1.1 million (2013 – \$0.6 million) for the year ended December 31, 2014 and \$0.1 million was included in accounts payable and other as at December 31, 2014 (2013 – \$0.1 million).

Accounts receivable from affiliates includes a promissory note outstanding from Alliance Pipeline Ltd. The balance outstanding at December 31, 2014 was \$2.7 million (2013 - \$3.7 million included in long-term receivable from affiliate). The note is interest bearing and matures in full on December 6, 2015. In December 2014, the investee made an advance payment of \$1.0 million. Interest income earned on this note during each of the years ended December 31, 2014 and 2013 was \$0.4 million.

Long term receivable from affiliate includes of the carrying value of Class A Units of Enbridge SL Holdings L.P. and Southern Lights Holdings, L.L.C., which are wholly owned subsidiaries of Enbridge. At December 31, 2014, \$945.1 million is included in long term receivable from affiliate and \$23.1 million is



included in accounts receivable from affiliates. Interest income of \$5.9 million for the year ended December 31, 2014, has been recorded within other income on the Consolidated Statement of Earnings.

In November 2014, the Fund received a \$878.0 million loan from Enbridge, a related party by virtue of its ownership of ECT preferred units and Fund trust units, to partially finance the 2014 Transaction. The loan had a 10-year maturity and accrued interest at the rate of 5.50% per annum with interest payable semi-annually in June and December of each year. The loan was repayable at any time in whole or in part, and was unsecured and subordinate to all external debt issued by the Fund. In November 2014, the Fund repaid the loan in full. Interest expense on this loan of \$1.6 million was incurred by the Fund for the year ended December 31, 2014, and had been paid in full as at December 31, 2014.

### **Green Power**

Certain renewable power facilities do not have employees and use the services of Enbridge for managing and operating the business. These services totaled \$3.9 million for 2014 (2013 – \$4.2 million) and included a \$1.5 million management fee charged by Enbridge for managing the Ontario Wind Facility, Talbot Wind Facility and Sarnia Solar Facility pursuant to a management agreement. At December 31, 2014, \$2.1 million (2013 – \$0.3 million) was included in due to affiliates.

The Fund has a contract to sell to Enbridge all available emission reduction credits generated by the Fund's interest in the Chin Chute and Magrath facilities. The contract has an initial 20-year term ending October 1, 2026 and provides for a fixed price of \$5 per tonne of avoided CO<sub>2</sub> emissions, based on a negotiated rate of converting megawatts generated to tonnes of emissions reduced, plus applicable taxes. The Fund earned \$0.2 million (2013 – \$0.2 million) for the sale of these emission reduction credits in the year ended December 31, 2014.

One of the Fund's wind power facilities, Magrath, has a long-term power price swap, expiring in 2024, with Enbridge Pipelines Inc., a wholly-owned subsidiary of Enbridge. The terms of the agreement are to substantially fix the prices of wind power production. Revenues of \$0.7 million (2013 – nil) related to this agreement are reported within the Fund's revenue for the year ended December 31, 2014.

### **Liquids Transportation and Storage**

The Fund does not have any employees and uses the services of Enbridge for managing and operating the businesses comprising the Liquids Transportation and Storage segment. These services, which are charged at cost in accordance with service agreements, were \$45.5 million for 2014 (2013 – \$40.6 million) of which \$4.7 million (2013 – \$5.2 million) was included in due to affiliates at December 31, 2014.

The Fund provides certain operational services to Enbridge Pipelines (Bakken) LP, a wholly-owned subsidiary of Enbridge Energy Partners, LP, an affiliate of the Fund, and charged \$0.8 million (2013 – \$1.2 million) for the year ended December 31, 2014 of which \$2.2 million (2013 - \$2.3 million) was included in accounts receivable from affiliates at December 31, 2014.

The Fund has contracts with shippers who are also affiliates of the Fund through common ownership interests of Enbridge. Revenue from affiliates for the year ended December 31, 2014 was \$3.5 million (2013 – \$2.3 million) of which nil was included in accounts receivable and other at December 31, 2014 (2013 – \$0.1 million).

### **Natural Gas Transmission**

Alliance Canada has contracts with shippers who are also affiliates of the Fund through common ownership interests of Enbridge. The Fund's share of Alliance Canada's revenue from affiliates for the year ended December 31, 2014 was \$23.5 million (2013 – \$23.2 million). The terms of these contracts are the same as those agreed to with independent third parties.

Administrative and facility support services are provided by Alliance Canada to Aux Sable Canada LP and Aux Sable Liquid Products LP (the Aux Sable Entities), which are entities related to the Fund through common ownership. The Fund's share of amounts charged to the Aux Sable Entities during the year ended December 31, 2014 was \$0.6 million (2013 – \$0.2 million).

In 2013, a subsidiary of Enbridge provided management services to Sable. During the year ended December 31, 2013, Sable paid management fees of \$0.2 million under this agreement and also recorded revenues of \$3.6 million and expenses of \$5.2 million for natural gas sales and purchases with an affiliate of Enbridge, of which the Fund's interest is 50%. No management services were provided by the Enbridge subsidiary in 2014.

### **Corporate**

In 2014, the Fund paid \$13.7 million (2013 – \$4.1 million) for share issue costs incurred in connection with the offering of 11,100,000 subscription receipts (2013 – 3,820,000 common shares) by ENF. Proceeds from the offerings were used by ENF to purchase additional trust units of the Fund.

Under the management and administrative agreements with EMSI, an incentive fee is payable annually to EMSI based on cash distributions above a base distribution level. During the year ended December 31, 2014, incentive fees were \$22.8 million (2013 – \$19.6 million), of which, \$22.6 million (2013 – \$19.6 million) was included in due to affiliates at December 31, 2014. In addition, a base fee of \$0.1 million (2013 – \$0.1 million) is payable annually for providing administrative and management services and was included in due to affiliates at December 31, 2014.

ECT preferred unit distributions payable to Enbridge of \$13.8 million at December 31, 2014 were recorded as distributions payable to affiliates (2013 – \$9.8 million). Trust unit distributions payable to ENF of \$11.1 million (2013 – \$7.6 million) and to Enbridge of \$1.5 million (2013 – \$1.3 million) at December 31, 2014 were recorded as distributions payable to affiliates.

ECT has an agreement with ENF under which it reimbursed ENF \$0.9 million (2013 – \$1.0 million) for certain general and administrative costs during the year ended December 31, 2014 of which \$0.1 million (2013 – \$0.1 million) was included in due to affiliates at December 31, 2014.

## **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

Maintaining a reliable and low risk business model is central to the Fund's objective of paying out a predictable cash flow to unitholders. The Fund actively manages both financial and non-financial risks it is exposed to. The Fund performs an annual corporate risk assessment to identify all potential risks. Risks are ranked based on severity and likelihood both before and after mitigating actions. In addition, the Fund has adopted a Cash Flow at Risk (CFAR) policy to manage exposure to movements in interest rates, foreign exchange rates and commodity prices across all segments. CFAR is a statistically derived measurement that quantifies the maximum adverse impact on cash flows over a specified period of time within a pre-defined level of statistical confidence. The Fund's CFAR limit has been set at 2.5% of forward annual CAFD.

### **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 risk). Formal risk management policies, processes and systems have been designed to mitigate these risks.

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

#### **Interest Rate Risk**

The Fund's earnings, cash flows and OCI 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 with the execution of floating to fixed rate interest rate swaps through 2019 at an average swap rate of 2.05%.

The Fund's earnings, cash flows and OCI 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. The Fund has implemented a program to significantly mitigate its exposure to long-term interest rate variability on select forecast term debt issuances with the execution of floating to fixed interest rate swaps through 2018 at an average swap rate of 3.91%.

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

### Foreign Exchange Risk

The Fund generates certain revenues, incurs expenses, and holds investments and subsidiaries that are denominated in currencies other than Canadian dollars. As a result, the Fund's earnings, cash flows and OCI are exposed to fluctuations resulting from foreign exchange rate variability.

The Fund has implemented a policy whereby, at a minimum, it hedges a level of foreign currency denominated cash flow exposures over a three year forecast horizon. A combination of qualifying and non-qualifying derivative instruments may be used to hedge anticipated foreign currency denominated revenues and expenses, and to manage variability in cash flows.

### Commodity Price Risk

The Fund's earnings, cash flows and OCI are exposed to changes in commodity prices due to collection of allowance oil on certain crude oil pipelines, generation of power sold pursuant to floating rate supply agreements, and through commitments to purchase and sell natural gas in connection with capacity held on the Alliance Pipeline. The Fund may use crude oil, power and natural gas derivative instruments to fix a portion of the variable price exposures that may arise from these activities. The Fund may use 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.

| Year ended December 31,  | 2014          | 2013       | 2012       |
|--|---------------|------------|------------|
| <i>(millions of Canadian dollars)</i>  |               |            |            |
| Amount of unrealized gain/(loss) recognized in OCI   |               |            |            |
| Interest rate contracts  | (28.8)        | 0.4        | (2.2)      |
| Foreign exchange contracts   | 0.9           | 0.8        | (0.1)      |
| Commodity contracts  | 2.8           | (0.8)      | 8.8        |
| <b>Total unrealized gain/(loss) recognized in OCI</b>  | <b>(25.1)</b> | <b>0.4</b> | <b>6.5</b> |
| Amount of gain/(loss) reclassified from accumulated other comprehensive income (AOCI) to earnings <i>(effective portion)</i> |               |            |            |
| Interest rate contracts <sup>1</sup>   | 4.0           | 5.1        | 3.5        |
| Foreign exchange contracts <sup>2</sup>  | -             | -          | 0.1        |
| Commodity contracts <sup>3</sup>   | (0.8)         | 0.5        | (0.5)      |
| <b>Total gain reclassified from AOCI to earnings <i>(effective portion)</i></b>  | <b>3.2</b>    | <b>5.6</b> | <b>3.1</b> |

<sup>1</sup> Gain reported within interest expense in the Consolidated Statements of Earnings.

<sup>2</sup> Gain reported within other income/(expense) in the Consolidated Statements of Earnings.

<sup>3</sup> Gain/(loss) reported within electricity sales revenue in the Consolidated Statements of Earnings.

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

| Year ended December 31,                            | 2014          | 2013       | 2012         |
|--|---------------|------------|--------------|
| <i>(millions of Canadian dollars)</i>              |               |            |              |
| Foreign exchange contracts <sup>1</sup>            | (25.0)        | -          | -            |
| Commodity contracts <sup>2</sup>                   | (0.1)         | 0.1        | (0.1)        |
| <b>Total unrealized derivative fair value gain</b> | <b>(25.1)</b> | <b>0.1</b> | <b>(0.1)</b> |

<sup>1</sup> Loss reported within other income/(expense) in the Consolidated Statements of Earnings.

<sup>2</sup> Gain/(loss) reported within electricity sales revenue 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 MTNs. 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 only with institutions that possess investment grade credit ratings. Credit risk relating to derivative counterparties is mitigated by utilization of credit exposure limits, contractual requirements and frequent assessment of counterparty credit worthiness.

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 financial instruments. When possible, the Fund estimates the fair value of its financial 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, 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 financial instrument and nature of the underlying risk, the Fund uses observable market prices (interest, foreign exchange and commodity) 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.

## NON-FINANCIAL RISKS

### *Regulation and Legislation*

Earnings and expansion projects on the Liquids Transportation and Storage assets and Alliance Pipeline are subject to the actions of various regulators, including the NEB and the FERC. Actions of the regulators related to tariffs, tolls and facilities impact earnings and the success of expansion projects. Delays in regulatory approvals could result in cost escalations and construction delays.

Changes in regulation, including decisions by regulators on the applicable tariff structure or changes in interpretations of existing regulations by courts or regulators, could adversely affect the results of operations of the Fund's businesses. Further, the nature and degree of regulation and legislation affecting energy companies in Canada has changed significantly in past years and there is no assurance that further substantial changes will not occur. Such regulations and legislation may adversely affect the toll structure or other aspects of the Fund's business or the operations and creditworthiness of counterparties.

#### *Supply and Demand*

The operation of the Fund's liquids and natural gas pipelines and storage assets is dependent upon the supply of and demand for crude oil and natural gas from Western Canada. The demand for crude oil by refiners is dependent upon a number of factors including the price of crude oil, the cost of operating the refinery and market prices for the various refined products. Demand for natural gas is affected among other things, by weather, requirements for electric power and broader levels of economic activity. Supply of crude oil and natural gas is dependent upon a number of variables, including:

- the level of exploration, drilling, reserves, and production of crude oil and natural gas;
- the accessibility of Western Canadian crude oil and natural gas;
- the price and quality of crude oil and natural gas available from alternative Canadian and United States sources; and
- the regulatory environments in Canada and the United States, including the continued willingness of the governments of both countries to permit the export of crude oil and natural gas from Canada to the United States on a commercially acceptable basis.

Long-term global crude oil production is expected to continue to grow into 2040, with North America being a significant contributor to overall global supply. Growth in North America is largely driven by production from the oil sands, the Gulf of Mexico and the emergence and continued development of tight oil plays including the Bakken, Eagle Ford and Permian formations. Political uncertainty in certain oil producing countries, including Libya, Iran, Syria and Iraq, risk those regions' supply growth forecast and makes North America one of the more secure supply sources of crude oil. However, North American supply growth can be influenced by macro-economic factors which drive down the global crude prices. Over the longer-term North American production from tight oil plays, including the Bakken, is expected to grow as technology continues to improve well productivity and reduce costs. In Canada, the WCSB is viewed as one of the world's largest and most secure supply sources of crude oil. Investment in the WCSB is expected to remain strong over the longer-term due to technological advances and continued foreign investment. However, the pace of growth in North America could be tempered by a sustained period of low crude oil prices, as well as increasing environmental regulation in future years.

Supply and demand risk on Alliance Pipeline is mitigated by long-term TSAs under which substantially all of Alliance Pipeline's firm transportation capacity is contracted through 2015. Subsequent to the expiry of recently secured contracts that extend beyond 2016, demand for Alliance Pipeline's transportation services will be dependent upon the competitiveness of its tolls relative to alternative pipelines, the netbacks received by its shippers relative to pipelines to other markets, the geographic location of its assets relative to natural gas production, the ability of its proposed new service offering to meet shipper requirements and to gain regulatory approvals.

Demand for the Fund's services is also affected by the supply of and demand for power generated by facilities within the Green Power segment. This risk is mitigated by the long-term PPAs entered into with customers.

### *Operating Risk*

The operation of Green Power, Liquids Transportation and Storage and Natural Gas Transmission involves risks, including the failure of equipment, information systems or processes, poor performance of equipment (whether due to misuse, unexpected degradation or design, construction or manufacturing defects), lack of spare parts, operator error, failure of internal controls, non-compliance with legal or other obligations, labour disputes, disputes or issues with interconnected facilities and carriers and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs, occurrence of a pandemic and other similar events, many of which are beyond the control of the respective systems. The occurrence or continuance of any of these events could increase the cost of operating Green Power, Liquids Transportation and Storage, and Natural Gas Transmission, reduce transportation or generation capacity, thereby potentially impacting cash flow. The Fund employs various inspection and monitoring methods to manage pipeline, turbine, solar panels and facility integrity as well as to minimize system disruptions. Additionally, the Fund maintains safety policies, disaster recovery procedures and insurance coverage at industry acceptable levels in the case of an incident.

The Fund and its operating affiliates have extensive programs to manage system integrity, which includes the development and use of in-line inspection tools. Maintenance, excavation and repair programs are directed to the areas of greatest benefit and pipe is replaced or repaired as required. The Fund also has a security program designed to reduce security-related risks.

The Fund participates in a comprehensive insurance program maintained by Enbridge. The program includes commercial liability insurance coverage and coverage for environmental incidents, taking into account coverage levels considered customary for its industry and the insurance market at the time of renewal. In the event multiple insurable incidents exceeding coverage limits are experienced among insured entities within the same insurance period, the total insurance coverage will be allocated pursuant to a pre-determined formula. As a result, the comprehensive insurance program may not be sufficient to cover all losses experienced by the Fund.

### *Environmental Costs and Liabilities*

The operation of Green Power, Liquids Transportation and Storage and Natural Gas Transmission are subject to federal, provincial and local laws and regulations relating to environmental protection and operational safety. Risks of substantial environmental costs and liabilities, including those from leaks and explosions, are inherent in pipeline operations and there can be no assurance that significant costs and liabilities, including those relating to claims for damages to property and persons resulting from operations of Green Power, Natural Gas Transmission and/or Liquids Transportation and Storage, will not be incurred. To mitigate this risk, Green Power, Natural Gas Transmission and Liquids Transportation and Storage have established safety and environmental policies that are designed to ensure that their operations comply with existing regulations relating to personal safety and protection of the environment. It is not possible to predict the effect that any future changes in environmental laws and regulations will have on future earnings and there can be no assurance that environmental costs incurred by Green Power, Natural Gas Transmission or Liquids Transportation and Storage will be partially or fully recoverable.

### *Credit Risk*

Fixed price revenues from the Fund's renewable power generation facilities are received from a small number of counterparties. The stability of the Fund's revenue and cash flows from this segment is dependent upon the ability of counterparties to pay their monthly charges. If a counterparty is unable to fulfill their obligations under their purchase agreements and an alternate counterparty is not available, Green Power would be exposed to variable power prices. This risk has been mitigated through contracting with strong investment grade counterparties.

Liquids Transportation and Storage's trade receivables consist primarily of amounts due from companies that produce or market crude oil and natural gas liquids. The credit risk associated with these receivables is mitigated by utilization of credit exposure limits where appropriate, and requiring less creditworthy customers to provide credit enhancement which may include letters of credit, posting of collateral, netting provisions or other contractual requirements.

Currently, approximately 10% of firm capacity on Alliance Pipeline is contracted to shippers who do not have an investment grade rating or equivalent strong credit status and are required to post security. Although such shippers have provided security to Alliance Pipeline, it is only sufficient to fully cover one year of demand charges under the TSAs. There can be no assurance that the security will be adequate to compensate Alliance Pipeline if a shipper is unable to fulfill its obligations under its TSA or unable to recontract with another party.

#### *Project Execution*

The Fund's ability to successfully execute the development of its organic growth projects may be influenced by capital constraints, third-party opposition, changes in shipper support for projects over time, delays in or changes to government and regulatory approvals, cost escalations, construction delays, inadequate resources, in-service delays and increasing complexity of projects (collectively, Execution Risk). Early stage project risks include right-of-way procurement, special interest group opposition, Crown consultation, and environmental and regulatory permitting. Cost escalations or missed in-service dates on future projects may impact future earnings. Construction delays due to regulatory delays, contractor or supplier non-performance and weather conditions may impact project development.

To mitigate these risks, clearly defined management and governance structures for all major projects are established and strategic relationships with landowners, suppliers, contractors and other stakeholders are formed and maintained. Additionally, Enbridge, the Fund's Manager and the Fund's joint venture interests ensure that compensation programs, communications and working environments are designed to attract, develop and retain qualified personnel.

#### *Special Interest Groups*

The Fund is exposed to the risk of higher costs, delays or even project cancellations due to increasing pressure on governments and regulators by special interest groups including aboriginal groups, landowners and non-governmental organizations. Recent Supreme Court decisions have increased the ability of special interest groups to make claims and oppose projects in regulatory and legal forums. The Fund and its contractors work proactively with special interest groups to identify and develop appropriate responses to concerns regarding its projects.

#### *Joint Venture Partners*

Certain of the Fund's businesses consist of joint venture partnerships with the Fund's ownership interests ranging from 33% to 50%. In these joint ventures, the Fund does not have full control to execute initiatives without consent from the joint venture partners. This risk is mitigated through formal governance procedures as well as ongoing dialogue with joint venture partners.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Regulation**

Both Alliance Pipeline and the pipeline systems comprising the South Prairie Region are subject to regulation by various authorities, including the NEB, FERC, 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 non-rate-regulated entities.

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. As at December 31, 2014, the Fund's net regulatory assets totaled \$51.5 million (December 31, 2013 – \$60.9 million).

### **Asset Retirement Obligations**

Asset retirement obligations (ARO) associated with the retirement of long-lived assets are measured at fair value and recognized as other long-term liabilities in the period in which they can be reasonably determined. The fair value approximates the cost a third party would charge to perform the tasks necessary to retire such assets and is recognized at the present value of expected future cash flows. ARO are added to the carrying value of the associated asset and depreciated over the asset's useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning and reclamation. The Fund's estimates of retirement costs could change as a result of changes in cost estimates and regulatory requirements.

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. Pipeline companies were given the option to follow base case assumptions provided by the NEB or to submit pipeline specific applications.

On February 28, 2013, Group 1 pipeline companies, which include Alliance Canada, filed a proposed process and mechanism to set aside the funds for future abandonment costs and chose the trust as the appropriate set-aside mechanism to hold pipeline abandonment funds. On May 31, 2013, the Group 1 companies filed collection mechanism applications, and the Group 2 companies, which include certain pipelines in the South Prairie Region, filed both their set-aside and collection mechanism applications. The NEB hearings commenced January 14, 2014, covering both the set-aside mechanism applications and the collection mechanism applications for both Group 1 and Group 2 companies. The NEB released its decision on May 29, 2014 approving both the set aside mechanism and collection mechanisms for all of the Group 1 companies and Group 2 companies, enabling both Group 1 and Group 2 companies to 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 pipeline system. The collections begin in 2015.

Currently, for certain of the Fund's assets, there is insufficient data or information to reasonably determine the timing of settlement for estimating the fair value of the ARO. In these 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**

### **Adoption of New Standard**

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

Effective January 1, 2014, the Fund adopted Accounting Standards Update (ASU) 2013-04 which provides both measurement and disclosure guidance for obligations with fixed amounts at a reporting date resulting from joint and several liability arrangements. There was no impact to the Fund's consolidated financial statements for the current or prior periods presented as a result of adopting this update.



#### *Parent's Accounting for the Cumulative Translation Adjustment*

Effective January 1, 2014, the Fund prospectively adopted ASU 2013-05 which provides guidance on the timing of release of the cumulative translation adjustment into net income when a disposition or ownership change occurs related to an investment in a foreign entity or a business within a foreign entity. There was no impact to the consolidated financial statements as a result of adopting this update.

#### *Pushdown Accounting for Business Combinations*

Effective November 18, 2014, the Fund prospectively adopted ASU 2014-17 which provides an acquired entity with the option to apply pushdown accounting in its separate financial statements upon the occurrence of a change-in-control event. There was no impact to the consolidated financial statements as a result of adopting this update.

### **Future Accounting Policy Changes**

#### *Extraordinary and Unusual Items*

ASU 2015-01 was issued in January 2015 and eliminates the concept of extraordinary items from GAAP. Entities will no longer be required to separately classify and present extraordinary events in the income statement, net of tax, after income from continuing operations. The Fund is currently assessing the impact of the new standard on its consolidated financial statements. This accounting update is effective for annual and interim reporting periods beginning after December 15, 2015 and may be applied prospectively or retrospectively.

#### *Hybrid Financial Instruments Issued in the Form of a Share*

ASU 2014-16 was issued in November 2014 with the intent to eliminate the use of different methods in practice in the accounting for hybrid financial instruments issued in the form of a share. The new standard clarifies the evaluation of the economic characteristics and risks of a host contract in these hybrid financial instruments. The Fund is currently assessing the impact of the new standard on its consolidated financial statements. This accounting update is effective for annual and interim periods beginning after December 15, 2015 and is to be applied on a modified retrospective basis.

#### *Revenue from Contracts with Customers*

ASU 2014-09 was issued in May 2014 with the intent of significantly enhancing comparability of revenue recognition practices across entities and industries. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers and introduces new, increased disclosure requirements. The Fund is currently assessing the impact of the new standard on its consolidated financial statements. The new standard is effective for annual and interim periods beginning on or after December 15, 2016 and may be applied on either a full or modified retrospective basis.

#### *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

ASU 2014-08 was issued in April 2014 and changes the criteria and disclosures for reporting discontinued operations. It is anticipated that in general, the revised criteria will result in fewer transactions being categorized as discontinued operations. 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, 2014 and is to be applied prospectively.

## SELECTED QUARTERLY FINANCIAL INFORMATION

|  | 2014         |      |       |       | 2013  |      |       |       |
|--|--------------|------|-------|-------|-------|------|-------|-------|
|  | Q4           | Q3   | Q2    | Q1    | Q4    | Q3   | Q2    | Q1    |
| <i>(millions of Canadian dollars)</i>    |              |      |       |       |       |      |       |       |
| Revenue                                  | <b>102.0</b> | 98.4 | 107.4 | 107.9 | 103.7 | 92.5 | 104.4 | 102.6 |
| Earnings <sup>1</sup>                    | <b>26.2</b>  | 35.3 | 40.7  | 47.8  | 32.7  | 25.8 | 36.4  | 22.5  |
| Cash distributions declared <sup>2</sup> | <b>71.5</b>  | 56.1 | 56.2  | 56.2  | 56.1  | 55.7 | 55.7  | 54.4  |

<sup>1</sup> Earnings for 2013 and 2014 periods have been retrospectively adjusted to furnish comparative information related to Alliance US as prescribed by U.S. GAAP for common control transactions.

<sup>2</sup> Cash distributions declared on trust units and ECT preferred units.

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

- In the fourth quarter of 2014, the Fund issued 13,860,000 trust units and ECT issued 15,200,000 preferred units to partially finance the 2014 Transaction. As a result, the Fund had higher earnings and increased its monthly distribution per unit to \$0.157 commencing with the November 2014 distribution.
- In the third quarter of 2014, the Fund incurred \$4.5 million of advisory fees and recorded an after-tax unrealized gain of \$8.8 million on foreign exchange in connection with the 2014 Transaction.
- First quarter 2014 earnings reflected \$4.1 million of income from the Fund's equity investment in Sable. Sable, which holds capacity on the Alliance Pipeline, benefited from wide Alberta/Chicago natural gas price differentials experienced in the quarter as a result of abnormal winter weather conditions.
- The Fund increased its monthly distribution per unit to \$0.135 commencing with the November 2013 distribution.
- The Bakken Expansion commenced operations in the first quarter of 2013, resulting in an increase in revenues and earnings.
- First quarter 2013 earnings were impacted by a regulatory asset write-off of \$12.0 million after tax related to the discontinuance of rate regulated accounting for the Westspur System.
- The Fund issued 4,768,000 trust units and ECT issued 5,232,000 preferred units in February 2013. The proceeds 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.
- Revenues and earnings generated by the Green Power segment are subject to seasonal variations. This is driven by stronger wind resources in the first and fourth quarters and stronger solar resources in the second and third quarters. Although these trends are offsetting, revenues and earnings are generally expected to be lowest in the third quarter, attributable to seasonally weaker wind resources.

**ENBRIDGE INCOME FUND**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2014**



February 9, 2015

## **Independent Auditor's Report**

### **To the Unitholders of Enbridge Income Fund**

We have audited the accompanying consolidated financial statements of Enbridge Income Fund, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of earnings, comprehensive income, unitholders' equity and cash flows for each of the three years in the period ended December 31, 2014, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Enbridge Income Fund as at December 31, 2014 and December 31, 2013 and its operations and its cash flows for each of the three years in the period ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

## CONSOLIDATED STATEMENTS OF EARNINGS

| Year ended December 31,<br><i>(millions of Canadian dollars)</i>      | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|---|-------------------|-------------------|-------------------|
| <b>Revenues</b>   |                   |                   |                   |
| Transportation and other services                                     | 231.2             | 214.7             | 199.3             |
| Electricity sales   | 184.5             | 188.5             | 190.3             |
|   | <b>415.7</b>      | 403.2             | 389.6             |
| <b>Expenses</b>   |                   |                   |                   |
| Operating and maintenance   | 67.5              | 71.7              | 62.4              |
| Management and administrative   | 9.0               | 2.1               | 6.8               |
| Operating, management and administrative – affiliate <i>(Note 22)</i> | 71.2              | 61.4              | 50.1              |
| Depreciation and amortization   | 135.5             | 129.7             | 122.1             |
|   | <b>283.2</b>      | 264.9             | 241.4             |
|   | <b>132.5</b>      | 138.3             | 148.2             |
| Income from equity investments <i>(Note 10)</i>                       | 139.5             | 118.3             | 108.7             |
| Other income/(expense) <i>(Note 19)</i>                               | 13.1              | (0.8)             | 0.3               |
| Other income – affiliate <i>(Notes 9 and 22)</i>                      | 6.3               | 0.4               | 0.4               |
| Interest expense <i>(Note 14)</i>                                     | (78.1)            | (73.6)            | (62.4)            |
|   | <b>213.3</b>      | 182.6             | 195.2             |
| Income taxes <i>(Note 21)</i>   | (63.3)            | (53.2)            | (72.5)            |
| Earnings before extraordinary item                                    | 150.0             | 129.4             | 122.7             |
| Extraordinary loss, net of tax <i>(Note 24)</i>                       | -                 | (12.0)            | -                 |
| <b>Earnings</b>   | <b>150.0</b>      | 117.4             | 122.7             |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction *(Notes 2 and 6)* and Alliance US *(Notes 2 and 10)*.

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| Year ended December 31,<br><i>(millions of Canadian dollars)</i>              | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|---|-------------------|-------------------|-------------------|
| Earnings  | 150.0             | 117.4             | 122.7             |
| Other comprehensive income/(loss)   |                   |                   |                   |
| Change in unrealized gain/(loss) on cash flow hedges, net of tax <sup>2</sup> | (26.0)            | 0.4               | 4.8               |
| Reclassification of cash flow hedges to earnings, net of tax <sup>3</sup>     | 3.4               | 5.5               | 3.1               |
| Change in foreign currency translation adjustment                             | 5.1               | 4.8               | (1.4)             |
| Other comprehensive income/(loss)   | (17.5)            | 10.7              | 6.5               |
| Comprehensive income  | 132.5             | 128.1             | 129.2             |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction (Notes 2 and 6) and Alliance US (Notes 2 and 10).

<sup>2</sup> Tax expense was \$0.9 million (2013 – nil; 2012 - \$1.7 million) for the year ended December 31, 2014.

<sup>3</sup> Tax expense/(recovery) was (\$0.2) million (2013 – \$0.1 million; 2012 – nil) for the year ended December 31, 2014.

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

## CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

| Year ended December 31,<br><i>(millions of Canadian dollars)</i>                         | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|--|-------------------|-------------------|-------------------|
| <b>Deficit</b>   |                   |                   |                   |
| Balance at beginning of year   | <b>(2,569.3)</b>  | (2,555.2)         | (950.6)           |
| Earnings   | <b>150.0</b>      | 117.4             | 122.7             |
| ECT preferred unit distributions   | <b>(125.6)</b>    | (116.1)           | (80.8)            |
| Distributions to trust unitholders   | <b>(114.4)</b>    | (105.8)           | (73.6)            |
| Redemption value adjustment attributable to ECT preferred units <i>(Note 16)</i>         | <b>(1,351.2)</b>  | 66.9              | (230.8)           |
| Redemption value adjustment attributable to trust units <i>(Note 17)</i>                 | <b>(1,244.3)</b>  | 56.8              | (219.4)           |
| Excess purchase price over historical carrying value acquired<br><i>(Notes 6 and 10)</i> | <b>(392.2)</b>    | 5.3               | (286.5)           |
| Equity of former owners of Acquired Interests <i>(Notes 2, 6 and 10)</i>                 | <b>(105.5)</b>    | (38.6)            | (836.2)           |
| <b>Balance at end of year</b>  | <b>(5,752.5)</b>  | (2,569.3)         | (2,555.2)         |
| <b>Accumulated other comprehensive loss</b>  |                   |                   |                   |
| Balance at beginning of year   | <b>(14.1)</b>     | (24.8)            | (31.3)            |
| Other comprehensive income/(loss), net of tax  | <b>(17.5)</b>     | 10.7              | 6.5               |
| <b>Balance at end of year</b>  | <b>(31.6)</b>     | (14.1)            | (24.8)            |
| <b>Total unitholders' deficit</b>  | <b>(5,784.1)</b>  | (2,583.4)         | (2,580.0)         |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction (Notes 2 and 6) and Alliance US (Notes 2 and 10).

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Year ended December 31,<br><i>(millions of Canadian dollars)</i>                          | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|---|-------------------|-------------------|-------------------|
| <b>Operating activities</b>   |                   |                   |                   |
| Earnings  | 150.0             | 117.4             | 122.7             |
| Charges/(credits) not affecting cash  |                   |                   |                   |
| Depreciation and amortization   | 135.5             | 129.7             | 122.1             |
| Cash distributions in excess of equity earnings   | 10.9              | 14.2              | 19.9              |
| Deferred income taxes <i>(Note 21)</i>  | 36.3              | 28.8              | 60.7              |
| Changes in unrealized loss on derivative instruments, net <i>(Note 18)</i>                | 25.1              | -                 | -                 |
| Unrealized gain on foreign currency of intercompany loan <i>(Note 22)</i>                 | (16.2)            | -                 | -                 |
| Regulatory asset write-off, net of tax <i>(Note 24)</i>                                   | -                 | 12.0              | -                 |
| Other   | 8.5               | 10.9              | 5.0               |
| Changes in operating assets and liabilities <i>(Note 20)</i>                              | (27.5)            | (6.8)             | (15.2)            |
|   | <b>322.6</b>      | <b>306.2</b>      | <b>315.2</b>      |
| <b>Investing activities</b>   |                   |                   |                   |
| Additions to property, plant and equipment  | (40.1)            | (76.0)            | (150.8)           |
| Contributions to equity investees   | (6.2)             | (21.1)            | (16.5)            |
| Additions to intangible assets  | (0.8)             | (0.8)             | (0.5)             |
| Proceeds from disposition of property, plant and equipment                                | -                 | -                 | 1.8               |
| Long-term receivable from affiliate <i>(Note 9)</i>                                       | (925.0)           | -                 | -                 |
| Purchase of equity investment <i>(Note 10)</i>  | (835.0)           | -                 | -                 |
| Repayment received on long-term receivable from affiliate <i>(Note 22)</i>                | 1.0               | -                 | -                 |
| Acquisitions <i>(Note 6)</i>  | -                 | 5.3               | (1,168.0)         |
|   | <b>(1,806.1)</b>  | <b>(92.6)</b>     | <b>(1,334.0)</b>  |
| <b>Financing activities</b>   |                   |                   |                   |
| Net change in bank indebtedness   | 4.0               | (160.5)           | 129.0             |
| Net change in credit facility draws   | 100.0             | (210.6)           | (10.0)            |
| Issuance of medium term notes, net  | 1,075.4           | -                 | 1,194.1           |
| Repayment of medium term notes  | (290.0)           | -                 | -                 |
| Loans received from affiliates <i>(Note 22)</i>   | 891.5             | 32.4              | 588.8             |
| Repayment of affiliate loans <i>(Note 22)</i>   | (885.1)           | (14.9)            | (1,222.0)         |
| ECT preferred units issued <i>(Note 16)</i>   | 461.3             | 130.8             | 304.6             |
| Trust units issued, net <i>(Note 17)</i>  | 407.0             | 115.1             | 268.2             |
| ECT preferred unit distributions declared   | (125.6)           | (116.1)           | (80.8)            |
| Trust unit distributions declared   | (114.4)           | (105.8)           | (73.6)            |
| Change in distributions payable   | 7.7               | 1.5               | 4.7               |
| Contributions received and shares issued by Acquired Interests <i>(Notes 2, 6 and 10)</i> | 25.5              | 16.4              | 156.3             |
| Distributions and dividends paid by Acquired Interests <i>(Notes 2, 6 and 10)</i>         | (73.3)            | (62.5)            | (124.5)           |
|   | <b>1,484.0</b>    | <b>(374.2)</b>    | <b>1,134.8</b>    |
| Increase/(decrease) in cash and cash equivalents  | 0.5               | (160.6)           | 116.0             |
| Cash and cash equivalents at beginning of year  | 29.0              | 189.6             | 73.6              |
| Cash and cash equivalents at end of year  | 29.5              | 29.0              | 189.6             |
| <b>Supplementary cash flow information</b>  |                   |                   |                   |
| Income taxes paid   | 27.5              | 17.0              | 12.7              |
| Interest paid   | 68.8              | 64.0              | 56.0              |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction *(Notes 2 and 6)* and Alliance US *(Notes 2 and 10)*.

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

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| December 31,  | 2014      | 2013 <sup>1</sup> |
|---|-----------|-------------------|
| <i>(millions of Canadian dollars)</i>                       |           |                   |
| <b>Assets</b>   |           |                   |
| Current assets  |           |                   |
| Cash and cash equivalents                                   | 29.5      | 29.0              |
| Accounts receivable and other, net <i>(Note 7)</i>          | 57.2      | 57.2              |
| Accounts receivable from affiliates <i>(Notes 9 and 22)</i> | 29.1      | 3.1               |
|   | 115.8     | 89.3              |
| Property, plant and equipment, net <i>(Note 8)</i>          | 2,225.7   | 2,317.1           |
| Long-term receivable from affiliate <i>(Notes 9 and 22)</i> | 945.1     | 3.7               |
| Long-term investments <i>(Note 10)</i>                      | 433.8     | 420.6             |
| Deferred amounts and other assets <i>(Note 11)</i>          | 63.3      | 70.2              |
| Intangible assets <i>(Note 12)</i>                          | 26.3      | 27.5              |
| Goodwill  | 28.8      | 28.8              |
| Deferred income taxes <i>(Note 21)</i>                      | 242.6     | 0.7               |
|   | 4,081.4   | 2,957.9           |
| <b>Liabilities and unitholders' equity</b>                  |           |                   |
| Current liabilities   |           |                   |
| Bank indebtedness   | 10.3      | 6.3               |
| Accounts payable and other <i>(Note 13)</i>                 | 70.6      | 79.6              |
| Due to affiliates <i>(Note 22)</i>                          | 61.2      | 49.8              |
| Distributions payable to affiliates <i>(Note 22)</i>        | 26.4      | 18.7              |
| Current maturities of long-term debt <i>(Note 14)</i>       | -         | 290.0             |
|   | 168.5     | 444.4             |
| Long-term debt <i>(Note 14)</i>                             | 2,544.1   | 1,364.2           |
| Other long-term liabilities <i>(Note 15)</i>                | 70.6      | 23.0              |
| Deferred income taxes <i>(Note 21)</i>                      | 396.7     | 487.9             |
|   | 3,179.9   | 2,319.5           |
| Commitments and contingencies <i>(Note 23)</i>              |           |                   |
| ECT preferred units <i>(Note 16)</i>                        | 3,498.7   | 1,686.2           |
| Trust units <i>(Note 17)</i>                                | 3,186.9   | 1,535.6           |
|   | 6,685.6   | 3,221.8           |
| Unitholders' deficit  |           |                   |
| Deficit   | (5,752.5) | (2,569.3)         |
| Accumulated other comprehensive loss                        | (31.6)    | (14.1)            |
|   | (5,784.1) | (2,583.4)         |
|   | 4,081.4   | 2,957.9           |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to Alliance US *(Notes 2 and 10)*.

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

Approved by the Trustees of Enbridge Commercial Trust on behalf of Enbridge Income Fund:

"signed"  
Bruce G. Waterman  
Trustee

"signed"  
E.F.H. Roberts  
Trustee

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL BUSINESS DESCRIPTION

Enbridge Income Fund (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), a wholly-owned subsidiary of Enbridge Inc. (Enbridge), administers the Fund. EMSI also serves as the manager of Enbridge Commercial Trust (ECT), a subsidiary of the Fund and Enbridge Income Fund Holdings Inc. (ENF), a unitholder of the Fund.

In December 2010, pursuant to a court approved plan of arrangement (the Plan), all 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 a taxable Canadian corporation, ENF. The 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 Fund conducts its business through three operating segments: Green Power, Liquids Transportation and Storage and Natural Gas Transmission. These segments are strategic business units established along service lines by management to assess operational performance and to achieve the Fund's long-term objectives.

### GREEN POWER

Green Power includes the Ontario Wind Facility, the Talbot Wind Facility, the Greenwich Wind Facility, the Sarnia Solar Facility, the Amherstburg Solar Facility and the Tilbury Solar Facility. Green Power also includes the Fund's 33% to 50% interests in three wind power facilities in Saskatchewan and southern Alberta and the Fund's 50% interest in NRGreen, which operates waste heat recovery power generation facilities along the Alliance Pipeline in Saskatchewan and Alberta.

### LIQUIDS TRANSPORTATION AND STORAGE

The Liquids Transportation and Storage segment includes the South Prairie Region (formerly the Saskatchewan System) crude oil and liquids pipeline system which connects to the Enbridge mainline at Cromer, Manitoba, as well as liquids storage assets in both Saskatchewan and Alberta, and the Fund's investment in Southern Lights Class A Units (*Note 9*). The South Prairie Region includes five crude oil and liquids pipeline systems: Saskatchewan Gathering, Westspur, Weyburn, Virden and Bakken Expansion. Storage assets include terminals and tankage facilities in Saskatchewan, as well as the Hardisty Contract Terminals and Hardisty Storage Caverns located in Hardisty, Alberta. The Fund holds Class A Units of Enbridge SL Holdings L.P. and Southern Lights Holdings, L.L.C., which are indirect wholly-owned subsidiaries of Enbridge. The Class A Units provide a defined cash flow stream derived from the core rate base of the Southern Lights Pipeline. The Southern Lights Pipeline, owned by Enbridge, is a fully-contracted single stream pipeline that ships diluent from the Enbridge Manhattan Terminal near Chicago to the Enbridge Edmonton Terminal.

### NATURAL GAS TRANSMISSION

Natural Gas Transmission consists of the Fund's 50% interest in the Alliance Pipeline, a 3,000 km natural gas mainline pipeline, which includes both the Canadian and United States segments of the pipeline. The Alliance Pipeline also includes approximately 860 km of lateral pipelines and related infrastructure. The Canadian segment (Alliance Canada) begins near Aiken Creek, British Columbia and connects to United States segment (Alliance US) at the Canada/United States border near Elmore, Saskatchewan. The Alliance US segment continues to the Aux Sable gas processing plant near Chicago, Illinois.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Fund have been prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). Amounts are stated in Canadian dollars unless otherwise noted.

The Fund commenced reporting using U.S. GAAP as its primary basis of accounting effective January 1, 2012, including restatement of comparative periods. The Fund is permitted to use U.S. GAAP as its primary basis of accounting for purposes of meeting its continuous disclosure obligations under an exemption granted by securities regulators in Canada.

### **BASIS OF PRESENTATION AND USE OF ESTIMATES**

On November 7, 2014, the Fund acquired a 50% interest in Alliance US from indirect wholly-owned subsidiaries of Enbridge. On December 10, 2012, the Fund acquired 100% interests in the following entities which were wholly-owned by Enbridge or subsidiaries of Enbridge: 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 acquisitions of interests in Alliance US and the Crude Oil Storage and Renewable Energy Entities (collectively, the Acquired Interests) were accounted for as transactions among entities under common control, similar to a pooling of interests, whereby the assets and liabilities acquired were recorded at Enbridge's historic carrying values. Earnings for the years ended December 31, 2014, 2013 and 2012 report the results of operations of the Acquired Interests as though the transactions occurred at the beginning of the year acquired. Similarly, comparative information for prior years has been retrospectively adjusted to present the results of operations for the Fund and the Acquired Interests on a combined basis. See Notes 6 and 10 for additional disclosure regarding the acquisition of the the Crude Oil Storage and Renewable Energy Entities and Alliance US, respectively.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the consolidated financial statements. Significant estimates and assumptions used in preparation of the consolidated financial statements include, but are not limited to: carrying values of regulatory assets and liabilities (*Note 5*); unbilled revenues (*Note 7*); depreciation rates and carrying value of property, plant and equipment (*Note 8*); measurement of and amortization rates of intangible assets (*Note 12*); measurement of goodwill (*Note 6*); fair values of financial instruments (*Note 18*); income taxes (*Note 21*); commitments and contingencies (*Note 23*); and fair value of asset retirement obligations (*Note 15*). Actual results could differ from these estimates.

### **PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of the Fund and its subsidiaries. Upon inception of a contractual agreement, the Fund performs an assessment to determine whether the arrangement contains a variable interest in a legal entity and whether that legal entity is a variable interest entity (VIE). Where the Fund concludes it is the primary beneficiary of a VIE, the Fund will consolidate the accounts of that entity. All significant intercompany accounts and transactions are eliminated upon consolidation. Investments and entities over which the Fund exercises significant influence are accounted for using the equity method. The consolidated financial statements have been retrospectively adjusted to furnish comparative information related to the acquisition of the Acquired Interests.

## **REGULATION**

Both the Alliance Pipeline and the pipeline systems comprising the Southern Prairie Region are subject to regulation by various authorities, including the National Energy Board (NEB), Federal Energy Regulatory Commission (FERC), Saskatchewan Ministry of Economy (SME) 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 non-rate-regulated entities.

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 included 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. A regulatory asset or liability is recognized in respect of deferred income taxes when it is expected the amounts will be recovered or settled through future regulator-approved rates.

Allowance for funds used during construction (AFUDC) is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. AFUDC includes both an interest component and, if approved by the regulator, a cost of equity component which are both capitalized based on rates set out in a regulatory agreement. In the absence of rate regulation, the Fund would capitalize interest using a capitalization rate based on its cost of borrowing and the capitalized equity component, the corresponding earnings during the construction phase and the subsequent depreciation would not be recognized.

## **REVENUE RECOGNITION**

For businesses which are not rate-regulated, revenues are recorded when products have been delivered or services have been performed, the amount of revenue can be reliably measured and collectability is reasonably assured. Customer credit worthiness is assessed prior to agreement signing as well as throughout the contract duration.

Long-term take-or-pay contracts, under which shippers are obligated to pay fixed amounts ratably over the contract period regardless of volumes shipped, may contain make-up rights. Make-up rights are earned by shippers when minimum volume commitments are not utilized during the period but under certain circumstances can be used to offset overages in future periods, subject to availability and expiry periods. The Fund recognizes revenues associated with make-up rights at the earlier of when the make-up volume is shipped, the make-up right expires or when it is determined that the likelihood that the shipper will utilize the make-up right is remote.

For rate-regulated businesses, revenues are recognized in a manner that is consistent with the underlying agreements as approved by the regulators.

## **DERIVATIVE INSTRUMENTS AND HEDGING**

### **Non-qualifying Derivatives**

Non-qualifying derivative instruments are used primarily to economically hedge foreign exchange and commodity price earnings exposure. Non-qualifying derivatives are measured at fair value with changes in fair value recognized in earnings, within electricity sales revenue and other income/(expense).

### **Derivatives in Qualifying Hedging Relationships**

The Fund uses derivative financial instruments to manage its exposure to changes in interest rates, commodity prices and foreign exchange rates. Hedge accounting is optional and requires the Fund to document the hedging relationship and test the hedging item's effectiveness in offsetting changes in fair values or cash flows of the underlying hedged item on an ongoing basis. The Fund presents the earnings effects of hedging items with the hedged transaction. Derivatives in qualifying hedging relationships are categorized as cash flow hedges or fair value hedges. There were no fair value hedges outstanding at December 31, 2014 and 2013.

### **Cash Flow Hedges**

The Fund uses cash flow hedges to manage exposure to changes in interest rates, commodity prices and foreign exchange rates. The effective portion of the change in the fair value of a cash flow hedging instrument is recorded in other comprehensive income/(loss) (OCI) and is reclassified to earnings when the hedged item impacts earnings. Any hedge ineffectiveness is recorded in current period earnings.

If a derivative instrument designated as a cash flow hedge ceases to be effective or is terminated, hedge accounting is discontinued and the gain or loss at that date is deferred in OCI and recognized concurrently with the related transaction. If a hedged anticipated transaction is no longer probable, the gain or loss is recognized immediately in earnings. Subsequent gains and losses from derivative instruments for which hedge accounting has been discontinued are recognized in earnings in the period in which they occur.

### **Classification of Derivatives**

The Fund recognizes the fair market value of derivative instruments on the Consolidated Statements of Financial Position as current and non-current assets or liabilities depending on the timing of the settlements and the resulting cash flows associated with the instruments. Fair value amounts related to cash flows occurring beyond one year are classified as non-current.

Cash inflows and outflows related to derivative instruments are classified as operating activities on the Consolidated Statements of Cash Flows.

### **Balance Sheet Offset**

Assets and liabilities arising from derivative instruments may be offset in the Consolidated Statements of Financial Position when the Fund has the legal right and intention to settle them on a net basis.

### **Transaction Costs**

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability. The Fund incurs transaction costs primarily through the issuance of debt and classifies these costs as deferred amounts and other assets. These costs are amortized using the effective interest rate method over the life of the related debt instrument. Transaction costs directly related to business combinations are expensed in the period incurred.

## **EQUITY INVESTMENTS**

Equity investments over which the Fund exercises significant influence but does not have controlling financial interests, are accounted for using the equity method. Equity investments are initially measured at cost and are adjusted for the Fund's proportionate share of undistributed equity earnings or loss. Equity investments are increased for contributions made to and decreased for distributions received from the investees.

## **INCOME TAXES**

Pursuant to the *Income Tax Act* (Canada), the Fund and ECT, as trusts, are not subject to income taxes to the extent that taxable income and taxable capital gains are paid or payable to unitholders. However, certain subsidiary corporations are taxable and applicable income taxes have been reflected in these consolidated financial statements.

The liability method of accounting for income taxes is followed for subsidiary corporations. Deferred income tax assets and liabilities are recorded based on temporary differences between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred income tax assets and liabilities are measured using the tax rate that is expected to apply when the temporary differences reverse. For the Fund's regulated operations, a deferred income tax liability is recognized with a corresponding regulatory asset to the extent taxes can be recovered through rates. Interest and penalties related to tax are reflected in income taxes.

## **FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION**

Foreign currency transactions are those transactions whose terms are denominated in a currency other than the currency of the primary economic environment in which the Fund or a subsidiary operates, referred to as the functional currency. Transactions denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the rate of exchange in effect at the balance sheet date. Exchange gains and losses resulting from translation of monetary assets and liabilities are included in the Consolidated Statements of Earnings in the period in which they arise.

Gains and losses arising from translation of a foreign operation's functional currency to the Fund's Canadian dollar presentation currency are included in the cumulative translation adjustment component of accumulated other comprehensive income (AOCI) and are recognized in earnings upon sale of the foreign operation. Asset and liability accounts are translated at the exchange rates in effect on the balance sheet date, while revenues and expenses are translated using monthly average exchange rates.

## **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include short-term investments with a term to maturity of three months or less when purchased.

## **LOANS AND RECEIVABLES**

Long-term notes receivable from affiliate are measured at amortized cost using the effective interest rate method, net of any impairment losses recognized. Accounts receivable and other are measured at cost. Interest income is recognized in earnings as it is earned with the passage of time.

## **INVENTORY**

Crude oil inventory from the Southern Prairie Region is accumulated as a part of the tolls for transportation on certain pipeline systems. Any excess volumes of inventory collected and sold over and above measurement losses (saleable inventory) is recognized as transportation and other services revenue in the Consolidated Statements of Earnings. Remaining saleable inventory is recorded at the lower of cost or market value.

## **DEFERRED AMOUNTS AND OTHER ASSETS**

Deferred amounts and other assets primarily include: costs which regulatory authorities have permitted, or are expected to permit, to be recovered through future rates including deferred income taxes; derivative financial instruments; and deferred financing costs. Deferred financing costs are amortized using the effective interest method over the term of the related debt and are recorded in interest expense.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is recorded at historical cost. Expenditures for construction, expansion, major renewals and betterments are capitalized. Maintenance and repair costs are expensed as incurred. Expenditures for project development are capitalized if they are expected to have future benefit. The Fund capitalizes interest incurred during construction.

Two primary methods of depreciation are utilized. For distinct assets, depreciation is generally provided on a straight-line basis over the estimated useful lives of the assets commencing when the asset is placed in service. For largely homogeneous groups of assets with comparable useful lives, the pool method of accounting for property, plant and equipment is followed whereby similar assets are grouped and depreciated as a pool. When those assets are retired or otherwise disposed of, gains and losses are not reflected in earnings but are booked as an adjustment to accumulated depreciation. Certain pipeline assets in service within the Southern Prairie Region are depreciated based on unit of throughput.

## **INTANGIBLE ASSETS**

Intangible assets consist primarily of acquired power production and incentive agreements for wind and solar projects and computer software. The Fund capitalizes costs incurred during the development stage of internal use software projects. Intangible assets are amortized on a straight-line basis over their expected lives.

## **GOODWILL**

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets on acquisition of a business. The carrying value of goodwill, which is not amortized, is assessed for impairment annually, or more frequently if events or changes in circumstances arise that suggest the carrying value of goodwill may be impaired.

For the purposes of impairment testing, reporting units are identified as business operations within an operating segment. The Fund has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test. If the two-step goodwill impairment test is performed, the first step involves determining the fair value of the Fund's reporting units inclusive of goodwill and comparing those values to the carrying value of each reporting unit. If the carrying value of a reporting unit, including allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill based on the fair value of the reporting unit's assets and liabilities. The Fund did not recognize any goodwill impairments for the years ended December 31, 2014 and 2013.

## **IMPAIRMENT**

The Fund reviews the carrying values of its long-lived assets as events or changes in circumstances warrant. If it is determined that the carrying value of an asset exceeds the undiscounted cash flows expected from the asset, the asset is written down to fair value.

With respect to equity investments, the Fund assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired by completing a quantitative or qualitative analysis of factors impacting the investment. If there is determined to be objective evidence of impairment, the Fund internally values the expected discounted cash flows using observable market inputs and determines whether the decline below carrying value is other than temporary. If the decline is determined to be other than temporary, an impairment charge is recorded in earnings with an offsetting reduction to the carrying value of the asset.

With respect to other financial assets, the Fund assesses the assets for impairment when it no longer has reasonable assurance of timely collection. If evidence of impairment is noted, the Fund reduces the value of the financial asset to its estimated realizable amount, determined using discounted expected future cash flows.



## **ASSET RETIREMENT OBLIGATIONS**

Asset retirement obligations (ARO) associated with the retirement of long-lived assets are measured at fair value and recognized as other long-term liabilities in the period in which they can be reasonably determined. The fair value approximates the cost a third party would charge to perform the tasks necessary to retire such assets and is recognized at the present value of expected future cash flows. ARO are added to the carrying value of the associated asset and depreciated over the asset's useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning and reclamation. The Fund's estimates of retirement costs could change as a result of changes in cost estimates and regulatory requirements.

For the majority of the Fund's assets, it is not possible to make a reasonable estimate of ARO due to the indeterminate timing and scope of the asset retirements.

## **REDEEMABLE SECURITIES**

ECT preferred units and trust units are classified as temporary equity and reflected within the mezzanine section of the Consolidated Statements of Financial Position between long-term liabilities and unitholders' deficit. ECT preferred units and trust units are recorded at their maximum redemption value with changes in estimated redemption value reflected as a charge or credit to deficit.

## **COMMITMENTS AND CONTINGENCIES**

Liabilities for commitments and contingencies are recognized when, after fully analyzing available information, the Fund determines it is either probable that an asset has been impaired, or that a liability has been incurred, and the amount of impairment or loss can be reasonably estimated. When a range of probable loss can be estimated, the Fund recognizes the most likely amount, or if no amount is more likely than another, the minimum of the range of probable loss is accrued. The Fund expenses legal costs associated with loss contingencies as such costs are incurred.

# **3. CHANGES IN ACCOUNTING POLICIES**

## **ADOPTION OF NEW STANDARDS**

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

Effective January 1, 2014, the Fund retrospectively adopted Accounting Standards Update (ASU) 2013-04 which provides measurement and disclosure guidance for obligations with fixed amounts at a reporting date resulting from joint and several liability arrangements. There was no impact to the consolidated financial statements for the current or prior periods presented as a result of adopting this update.

### **Parent's Accounting for the Cumulative Translation Adjustment**

Effective January 1, 2014, the Fund prospectively adopted ASU 2013-05 which provides guidance on the timing of release of the cumulative translation adjustment into net income when a disposition or ownership change occurs related to an investment in a foreign entity or a business within a foreign entity. There was no impact to the consolidated financial statements as a result of adopting this update.

### **Pushdown Accounting for Business Combinations**

Effective November 18, 2014, the Fund prospectively adopted ASU 2014-17 which provides an acquired entity with the option to apply pushdown accounting in its separate financial statements upon the occurrence of a change-in-control event. There was no impact to the consolidated financial statements as a result of adopting this update.

## **FUTURE ACCOUNTING POLICY CHANGES**

### **Extraordinary and Unusual Items**

ASU 2015-01 was issued in January 2015 and eliminates the concept of extraordinary items from GAAP. Entities will no longer be required to separately classify and present extraordinary events in the income statement, net of tax, after income from continuing operations. The Fund is currently assessing the impact of the new standard on its consolidated financial statements. This accounting update is effective for annual and interim reporting periods beginning after December 15, 2015 and may be applied prospectively or retrospectively.

### **Hybrid Financial Instruments Issued in the Form of a Share**

ASU 2014-16 was issued in November 2014 with the intent to eliminate the use of different methods in practice in the accounting for hybrid financial instruments issued in the form of a share. The new standard clarifies the evaluation of the economic characteristics and risks of a host contract in these hybrid financial instruments. The Fund is currently assessing the impact of the new standard on its consolidated financial statements. This accounting update is effective for annual and interim periods beginning after December 15, 2015 and is to be applied on a modified retrospective basis.

### **Revenue from Contracts with Customers**

ASU 2014-09 was issued in May 2014 with the intent of significantly enhancing comparability of revenue recognition practices across entities and industries. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers and introduces new, increased disclosure requirements. The Fund is currently assessing the impact of the new standard on its consolidated financial statements. The new standard is effective for annual and interim periods beginning on or after December 15, 2016 and may be applied on either a full or modified retrospective basis.

### **Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity**

ASU 2014-08 was issued in April 2014 and changes the criteria and disclosures for reporting discontinued operations. It is anticipated that in general, the revised criteria will result in fewer transactions being categorized as discontinued operations. 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, 2014 and is to be applied prospectively.

#### 4. SEGMENTED INFORMATION

| Year ended December 31, 2014 <sup>1</sup>            | Liquids     |                            |                          |           | Consolidated |
|--|-------------|----------------------------|--------------------------|-----------|--------------|
|  | Green Power | Transportation and Storage | Natural Gas Transmission | Corporate |              |
| <i>(millions of Canadian dollars)</i>                |             |                            |                          |           |              |
| Transportation and other services                    | -           | 231.2                      | -                        | -         | 231.2        |
| Electricity sales                                    | 184.5       | -                          | -                        | -         | 184.5        |
| Operating and maintenance                            | (30.8)      | (36.7)                     | -                        | -         | (67.5)       |
| Management and administrative                        | -           | -                          | -                        | (9.0)     | (9.0)        |
| Operating, management and administrative – affiliate | (3.7)       | (44.6)                     | -                        | (22.9)    | (71.2)       |
| Depreciation and amortization                        | (62.5)      | (73.0)                     | -                        | -         | (135.5)      |
|  | 87.5        | 76.9                       | -                        | (31.9)    | 132.5        |
| Income from equity investments                       | 1.5         | -                          | 138.0                    | -         | 139.5        |
| Other income/(expense)                               | 0.3         | 2.1                        | (5.6)                    | 16.3      | 13.1         |
| Other income – affiliate                             | -           | 5.9                        | 0.4                      | -         | 6.3          |
| Interest expense                                     | -           | -                          | -                        | (78.1)    | (78.1)       |
| Income taxes   | -           | -                          | (25.6)                   | (37.7)    | (63.3)       |
| Earnings   | 89.3        | 84.9                       | 107.2                    | (131.4)   | 150.0        |
| Total assets   | 1,373.0     | 2,025.2                    | 401.1                    | 282.1     | 4,081.4      |
| Additions to property, plant and equipment           | 2.3         | 37.8                       | -                        | -         | 40.1         |
| Goodwill   | -           | 28.8                       | -                        | -         | 28.8         |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to Alliance US (Notes 2 and 10).

| Year ended December 31, 2013 <sup>1</sup>            | Liquids     |                            |                          |           | Consolidated |
|--|-------------|----------------------------|--------------------------|-----------|--------------|
|  | Green Power | Transportation and Storage | Natural Gas Transmission | Corporate |              |
| <i>(millions of Canadian dollars)</i>                |             |                            |                          |           |              |
| Transportation and other services                    | -           | 214.7                      | -                        | -         | 214.7        |
| Electricity sales                                    | 188.5       | -                          | -                        | -         | 188.5        |
| Operating and maintenance                            | (29.0)      | (42.7)                     | -                        | -         | (71.7)       |
| Management and administrative                        | -           | -                          | -                        | (2.1)     | (2.1)        |
| Operating, management and administrative – affiliate | (3.9)       | (37.8)                     | -                        | (19.7)    | (61.4)       |
| Depreciation and amortization                        | (62.6)      | (67.1)                     | -                        | -         | (129.7)      |
|  | 93.0        | 67.1                       | -                        | (21.8)    | 138.3        |
| Income from equity investments                       | 1.5         | -                          | 116.8                    | -         | 118.3        |
| Other income/(expense)                               | (0.3)       | 0.1                        | (0.7)                    | 0.1       | (0.8)        |
| Other income – affiliate                             | -           | -                          | 0.4                      | -         | 0.4          |
| Interest expense                                     | -           | -                          | -                        | (73.6)    | (73.6)       |
| Income taxes   | -           | -                          | (24.8)                   | (28.4)    | (53.2)       |
| Earnings before extraordinary item                   | 94.2        | 67.2                       | 91.7                     | (123.7)   | 129.4        |
| Extraordinary item, net of tax                       | -           | (16.5)                     | -                        | 4.5       | (12.0)       |
| Earnings   | 94.2        | 50.7                       | 91.7                     | (119.2)   | 117.4        |
| Total assets   | 1,429.2     | 1,095.8                    | 403.1                    | 29.8      | 2,957.9      |
| Additions to property, plant and equipment           | 5.2         | 70.8                       | -                        | -         | 76.0         |
| Goodwill   | -           | 28.8                       | -                        | -         | 28.8         |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to Alliance US (Notes 2 and 10).

| Year ended December 31, 2012 <sup>1</sup><br><i>(millions of Canadian dollars)</i> | Liquids     |                            |                          | Corporate      | Consolidated |
|--|-------------|----------------------------|--------------------------|----------------|--------------|
|  | Green Power | Transportation and Storage | Natural Gas Transmission |                |              |
| Transportation and other services  | -           | 199.3                      | -                        | -              | 199.3        |
| Electricity sales  | 190.3       | -                          | -                        | -              | 190.3        |
| Operating and maintenance  | (27.7)      | (34.7)                     | -                        | -              | (62.4)       |
| Management and administrative  | -           | -                          | -                        | (6.8)          | (6.8)        |
| Operating, management and administrative – affiliate                               | (4.4)       | (33.2)                     | -                        | (12.5)         | (50.1)       |
| Depreciation and amortization  | (63.2)      | (58.9)                     | -                        | -              | (122.1)      |
|  | 95.0        | 72.5                       | -                        | (19.3)         | 148.2        |
| Income from equity investments   | 1.0         | -                          | 107.7                    | -              | 108.7        |
| Other income   | 0.1         | 0.2                        | -                        | -              | 0.3          |
| Other income – affiliate   | -           | -                          | 0.4                      | -              | 0.4          |
| Interest expense   | -           | (6.4)                      | -                        | (56.0)         | (62.4)       |
| Income taxes   | (6.3)       | (3.2)                      | (21.9)                   | (41.1)         | (72.5)       |
| <b>Earnings</b>  | <b>89.8</b> | <b>63.1</b>                | <b>86.2</b>              | <b>(116.4)</b> | <b>122.7</b> |
| Total assets   | 1,468.5     | 1,081.3                    | 407.1                    | 224.4          | 3,181.3      |
| Additions to property, plant and equipment   | 9.8         | 141.0                      | -                        | -              | 150.8        |
| Goodwill   | -           | 28.8                       | -                        | -              | 28.8         |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction (Notes 2 and 6) and Alliance US (Notes 2 and 10).

### Significant Customer

The Independent Electricity Operator (IESO) of Ontario (formerly, the Ontario Power Authority) represents 95% (2013 – 95%; 2012 – 95%) of electricity sales revenue recorded in the Green Power segment in the year ended December 31, 2014.

## 5. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

### GENERAL INFORMATION ON RATE REGULATION AND ITS ECONOMIC EFFECTS

#### Saskatchewan Gathering System

The Saskatchewan Gathering System is regulated by SME. The Saskatchewan Gathering System follows a cost of service methodology. Tolls are subject to change from time to time based on differences between the estimated cost of service and actual costs incurred and include a 6.5% return on rate base.

#### Alliance Pipeline

Alliance Canada has transportation service agreements (TSAs), expiring in December 2015, with shippers for substantially all of its available firm transportation capacity. The 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 (ROE) of 11.26% after tax, based on a deemed 70/30 debt/equity ratio. Alliance US has similar TSAs which allow for the recovery of the cost of service, which includes operating and maintenance costs, the cost of financing, an allowance for income tax, an annual allowance for depreciation and an allowed ROE of 10.88%. In addition, Alliance US negotiated non-renewal charges that are an exit fee for shippers that did not elect to extend their transportation contracts.

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. Tolls and tariffs for Alliance US are regulated by the Federal Energy Regulatory Commission (FERC). The FERC allows for collection of deferred taxes in tolls, therefore the Fund does not record a regulatory asset or liability for deferred income taxes related to Alliance US.

The financial statement effect of regulation to which Alliance Canada is subject is inherent within the Fund's equity accounting for its investment in Alliance Canada.

### FINANCIAL STATEMENT EFFECTS

Accounting for rate-regulated entities has resulted in recognition of the following regulatory assets and liabilities:

| December 31,                                   | 2014  | 2013  |
|--|-------|-------|
| <i>(millions of Canadian dollars)</i>          |       |       |
| <b>Regulatory assets/(liabilities)</b>         |       |       |
| Saskatchewan Gathering System                  |       |       |
| Transportation revenue adjustment <sup>1</sup> | 36.3  | 32.9  |
| Deferred income taxes <sup>2</sup>             | (8.7) | (6.7) |
| Alliance Canada                                |       |       |
| Deferred income taxes <sup>2</sup>             | 23.9  | 34.7  |

<sup>1</sup> The transportation revenue adjustment is the cumulative difference between actual expenses incurred and estimated expenses included in transportation tolls. Transportation revenue adjustments are not included in rate base. To the extent that the regulator's actions differ from the Fund's expectations, the amount of the transportation revenue adjustment ultimately recovered could differ significantly from the amounts recorded. The recovery period is approximately five years and dependent on shipper throughput levels.

<sup>2</sup> The regulatory asset/(liability) is the corresponding balance to a deferred income tax asset/(liability) that arises within entities subject to rate regulation. The balance has been recognized as a regulatory asset/(liability) since the flow-through treatment of taxes for rate-setting purposes would ensure eventual recovery of these balances as the temporary differences reverse. The recovery period will depend on the period over which the deferred income tax amounts reverse.

## 6. ACQUISITION

### Crude Oil Storage and Renewable Energy Entities

On December 10, 2012, the Fund acquired 100% interests in the Crude Oil Storage and Renewable Energy Entities from Enbridge and wholly-owned subsidiaries of Enbridge (the 2012 Transaction). Cash consideration was \$1.16 billion, inclusive of adjustments for working capital and other post close adjustments of \$1.3 million.

The components of the net cash consideration for the 2012 Transaction was as follows:

|  |                |
|--|----------------|
| <i>(millions of Canadian dollars)</i>      |                |
| Acquisition price                          | 1,164.0        |
| Working capital and post close adjustments | (1.3)          |
| Less: cash acquired                        | (3.9)          |
|  | <u>1,158.8</u> |

The 2012 Transaction 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, with any difference from consideration paid charged to unitholders' deficit.

The purchase price was recorded as follows:

|  |                |
|--|----------------|
| <i>(millions of Canadian dollars)</i>          |                |
| Cash   | 3.9            |
| Accounts receivable                            | 13.0           |
| Property, plant and equipment                  | 937.7          |
| Intangible assets                              | 10.9           |
| Goodwill                                       | 28.8           |
| Accounts payable                               | (4.0)          |
| Asset retirement obligation                    | (0.8)          |
| Deferred income taxes                          | (108.0)        |
|  | <u>881.5</u>   |
| Excess purchase price over net assets acquired | 281.2          |
| Cash consideration                             | <u>1,162.7</u> |

Earnings for the year ended December 31, 2012 include the results of the Crude Oil Storage and Renewable Energy Entities as though the 2012 Transaction occurred at the beginning of the year. 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 2012 Transaction is as follows:

|                                       |             |
|---------------------------------------|-------------|
| Year ended December 31,               | 2012        |
| <i>(millions of Canadian dollars)</i> |             |
| Earnings                              |             |
| Revenues                              | 108.2       |
| Operating and administrative          | (24.4)      |
| Depreciation and amortization         | (35.4)      |
| Interest income/(expense), net        | (6.1)       |
| Income tax expense                    | (10.4)      |
| Earnings                              | <u>31.9</u> |

|   |              |
|---|--------------|
| Year ended December 31,                 | 2012         |
| <i>(millions of Canadian dollars)</i>   |              |
| Cash provided from operating activities | 69.4         |
| Cash used in from investing activities  | (9.8)        |
| Cash used in financing activities       | (67.1)       |
|   | <b>(7.5)</b> |

## 7. ACCOUNTS RECEIVABLE AND OTHER

|  |             |      |
|--|-------------|------|
| December 31,   | <b>2014</b> | 2013 |
| <i>(millions of Canadian dollars)</i>                    |             |      |
| Unbilled revenues  | <b>21.8</b> | 18.2 |
| Trade receivables  | <b>22.4</b> | 23.9 |
| Inventory  | <b>5.4</b>  | 7.7  |
| Prepaid expenses and deposits                            | <b>4.9</b>  | 3.2  |
| Current deferred income taxes                            | <b>1.8</b>  | 4.0  |
| Short-term portion of derivative assets <i>(Note 18)</i> | <b>0.9</b>  | 0.2  |
|  | <b>57.2</b> | 57.2 |

Accounts receivable include \$14.9 million (2013 – \$16.8 million) due from IESO at December 31, 2014.

## 8. PROPERTY, PLANT AND EQUIPMENT

|                                       |                                       |                |         |
|---------------------------------------|---------------------------------------|----------------|---------|
| December 31,                          | Weighted Average<br>Depreciation Rate | <b>2014</b>    | 2013    |
| <i>(millions of Canadian dollars)</i> |                                       |                |         |
| Green Power                           |                                       |                |         |
| Wind turbines, solar panels and other | 4.0%                                  | <b>1,550.0</b> | 1,548.1 |
| Liquids Transportation and Storage    |                                       |                |         |
| Pipeline in service                   | 9.5%                                  | <b>641.8</b>   | 613.4   |
| Pumping equipment, tanks and other    | 3.3%                                  | <b>695.3</b>   | 694.9   |
| Under construction                    |                                       | <b>21.8</b>    | 12.1    |
|                                       |                                       | <b>2,908.9</b> | 2,868.5 |
| Accumulated depreciation              |                                       | <b>(683.2)</b> | (551.4) |
| Property, plant and equipment, net    |                                       | <b>2,225.7</b> | 2,317.1 |

Depreciation expense for the year ended December 31, 2014 was \$132.0 million (2013 – \$126.2 million; 2012 – \$118.5 million).

## 9. LONG-TERM RECEIVABLE FROM AFFILIATE

On November 7, 2014, the Fund subscribed for and purchased Class A Units of Enbridge SL Holdings L.P. and Southern Lights Holdings, L.L.C., which are indirect wholly-owned subsidiaries of Enbridge. The Class A Units provide defined, scheduled and fixed distributions that represent the equity cash flows derived from the core rate base of the Southern Lights Pipeline until June 30, 2040. The Southern Lights Pipeline is a fully-contracted single stream pipeline that ships diluent from the Enbridge Manhattan Terminal near Chicago to the Enbridge Edmonton Terminal. Enbridge guaranteed payment of the distributions except in circumstances of force majeure, certain regulatory actions and shipper defaults remain unrecovered under the shipper contracts. The Class A Units have minimal exposure to operating risk and no obligation to fund capital expenditures. The Fund has options to negotiate extensions for two additional 10-year terms beyond 2040 and to participate in equity returns from future expansions of the Southern Lights Pipeline.

Ownership of the Southern Lights Pipeline is represented by the Class B Units owned by Enbridge. Based on the rights and obligations of each class of units, the Southern Lights Pipeline is considered a VIE. Enbridge is the primary beneficiary because of its ability to direct activities and its exposure to variability in returns. Enbridge continues to consolidate the Southern Lights Pipeline. The Fund's investment in the Class A Units is classified as a loan investment.

The Fund receives contractual, quarterly cash flows, each of which is comprised of a return on capital and a return of capital component. The return on capital is included in the Fund's income for the period and the return of capital reduces the balance of the investment on the Fund's Consolidated Statements of Financial Position.

The Fund's maximum exposure to loss is the carrying value of the investment in the Class A Units. As the Fund receives regular return of capital payments, the Fund's exposure to loss decreases over time. At December 31, 2014, the carrying value of the Fund's investment was \$962.2 million included in long-term receivable from affiliate and accounts receivable from affiliates on the Consolidated Statements of Financial Position.

## 10. LONG-TERM INVESTMENTS

| December 31,                          | Ownership<br>Interest | 2014         | 2013 <sup>1</sup> |
|---------------------------------------|-----------------------|--------------|-------------------|
| <i>(millions of Canadian dollars)</i> |                       |              |                   |
| <b>Equity investments</b>             |                       |              |                   |
| Alliance Pipeline                     | 50%                   | 374.4        | 364.6             |
| Green Power                           |                       |              |                   |
| NRGreen Power Limited Partnership     | 50%                   | 54.6         | 50.8              |
| SunBridge Wind Power Facility         | 50%                   | 4.8          | 5.2               |
| <b>Total</b>                          |                       | <b>433.8</b> | <b>420.6</b>      |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to Alliance US (Note 2).



Summarized combined financial information of the Fund's interests in joint ventures accounted for under the equity method is as follows:

| Year ended December 31,<br><i>(millions of Canadian dollars)</i> | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|--|-------------------|-------------------|-------------------|
| <b>Earnings</b>  |                   |                   |                   |
| Revenues   | 445.4             | 413.8             | 411.1             |
| Operating and administrative                                     | (145.2)           | (136.4)           | (136.5)           |
| Depreciation and amortization                                    | (106.0)           | (101.6)           | (102.4)           |
| Other income   | 1.9               | 2.0               | 1.1               |
| Interest expense   | (56.6)            | (59.5)            | (64.6)            |
| <b>Earnings</b>  | <b>139.5</b>      | <b>118.3</b>      | <b>108.7</b>      |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to Alliance US (Note 2).

| December 31,<br><i>(millions of Canadian dollars)</i> | 2014           | 2013 <sup>1</sup> |
|---|----------------|-------------------|
| <b>Current assets</b>                                 | <b>119.5</b>   | 121.0             |
| Property, plant and equipment, net                    | 1,228.1        | 1,277.5           |
| Deferred amounts and other assets                     | 15.4           | 14.7              |
| <b>Current liabilities</b>                            | <b>(227.8)</b> | (157.2)           |
| Long-term debt  | (683.2)        | (822.9)           |
| Other long-term liabilities                           | (18.2)         | (12.5)            |
| <b>Net assets</b>                                     | <b>433.8</b>   | 420.6             |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to Alliance US (Note 2).

Certain assets of Alliance Pipeline are pledged as collateral to Alliance Pipeline's lenders.

On November 7, 2014, the Fund acquired a 50% equity interest in Alliance US from indirect wholly-owned subsidiaries of Enbridge. The purchase was accounted for as a transaction between entities under common control, similar to a pooling of interests, whereby the investment in Alliance US was recorded at Enbridge's historic carrying values, with any difference from consideration paid charged to unitholders' deficit.

The excess of consideration over the historical carrying values is as follows:

|   |       |
|---|-------|
| <i>(millions of Canadian dollars)</i>                                       |       |
| Equity investment, historical carrying value                                | 205.3 |
| Deferred income taxes   | 245.9 |
| Cumulative translation adjustment   | (8.4) |
|   | 442.8 |
| Excess purchase price over historical carrying value of net assets acquired | 392.2 |
| Cash consideration  | 835.0 |

A deferred income tax asset has been recognized for the future tax consequences of differences between carrying amounts of assets and liabilities and their respective tax bases. The difference between the deferred income tax asset recorded by the Fund and the historical carrying value of deferred taxes by Enbridge is recorded directly in equity within the consolidated financial statements.

Earnings for the year ended December 31, 2014 include the results of Alliance US as though the acquisition of interests occurred at the beginning of the year. Similarly, comparative information for the prior years has been retrospectively adjusted to present the results operations of the Fund on a combined basis. The incremental effect of retrospectively adjusting the Fund's consolidated financial statements to include the results of operations of Alliance US for the periods prior to the acquisition of interests is as follows:

| Year ended December 31,<br><i>(millions of Canadian dollars)</i> | 2014        | 2013        | 2012        |
|--|-------------|-------------|-------------|
| Earnings   |             |             |             |
| Income from equity investments                                   | 64.2        | 62.4        | 54.8        |
| Income tax expense   | (25.6)      | (24.8)      | (21.8)      |
| <b>Earnings</b>  | <b>38.6</b> | <b>37.6</b> | <b>33.0</b> |

| Year ended December 31,<br><i>(millions of Canadian dollars)</i> | 2014   | 2013   | 2012   |
|--|--------|--------|--------|
| Cash provided from operating activities                          | 47.8   | 46.1   | 48.5   |
| Cash used in financing activities                                | (47.8) | (46.1) | (48.5) |
|  | -      | -      | -      |

| December 31,<br><i>(millions of Canadian dollars)</i> | 2014 | 2013   |
|---|------|--------|
| Long-term investments                                 | -    | 201.1  |
| Accounts payable and other                            | -    | (24.8) |
| Deferred income taxes                                 | -    | (97.6) |
|   | -    | 78.7   |

## 11. DEFERRED AMOUNTS AND OTHER ASSETS

| December 31,<br><i>(millions of Canadian dollars)</i>   | 2014        | 2013        |
|---|-------------|-------------|
| Regulatory assets <i>(Note 5)</i>                       | 51.5        | 60.9        |
| Deferred financing costs                                | 8.9         | 6.6         |
| Long-term portion of derivative assets <i>(Note 18)</i> | 2.5         | 2.5         |
| Other   | 0.4         | 0.2         |
|   | <b>63.3</b> | <b>70.2</b> |

## 12. INTANGIBLE ASSETS

| <b>December 31, 2014</b><br><i>(millions of Canadian dollars)</i> | Weighted Average<br>Amortization Rate | Cost        | Accumulated<br>Amortization | Net         |
|---|---------------------------------------|-------------|-----------------------------|-------------|
| Power purchase agreements   | <b>4.0%</b>                           | <b>30.6</b> | <b>(6.2)</b>                | <b>24.4</b> |
| Software  | <b>21.8%</b>                          | <b>5.7</b>  | <b>(3.8)</b>                | <b>1.9</b>  |
|   |                                       | <b>36.3</b> | <b>(10.0)</b>               | <b>26.3</b> |

| <b>December 31, 2013</b><br><i>(millions of Canadian dollars)</i> | Weighted Average<br>Amortization Rate | Cost | Accumulated<br>Amortization | Net  |
|---|---------------------------------------|------|-----------------------------|------|
| Power purchase agreements   | 4.4%                                  | 30.6 | (5.0)                       | 25.6 |
| Software  | 18.6%                                 | 4.9  | (3.0)                       | 1.9  |
|   |                                       | 35.5 | (8.0)                       | 27.5 |

Total amortization expense for intangible assets was \$2.0 million (2013 – \$2.2 million; 2012 – \$2.2 million) for the year ended December 31, 2014. The Fund expects aggregate amortization expense for the years ending December 31, 2015 through 2019 of \$2.5 million, \$2.5 million, \$2.5 million, \$2.5 million and \$2.5 million, respectively.

## 13. ACCOUNTS PAYABLE AND OTHER

| <b>December 31,</b><br><i>(millions of Canadian dollars)</i>  | <b>2014</b> | 2013 <sup>1</sup> |
|---|-------------|-------------------|
| Operating accrued liabilities                                 | <b>17.7</b> | 14.6              |
| Trade payables  | <b>3.2</b>  | 6.9               |
| Construction payable  | <b>13.7</b> | 13.2              |
| Income taxes payable  | <b>8.8</b>  | 25.6              |
| Short-term portion of derivative liabilities <i>(Note 18)</i> | <b>4.6</b>  | 0.8               |
| Interest payable  | <b>19.3</b> | 15.1              |
| Other   | <b>3.3</b>  | 3.4               |
|   | <b>70.6</b> | 79.6              |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to Alliance US (Notes 2 and 10).

## 14. DEBT

| December 31,                          | 2014           | 2013           |
|---------------------------------------|----------------|----------------|
| <i>(millions of Canadian dollars)</i> |                |                |
| Medium term notes                     |                |                |
| 5.25% due December 22, 2014           | -              | 90.0           |
| 5.00% due June 22, 2017               | 100.0          | 100.0          |
| 2.92% due December 14, 2017           | 225.0          | 225.0          |
| 4.00% due December 20, 2018           | 125.0          | 125.0          |
| 4.10% due February 22, 2019           | 300.0          | 300.0          |
| 4.85% due November 12, 2020           | 100.0          | 100.0          |
| 4.85% due February 22, 2022           | 200.0          | 200.0          |
| 3.94% due January 13, 2023            | 275.0          | 275.0          |
| 3.95% due November 19, 2024           | 500.0          | -              |
| 4.87% due November 21, 2044           | 250.0          | -              |
| Floating rate due November 28, 2014   | -              | 200.0          |
| Floating rate due November 21, 2016   | 330.0          | -              |
| Credit facilities                     | 140.0          | 40.0           |
| Debt discount                         | (0.9)          | (0.8)          |
| <b>Total debt</b>                     | <b>2,544.1</b> | <b>1,654.2</b> |
| Current maturities                    | -              | (290.0)        |
| <b>Long-term debt</b>                 | <b>2,544.1</b> | <b>1,364.2</b> |

### Medium Term Notes

The Medium Term Notes (MTNs) are unsecured and redeemable by the Fund prior to maturity, in whole or in part, from time to time, at the option of the Fund at a price equal to the greater of the applicable Government of Canada yield price and par. Interest on the MTNs is payable semi-annually and interest on the floating rate note maturing in 2016 is payable quarterly.

For the year ending December 31, 2015, there are no MTN maturities. For the years ending December 31, 2016 through December 31, 2019, MTN maturities are \$330.0 million, \$325.0 million, \$125.0 million, and \$300.0 million, respectively. At December 31, 2014, the MTNs had a fair value of \$2,514.4 million (2013 – \$1,654.8 million) based on quoted market prices.

### Credit Facility

At December 31, 2014, the Fund had a \$500 million (2013 – \$500 million) 3-year standby credit facility with a syndicate of commercial banks. In June 2014, the Fund amended its credit facility, extending the maturity date to June 27, 2017. On an annual basis, the Fund may request a one year extension of the applicable maturity date. At December 31, 2014, letters of credit totaling \$3.6 million (2013 – \$12.0 million) were outstanding and \$356.4 million (2013 – \$448.0 million) remained undrawn under the Fund's credit facility. The weighted average interest rate on indebtedness incurred on the Fund's credit facility for the year ended December 31, 2014 was 2.5% (2013 – 2.6%). The Fund's credit facility carries a standby fee of 0.24% (2013 – 0.24%) per annum.

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 December 31, 2014.

### INTEREST EXPENSE

| Year ended December 31,                                  | 2014  | 2013  | 2012  |
|--|-------|-------|-------|
| <i>(millions of Canadian dollars)</i>                    |       |       |       |
| Interest expense on long-term debt                       | 72.4  | 70.4  | 51.1  |
| Interest on affiliate loans <i>(Note 22)</i>             | 2.7   | 0.6   | 11.3  |
| Amortization of deferred financing fees and bank charges | 3.3   | 4.0   | 2.6   |
| Capitalized interest                                     | (0.3) | (1.4) | (2.6) |
|  | 78.1  | 73.6  | 62.4  |

Interest obligations on the Fund's MTNs for the years ending December 31, 2015 through 2019 are \$86.3 million, \$86.2 million, \$83.7 million, \$74.6 million and \$63.5 million, respectively.

## 15. OTHER LONG-TERM LIABILITIES

| December 31,                            | 2014 | 2013 |
|---|------|------|
| <i>(millions of Canadian dollars)</i>   |      |      |
| Asset retirement obligations            | 21.3 | 19.8 |
| Derivative liabilities <i>(Note 18)</i> | 47.6 | 0.8  |
| Other                                   | 1.7  | 2.4  |
|   | 70.6 | 23.0 |

A reconciliation of movements in the Fund's asset retirement obligation is as follows:

| December 31,                          | 2014 | 2013  |
|---------------------------------------|------|-------|
| <i>(millions of Canadian dollars)</i> |      |       |
| Obligations, beginning of year        | 19.8 | 18.5  |
| Accretion expense                     | 1.5  | 1.4   |
| Abandonment costs incurred            | -    | (0.1) |
| Obligations, end of year              | 21.3 | 19.8  |

A legal obligation exists for the retirement of certain assets within the Liquids Transportation and Storage and Green Power operating segments. The undiscounted amount of expected cash flows required to settle the asset retirement obligations related to certain assets in the Liquids Transportation and Storage and Green Power segments is estimated at \$225.0 million (2013 – \$225.0 million) and estimated to be settled between 2016 and 2060. The liability for the expected cash flows as recognized in the financial statements reflected a weighted average discount rate of 8.1% (2013 – 8.1%).

## 16. ECT PREFERRED UNITS

|  | 2014            |                  | 2013            |                  | 2012            |                  |
|--|-----------------|------------------|-----------------|------------------|-----------------|------------------|
|  | Number of Units | Mezzanine Equity | Number of Units | Mezzanine Equity | Number of Units | Mezzanine Equity |
| <i>(millions of Canadian dollars, number of units in millions)</i> |                 |                  |                 |                  |                 |                  |
| ECT preferred units, series 1                                      |                 |                  |                 |                  |                 |                  |
| Balance, beginning of year   | 38.0            | 884.8            | 38.0            | 894.8            | 38.0            | 764.3            |
| Redemption value adjustment  | -               | 632.7            | -               | (10.0)           | -               | 130.5            |
| Balance, end of year   | 38.0            | 1,517.5          | 38.0            | 884.8            | 38.0            | 894.8            |
| ECT preferred units, series 2                                      |                 |                  |                 |                  |                 |                  |
| Balance, beginning of year   | 16.1            | 373.5            | 16.1            | 377.7            | 16.1            | 322.6            |
| Redemption value adjustment  | -               | 267.1            | -               | (4.2)            | -               | 55.1             |
| Balance, end of year   | 16.1            | 640.6            | 16.1            | 373.5            | 16.1            | 377.7            |
| ECT preferred units, series 3                                      |                 |                  |                 |                  |                 |                  |
| Balance, beginning of year   | 13.2            | 306.2            | 13.2            | 349.8            | -               | -                |
| Issued   | -               | -                | -               | -                | 13.2            | 304.6            |
| Redemption value adjustment  | -               | 219.0            | -               | (43.6)           | -               | 45.2             |
| Balance, end of year   | 13.2            | 525.2            | 13.2            | 306.2            | 13.2            | 349.8            |
| ECT preferred units, series 4                                      |                 |                  |                 |                  |                 |                  |
| Balance, beginning of year   | 5.2             | 121.7            | -               | -                | -               | -                |
| Issued   | -               | -                | 5.2             | 130.8            | -               | -                |
| Redemption value adjustment  | -               | 87.1             | -               | (9.1)            | -               | -                |
| Balance, end of year   | 5.2             | 208.8            | 5.2             | 121.7            | -               | -                |
| ECT preferred units, series 5                                      |                 |                  |                 |                  |                 |                  |
| Issued   | 15.2            | 461.3            | -               | -                | -               | -                |
| Redemption value adjustment  | -               | 145.3            | -               | -                | -               | -                |
| Balance, end of year   | 15.2            | 606.6            | -               | -                | -               | -                |
| Total ECT preferred units  | 87.7            | 3,498.7          | 72.5            | 1,686.2          | 67.3            | 1,622.3          |

On November 7, 2014 the Fund issued 15,200,000 ECT preferred units, series 5, priced at \$30.35 per unit. Gross proceeds of \$461.3 million were used to partially fund the purchase of Alliance US and Southern Lights Class A Units.

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

On December 10, 2012 the Fund issued 13,159,000 ECT preferred units, series 3, priced at \$23.15 per unit. Gross proceeds of \$304.6 million were used to partially fund the 2012 Transaction.

ECT preferred units are entitled to non-cumulative distributions when declared by ECT, have no direct voting rights except in limited circumstances and all mature on June 30, 2050.

The ECT preferred units have an Exchange Right which provides Enbridge, the holder of the ECT preferred units, with the right to exchange all or part of the ECT preferred units for trust units of the Fund on a one-for-one basis at any time prior to maturity. Should the holder exercise the Exchange Right as a holder of trust units of the Fund, it would be entitled to the trust unitholder rights described in Note 17. Accordingly ECT preferred units are accounted for as redeemable instruments and their redemption price is calculated based on the redemption price of trust units.

Cash distributions of \$125.6 million (2013 – \$116.1 million; 2012 – \$80.8 million) were declared on the ECT preferred units during the year ended December 31, 2014.

## 17. TRUST UNITS

| December 31,   | 2014            |         | 2013            |         | 2012            |         |
|--|-----------------|---------|-----------------|---------|-----------------|---------|
|  | Number of Units | Amount  | Number of Units | Amount  | Number of Units | Amount  |
| <i>(millions of Canadian dollars, number of units in millions)</i> |                 |         |                 |         |                 |         |
| Common trust units, beginning of year                              | 66.0            | 1,535.6 | 61.2            | 1,477.3 | 49.2            | 989.7   |
| Issued   | 13.9            | 420.7   | 4.8             | 119.2   | 12.0            | 277.4   |
| Share issue costs  | -               | (13.7)  | -               | (4.1)   | -               | (9.2)   |
| Redemption value adjustment  | -               | 1,244.3 | -               | (56.8)  | -               | 219.4   |
| Common trust units, end of year <sup>1</sup>                       | 79.9            | 3,186.9 | 66.0            | 1,535.6 | 61.2            | 1,477.3 |

<sup>1</sup> Enbridge owned 9.5 million common trust units at December 31, 2014 (2013 – 9.5 million; 2012 – 9.5 million).

On November 7, 2014, the Fund issued 13,860,000 trust units priced at \$30.35 per unit. Gross proceeds of \$420.7 million were used to partially fund the purchase of Alliance US and Southern Lights Class A Units.

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

On December 10, 2012, the Fund issued 11,982,000 trust units priced at \$23.15 per unit. Gross proceeds of \$277.4 million were used to partially fund the 2012 Transaction.

Pursuant to the Trust Indenture, an unlimited number of trust units may be issued by the Fund. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets in the event of termination or wind-up of the Fund. All units are voting and have equal rights and privileges. At any given time, the Fund is required to reserve a sufficient number of trust units to satisfy the Exchange Right.

Trust units are redeemable at any time at the option of the holder. At December 31, 2014 and 2013, the redemption price per trust unit is equal to the net asset value per trust unit, calculated with reference to the market price of an ENF common share, adjusted for non-consolidated assets and liabilities of ENF. The maximum amount payable by the Fund in respect of redemptions in any calendar month is limited to \$0.1 million. To the extent that a unitholder is not entitled to receive cash upon the redemption of trust units, the redemption price shall be satisfied, subject to all necessary regulatory approvals, by way of a distribution of Fund property, which may include ECT notes or other assets held by the Fund.

During the year ended December 31, 2014, the Fund declared \$114.4 million (2013 – \$105.8 million; 2012 – \$73.6 million) in cash distributions to trust unitholders.

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

### **MARKET PRICE RISK**

The Fund's earnings, cash flows and 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, cash flows and OCI 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 with the execution of floating to fixed rate interest rate swaps through 2019 at an average swap rate of 2.05%.

The Fund's earnings, cash flows and OCI 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. The Fund has implemented a program to significantly mitigate its exposure to long-term interest rate variability on select forecast term debt issuances with the execution of floating to fixed interest rate swaps through 2018 at an average swap rate of 3.91%.

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

### **Foreign Exchange Risk**

The Fund generates certain revenues, incurs expenses, and holds investments and subsidiaries that are denominated in currencies other than Canadian dollars. As a result, the Fund's earnings, cash flows and OCI are exposed to fluctuations resulting from foreign exchange rate variability.

The Fund has implemented a policy whereby, at a minimum, it hedges a level of foreign currency denominated cash flow exposures over a three year forecast horizon. A combination of qualifying and non-qualifying derivative instruments may be used to hedge anticipated foreign currency denominated revenues and expenses, and to manage variability in cash flows.

### **Commodity Price Risk**

The Fund's earnings, cash flows and OCI are exposed to changes in commodity prices due to collection of allowance oil on certain crude oil pipelines, generation of power sold pursuant to floating rate supply agreements and through commitments to purchase and sell natural gas in connection with capacity held on the Alliance Pipeline. The Fund may use crude oil, power and natural gas derivative instruments to fix a portion of the variable price exposures that may arise from these activities. The Fund may use 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, carrying value and fair value of the Fund's derivatives instruments. The Fund did not have any outstanding fair value or net investment hedges as at December 31, 2014 and 2013.

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<br>Instruments<br>used as<br>Cash Flow<br>Hedges | Non-<br>Qualifying<br>Derivative<br>Instruments | Total Gross<br>Derivative<br>Instruments<br>as Presented | Amounts<br>Available<br>for Offset | Total Net<br>Derivative<br>Instruments |
|--|---|---|--|------------------------------------|--|
| <b>December 31, 2014</b>               |   |   |  |                                    |  |
| <i>( millions of Canadian dollars)</i> |   |   |  |                                    |  |
| Accounts receivable and other          |   |   |  |                                    |  |
| Foreign exchange contracts             | 0.2   | -   | 0.2  | -                                  | 0.2                                    |
| Commodity contracts                    | 0.5   | 0.2   | 0.7  | -                                  | 0.7                                    |
|  | 0.7   | 0.2   | 0.9  | -                                  | 0.9                                    |
| Deferred amounts and other assets      |   |   |  |                                    |  |
| Interest rate contracts                | 0.1   | -   | 0.1  | (0.1)                              | -                                      |
| Foreign exchange contracts             | 0.9   | -   | 0.9  | -                                  | 0.9                                    |
| Commodity contracts                    | 1.3   | 0.2   | 1.5  | -                                  | 1.5                                    |
|  | 2.3   | 0.2   | 2.5  | (0.1)                              | 2.4                                    |
| Accounts payable and other             |   |   |  |                                    |  |
| Interest rate contracts                | (0.6)   | -   | (0.6)  | -                                  | (0.6)                                  |
| Foreign exchange contracts             | -   | (3.8)   | (3.8)  | -                                  | (3.8)                                  |
| Commodity contracts                    | -   | (0.2)   | (0.2)  | -                                  | (0.2)                                  |
|  | (0.6)   | (4.0)   | (4.6)  | -                                  | (4.6)                                  |
| Other long-term liabilities            |   |   |  |                                    |  |
| Interest rate contracts                | (26.1)  | -   | (26.1)   | 0.1                                | (26.0)                                 |
| Foreign exchange contracts             | -   | (21.2)  | (21.2)   | -                                  | (21.2)                                 |
| Commodity contracts                    | -   | (0.3)   | (0.3)  | -                                  | (0.3)                                  |
|  | (26.1)  | (21.5)  | (47.6)   | 0.1                                | (47.5)                                 |
| Total net derivative asset/(liability) |   |   |  |                                    |  |
| Interest rate contracts                | (26.6)  | -   | (26.6)   | -                                  | (26.6)                                 |
| Foreign exchange contracts             | 1.1   | (25.0)  | (23.9)   | -                                  | (23.9)                                 |
| Commodity contracts                    | 1.8   | (0.1)   | 1.7  | -                                  | 1.7                                    |
|  | (23.7)  | (25.1)  | (48.8)   | -                                  | (48.8)                                 |

| December 31, 2013                      | Derivative<br>Instruments<br>used as<br>Cash Flow<br>Hedges | Non-<br>Qualifying<br>Derivative<br>Instruments | Total Gross<br>Derivative<br>Instruments<br>as Presented | Amounts<br>Available<br>for Offset | Total Net<br>Derivative<br>Instruments |
|--|---|---|--|------------------------------------|--|
| <i>( millions of Canadian dollars)</i> |   |   |  |                                    |  |
| Accounts receivable and other          |   |   |  |                                    |  |
| Commodity contracts                    | 0.2   | -   | 0.2  | -                                  | 0.2                                    |
|  | 0.2   | -   | 0.2  | -                                  | 0.2                                    |
| Deferred amounts and other assets      |   |   |  |                                    |  |
| Interest rate contracts                | 1.9   | -   | 1.9  | (0.2)                              | 1.7                                    |
| Foreign exchange contracts             | 0.2   | -   | 0.2  | -                                  | 0.2                                    |
| Commodity contracts                    | 0.3   | 0.1   | 0.4  | -                                  | 0.4                                    |
|  | 2.4   | 0.1   | 2.5  | (0.2)                              | 2.3                                    |
| Accounts payable and other             |   |   |  |                                    |  |
| Interest rate contracts                | (0.7)   | -   | (0.7)  | -                                  | (0.7)                                  |
| Commodity contracts                    | -   | (0.1)   | (0.1)  | -                                  | (0.1)                                  |
|  | (0.7)   | (0.1)   | (0.8)  | -                                  | (0.8)                                  |
| Other long-term liabilities            |   |   |  |                                    |  |
| Interest rate contracts                | (0.2)   | -   | (0.2)  | 0.2                                | -                                      |
| Commodity contracts                    | (0.3)   | (0.3)   | (0.6)  | -                                  | (0.6)                                  |
|  | (0.5)   | (0.3)   | (0.8)  | 0.2                                | (0.6)                                  |
| Total net derivative asset/(liability) |   |   |  |                                    |  |
| Interest rate contracts                | 1.0   | -   | 1.0  | -                                  | 1.0                                    |
| Foreign exchange contracts             | 0.2   | -   | 0.2  | -                                  | 0.2                                    |
| Commodity contracts                    | 0.2   | (0.3)   | (0.1)  | -                                  | (0.1)                                  |
|  | 1.4   | (0.3)   | 1.1  | -                                  | 1.1                                    |

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

| <b>December 31, 2014</b>   | 2015         | 2016         | 2017         | 2018         | 2019        | Thereafter   |
|--|--------------|--------------|--------------|--------------|-------------|--------------|
| Interest rate contracts - short-term borrowings<br><i>(millions of Canadian dollars)</i>                   | <b>320.5</b> | <b>301.4</b> | <b>326.0</b> | <b>319.4</b> | <b>0.6</b>  | -            |
| Interest rate contracts - long-term borrowings<br><i>(millions of Canadian dollars)</i>                    | -            | -            | <b>180.0</b> | <b>100.0</b> | -           | -            |
| Foreign exchange contracts - U.S. dollar forwards<br>- purchase <i>(millions of United States dollars)</i> | <b>2.1</b>   | <b>2.1</b>   | <b>2.2</b>   | <b>2.2</b>   | <b>2.4</b>  | <b>1.8</b>   |
| Foreign exchange contracts - U.S. dollar forwards<br>- sell <i>(millions of United States dollars)</i>     | <b>98.1</b>  | <b>86.9</b>  | <b>85.7</b>  | <b>85.8</b>  | <b>57.0</b> | <b>354.1</b> |
| Commodity contracts - power <i>(megawatts per hour)</i>  | <b>4.8</b>   | <b>4.8</b>   | <b>4.8</b>   | <b>2.8</b>   | <b>2.8</b>  | <b>2.8</b>   |
| <b>December 31, 2013</b>   | 2014         | 2015         | 2016         | 2017         | 2018        | Thereafter   |
| Interest rate contracts - short-term borrowings<br><i>(millions of Canadian dollars)</i>                   | 202.0        | 200.0        | 190.0        | 90.0         | 7.0         | -            |
| Interest rate contracts - long-term borrowings<br><i>(millions of Canadian dollars)</i>                    | -            | -            | -            | 180.0        | -           | -            |
| Foreign exchange contracts - U.S. dollar forwards<br>- purchase <i>(millions of United States dollars)</i> | 2.0          | 2.1          | 2.1          | 2.2          | 2.2         | 4.2          |
| Commodity contracts - power <i>(megawatts per hour)</i>  | 4.8          | 4.8          | 4.8          | 4.8          | 2.8         | 2.8          |

## 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.

| Year ended December 31,   | 2014   | 2013  | 2012  |
|---|--------|-------|-------|
| <i>(millions of Canadian dollars)</i>   |        |       |       |
| Amount of unrealized gain/(loss) recognized in OCI                                  |        |       |       |
| Interest rate contracts   | (28.8) | 0.4   | (2.2) |
| Foreign exchange contracts  | 0.9    | 0.8   | (0.1) |
| Commodity contracts   | 2.8    | (0.8) | 8.8   |
| Total unrealized gain/(loss) recognized in OCI                                      | (25.1) | 0.4   | 6.5   |
| Amount of gain/(loss) reclassified from AOCI to earnings <i>(effective portion)</i> |        |       |       |
| Interest rate contracts <sup>1</sup>  | 4.0    | 5.1   | 3.5   |
| Foreign exchange contracts <sup>2</sup>   | -      | -     | 0.1   |
| Commodity contracts <sup>3</sup>  | (0.8)  | 0.5   | (0.5) |
| Total gain/(loss) reclassified from AOCI to earnings <i>(effective portion)</i>     | 3.2    | 5.6   | 3.1   |

<sup>1</sup> Gain reported within interest expense in the Consolidated Statements of Earnings.

<sup>2</sup> Gain reported within other income/(expense) in the Consolidated Statements of Earnings.

<sup>3</sup> Gain/(loss) reported within electricity sales revenue in the Consolidated Statements of Earnings.

The estimated net amount of existing losses reported in accumulated other comprehensive income that is expected to be reclassified to net income within the next 12 months is \$0.2 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.

| Year ended December 31,                            | 2014   | 2013 | 2012  |
|--|--------|------|-------|
| <i>(millions of Canadian dollars)</i>              |        |      |       |
| Foreign exchange contracts <sup>1</sup>            | (25.0) | -    | -     |
| Commodity contracts <sup>2</sup>                   | (0.1)  | 0.1  | (0.1) |
| Total unrealized derivative fair value gain/(loss) | (25.1) | 0.1  | (0.1) |

<sup>1</sup> Loss reported within other income/(expense) in the Consolidated Statements of Earnings.

<sup>2</sup> Gain/(loss) reported within electricity sales revenue 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 23), 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 only with institutions that possess investment grade credit ratings. Credit risk relating to derivative counterparties is mitigated by utilization of credit exposure limits, contractual requirements and frequent assessment of counterparty credit worthiness.

At December 31, 2014 and 2013, the Fund had group credit concentrations and maximum credit exposure in the following counterparty segments:

| December 31,                          | 2014       | 2013       |
|---------------------------------------|------------|------------|
| <i>(millions of Canadian dollars)</i> |            |            |
| Canadian financial institutions       | -          | 1.7        |
| Enbridge affiliate                    | 3.3        | 0.2        |
|                                       | <b>3.3</b> | <b>1.9</b> |

Credit risk also arises from trade and other receivables and is mitigated through credit exposure limits and by requiring less creditworthy shippers 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 fair value of derivative 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 uses discounted cash flow analysis from applicable yield curves based on observable market inputs to estimate fair value.

### **FAIR VALUE OF FINANCIAL INSTRUMENTS**

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.

#### **Level 1**

Level 1 includes financial 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 financial 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 financial instruments categorized as Level 1 as at December 31, 2014 or 2013.

#### **Level 2**

Level 2 includes financial instrument valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Financial 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 financial instrument. Financial 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 financial instrument valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the financial instruments' fair value. Generally, Level 3 financial 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 financial instruments based on extrapolation of observable future prices and rates. Financial 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 financial instruments. When possible, the Fund estimates the fair value of its financial 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 financial instrument and nature of the underlying risk, the Fund uses observable market prices (interest, foreign exchange and commodity) 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>December 31, 2014</b>              | Level 1  | Level 2       | Level 3      | Total         |
|---------------------------------------|----------|---------------|--------------|---------------|
| <i>(millions of Canadian dollars)</i> |          |               |              |               |
| Financial assets                      |          |               |              |               |
| Current derivative assets             | -        | 0.2           | 0.7          | 0.9           |
| Long-term derivative assets           | -        | 1.0           | 1.5          | 2.5           |
| Financial liabilities                 |          |               |              |               |
| Current derivative liabilities        | -        | (4.4)         | (0.2)        | (4.6)         |
| Long-term derivative liabilities      | -        | (47.3)        | (0.3)        | (47.6)        |
| <b>Total net asset/(liability)</b>    | <b>-</b> | <b>(50.5)</b> | <b>1.7</b>   | <b>(48.8)</b> |
| <b>December 31, 2013</b>              | Level 1  | Level 2       | Level 3      | Total         |
| <i>(millions of Canadian dollars)</i> |          |               |              |               |
| Financial assets                      |          |               |              |               |
| Current derivative assets             | -        | -             | 0.2          | 0.2           |
| Long-term derivative assets           | -        | 2.1           | 0.4          | 2.5           |
| Financial liabilities                 |          |               |              |               |
| Current derivative liabilities        | -        | (0.7)         | (0.1)        | (0.8)         |
| Long-term derivative liabilities      | -        | (0.1)         | (0.7)        | (0.8)         |
| <b>Total net asset/(liability)</b>    | <b>-</b> | <b>1.3</b>    | <b>(0.2)</b> | <b>1.1</b>    |

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

|  | <b>Fair value at<br/>December 31,<br/>2014</b> |  | <b>Unobservable<br/>Input</b> | <b>Minimum<br/>Price</b> | <b>Maximum<br/>Price</b> | <b>Weighted<br/>Average Price</b> |        |
|--|--|--|-------------------------------|--------------------------|--------------------------|-----------------------------------|--------|
| Commodity Contracts – Financial <sup>1</sup> |  |  |                               |                          |                          |                                   |        |
| Power  | 1.7  |  | Forward Power Price           | 33.25                    | 69.00                    | 50.00                             | \$/MWH |

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

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

| Year ended December 31,                                      | 2014  | 2013  |
|--|-------|-------|
| <i>(millions of Canadian dollars)</i>                        |       |       |
| Level 3 net financial asset/(liability) at beginning of year | (0.2) | 0.3   |
| Total gains, unrealized                                      |       |       |
| Included in earnings   | 0.1   | -     |
| Included in OCI  | 1.8   | -     |
| Settlements  | -     | (0.5) |
| Level 3 net financial asset/(liability) at end of year       | 1.7   | (0.2) |

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 December 31, 2014 and 2013.

#### FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

At December 31, 2014, the Fund's long-term debt had a fair value of \$2,654.4 million (2013 – \$1,694.8 million). This fair value measurement has been classified as a level 2 fair value measurement.

At December 31, 2014, the fair value of long-term receivable from affiliate was equal to carrying value (Notes 9 and 22). This fair value measurement has been classified as a level 2 fair value measurement.

#### 19. OTHER INCOME/(EXPENSE)

| Year ended December 31,                   | 2014   | 2013  | 2012 |
|---|--------|-------|------|
| <i>(millions of Canadian dollars)</i>     |        |       |      |
| Realized gain on derivative instruments   | 22.1   | -     | -    |
| Unrealized loss on derivative instruments | (25.1) | -     | -    |
| Net foreign currency gains/(loss)         | 16.2   | -     | -    |
| Other                                     | (0.1)  | (0.8) | 0.3  |
|   | 13.1   | (0.8) | 0.3  |

#### 20. CHANGES IN OPERATING ASSETS AND LIABILITIES

| Year ended December 31,               | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|---------------------------------------|-------------------|-------------------|-------------------|
| <i>(millions of Canadian dollars)</i> |                   |                   |                   |
| Accounts receivable and other, net    | (47.6)            | (10.0)            | 9.7               |
| Accounts payable and other            | 4.5               | 19.8              | 8.2               |
| Due to affiliates                     | 5.0               | 2.8               | (2.7)             |
| Deferred amounts and other assets     | 27.4              | (18.7)            | (22.3)            |
| Other long-term liabilities           | (16.8)            | (0.7)             | (8.1)             |
|                                       | (27.5)            | (6.8)             | (15.2)            |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction (Notes 2 and 6) and Alliance US (Notes 2 and 10).

## 21. INCOME TAXES

### INCOME TAX RATE RECONCILIATION

| Year ended December 31,                                      | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|--|-------------------|-------------------|-------------------|
| <i>(millions of Canadian dollars)</i>                        |                   |                   |                   |
| Earnings before income taxes and extraordinary loss          | 213.3             | 182.6             | 195.2             |
| Federal statutory corporate income tax rate                  | 15.0%             | 15.0%             | 15.0%             |
| Income taxes at federal statutory rate                       | 32.0              | 27.4              | 29.3              |
| Increase/(decrease) resulting from:                          |                   |                   |                   |
| Provincial and state taxes                                   | 15.5              | 14.7              | 23.5              |
| Foreign and other statutory rate differentials <sup>2</sup>  | 19.2              | 12.6              | 11.0              |
| Taxable component of trust distributions                     | (8.3)             | (6.2)             | 4.7               |
| Deferred income taxes related to regulated operations        | 5.6               | 5.3               | 4.3               |
| Temporary differences not recognized in non-taxable entities | (0.9)             | (0.7)             | (0.6)             |
| Other  | 0.2               | 0.1               | 0.3               |
| Income tax expense   | 63.3              | 53.2              | 72.5              |
| Effective income tax rate                                    | 29.7%             | 29.1%             | 37.1%             |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction (Notes 2 and 6) and Alliance US (Notes 2 and 10).

<sup>2</sup> The effective income tax rate reflects the higher United States federal statutory rate applicable to earnings generated in the United States over the Canadian federal statutory rate.

### COMPONENTS OF PRETAX EARNINGS AND INCOME TAXES

| Year ended December 31,                             | 2014 <sup>1</sup> | 2013 <sup>1</sup> | 2012 <sup>1</sup> |
|---|-------------------|-------------------|-------------------|
| <i>(millions of Canadian dollars)</i>               |                   |                   |                   |
| Earnings before income taxes and extraordinary loss |                   |                   |                   |
| Canada  | 117.0             | 120.2             | 140.3             |
| United States                                       | 96.3              | 62.4              | 54.9              |
|   | 213.3             | 182.6             | 195.2             |
| Current income taxes                                |                   |                   |                   |
| Canada  | 3.7               | 1.1               | (4.4)             |
| United States                                       | 23.3              | 23.3              | 16.2              |
|   | 27.0              | 24.4              | 11.8              |
| Deferred income taxes                               |                   |                   |                   |
| Canada  | 21.3              | 27.3              | 55.0              |
| United States                                       | 15.0              | 1.5               | 5.7               |
|   | 36.3              | 28.8              | 60.7              |
| Income taxes on earnings before extraordinary loss  | 63.3              | 53.2              | 72.5              |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction (Notes 2 and 6) and Alliance US (Notes 2 and 10).

## COMPONENTS OF DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are recognized for the future tax consequences of differences between carrying amounts of assets and liabilities and their respective tax bases. Major components of deferred income tax assets and liabilities were:

| December 31,<br><i>(millions of Canadian dollars)</i> | 2014 <sup>1</sup> | 2013 <sup>1</sup> |
|---|-------------------|-------------------|
| Deferred income tax liabilities                       |                   |                   |
| Property, plant and equipment and intangible assets   | 55.1              | 53.1              |
| Investments   | 99.1              | 444.8             |
| Deferred revenue                                      | 9.8               | 8.9               |
| Other   | -                 | 0.2               |
| <b>Total deferred income tax liabilities</b>          | <b>164.0</b>      | <b>507.0</b>      |
| Deferred income tax assets                            |                   |                   |
| Loss carryforwards                                    | 1.9               | 17.3              |
| Asset retirement obligations                          | 4.7               | 4.4               |
| Other   | 5.0               | 1.8               |
| <b>Total deferred income tax assets</b>               | <b>11.6</b>       | <b>23.5</b>       |
| <b>Net deferred income tax liabilities</b>            | <b>152.4</b>      | <b>483.5</b>      |
| Presented as follows:                                 |                   |                   |
| Current deferred income tax assets                    | (1.8)             | (4.0)             |
| Non-current deferred income tax assets                | (242.6)           | (0.7)             |
| Current deferred income tax liabilities               | 0.1               | 0.3               |
| Non-current deferred income tax liabilities           | 396.7             | 487.9             |
| <b>Net deferred income tax liabilities</b>            | <b>152.4</b>      | <b>483.5</b>      |

<sup>1</sup> Retrospectively adjusted to furnish comparative information related to the 2012 Transaction (Notes 2 and 6) and Alliance US (Notes 2 and 10).

The Fund and its subsidiaries are subject to taxation in Canada and the United States. The Fund is open to examination by certain Canadian tax authorities for the 2010 to 2013 tax years. The material jurisdictions in which the Fund is currently subject to potential examinations are within Canada (Federal, Alberta and Ontario) and the United States (Federal Illinois, Iowa, Minnesota, North Dakota and Wisconsin). The Fund is currently under examination for income tax matters in Canada for the 2011 and 2012 taxation years.

The Fund has no unrecognized tax benefits related to uncertain tax positions as at December 31, 2014 and no accrued interest or penalties thereon.

Current income taxes for the year ended December 31, 2014 was an expense of \$27.0 million (2013 – \$24.4 million; 2012 – \$11.8 million). During the year ended December 31, 2014, the Fund recognized the benefit of unused loss carryforwards of \$7.5 million (2013 – \$65.6 million; 2012 – \$74.1 million) which start to expire in 2027 and beyond.



## 22. RELATED PARTY TRANSACTIONS

Unless otherwise noted, all related party transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The acquisition of Crude Oil Storage and Renewable Energy Entities and equity investment in Alliance US were accounted for as transactions among entities under common control. See Note 6 and 10, respectively, for additional disclosure.

### Affiliate Loans

In 2014, ENF advanced \$6.4 million, net of repayments, (2013 – \$17.5 million) to a subsidiary corporation of the Fund pursuant to a subordinated demand loan. At December 31, 2014, \$30.6 million (2013 – \$24.3 million) was outstanding. Interest on the demand loan was charged at 4.25% per annum. Interest expense on the loan was \$1.1 million (2013 – \$0.6 million; 2012 – \$0.1 million) for the year ended December 31, 2014 and \$0.1 million (2013 – \$0.1 million) was included in accounts payable and other as at December 31, 2014.

Accounts receivable from affiliates includes a promissory note outstanding from Alliance Pipeline Ltd. The balance outstanding at December 31, 2014 was \$2.7 million (2013 – \$3.7 million included in long-term receivable from affiliate). The note is interest bearing and matures in full on December 6, 2015. In December 2014, the investee made an advance payment of \$1.0 million. Interest income earned on this note during each of the years ended December 31, 2014, 2013 and 2012 was \$0.4 million.

Long-term receivable from affiliate includes the carrying value of Class A Units of Enbridge SL Holdings L.P. and Southern Lights Holdings, L.L.C., which are wholly owned subsidiaries of Enbridge (*Note 9*). At December 31, 2014, \$945.1 million is included in long-term receivable from affiliate and \$23.1 million is included in accounts receivable from affiliates. Interest income of \$5.9 million for the year ended December 31, 2014, has been recorded within other income on the Consolidated Statement of Earnings.

In November 2014, the Fund received a \$878.0 million loan from Enbridge, a related party by virtue of its ownership of ECT preferred units and Fund trust units, to partially finance the purchase of Southern Lights Class A Units and Alliance US (*Notes 9 and 10, respectively*). The loan had a 10-year maturity and accrued interest at the rate of 5.5% per annum with interest payable semi-annually in June and December of each year. The loan was repayable at any time in whole or in part, and was unsecured and subordinate to all external debt issued by the Fund. In November 2014, the Fund repaid the loan in full. Interest expense on this loan of \$1.6 million was incurred by the Fund for the year ended December 31, 2014, and had been paid in full as at December 31, 2014.

In December 2012, the Fund received a \$582.0 million loan from Enbridge, to partially finance the 2012 Transaction. The loan had a 10-year maturity and accrued interest at the rate of 5.0% per annum with interest payable semi-annually in May and November of each year. The loan was repayable at any time in whole or in part, and was unsecured and subordinate to all external debt issued by the Fund. In December 2012, the Fund repaid the loan in full. Interest expense on this loan of \$0.5 million was incurred by the Fund for the year ended December 31, 2012, and had been paid in full as at December 31, 2012.

The Crude Oil Storage and Renewable Energy Entities had borrowed \$140.0 million from Enbridge at December 31, 2009. During the year ended December 31, 2012, the loans were repaid in full. Interest accrued on the demand loans at rates varying from 6.8% to 8.1% per annum. Interest expense on these loans of \$6.4 million was incurred by the Crude Oil and Renewable Energy Entities for the year ended December 31, 2012.

### **Green Power**

Certain renewable power facilities do not have employees and use the services of Enbridge for managing and operating the business. These services totaled \$3.9 million for 2014 (2013 – \$4.2 million; 2012 – \$4.6 million) and included a \$1.5 million management fee charged by Enbridge for managing the Ontario Wind Facility, Talbot Wind Facility and Sarnia Solar Facility pursuant to a management agreement. At December 31, 2014, \$2.1 million (2013 – \$0.3 million) was included in due to affiliates.

The Fund has a contract to sell to Enbridge all available emission reduction credits generated by the Fund's interest in the Chin Chute and Magrath facilities. The contract has an initial 20-year term ending October 1, 2026 and provides for a fixed price of \$5 per tonne of avoided CO<sub>2</sub> emissions, based on a negotiated rate of converting megawatts generated to tonnes of emissions reduced, plus applicable taxes. The Fund earned \$0.2 million (2013 – \$0.2 million; 2012 – \$0.2 million) for the sale of these emission reduction credits in the year ended December 31, 2014.

One of the Fund's wind power facilities, Magrath, has a long-term power price swap, expiring in 2024, with Enbridge Pipelines Inc., a wholly-owned subsidiary of Enbridge. The terms of the agreement are to substantially fix the prices of wind power production. Revenues of \$0.7 million (2013 – nil; 2012 – \$0.6 million) related to this agreement are reported within the Fund's revenue for the year ended December 31, 2014.

### **Liquids Transportation and Storage**

On November 7, 2014, the Fund subscribed for and purchased Class A Units of a U.S.-based indirect wholly-owned subsidiary of Enbridge (*Note 9*). The subscription price for the Class A Units was at a fixed exchange rate of Canadian dollars to the US dollar price. Given exchange rates on the date of closing, the Fund recorded a realized foreign exchange gain of \$22.1 million in the fourth quarter 2014 (*Note 19*).

The Fund does not have any employees and uses the services of Enbridge for managing and operating the businesses comprising the Liquids Transportation and Storage segment. These services, which are charged at cost in accordance with service agreements, were \$45.5 million for 2014 (2013 – \$40.6 million; 2012 – \$35.4 million) of which \$4.7 million (2013 – \$5.2 million) was included in due to affiliates at December 31, 2014.

The Fund provides certain operational services to Enbridge Pipelines (Bakken) LP, a wholly-owned subsidiary of Enbridge Energy Partners, LP, an affiliate of the Fund, and charged \$0.8 million (2013 – \$1.2 million; 2012 – nil) for the year ended December 31, 2014 of which \$2.2 million (2013 – \$2.3 million) was included in accounts receivable from affiliates at December 31, 2014.

The Fund has contracts with shippers who are also affiliates of the Fund through common ownership interests of Enbridge. Revenue from affiliates for the year ended December 31, 2014 was \$3.5 million (2013 – \$2.3 million; 2012 – \$3.5 million) of which nil was included in accounts receivable from affiliates at December 31, 2014 (2013 – \$0.1 million).

### **Natural Gas Transmission**

Alliance Canada has contracts with shippers that are also affiliates of the Fund through common ownership interests of Enbridge. The Fund's share of Alliance Canada's revenue from affiliates for the year ended December 31, 2014 was \$23.5 million (2013 – \$23.2 million; 2012 – \$23.0 million). The terms of these contracts are the same as those agreed to with independent third parties.

Administrative and facility support services are provided by Alliance Canada to Aux Sable Canada LP and Aux Sable Liquid Products LP (the Aux Sable Entities), which are entities related to the Fund through common ownership. The Fund's share of amounts charged to the Aux Sable Entities during the year ended December 31, 2014 was \$0.6 million (2013 – \$0.2 million; 2012 – \$0.1 million).

In 2013, a subsidiary of Enbridge provided management services to Sable NGL Services L.P. (Sable), a joint venture entity in which the Fund holds a 50% interest. During the year ended December 31, 2013, Sable paid management fees of \$0.2 million under this agreement (2012 – \$0.1 million) and also recorded revenues of \$3.6 million (2012 – \$3.4 million) and expenses of \$5.2 million (2012 – \$6.2 million) for natural gas sales and purchases with an affiliate of Enbridge, of which the Fund's interest is 50%. No management services were provided by the Enbridge subsidiary in 2014.

### Corporate

In 2014, the Fund paid \$13.7 million (2013 – \$4.1 million; 2012 – \$9.2 million) for share issue costs incurred in connection with the offering of 11,100,000 subscription receipts (2013 – 3,820,000 common shares; 2012 – 9,597,000 subscription receipts) by ENF. Proceeds from the offerings were used by ENF to purchase additional trust units of the Fund.

Under the management and administrative agreements with EMSI, an incentive fee is payable annually to EMSI based on cash distributions above a base distribution level. During the year ended December 31, 2014, incentive fees were \$22.8 million (2013 – \$19.6 million; 2012 – \$12.4 million), of which, \$22.6 million (2013 – \$19.6 million) was included in due to affiliates at December 31, 2014. In addition, a base fee of \$0.1 million (2013 – \$0.1 million; 2012 – \$0.1 million) is payable annually for providing administrative and management services and was included in due to affiliates at December 31, 2014.

ECT preferred unit distributions payable to Enbridge of \$13.8 million at December 31, 2014 were recorded as distributions payable to affiliates (2013 – \$9.8 million). Trust unit distributions payable to ENF of \$11.1 million (2013 – \$7.6 million) and to Enbridge of \$1.5 million (2013 – \$1.3 million) at December 31, 2014 were recorded as distributions payable to affiliates.

ECT has an agreement with ENF under which it reimbursed ENF \$0.9 million (2013 – \$1.0 million; 2012 – \$1.4 million) for certain general and administrative costs during the year ended December 31, 2014 of which \$0.1 million (2013 – \$0.1 million) was included in due to affiliates at December 31, 2014.

## 23. COMMITMENTS AND CONTINGENCIES

At December 31, 2014, the Fund had commitments as detailed below:

|                                       | Total       | Less than<br>1 year | 2 years     | 3 years     | 4 years    | 5 years    | Thereafter  |
|---------------------------------------|-------------|---------------------|-------------|-------------|------------|------------|-------------|
| <i>(millions of Canadian dollars)</i> |             |                     |             |             |            |            |             |
| Operating leases                      | 2.7         | 1.3                 | 0.9         | 0.5         | -          | -          | -           |
| Maintenance agreements                | 42.5        | 12.5                | 11.6        | 10.0        | 4.3        | 2.2        | 1.9         |
| Land lease commitments                | 34.1        | 1.8                 | 2.4         | 2.4         | 2.5        | 2.5        | 22.5        |
| <b>Total</b>                          | <b>79.3</b> | <b>15.6</b>         | <b>14.9</b> | <b>12.9</b> | <b>6.8</b> | <b>4.7</b> | <b>24.4</b> |

The Fund and its subsidiaries are subject to various legal and regulatory actions and proceedings which arise in the normal course of business. While the final outcome of such actions and proceedings cannot be predicted with certainty, Management believes that the resolution of such actions and proceedings will not have a material impact on the Fund's consolidated financial position or results of operations.

## **24. EXTRAORDINARY LOSS**

On April 1, 2013, the Fund announced that it had concluded a settlement with a group of shippers relating to new tolls on the Westspur System (the Settlement) which the NEB subsequently ordered final on February 6, 2014. Pursuant to the Settlement, the tolls on the Westspur System were fixed and increased annually with reference to a pre-identified inflation index, subject to throughput remaining within a volume band. 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 was not collected under the terms of the Settlement.

Prior to reaching the Settlement, revenue on the Westspur System was recognized in a manner consistent with the underlying agreements and 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 retained exposure to potential variability in certain future costs and throughput volumes, subject to various protection mechanisms. As such, the Westspur System no longer met all of the criteria required for the continued application of rate-regulated accounting treatment.