ENBRIDGE INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2014

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

This Management's Discussion and Analysis (MD&A) dated November 3, 2014 should be read in conjunction with the unaudited consolidated financial statements and notes thereto of Enbridge Income Fund (the Fund) as at and for the three and nine months ended September 30, 2014, which are prepared in accordance with United States generally accepted accounting principles (U.S. GAAP). It should also be read in conjunction with the audited consolidated financial statements and notes thereto and MD&A for the year ended December 31, 2013. 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.

OVERVIEW

The Fund is involved in the generation, transportation and storage of energy through its interests in 579 (524 net) megawatts (MW) of renewable and alternative power generation capacity (Green Power), its liquids transportation and storage business in Western Canada (Liquids Transportation and Storage) and its 50% interest in the Canadian segment of Alliance Pipeline (Alliance Canada), 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 67.3% as at September 30, 2014 and November 3, 2014 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 September 22, 2014, the Fund announced that indirect wholly-owned subsidiaries of the Fund entered into agreements with indirect wholly-owned subsidiaries of Enbridge to acquire a 50% interest in the U.S. segment of the Alliance Pipeline (Alliance US) and subscribe for and purchase Class A Units which will provide a defined cash flow stream from the Southern Lights Pipeline for $1.76 billion (the Transaction). Closing of the Transaction is subject to customary regulatory approvals and is expected in November 2014.

EARNINGS

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Green Power	**16.5**	16.9	**70.9**	70.6
Liquids Transportation and Storage	**32.8**	13.6	**75.3**	34.2
Alliance Canada	**14.4**	14.8	**48.6**	41.3
Corporate	**(39.4)**	(28.4)	**(105.0)**	(88.4)
Earnings	**24.3**	16.9	**89.8**	57.7

Earnings for the three months ended September 30, 2014 were $24.3 million compared to $16.9 million for the three-month period ended September 30, 2013. The Fund delivered strong quarter-over-quarter earnings growth, the magnitude and comparability of which was impacted by non-recurring and non-operating factors. The Fund recognized non-cash adjustments of $0.9 million and $2.5 million during the third quarters of 2014 and 2013, respectively, to defer a portion of revenues under long-term take-or-pay contracts for the Bakken Expansion. The Fund recorded a non-cash after-tax gain of $8.8 million from the valuation of a feature included in the purchase agreement to pay, upon closing, for the Southern Lights US Class A Units in Canadian dollars at a fixed exchange rate to the U.S. dollar price. During the three months ended September 30, 2013, the Fund recorded a $1.9 million non-cash impairment of assets relating to a regulatory-directed project at Hardisty Contract Terminals. Further, during the three months ended September 30, 2014, the Fund experienced losses of $0.5 million arising from a transformer outage at the Greenwich Wind Facility that commenced in March 2014. Included in the Corporate segment for the third quarter of 2014 were advisory fees of $4.5 million related to the Transaction.

Earnings for the nine months ended September 30, 2014 were $89.8 million compared to $57.7 million for the nine-month period ended September 30, 2013. The trends described for the third quarter 2014 also affected earnings for the nine months ended September 30, 2014. The prior year period was also impacted by an extraordinary after-tax write-off of $12.0 million related to the discontinuation of rate regulated accounting for the Westspur System and a one-time charge to earnings of $2.1 million due to the National Energy Board's (NEB) denial of recovery of certain indirect costs incurred by Alliance Canada.

Forward-Looking Information

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

- *expected costs related to projects under construction;*
- *expected scope and in-service dates for projects under construction;*
- *expected timing and amount of recovery of capital costs of assets;*
- *expected capital expenditures;*
- *expected future levels of demand for the Fund's products and services;*
- *expected future earnings and cash flows;*
- *expected 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: the expected supply and demand for crude oil, natural gas, natural gas liquids and green energy; prices of crude oil, natural gas, natural gas liquids and green energy; expected exchange rates; inflation; interest rates; the availability and price of labour and construction materials; operational reliability; customer project approvals; maintenance of support and regulatory approval for the Fund's projects 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 law and tax rate increases, 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 (CAFD). 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 determined by the Manager. CAFD is important to unitholders as the Fund's objective is to provide a predictable flow of distributable cash 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 Company. 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 "Non-GAAP Reconciliations" within this MD&A.

ADJUSTED EARNINGS

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Green Power	**17.0**	16.8	**73.4**	70.6
Liquids Transportation and Storage	**19.6**	18.0	**63.1**	55.1
Alliance Canada	**14.4**	14.8	**48.6**	43.4
Corporate	**(29.6)**	(28.4)	**(94.9)**	(92.9)
Adjusted earnings[1]	**21.4**	21.2	**90.2**	76.2

1 See definition within "Non-GAAP Measures" section, as well as the reconciliations to earnings within the "Results of Operations" for each business segment.

Adjusted earnings for the three months ended September 30, 2014 were $21.4 million compared to $21.2 million for the three-month period ended September 30, 2013. Adjusted earnings were flat quarter over quarter, reflecting contributions from the Liquids Transportation and Storage segment, driven by a continuing return of volumes to the Fund's crude oil pipeline systems and higher pump-out revenues from the Fund's crude oil storage assets. Corporate costs for the three and nine months ended September 30, 2014 were higher due to differences in timing of certain administrative costs compared to the prior year period.

Adjusted earnings for the nine months ended September 30, 2014 were $90.2 million compared to $76.2 million for the nine-month period ended September 30, 2013. The increase in adjusted earnings was driven by stronger results across all operating segments. Green Power adjusted earnings increased compared to the prior year period primarily as a result of improved solar performance at the Sarnia Solar Facility which was negatively impacted by heavy snowfall conditions in 2013 that reduced panel performance. Liquids Transportation and Storage adjusted earnings improved from the same period of the prior year due to an increase in throughputs on the crude oil pipeline systems, a larger rate base for the Saskatchewan Gathering System, higher pump-out revenues for the Hardisty crude oil storage assets and a full period of contributions from the Bakken Expansion which commenced operations in March

2013. Adjusted earnings from Alliance Canada were higher than the comparable period of 2013 primarily due to the contributions from Sable NGL Services L.P. (Sable) during the first quarter of 2014. Corporate costs for the nine months ended September 30, 2014 increased from the prior year due to additional earnings subject to current tax.

CASH AVAILABLE FOR DISTRIBUTION

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Green Power	**33.1**	32.8	**118.9**	117.3
Liquids Transportation and Storage	**34.6**	30.1	**110.8**	97.1
Alliance Canada	**17.7**	16.6	**56.4**	51.6
Corporate	**(26.5)**	(22.5)	**(79.2)**	(67.8)
Cash available for distribution[1]	**58.9**	57.0	**206.9**	198.2

1 See definition within "Non-GAAP Measures" section, as well as the reconciliation to cash provided by operating activities in the "Cash Available for Distribution" section.

The Fund's CAFD totaled $58.9 million and $206.9 million for the three and nine months ended September 30, 2014, respectively, representing increases of 3.3% and 4.4% from the respective prior year periods. These increases were primarily due to contributions from the Liquids Transportation and Storage segment, driven by a partial return of volumes to the Fund's pipeline systems, and higher pump-out revenues from the Hardisty crude oil storage assets. The nine months ended September 30, 2014 also benefited from a full period of cash flow from the Bakken Expansion which commenced service on March 1, 2013. Increased current income taxes and advisory fees related to the Transaction within the Corporate segment partially offset these increases in CAFD.

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.

The following table presents the direct and indirect ownership of the Fund:

	At November 3, 2014
Enbridge Income Fund Holdings Inc. *(number of common shares outstanding)*	
Held by public	**45,249,000**
Held by Enbridge	**11,242,000**
	56,491,000
Enbridge Income Fund *(number of common units outstanding)*	
Held by Enbridge	**9,500,000**
Held by Enbridge Income Fund Holdings Inc.	**56,491,000**
	65,991,000
Enbridge Commercial Trust *(number of preferred units outstanding)*	
Held by Enbridge	**72,465,750**
Total number of common units and ECT preferred units outstanding	**138,456,750**

GREEN POWER

Overview

Green Power includes assets 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 190 MW Ontario Wind Facility;
- the 99 MW Talbot Wind Facility; and
- the 99 MW Greenwich Wind Facility.

All power produced from these wind facilities is sold to the Ontario Power Authority (OPA) pursuant to power purchase agreements (PPA) which expire between 2028 and 2031.

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

- a 50% interest in the SunBridge Wind Facility, which has an aggregate capacity of 11 MW (6 MW net to the Fund); and
- a 33% interest in each of the Magrath and Chin Chute Wind Facilities, which have 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, 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 80 MW Sarnia Solar Facility;
- the 15 MW Amherstburg Solar Facility; and
- the 5 MW Tilbury Solar Facility.

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

NRGreen

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

The Whitecourt Recovered Energy Project is a new waste heat recovery facility being constructed by NRGreen, adjacent to a compressor station on the Alliance Pipeline near Whitecourt, Alberta. The Fund has contributed approximately $43 million as at September 30, 2014 to the Project. Mechanical construction of the Project is substantially complete. Testing and commissioning of the Project are ongoing and the Project is expected to be in service in the fourth quarter of 2014. The Project has been delayed due to component failure for which replacement parts have been secured.

Results of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Financial highlights *(millions of Canadian dollars)*				
Adjusted Earnings	**17.0**	16.8	**73.4**	70.6
Greenwich Wind Facility transformer outage	**(0.5)**	-	**(2.5)**	-
Changes in unrealized derivative fair value gains	**-**	0.1	**-**	-
Earnings	**16.5**	16.9	**70.9**	70.6
Operating highlights *(thousands of megawatt hours produced)*				
Wind Facilities (including joint ventures)	**173.1**	174.3	**770.3**	802.6
Solar Facilities	**50.9**	51.6	**131.6**	124.5
Waste Heat Facilities (50%)	**16.5**	15.7	**54.5**	51.0
	240.5	241.6	**956.4**	978.1

Green Power adjusted earnings for the three months ended September 30, 2014 increased compared to the three months ended September 30, 2013, reflecting stronger wind resource at the Talbot and Ontario Wind facilities partially offset by weaker solar resource at the Sarnia Solar Facility. Green Power adjusted earnings for the nine months ended September 30, 2014 were higher than the comparable period of 2013 largely due to solar performance from the Sarnia Solar Facility where the 2013 comparable period was negatively impacted by heavy snowfall conditions which reduced panel performance.

Green Power earnings were adjusted for the effects of the non-recurring transformer outage at the Greenwich Wind Facility and changes in unrealized derivative fair value gains and losses. Earnings for the three and nine months ended September 30, 2014 were negatively impacted by $0.5 million and $2.5 million, respectively, because of a partial loss of production and incremental repairs and maintenance expenses. The transformer was fully reinstalled in the third quarter of 2014. A claim will be made under the business interruption insurance policy to recover losses relating to this outage.

LIQUIDS TRANSPORTATION AND STORAGE

Overview

The Fund's Liquids Transportation and Storage business serves customers in Western Canada and North Dakota and includes the Saskatchewan System which transports crude oil and natural gas liquids (NGLs) from producing fields and facilities in southeastern Saskatchewan, southwestern Manitoba and North Dakota to Cromer, Manitoba where 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 Terminals and Hardisty Storage Caverns located near Hardisty, Alberta, a key crude pipeline hub in Western Canada.

Collectively referred to as the Saskatchewan System, the Saskatchewan Gathering, Westspur, Weyburn and Virden pipeline systems, as well as the Canadian portion of the Bakken Expansion, comprise in the 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 Saskatchewan System 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 Terminals, located adjacent to Enbridge's Mainline System terminal in Hardisty, Alberta, are comprised of 18 above ground crude oil storage tanks, ranging in size from 250,000 to 560,000 barrels, and one above ground condensate storage tank 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 September 22, 2014, the Fund announced that indirect wholly-owned subsidiaries of the Fund entered into agreements with indirect wholly-owned subsidiaries of Enbridge to subscribe for and purchase Class A Units which will provide a defined cash flow stream from the Southern Lights Pipeline. 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. The Fund has agreed to invest in Class A Units in order to receive scheduled and fixed quarterly distributions that represent the equity cash flows derived from the core rate base until June 30, 2040. Enbridge has agreed to guarantee payment of the distributions except when force majeure, certain regulatory actions and shipper defaults 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 pipeline. As part of the purchase agreement, the Fund is required to pay for the Southern Lights US Class A Units in Canadian dollars at a fixed exchange rate to the U.S. dollar price.

Results of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Financial highlights *(millions of Canadian dollars)*				
Adjusted Earnings	**19.6**	18.0	**63.1**	55.1
Extraordinary item – Westspur System rate regulated accounting deferral write-off	**-**	-	**-**	(16.5)
Changes in unrealized derivative fair value gains	**14.1**	-	**14.1**	-
Bakken Expansion make-up rights	**(0.9)**	(2.5)	**(1.9)**	(2.5)
Hardisty Contract Terminals – non-cash project costs write-off	**-**	(1.9)	**-**	(1.9)
Earnings	**32.8**	13.6	**75.3**	34.2
Operating highlights *(thousands of barrels per day)*				
Liquids Transportation and Storage[1]				
Westspur System	**180.7**	167.1	**179.6**	162.2
Saskatchewan Gathering System	**141.7**	122.4	**140.2**	115.9
Weyburn System	**32.0**	31.8	**31.8**	31.5
Virden System	**17.5**	24.7	**22.0**	23.9
Bakken Expansion	**56.3**	29.1	**40.2**	11.8

1 Totals are not presented as the same volumes can be transported through a combination of the pipelines comprising the Liquids Transportation and Storage segment.

Adjusted earnings from Liquids Transportation and Storage increased for the three and nine months ended September 30, 2014 as compared to the same periods of 2013. For the quarter ended September 30, 2014, the Fund benefited from improved throughputs due to customers partially returning volumes to the System from alternative transportation options, primarily rail, as well as a higher rate base for the Saskatchewan Gathering System. Adjusted earnings for the Hardisty storage assets increased from the third quarter of 2013 due to higher pump-out revenues and lower operating costs. The trends described for the third quarter also affected the year-to-date period with the additional benefit of contributions for the full nine-month period from the Bakken Expansion which commenced operations in March 2013.

Earnings from the Liquids Transportation and Storage segment for the three and nine months ended September 30, 2014 were adjusted for the valuation of a payment feature related to the Transaction and Bakken Expansion make-up rights revenue deferrals. The agreement to purchase Southern Lights US Class A Units requires the Fund to make payment in Canadian dollars at a fixed exchange rate to the U.S. dollar price. Given foreign exchange rates on September 30, 2014 the payment feature had value and the Fund recorded a derivative asset. For the three and nine months ended September 30, 2014, the Fund recorded other income of $14.1 million related to this feature. Deferred income tax expense associated with the unrealized gain was recognized within the Corporate segment. 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 nine month periods ended September 30, 2014, the Fund deferred revenue of $0.9 million and $1.9 million, respectively, reflecting expected make-up rights utilization.

Adjustments to earnings in 2013 include the extraordinary write-off related to the discontinuance of rate regulated accounting for the Westspur System and Hardisty Contract Terminals 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 ($12.0 million after tax) 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 Terminals was no longer required, resulting in a non-cash charge of $1.9 million.

Throughput volumes increased on the Westspur System, Saskatchewan Gathering System, Weyburn System and Bakken Expansion for the three and nine months ended September 30, 2014 compared to the same periods of the prior year due to customers partially returning volumes to 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 within 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 Saskatchewan System.

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 that will connect the Westspur System and Bakken Expansion to a crude oil rail terminal near Cromer, Manitoba. The project is estimated to cost $25 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.

ALLIANCE CANADA

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

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

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 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 Canada is in discussions with the shipper community regarding its post December 2015 service offerings.

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.

On September 22, 2014, the Fund announced that indirect wholly-owned subsidiaries of the Fund entered into an agreement with indirect wholly-owned subsidiaries of Enbridge to acquire a 50% interest in the U.S. segment of the Alliance Pipeline. Combined with existing ownership of Alliance Canada, the Fund would own 50% of the entire Alliance System.

Results of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Financial highlights *(millions of Canadian dollars)*				
Adjusted Earnings	**14.4**	14.8	**48.6**	43.4
Unrecoverable regulatory costs	**-**	-	**-**	(2.1)
Earnings	**14.4**	14.8	**48.6**	41.3
Operating highlights *(millions of cubic feet per day)*				
Alliance Canada	**1,501.0**	1,514.0	**1,567.0**	1,569.0

Alliance Canada adjusted earnings were $14.4 million and $48.6 million for the three and nine months ended September 30, 2014. Adjusted earnings were lower for the third quarter of 2014 compared to the same period of 2013 as a result of a depreciating rate base upon which tolls and equity returns are earned. The increase from the comparable nine-month period in 2013 was due to a $3.2 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 System 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.

Alliance Canada earnings were adjusted in the prior year nine-month period by a one-time charge of $2.1 million to earnings due to the NEB denial of the recovery of indirect costs incurred by Alliance Canada in connection with the relocation of a segment of the Alliance pipeline.

Alliance Canada Recontracting

On July 15, 2013, Alliance Pipeline announced that beginning on August 15, 2013 customers could express interest in shipping on the Alliance System for periods following the December 2015 expiry of the majority of the existing contracts. Alliance Pipeline outlined the services to be offered as well as the precedent agreement process to be followed and good progress is being made in securing precedent agreements with shippers. On May 22, 2014, Alliance Canada filed an application with the NEB for regulatory approval of the tolls and tariff provisions required to implement the proposed new services. Given its unique ability to cost-effectively transmit liquids rich natural gas and the supply growth in basins it runs through, it is expected that the Alliance System will be well-utilized for the foreseeable future.

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 September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Interest expense and other	**18.5**	18.7	**53.8**	54.5
Management and administrative	**6.2**	5.0	**18.0**	16.3
Income taxes	**4.9**	4.7	**23.1**	22.1
Adjusted corporate costs	**29.6**	28.4	**94.9**	92.9
Extraordinary item – tax recovery on Westspur System rate regulated accounting deferral write-off	**-**	-	**-**	(4.5)
Tax on changes in derivative fair value gains	**5.3**	-	**5.3**	-
Alliance US and Southern Lights transaction costs	**4.5**	-	**4.8**	-
Corporate costs	**39.4**	28.4	**105.0**	88.4

For the three months ended September 30, 2014, adjusted corporate costs increased over the same periods of 2013 primarily due to differences in timing of certain administrative costs. Adjusted corporate costs for the nine months ended September 30, 2014 included higher incentive fees resulting from increased distributions and higher current income taxes from additional earnings subject to tax.

Management and administrative expense included incentive fees of $5.1 million and $15.4 million (2013 – $4.9 million and $14.7 million) for the three and nine months ended September 30, 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 higher monthly distributions of $0.135 per unit commencing with the November 2013 distribution as compared to $0.134 per unit in the first nine months of 2013.

Corporate costs were adjusted for advisory fees related to the Transaction of $4.5 million and $4.8 million for the three and nine months ended September 30, 2014. Corporate costs included deferred tax expense of $5.3 million on the unrealized gain recorded in the third quarter of 2014 for the valuation of a payment feature included in the Southern Lights US Class A Units purchase agreement. 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.

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. No MTNs were issued during the quarter ended September 30, 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 28, 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 September 30, 2014, letters of credit totaling $3.6 million were outstanding and $486.4 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 September 30, 2014.

Equity

No equity was issued during the nine months ended September 30, 2014. During the nine months ended September 30, 2013, the Fund issued trust units to ENF for gross proceeds of $119.2 million and ECT preferred units to Enbridge for proceeds of $130.8 million.

Distributions

Commencing with the November 2013 distribution, the Fund's distribution rate increased to $0.135 per trust unit and ECT preferred unit from $0.134 per trust unit and ECT preferred unit.

Capital expenditures
The Fund's total capital expenditures before changes in construction payable were $11.0 million and $19.7 million (2013 – $13.5 million and $48.7 million) for the three and nine months ended September 30, 2014, respectively. Bakken Expansion capital expenditures for the three and nine months ended September 30, 2014 were $0.7 million and $2.3 million (2013 – $4.2 million and $24.2 million), respectively. Expenditures for the Cromer Rail Interconnection Project were $4.7 million and $5.6 million (2013 – nil and nil) for the quarter and year-to-date periods of 2014. The Fund also contributed $1.5 million to NRGreen during the nine months ended September 30, 2014 compared to $16.2 million in the same period of 2013. The contributions were used to partially fund the Whitecourt Recovered Energy Project.

CASH AVAILABLE FOR DISTRIBUTION[1]

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Cash available for distribution is comprised of the following:				
Green Power operating income before depreciation and amortization	**31.8**	32.2	**115.2**	115.4
Green Power maintenance capital expenditures	**-**	(0.4)	**(0.4)**	(0.9)
Green Power joint venture distributions	**1.3**	1.0	**4.1**	2.8
Liquids Transportation and Storage operating income before depreciation and amortization	**37.8**	36.0	**116.9**	105.2
Liquids Transportation and Storage maintenance capital expenditures	**(3.2)**	(5.9)	**(6.1)**	(8.1)
Alliance Canada distributions	**17.7**	16.6	**56.4**	51.6
Corporate management and administrative expense	**(10.7)**	(5.0)	**(22.8)**	(16.3)
Corporate interest expense	**(17.2)**	(17.5)	**(49.9)**	(50.7)
Corporate current income tax recovery/(expense)	**1.4**	-	**(6.5)**	(0.8)
Cash available for distribution	**58.9**	57.0	**206.9**	198.2
ECT preferred unit distributions declared	**29.4**	29.2	**88.2**	86.8
Trust unit distributions declared	**26.7**	26.5	**80.3**	79.0
Cash distributions declared	**56.1**	55.7	**168.5**	165.8
Payout ratio	**95.2%**	97.7%	**81.4%**	83.7%

1 See "Non-GAAP Measures" and "Non-GAAP Reconciliations".

As set out in the previous table, CAFD consists of operating cash flow from the Fund's underlying businesses less deductions for maintenance capital expenditures, the Fund's administrative and operating expenses, corporate segment interest expense, applicable taxes and other reserves determined by the Manager. CAFD represents cash available to fund distributions on trust units and ECT preferred units, as well as for debt repayments and reserves.

For the three and nine months ended September 30, 2014, cash distributions declared represented 95.2% and 81.4% of CAFD, respectively, compared with 97.7% and 83.7% for the same periods in 2013, respectively. The Fund targets to distribute a high proportion of CAFD each calendar year, after prudently reserving for contingencies and debt repayment.

ANALYSIS OF CASH DISTRIBUTIONS DECLARED

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Cash provided by operating activities	**68.8**	54.8	**217.5**	189.9
Earnings	**24.3**	16.9	**89.8**	57.7
Cash distributions declared	**56.1**	55.7	**168.5**	165.8
Excess/(shortfall) of cash provided by operating activities over cash distributions declared	**12.7**	(0.9)	**49.0**	24.1
Shortfall of earnings over cash distributions declared	**(31.8)**	(38.8)	**(78.7)**	(108.1)

For the three and nine months ended September 30, 2014, cash provided by operating activities exceeded cash distributions declared by $12.7 million (2013 – shortfall of $0.9 million) and $49.0 million (2013 – $24.1 million), respectively. 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.

Earnings were $31.8 million (2013 – $38.8 million) and $78.7 million (2013 – $108.1 million) lower than cash distributions for the three and nine months ended September 30, 2014, respectively. 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.

RELATED PARTY TRANSACTIONS

In 2014, $4.6 million, net of repayments (2013 – $13.8 million) was advanced from ENF to a subsidiary of the Fund pursuant to a subordinated demand loan. At September 30, 2014, $28.9 million (December 31, 2013 – $24.3 million) was outstanding to ENF. Interest on the demand loan was charged at 4.25%.

In September 2014, the Fund entered into an agreement with ENF whereby the Fund would make assistance payments to ENF for share issue costs incurred in connection with ENF's subscription receipt offering. Approximately $14 million of share issue costs are expected to be incurred by ENF and related assistance payment made by the Fund in the fourth quarter of 2014.

On September 22, 2014, the Fund announced the Transaction with indirect wholly-owned subsidiaries of Enbridge. The agreement to purchase Southern Lights US Class A Units requires the Fund to make payment in Canadian dollars at a fixed exchange rate to the US dollar price. The Fund recorded a derivative asset at September 30, 2014 and the counterparty to the asset was an indirect wholly-owned subsidiary of Enbridge.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

MARKET PRICE RISK

The Fund's earnings, cash flows and other comprehensive income (OCI) are subject to movements in interest rates, foreign exchange rates and commodity prices (collectively, market 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 through 2018 at an average swap rate of 2.07%.

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. At September 30, 2014, future fixed rate term debt issuances had been hedged at a swap rate of 4.29%.

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

Foreign Exchange Risk
The Fund's earnings, cash flows and OCI are exposed to foreign exchange rate risk primarily due to certain United States dollar denominated investments, revenues and expenses. The Fund may use a combination of qualifying and non-qualifying derivative instruments to manage foreign exchange rate risk.

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 System. 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.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Amount of unrealized gain/(loss) recognized in OCI				
Interest rate contracts	**(3.8)**	(2.9)	**(17.0)**	(1.2)
Foreign exchange contracts	**0.6**	(0.3)	**0.5**	0.4
Commodity contracts	**1.0**	0.1	**1.1**	(1.6)
Total unrealized gain/(loss) recognized in OCI	**(2.2)**	(3.1)	**(15.4)**	(2.4)
Amount of gain/(loss) reclassified from accumulated other comprehensive income (AOCI) to earnings *(effective portion)*				
Interest rate contracts[1]	**0.9**	1.4	**2.7**	4.0
Foreign exchange contracts[2]	**-**	-	**0.1**	-
Commodity contracts[3]	**(0.1)**	0.1	**(0.4)**	0.7
Total gain reclassified from AOCI to earnings *(effective portion)*	**0.8**	1.5	**2.4**	4.7

1 Gain/(loss) reported within Interest expense in the Consolidated Statements of Earnings.
2 Gain/(loss) reported within Other income/(expense) in the Consolidated Statements of Earnings.
3 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.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Foreign exchange contracts[1]	**14.1**	-	**14.1**	-
Commodity contracts[2]	**-**	0.1	**-**	-
Total unrealized derivative fair value gain	**14.1**	0.1	**14.1**	-

1 Reported within Other income/(expense) in the Consolidated Statements of Earnings.
2 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.

CRITICAL ACCOUNTING ESTIMATES

Regulation

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

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates. Long-term regulatory assets are recorded in deferred amounts and other assets and current regulatory assets are recorded in accounts receivable and other. Long-term regulatory liabilities are recorded in other long-term liabilities and current regulatory liabilities are recorded in accounts payable and other. Regulatory assets are assessed for impairment if the Fund identifies an event indicative of possible impairment. The recognition of regulatory assets and liabilities is based on the actions or expected future actions of the regulator. To the extent that the regulator's actions differ from the Fund's expectations, the timing and amount of recovery or settlement of regulatory balances could differ significantly from those recorded. In the absence of rate regulation, the Fund would generally not recognize regulatory assets or liabilities and the earnings impact would be recorded in the period the expenses are incurred or revenues are earned. As at September 30, 2014, the Fund's net regulatory assets totalled $55.0 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 timing and cost estimates as well as changes in 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 qualified environmental 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 Saskatchewan System, 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 are expected to 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.

Future Accounting Policy Changes

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 requires expanded disclosures for reporting discontinued operations. The adoption of the pronouncement is not anticipated to have an 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				2012[1]
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
(millions of Canadian dollars)								
Revenue	**98.4**	107.4	107.9	103.7	92.5	104.4	102.6	93.8
Earnings	**24.3**	29.2	36.3	22.1	16.9	27.2	13.6	16.6
Cash distributions declared[2]	**56.1**	56.2	56.2	56.1	55.7	55.7	54.4	42.2

1 Revenues and earnings for 2012 periods have been retrospectively adjusted to furnish comparative information related to the 2012 acquisition of crude oil storage and renewable energy assets from Enbridge as prescribed by U.S. GAAP for common control transactions.
2 Cash distributions declared on trust units and ECT preferred units.

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

- In connection with the Alliance US and Southern Lights Transaction announced in September 2014, the Fund incurred $4.5 million of advisory fees and recorded an after-tax unrealized gain of $8.8 million on a foreign exchange payment feature.
- 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.
- The Fund issued 11,982,000 trust units and ECT issued 13,159,000 preferred units in December 2012 in connection with the acquisition of a portfolio of crude oil storage and renewable energy assets. Incremental cash flow from the acquisition enabled the Fund to increase the monthly distribution per unit to $0.134 effective with the December 2012 distribution. The increase in units outstanding and the increase in the amount of the monthly distribution per unit resulted in a corresponding increase in cash distributions declared.
- 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.

NON-GAAP RECONCILIATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Earnings	**24.3**	16.9	**89.8**	57.7
Add/(deduct):				
Greenwich Wind Facility transformer outage	**0.5**	-	**2.5**	-
Changes in unrealized derivative fair value gains, net of tax	**(8.8)**	(0.1)	**(8.8)**	-
Extraordinary item – Westspur System rate regulated accounting deferral write-off, net of tax	**-**	-	**-**	12.0
Bakken Expansion make-up rights	**0.9**	2.5	**1.9**	2.5
Hardisty Contract Terminals – non-cash project costs write-off	**-**	1.9	**-**	1.9
Alliance Canada – unrecoverable regulatory costs	**-**	-	**-**	2.1
Alliance US and Southern Lights transaction costs	**4.5**	-	**4.8**	-
Adjusted earnings	**21.4**	21.2	**90.2**	76.2

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(millions of Canadian dollars)				
Cash provided by operating activities	**68.8**	54.8	**217.5**	189.9
Add/(deduct):				
Green Power maintenance capital expenditures[1]	**-**	(0.4)	**(0.4)**	(0.9)
Green Power joint venture cash distributed/(retained)[2]	**-**	0.9	**0.2**	0.8
Liquids Transportation and Storage maintenance capital expenditures[2]	**(3.2)**	(5.9)	**(6.1)**	(8.1)
Change in operating assets and liabilities in the period[3]	**(6.7)**	7.6	**(4.3)**	16.5
Cash available for distribution	**58.9**	57.0	**206.9**	198.2

1 Maintenance capital expenditures reduce CAFD since these expenditures are funded through cash from operations.
2 The cash retained or distributed by certain Green Power joint ventures reflects the cash from operations of these joint ventures 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.
3 Changes in operating assets and liabilities in the period reflects changes in non-cash working capital related to operating activities. The change has been added back to CAFD since fluctuations in working capital are expected each period and are not indicative of changes in cash available to be distributed.

ENBRIDGE INCOME FUND

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

September 30, 2014

CONSOLIDATED STATEMENTS OF EARNINGS

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Revenues				
Transportation and other services	**57.9**	52.0	**173.4**	159.7
Electricity sales	**40.5**	40.5	**140.3**	139.8
	98.4	92.5	**313.7**	299.5
Expenses				
Operating and maintenance	**29.4**	29.2	**82.5**	82.5
Management and administrative	**10.7**	5.0	**22.8**	16.3
Depreciation and amortization	**34.1**	33.1	**101.0**	96.5
	74.2	67.3	**206.3**	195.3
	24.2	25.2	**107.4**	104.2
Income from equity investments	**14.5**	15.4	**49.8**	42.4
Other income/(expense)	**14.2**	(0.3)	**14.8**	(0.2)
Interest expense	**(18.4)**	(18.7)	**(53.8)**	(54.6)
	34.5	21.6	**118.2**	91.8
Income taxes *(Note 8)*	**(10.2)**	(4.7)	**(28.4)**	(22.1)
Earnings before extraordinary item	**24.3**	16.9	**89.8**	69.7
Extraordinary loss, net of tax *(Note 12)*	**-**	-	**-**	(12.0)
Earnings	**24.3**	16.9	**89.8**	57.7

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Earnings	**24.3**	16.9	**89.8**	57.7
Other comprehensive income/(loss)				
Change in unrealized loss on cash flow hedges, hedges net of tax[1] *(Note 7)*	**(2.6)**	(3.1)	**(15.8)**	(2.1)
Reclassification of cash flow hedges to earnings, net of tax[2] *(Note 7)*	**0.9**	1.4	**2.5**	4.5
Other comprehensive income/(loss)	**(1.7)**	(1.7)	**(13.3)**	2.4
Comprehensive income	**22.6**	15.2	**76.5**	60.1

1 Tax expense/(recovery) was $0.4 million (2013 – nil) and $0.4 million (2013 – ($0.3) million) for the three and nine months ended September 30, 2014, respectively.

2 Tax expense/(recovery) was ($0.1) million (2013 – $0.1 million) and ($0.1) million (2013 – $0.2 million) for the three and nine months ended September 30, 2014, respectively.

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

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

Nine months ended September 30,	**2014**	2013
(unaudited; millions of Canadian dollars)		
Deficit		
Balance at beginning of period	**(2,644.6)**	(2,631.5)
Earnings	**89.8**	57.7
ECT preferred unit distributions	**(88.2)**	(86.8)
Distributions to trust unitholders	**(80.3)**	(79.0)
Redemption value adjustment attributable to ECT preferred units *(Note 5)*	**(479.8)**	68.4
Redemption value adjustment attributable to trust units *(Note 6)*	**(436.9)**	58.1
Equity of former owners of acquired entities	**-**	1.3
Balance at end of period	**(3,640.0)**	(2,611.8)
Accumulated other comprehensive loss		
Balance at beginning of period	**(17.5)**	(23.4)
Other comprehensive income/(loss), net of tax	**(13.3)**	2.4
Balance at end of period	**(30.8)**	(21.0)
Total unitholders' deficit	**(3,670.8)**	(2,632.8)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Operating activities				
Earnings	**24.3**	16.9	**89.8**	57.7
Charges not affecting cash				
Depreciation and amortization	**34.1**	33.1	**101.0**	96.5
Cash distributions in excess of equity earnings	**4.2**	1.8	**9.0**	10.2
Deferred income taxes *(Note 8)*	**11.6**	4.7	**21.9**	21.3
Changes in unrealized gains on derivative instruments, net	**(14.1)**	-	**(14.1)**	-
Regulatory asset write-off, net of tax *(Note 12)*	**-**	-	**-**	12.0
Other	**2.0**	5.9	**5.6**	8.7
Changes in operating assets and liabilities *(Note 9)*	**6.7**	(7.6)	**4.3**	(16.5)
	68.8	54.8	**217.5**	189.9
Investing activities				
Additions to property, plant and equipment	**(15.0)**	(12.3)	**(25.4)**	(63.0)
Additions to intangible assets	**(0.5)**	(0.2)	**(0.6)**	(0.5)
Long-term investments	**(0.3)**	(5.0)	**(2.3)**	(16.6)
Acquisitions	**-**	1.3	**-**	1.3
	(15.8)	(16.2)	**(28.3)**	(78.8)
Financing activities				
Net change in bank indebtedness	**(75.6)**	(246.8)	**41.1**	(117.4)
Net change in credit facility draws	**(2.0)**	4.9	**(30.6)**	(220.6)
ECT preferred units issued *(Note 5)*	**-**	-	**-**	130.8
Trust units issued, net *(Note 6)*	**-**	0.1	**-**	115.1
ECT preferred unit distributions declared	**(29.4)**	(29.2)	**(88.2)**	(86.8)
Trust unit distributions declared	**(26.7)**	(26.5)	**(80.3)**	(79.0)
Change in distributions payable	**-**	-	**-**	1.4
Demand loan advances received from unitholder	**3.3**	5.0	**4.6**	13.8
	(130.4)	(292.5)	**(153.4)**	(242.7)
Increase/(decrease) in cash and cash equivalents	**(77.4)**	(253.9)	**35.8**	(131.6)
Cash and cash equivalents at beginning of period	**142.2**	311.9	**29.0**	189.6
Cash and cash equivalents at end of period	**64.8**	58.0	**64.8**	58.0

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited; millions of Canadian dollars)	**September 30, 2014**	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	**64.8**	29.0
Accounts receivable and other	**80.9**	60.3
	145.7	89.3
Property, plant and equipment, net	**2,238.3**	2,317.1
Long-term investments	**212.8**	219.5
Deferred amounts and other assets	**62.9**	70.9
Intangible assets, net	**26.6**	27.5
Goodwill	**28.8**	28.8
Long-term note receivable from equity investee	**3.7**	3.7
	2,718.8	2,756.8
Liabilities and unitholders' equity		
Current liabilities		
Bank indebtedness	**47.4**	6.3
Accounts payable and other	**69.8**	54.8
Due to affiliates	**51.3**	49.8
Distributions payable	**18.7**	18.7
Current maturities of long-term debt	**290.0**	290.0
	477.2	419.6
Long-term debt *(Note 4)*	**1,334.3**	1,364.2
Other long-term liabilities	**38.1**	23.0
Deferred income taxes	**401.5**	390.3
	2,251.1	2,197.1
ECT preferred units *(Note 5)*	**2,166.0**	1,686.2
Trust units *(Note 6)*	**1,972.5**	1,535.6
	4,138.5	3,221.8
Unitholders' deficit		
Deficit	**(3,640.0)**	(2,644.6)
Accumulated other comprehensive loss	**(30.8)**	(17.5)
	(3,670.8)	(2,662.1)
	2,718.8	2,756.8

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Enbridge Income Fund (the Fund) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements and should be read in conjunction with the Fund's consolidated financial statements and notes thereto for the year ended December 31, 2013. In the opinion of management, the interim consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, which management considers necessary to present fairly the Fund's financial position as at September 30, 2014 and results of operations and cash flows for the three and nine month periods ended September 30, 2014 and 2013. These interim consolidated financial statements follow the same significant accounting policies as those included in the Fund's consolidated financial statements as at and for the year ended December 31, 2013, except as described in Note 2, Changes in Accounting Policies. Amounts are stated in Canadian dollars unless otherwise noted.

2. CHANGES IN ACCOUNTING POLICIES

ADOPTION OF NEW STANDARD

Obligations Resulting from Joint and Several Liability Arrangements

Effective January 1, 2014, the Fund retrospectively 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.

FUTURE ACCOUNTING POLICY CHANGES

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 2014-8 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 an 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.

3. SEGMENTED INFORMATION

Three months ended September 30, 2014	Green Power	Liquids Transportation and Storage	Alliance Canada	Corporate	Consolidated
(unaudited; millions of Canadian dollars)					
Transportation and other services	**-**	**57.9**	**-**	**-**	**57.9**
Electricity sales	**40.5**	**-**	**-**	**-**	**40.5**
Operating and maintenance	**(8.5)**	**(20.9)**	**-**	**-**	**(29.4)**
Management and administrative	**-**	**-**	**-**	**(10.7)**	**(10.7)**
Depreciation and amortization	**(15.7)**	**(18.4)**	**-**	**-**	**(34.1)**
	16.3	**18.6**	**-**	**(10.7)**	**24.2**
Income from equity investments	**0.2**	**-**	**14.3**	**-**	**14.5**
Other income/(expense)	**-**	**14.2**	**0.1**	**(0.1)**	**14.2**
Interest expense	**-**	**-**	**-**	**(18.4)**	**(18.4)**
Income taxes	**-**	**-**	**-**	**(10.2)**	**(10.2)**
Earnings	**16.5**	**32.8**	**14.4**	**(39.4)**	**24.3**
Total assets	**1,382.0**	**1,120.8**	**187.1**	**28.9**	**2,718.8**
Additions to property, plant and equipment	**-**	**15.0**	**-**	**-**	**15.0**
Goodwill	**-**	**28.8**	**-**	**-**	**28.8**

Three months ended September 30, 2013	Green Power	Liquids Transportation and Storage	Alliance Canada	Corporate	Consolidated
(unaudited; millions of Canadian dollars)					
Transportation and other services	-	52.0	-	-	52.0
Electricity sales	40.5	-	-	-	40.5
Operating and maintenance	(8.1)	(21.1)	-	-	(29.2)
Management and administrative	-	-	-	(5.0)	(5.0)
Depreciation and amortization	(15.7)	(17.4)	-	-	(33.1)
	16.7	13.5	-	(5.0)	25.2
Income from equity investments	0.4	-	15.0	-	15.4
Other income/(expense)	(0.2)	0.1	(0.2)	-	(0.3)
Interest expense	-	-	-	(18.7)	(18.7)
Income taxes	-	-	-	(4.7)	(4.7)
Earnings	16.9	13.6	14.8	(28.4)	16.9
Total assets	1,437.9	1,112.8	207.9	47.0	2,805.6
Additions to property, plant and equipment	0.9	11.4	-	-	12.3
Goodwill	-	28.8	-	-	28.8

Nine months ended September 30, 2014	Green Power	Liquids Transportation and Storage	Alliance Canada	Corporate	Consolidated
(unaudited; millions of Canadian dollars)					
Transportation and other services	**-**	**173.4**	**-**	**-**	**173.4**
Electricity sales	**140.3**	**-**	**-**	**-**	**140.3**
Operating and maintenance	**(24.2)**	**(58.3)**	**-**	**-**	**(82.5)**
Management and administrative	**-**	**-**	**-**	**(22.8)**	**(22.8)**
Depreciation and amortization	**(46.9)**	**(54.1)**	**-**	**-**	**(101.0)**
	69.2	**61.0**	**-**	**(22.8)**	**107.4**
Income from equity investments	**1.5**	**-**	**48.3**	**-**	**49.8**
Other income	**0.2**	**14.3**	**0.3**	**-**	**14.8**
Interest expense	**-**	**-**	**-**	**(53.8)**	**(53.8)**
Income taxes	**-**	**-**	**-**	**(28.4)**	**(28.4)**
Earnings	**70.9**	**75.3**	**48.6**	**(105.0)**	**89.8**
Total assets	**1,382.0**	**1,120.8**	**187.1**	**28.9**	**2,718.8**
Additions to property, plant and equipment	**0.4**	**25.0**	**-**	**-**	**25.4**
Goodwill	**-**	**28.8**	**-**	**-**	**28.8**

Nine months ended September 30, 2013	Green Power	Liquids Transportation and Storage	Alliance Canada	Corporate	Consolidated
(unaudited; millions of Canadian dollars)					
Transportation and other services	-	159.7	-	-	159.7
Electricity sales	139.8	-	-	-	139.8
Operating and maintenance	(22.9)	(59.6)	-	-	(82.5)
Management and administrative	-	-	-	(16.3)	(16.3)
Depreciation and amortization	(47.0)	(49.5)	-	-	(96.5)
	69.9	50.6	-	(16.3)	104.2
Income from equity investments	1.0	-	41.4	-	42.4
Other income/(expense)	(0.3)	0.1	(0.1)	0.1	(0.2)
Interest expense	-	-	-	(54.6)	(54.6)
Income taxes	-	-	-	(22.1)	(22.1)
Earnings before extraordinary item	70.6	50.7	41.3	(92.9)	69.7
Extraordinary item, net of tax	-	(16.5)	-	4.5	(12.0)
Earnings	70.6	34.2	41.3	(88.4)	57.7
Total assets	1,437.9	1,112.8	207.9	47.0	2,805.6
Additions to property, plant and equipment	4.4	58.6	-	-	63.0
Goodwill	-	28.8	-	-	28.8

4. LONG-TERM DEBT

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 28, 2017. The facility includes a feature under which up to $250 million of additional standby credit may be provided at the lenders' consent on the same terms and conditions as the existing facility.

5. ECT PREFERRED UNITS

	2014		2013	
September 30,	Number of Units	Amount	Number of Units	Amount
(unaudited; millions of Canadian dollars, number of units in millions)				
ECT preferred units, series 1				
Balance, beginning of period	**38.0**	**884.8**	38.0	894.8
Redemption value adjustment	**-**	**251.7**	-	(10.8)
Balance, end of period	**38.0**	**1,136.5**	38.0	884.0
ECT preferred units, series 2				
Balance, beginning of period	**16.1**	**373.5**	16.1	377.7
Redemption value adjustment	**-**	**106.3**	-	(4.5)
Balance, end of period	**16.1**	**479.8**	16.1	373.2
ECT preferred units, series 3				
Balance, beginning of period	**13.2**	**306.2**	13.2	349.8
Redemption value adjustment	**-**	**87.1**	-	(43.9)
Balance, end of period	**13.2**	**393.3**	13.2	305.9
ECT preferred units, series 4				
Balance, beginning of period	**5.2**	**121.7**	-	-
Issued	**-**	**-**	5.2	130.8
Redemption value adjustment	**-**	**34.7**	-	(9.2)
Balance, end of period	**5.2**	**156.4**	5.2	121.6
Total ECT preferred units	**72.5**	**2,166.0**	72.5	1,684.7

6. TRUST UNITS

	2014		2013	
September 30,	Number of Units	Amount	Number of Units	Amount
(unaudited; millions of Canadian dollars, number of units in millions)				
Common trust units, beginning of period	**66.0**	**1,535.6**	61.2	1,477.3
Issued	**-**	**-**	4.8	119.2
Share issue costs	**-**	**-**	-	(4.1)
Redemption value adjustment	**-**	**436.9**	-	(58.1)
Common trust units, end of period[1]	**66.0**	**1,972.5**	66.0	1,534.3

1 Enbridge owned 9.5 million common trust units at September 30, 2014 (2013 – 9.5 million)

7. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

MARKET PRICE RISK

The Fund's earnings, cash flows and other comprehensive income (OCI) are subject to movements in interest rates, foreign exchange rates and commodity prices (collectively, market 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 through 2018 at an average swap rate of 2.07%.

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. At September 30, 2014, future fixed rate term debt issuances had been hedged at a swap rate of 4.29%.

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

Foreign Exchange Risk

The Fund's earnings, cash flows and OCI are exposed to foreign exchange rate risk primarily due to certain United States dollar denominated investments, revenues and expenses. The Fund may use a combination of qualifying and non-qualifying derivative instruments to manage foreign exchange rate risk.

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 System. 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.
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TOTAL DERIVATIVE INSTRUMENTS

The following table summarizes the balance sheet location, carrying value and fair value of the Fund's derivative instruments. The Fund did not have any outstanding fair value hedges or net investment hedges as at September 30, 2014 or December 31, 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.

September 30, 2014	Derivative Instruments used as Cash Flow Hedges	Non-Qualifying Derivative Instruments	Total Derivative Instruments	Amounts Available for Offset	Total Net Derivative Instruments
(unaudited; millions of Canadian dollars)					
Accounts receivable and other					
Foreign exchange contracts	**0.1**	**14.3**	**14.4**	**-**	**14.4**
Commodity contracts	**0.1**	**0.1**	**0.2**	**(0.1)**	**0.1**
	0.2	**14.4**	**14.6**	**(0.1)**	**14.5**
Deferred amounts and other assets					
Interest rate contracts	**0.2**	**-**	**0.2**	**(0.2)**	**-**
Foreign exchange contracts	**0.6**	**-**	**0.6**	**-**	**0.6**
Commodity contracts	**0.7**	**0.4**	**1.1**	**(0.3)**	**0.8**
	1.5	**0.4**	**1.9**	**(0.5)**	**1.4**
Accounts payable and other					
Interest rate contracts	**(0.6)**	**-**	**(0.6)**	**-**	**(0.6)**
Commodity contracts	**-**	**(0.2)**	**(0.2)**	**0.1**	**(0.1)**
	(0.6)	**(0.2)**	**(0.8)**	**0.1**	**(0.7)**
Other long-term liabilities					
Interest rate contracts	**(14.9)**	**-**	**(14.9)**	**0.2**	**(14.7)**
Commodity contracts	**-**	**(0.6)**	**(0.6)**	**0.3**	**(0.3)**
	(14.9)	**(0.6)**	**(15.5)**	**0.5**	**(15.0)**
Total net derivative asset/(liability)					
Interest rate contracts	**(15.3)**	**-**	**(15.3)**	**-**	**(15.3)**
Foreign exchange contracts	**0.7**	**14.3**	**15.0**	**-**	**15.0**
Commodity contracts	**0.8**	**(0.3)**	**0.5**	**-**	**0.5**
	(13.8)	**14.0**	**0.2**	**-**	**0.2**

December 31, 2013	Derivative Instruments used as Cash Flow Hedges	Non-Qualifying Derivative Instruments	Total Derivative Instruments	Amounts Available for Offset	Total Net Derivative Instruments
(unaudited; millions of Canadian dollars)					
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.

September 30, 2014	2014	2015	2016	2017	2018	Thereafter
Interest rate contracts - short-term borrowings *(millions of Canadian dollars)*	**51.0**	**260.0**	**289.0**	**277.0**	**205.0**	**-**
Interest rate contracts - long-term borrowings *(millions of Canadian dollars)*	**-**	**-**	**-**	**180.0**	**-**	**-**
U.S. dollar forwards *(millions of United States dollars)*	**621.0**	**2.1**	**2.1**	**2.2**	**2.2**	**4.0**
Commodity contracts - power *(megawatts per hour)*	**4.8**	**4.8**	**4.8**	**4.8**	**2.8**	**2.8**

December 31, 2013	2014	2015	2016	2017	2018	Thereafter
Interest rate contracts - short-term borrowings *(millions of Canadian dollars)*	202.0	200.0	190.0	90.0	7.0	-
Interest rate contracts - long-term borrowings *(millions of Canadian dollars)*	-	-	-	180.0	-	-
U.S. dollar forwards *(millions of United States dollars)*	2.0	2.1	2.1	2.2	2.2	4.2
Commodity contracts – power *(megawatts per hour)*	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.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Amount of unrealized gain/(loss) recognized in OCI				
Interest rate contracts	**(3.8)**	(2.9)	**(17.0)**	(1.2)
Foreign exchange contracts	**0.6**	(0.3)	**0.5**	0.4
Commodity contracts	**1.0**	0.1	**1.1**	(1.6)
Total unrealized gain/(loss) recognized in OCI	**(2.2)**	(3.1)	**(15.4)**	(2.4)
Amount of gain/(loss) reclassified from AOCI to earnings *(effective portion)*				
Interest rate contracts[1]	**0.9**	1.4	**2.7**	4.0
Foreign exchange contracts[2]	**-**	-	**0.1**	-
Commodity contracts[3]	**(0.1)**	0.1	**(0.4)**	0.7
Total gain reclassified from AOCI to earnings *(effective portion)*	**0.8**	1.5	**2.4**	4.7

1 Gain/(loss) reported within Interest expense in the Consolidated Statements of Earnings.
2 Gain/(loss) reported within Other income/(expense) in the Consolidated Statements of Earnings.
3 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 ($0.5) million. Actual amounts reclassified to earnings depend on the interest rates, foreign exchange rates and commodity prices in effect when derivative contracts that are currently outstanding are settled.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Foreign exchange contracts[1]	**14.1**	-	**14.1**	-
Commodity contracts[2]	**-**	0.1	**-**	-
Total unrealized derivative fair value gain	**14.1**	0.1	**14.1**	-

1 Reported within Other income/(expense) in the Consolidated Statements of Earnings.
2 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 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.

The Fund had group credit concentrations and maximum credit exposure, with respect to derivative instruments, in the following counterparty segments:

	September 30, 2014	December 31, 2013
(unaudited; millions of Canadian dollars)		
Canadian financial institutions	**0.1**	1.7
Enbridge affiliate	**15.8**	0.2
	15.9	1.9

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 September 30, 2014 or December 31, 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:

September 30, 2014	Level 1	Level 2	Level 3	Total Gross Derivative Instruments
(unaudited; millions of Canadian dollars)				
Financial assets				
Current derivative assets	**-**	**14.4**	**0.2**	**14.6**
Long-term derivative assets	**-**	**0.8**	**1.1**	**1.9**
Financial liabilities				
Current derivative liabilities	**-**	**(0.6)**	**(0.2)**	**(0.8)**
Long-term derivative liabilities	**-**	**(14.9)**	**(0.6)**	**(15.5)**
Total net asset/(liability)	**-**	**(0.3)**	**0.5**	**0.2**

December 31, 2013	Level 1	Level 2	Level 3	Total Gross Derivative Instruments
(unaudited; millions of Canadian dollars)				
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)
Total net asset/(liability)	-	1.3	(0.2)	1.1

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

September 30, 2014	Fair value	Unobservable Input	Minimum Price	Maximum Price	Weighted Average Price
(Fair value in millions of Canadian dollars)					
Commodity Contracts – Financial[1] Power $/MWH	0.5	Forward Power Price	42.02	70.0	54.79

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Level 3 net financial asset/(liability) at beginning of period	**(0.4)**	(0.4)	**(0.2)**	0.3
Total gains/(losses), unrealized				
Included in earnings	**-**	(0.4)	**-**	0.2
Included in OCI	**0.9**	0.3	**0.7**	(1.0)
Settlements	**-**	-	**-**	-
Level 3 net financial asset/(liability) at end of period	**0.5**	(0.5)	**0.5**	(0.5)

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 September 30, 2014 and December 31, 2013.

FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

At September 30, 2014, the Fund's long-term debt had a fair value of $1,695.8 million (December 31, 2013 – $1,694.8 million). This fair value measurement has been classified as a Level 2 fair value measurement.

8. INCOME TAXES

Income tax expense included in earnings before extraordinary loss for the three months ended September 30, 2014 comprised current income tax recovery of $1.4 million (2013 – nil) and deferred income tax expense of $11.6 million (2013 – $4.7 million). Income tax expense included in earnings before extraordinary loss for the nine months ended September 30, 2014 comprised current income tax expense of $6.5 million (2013 – $0.8 million) and deferred income tax expense of $21.9 million (2013 – $21.3 million).

The effective tax rate for the three and nine months ended September 30, 2014 was 29.6% (2013 – 21.8%) and 24.0% (2013 – 24.1%), respectively. The most significant factor contributing to the change in the effective tax rate was the tax effect relating to the character of income distributed by the Fund, partially offset by the effects of rate regulated accounting largely attributable to the Fund's investment in Alliance Canada.

9. CHANGES IN OPERATING ASSETS AND LIABILITIES

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
(unaudited; millions of Canadian dollars)				
Accounts receivable and other, net	**1.8**	(0.7)	**(3.5)**	(4.8)
Accounts payable and other	**2.4**	(1.0)	**15.4**	7.4
Due to affiliates	**3.2**	(1.3)	**(3.1)**	(5.2)
Deferred amounts and other assets	**(0.6)**	(4.7)	**(4.1)**	(13.6)
Other long-term liabilities	**(0.1)**	0.1	**(0.4)**	(0.3)
	6.7	(7.6)	**4.3**	(16.5)

10. ALLIANCE US AND SOUTHERN LIGHTS TRANSACTION

On September 22, 2014, indirect wholly-owned subsidiaries of the Fund entered into agreements with indirect wholly-owned subsidiaries of Enbridge Inc. (Enbridge), a related party, to acquire a 50% interest in the U.S. segment of the Alliance Pipeline (Alliance US) and subscribe for and purchase Southern Lights Class A Units which will provide a fixed and defined cash flow stream from the Southern Lights Pipeline for an aggregate price of $1.76 billion (the Transaction). Closing of the Transaction is subject to customary regulatory approvals.

The agreement to purchase Southern Lights US Class A Units requires the Fund to make payment in Canadian dollars at a fixed exchange rate to the U.S. dollar price. The Fund has treated this arrangement as an embedded derivative accounted for separately from the host contract. A non-qualifying derivative asset was recorded in accounts receivable and other and an unrealized gain of $14.1 million was included in other income/(expense).

Pursuant to an agreement with a syndicate of investment dealers Enbridge Income Fund Holdings Inc. (ENF) sold, on a bought deal basis, an aggregate of 11,100,000 subscription receipts of ENF at a price of $30.35 per subscription receipt for gross proceeds of $336.9 million. The gross proceeds will be used to purchase common trust units of the Fund thereby increasing ENF's investment in the Fund. The subscription receipts offering closed on October 10, 2014.

11. RELATED PARTY TRANSACTIONS

In 2014, $4.6 million, net of repayments (2013 – $13.8 million) was advanced from ENF, a unitholder of the Fund, to a subsidiary corporation of the Fund pursuant to a subordinated demand loan. At September 30, 2014, $28.9 million (December 31, 2013 – $24.3 million), recorded in due to affiliates, was outstanding to ENF. Interest on the demand loan was charged at 4.25%.

In September 2014, the Fund entered into an agreement with ENF whereby the Fund would make assistance payments to ENF for any share issue costs incurred in connection with ENF's offering of 11,100,000 subscription receipts associated with the Transaction.

12. 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.