



**ENBRIDGE INCOME FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2017**

## GLOSSARY

ACFFO	Available cash flow from operations
EBIT	Earnings before interest and income taxes
ECT	Enbridge Commercial Trust
EIPLP	Enbridge Income Partners LP
Enbridge	Enbridge Inc.
ENF	Enbridge Income Fund Holdings Inc.
Fund Units	Ordinary trust units of the Fund
IJT	International Joint Tariff
MD&A	Management's Discussion and Analysis
MTN	medium-term note
the Fund	Enbridge Income Fund
the Fund Group	The Fund, ECT, EIPLP and the subsidiaries and investees of EIPLP
the Manager or EMSI	Enbridge Management Services Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

This Management's Discussion and Analysis (MD&A) dated August 3, 2017 should be read in conjunction with the unaudited financial statements and notes thereto of Enbridge Income Fund (the Fund) as at and for the three and six months ended June 30, 2017, prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP). It should also be read in conjunction with the Fund's audited financial statements and notes thereto and MD&A for the year ended December 31, 2016.

The Fund is a member of the Fund Group, which also includes Enbridge Commercial Trust (ECT), Enbridge Income Partners LP (EIPLP) and the subsidiaries and investees of EIPLP. The Fund owns a direct investment in ECT and an indirect investment in EIPLP. The financial performance of the Fund is underpinned by the results of EIPLP, which directly holds the underlying operating entities of the Fund Group. Enbridge Inc. (Enbridge), through its wholly-owned subsidiary Enbridge Management Services Inc. (the Manager), is responsible for the operations and day-to-day management of the Fund Group. The Manager also provides administrative and general support services to the Fund Group.

The Fund is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Fund, through its indirect investment in EIPLP, is involved in the transportation, storage and generation of energy. EIPLP owns interests in liquids transportation and storage assets, including the Canadian Mainline, the Regional Oil Sands System, a 50% interest in the Alliance Pipeline, which transports natural gas from Canada to the United States, and interests in renewable and alternative power generation assets.

Unless otherwise noted, all financial information is presented in Canadian dollars. Additional information related to the Fund, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information related to EIPLP, including its financial statements and MD&A, is also available on SEDAR under the Fund's profile.

### ENBRIDGE INCOME FUND PERFORMANCE OVERVIEW

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(millions of Canadian dollars, except per unit amounts)</i>				
Earnings/(loss)	105	(19)	179	197
Cash flow data				
Cash provided by operating activities	119	102	241	255
Cash used in investing activities	(248)	(1,095)	(481)	(1,157)
Cash provided by financing activities	121	993	234	902
Distributions				
Fund Unit distributions declared	117	117	235	220
Fund Unit distribution per unit	0.5376	0.5376	1.0752	1.0752

### EARNINGS

The Fund's earnings are primarily comprised of income from its indirect investment in EIPLP, reduced by incentive fees and preferred distributions paid to Enbridge by ECT. The Fund's equity investment earnings were impacted by a number of unusual, non-recurring or non-operating factors in EIPLP's earnings, the most noteworthy of which relates to changes in unrealized derivative fair value gains and losses as well as pipeline and facilities restart costs that resulted from the extreme wildfires that occurred in northeastern Alberta in the second quarter of 2016.

Earnings were \$105 million for the three months ended June 30, 2017 compared with a loss of \$19 million for the corresponding period of 2016. Excluding the impact of unusual, non-recurring or non-operating factors, the Fund's indirect equity earnings of EIPLP increased for the second quarter of 2017 compared with the second quarter of 2016. The increase was primarily due to a higher average Canadian Mainline International Joint Tariff (IJT) Residual Benchmark Toll as well as stronger throughput on the Canadian Mainline. These positive results were partially offset by an unexpected outage and accelerated maintenance at a customer's upstream facility that impacted volumes on the Canadian Mainline in the second quarter of 2017.

Earnings were \$179 million for the six months ended June 30, 2017 compared with \$197 million for the same period of 2016. Despite the strong results of the second quarter, EIPLP earnings before interest and income taxes (EBIT) decreased in the first half of 2017 due to lower first quarter EBIT. First quarter results were impacted by a lower average Canadian Mainline IJT Residual Benchmark Toll, a lower foreign exchange hedge rate used to record United States dollar denominated Canadian Mainline revenues, and lower surcharge revenue. The decrease in EIPLP EBIT in the first half of 2017 was partially offset by positive contributions from the Green Power segment, driven by stronger wind resources in the second quarter of 2017.

Up until the month of June, the Canadian Mainline had been delivering near record volumes and was operating under apportionment in heavy crude oil service. EBIT generated by Liquids Pipelines is expected to grow over the second half of 2017 as throughput on the Canadian Mainline is expected to return to record levels achieved earlier in the year. This was driven in part by capacity optimization projects completed in the first half of the year that will address capacity constraints and help alleviate apportionment. For more information, refer to *Non-GAAP Measures – Enbridge Income Partners LP Performance Overview – EIPLP Adjusted EBIT*.

## **CASH FLOWS**

The Fund's cash from operating activities is derived primarily from distributions received from ECT. These are underpinned by distributions from EIPLP and reflect the impacts to earnings, discussed above. Cash provided by operating activities increased during the second quarter, as distributions paid by ECT to the Fund were higher than the corresponding period of 2016. While distributions received from ECT were also higher in the first half of 2017, the timing of working capital payments resulted in an overall decrease to cash provided by operating activities in the first half of 2017 compared with the first half of 2016.

Cash used in investing activities and cash provided by financing activities for the first six months of 2017 compared with the first six months of 2016 reflected the Fund's issuance of ordinary trust units of the Fund (Fund Units) to Enbridge Income Fund Holdings Inc. (ENF) in April 2016 for gross proceeds of \$718 million, which the Fund used to invest in ECT common units for gross proceeds of \$718 million. As a result, Fund Unit distributions increased during the first half of 2017 compared to the first half of 2016 due to the increased number of Fund Units outstanding. In addition, cash used in investing activities for the second quarter and first half of 2017 reflects the repayment of a portion of the long-term notes receivable from ECT and cash provided by financing activities reflects the repayment of a medium-term note (MTN) that matured in June 2017.

## **DISTRIBUTIONS**

The Fund pays monthly distributions to its unitholders. For the first six months of 2017, distributions were declared monthly at a quarterly aggregate rate of \$0.5376 per unit representing total distributions of \$235 million. For the first six months of 2016, distributions were declared monthly at a quarterly aggregate rate of \$0.5376 per unit representing total distributions of \$220 million. The increase in distributions for the six months ended June 30, 2017 compared with the corresponding 2016 period resulted from an increased number of Fund Units outstanding in the first quarter of 2017 compared to the first quarter of 2016 as discussed above.

## **FORWARD-LOOKING INFORMATION**

*Forward-looking information, or forward-looking statements, have been included in this MD&A to provide information about the Fund Group, including management's assessment of future plans and operations of the Fund Group. 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", "likely" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information or statements included or incorporated by reference in this document include, but are not limited to, statements with respect to the following: earnings/(loss) or adjusted earnings/(loss), EBIT or adjusted EBIT; available cash flow from operations (ACFFO); cash flows; future distributions to the Fund by ECT; use of proceeds from the sale of Fund Units; taxation of distributions; future distributions and distribution targets; in-service dates for announced projects and projects under construction; capital expenditures; capital requirements through 2017; organic growth opportunities beyond secured projects; costs related to announced projects and projects under construction; in-service dates for announced projects and projects under construction; commodity prices; supply forecasts; impact of hedging program; and sources of liquidity and sufficiency of financial resources.*

*Although the Fund believes 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 following: supply of and demand for crude oil, natural gas, natural gas liquids (NGL) and renewable energy; prices of crude oil, natural gas, NGL and renewable energy; exchange rates; inflation; Canadian pipeline export capacity; levels of competition; interest rates; availability and price of labour and construction materials; operational reliability; customer and regulatory approvals; maintenance of support and regulatory approvals for the Fund Group's projects; anticipated in-service dates; weather; the Fund Group's credit ratings; capital project funding; earnings/(loss) or adjusted earnings/(loss); EBIT or adjusted EBIT; cash flows and ACFFO; and distributions. Assumptions regarding the expected supply of and demand for crude oil, natural gas, NGL and renewable energy, and the prices of these commodities, are material to and underlie all forward-looking statements. These factors are relevant to all forward-looking statements as they may impact current and future level of demand for the Fund Group's services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which the Fund Group operates and may impact level of demand for the Fund Group's services and cost of inputs, and are therefore inherent in all forward-looking statements. Due to the interdependencies and correlation of these macroeconomic factors, the impact of any one assumption on a forward-looking statement cannot be determined with certainty, particularly with respect to earnings/(loss), adjusted earnings/(loss), EBIT, adjusted EBIT, ACFFO, cash flows and distributions. The most relevant assumptions associated with forward-looking statements on announced projects and projects under construction, including completion dates and capital expenditures include the following: availability and price of labour and construction materials; effects of inflation and foreign exchange rates on labour and material costs; effects of interest rates on borrowing costs; and impact of weather and customer, government and regulatory approvals on construction and in-service schedules and cost recovery regimes.*

*The Fund Group's forward-looking statements are subject to risks and uncertainties pertaining to future distributions, operating performance, regulatory parameters, project approval and support, renewals of rights of way, weather, economic and competitive conditions, public opinion, changes in tax laws and tax rates, exchange rates, interest rates, commodity prices, political decisions and supply of and demand for commodities, including but not limited to those risks and uncertainties discussed in this MD&A and in the Fund Group'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 Group's future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by applicable 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 Group or persons acting on the Fund Group's behalf, are expressly qualified in their entirety by these cautionary statements.*

## NON-GAAP MEASURES

This MD&A contains references to the Fund's adjusted earnings, EIPLP adjusted EBIT and EIPLP available cash flow from operations (EIPLP ACFFO). The Fund's adjusted earnings represent the Fund's earnings adjusted for unusual, non-recurring or non-operating factors, including unusual, non-recurring or non-operating factors underpinning the Fund's indirect equity earnings of EIPLP. EIPLP adjusted EBIT represent EIPLP's earnings before interest and income taxes, respectively, adjusted for unusual, non-recurring or non-operating factors on a consolidated basis. These factors, referred to as adjusting items, are reconciled and discussed in *Non-GAAP Reconciliation – Fund Earnings to Fund Adjusted Earnings* and *Enbridge Income Partners LP Performance Overview*.

EIPLP ACFFO represents EIPLP's cash available to fund distributions on EIPLP Class A and EIPLP Class C units, as well as for debt repayments and reserves. EIPLP ACFFO consists of EIPLP adjusted EBIT further adjusted for non-cash items, representing cash flow from EIPLP's underlying businesses, less deductions for maintenance capital expenditures, interest expense, applicable taxes and further adjusted for unusual, non-recurring or non-operating factors not indicative of the underlying or sustainable cash flows of the business. EIPLP ACFFO is important to unitholders as the Fund Group's objective is to provide a predictable flow of distributions to unitholders.

The Manager believes the presentation of the Fund's adjusted earnings, EIPLP adjusted EBIT and EIPLP ACFFO give useful information to investors and unitholders as they provide increased transparency and insight into the performance of the Fund Group. The Manager uses the Fund's adjusted earnings, EIPLP adjusted EBIT and EIPLP ACFFO to set targets, including the distribution payout target, and to assess the performance of the Fund Group. The Fund's adjusted earnings, EIPLP adjusted EBIT and EIPLP ACFFO are not measures that have standardized meanings prescribed by U.S. GAAP and are not U.S. GAAP measures. Therefore, these measures may not be comparable with similar measures presented by other issuers.

The tables below provide a reconciliation of the GAAP and non-GAAP measures.

### NON-GAAP RECONCILIATION – EARNINGS TO ADJUSTED EARNINGS

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(millions of Canadian dollars)</i>				
Earnings/(loss)	105	(19)	179	197
Fund Adjusting items:				
Adjusting items at EIPLP <sup>1</sup>	(88)	11	(143)	(164)
<b>Adjusted earnings/(loss)</b>	<b>17</b>	<b>(8)</b>	<b>36</b>	<b>33</b>

<sup>1</sup> Represents ECT's portion of the unusual, non-recurring or non-operating items within earnings of EIPLP.

Adjusted earnings for the three and six months ended June 30, 2017 were \$17 million and \$36 million compared with a loss of \$8 million and earnings of \$33 million for the three and six months ended June 30, 2016, respectively. The Fund's adjusted earnings were impacted by the same factors impacting earnings, discussed in *Enbridge Income Fund Performance Overview – Earnings*.

## ENBRIDGE INCOME PARTNERS LP PERFORMANCE OVERVIEW

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(millions of Canadian dollars, except per unit amounts)</i>				
Earnings before interest and income taxes	728	348	1,347	1,445
Changes in unrealized derivative fair value (gains)/loss	(280)	17	(445)	(597)
Other	24	41	34	111
EIPLP adjusted EBIT <sup>1</sup>	472	406	936	959
EIPLP ACFFO <sup>1</sup>	551	437	1,026	1,006
Distributions				
Class A unit distributions declared to ECT	220	217	440	416
Class A unit distribution per unit	0.5760	0.5667	1.1520	1.1252

<sup>1</sup> EIPLP adjusted EBIT and EIPLP ACFFO are non-GAAP measures that do not have a standardized meaning prescribed by U.S. GAAP. For more information, see Non-GAAP Measures.

### EIPLP Adjusted EBIT

Adjusted EBIT increased in the second quarter of 2017 compared to the corresponding period in 2016. The increase is primarily attributable to stronger contributions from the Liquids Pipelines segment, largely due to stronger volumes on the Canadian Mainline and Regional Oil Sands System and the higher quarter-over-quarter average Canadian Mainline IJT Residual Benchmark Toll, which increased on April 1, 2017. These positive results were partially offset by an unexpected outage and accelerated maintenance at a customer's upstream facility that impacted volumes on the Canadian Mainline in the second quarter of 2017.

On a year-to-date basis, adjusted EBIT decreased compared to the same period in 2016 due to the lower quarter-over-quarter average Canadian Mainline IJT Residual Benchmark Toll in the first quarter of 2017 and a lower foreign exchange hedge rate used to record United States dollar denominated Canadian Mainline revenues. The IJT Benchmark Toll and its components are set in United States dollars, and the majority of EIPLP's foreign exchange risk on Canadian Mainline revenues is hedged. The effective hedge rate for the translation of Canadian Mainline United States dollar transactional revenues for the first half of 2017 was \$1.04 compared with \$1.08 for the corresponding period in 2016. In addition, Liquids Pipelines reported performance was further impacted by a change in practice whereby EIPLP no longer includes cash received under certain take-or-pay contracts with make-up rights in its determination of adjusted EBIT. EIPLP adjusted EBIT for the remainder of the year is expected to be positively impacted by increased throughput optimization on the Canadian Mainline and the effect of new projects coming into service in the second half of 2017.

### EIPLP ACFFO

ACFFO increased by \$114 million and \$20 million for the three and six months ended June 30, 2017 compared with the corresponding 2016 periods.

The increase in ACFFO in the second quarter of 2017 was driven by stronger contributions from EIPLP's Liquids Pipelines segment following the increase in the Canadian Mainline IJT Residual Benchmark Toll in April 2017 and stronger throughput on the Canadian Mainline and Regional Oil Sands System, largely driven by the negative impacts of the northeastern Alberta wildfires in the second quarter of 2016. The increase in average quarter-over-quarter throughput on the Canadian Mainline and Regional Oil Sands System was partially offset by an unexpected outage and accelerated maintenance at a customer's upstream facility in the second quarter of 2017.

Although EIPLP adjusted EBIT was lower year-over-year for the first half of 2017, ACFFO increased as a result of greater distributions relative to equity earnings from Alliance Pipeline.

## EIPLP Distributions

EIPLP declares distributions to its partners on a monthly basis. The increase in distributions declared to ECT for the first half of 2017 compared with the first half of 2016 is a result of increased distribution rates on Class A units as well as an increase in Class A units held following the issuance to ECT in April 2016. The distributions received by ECT are used to fund incentive fees paid to Enbridge and distributions payable to its unitholders, Enbridge and the Fund.

## 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 one year without having to access long-term capital markets.

### BANK CREDIT AND LIQUIDITY

Long-term debt consists of MTNs and a committed credit facility. As at June 30, 2017, the Fund had a \$1,500 million committed credit facility, of which \$760 million (December 31, 2016 - \$225 million) was drawn and letters of credit totalling \$11 million (December 31, 2016 - \$11 million) were issued, leaving \$729 million (December 31, 2016 - \$1,264 million) unutilized. The Fund must adhere to covenants under its credit facility agreement, including covenants that limit outstanding debt to a percentage of the Fund's and EIPLP's capitalization. The Fund was in compliance with all covenants as at June 30, 2017.

### SOURCES AND USES OF CASH

The Fund's primary uses of cash are distributions to unitholders, investments, administrative expense and interest and principal repayments on the Fund's long-term debt. Liquidity can be met through a variety of sources including cash distributions from ECT, new offerings of debt and equity, draws under the Fund's committed standby credit facilities, as well as loans from affiliates. The Fund maintains a current MTN shelf prospectus with Canadian securities regulators, which enables ready access to Canadian public capital markets, subject to market conditions.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(millions of Canadian dollars)</i>				
Operating activities	119	102	241	255
Investing activities	(248)	(1,095)	(481)	(1,157)
Financing activities	121	993	234	902
Decrease in cash and cash equivalents	(8)	-	(6)	-

### Operating Activities

- Distributions received from the Fund's investment in ECT increased in the second quarter and first half of 2017 compared with the corresponding 2016 periods, which contributed to cash provided by operating activities. The greater distributions received in the first half of 2017 were due to higher ECT common unit distribution rates as well as the Fund's purchase of ECT common units in April 2016 discussed below. This increase in cash provided by operating activities was offset by cash outflows due to timing of working capital payments in the first quarter of 2017.



### Investing Activities

- The decrease in cash used in investing activities reflects the Fund's purchase of ECT common units for gross proceeds of \$718 million in April 2016 and a decrease in demand notes issued to ECT in the first half of 2017 as well as a \$96 million repayment of long-term notes receivable from ECT in the second quarter of 2017.

### Financing Activities

- Cash provided by financing activities decreased for the second quarter and first half of 2017 over the prior year largely due to the issuance of Fund Units to ENF in April 2016 for gross proceeds of \$718 million, as well as the repayment of a \$100 million MTN in June of 2017. Although ENF increased its ownership in Fund Units in the second quarter of each year, the acquisition of Fund Units in April 2017 was a non-cash transaction that resulted from Enbridge's exchange of Fund Units for ENF common shares.
- In the second quarter and first half of 2017, the Fund made net draws on the credit facility of \$325 million and \$535 million (2016 - \$400 million and \$400 million), respectively.
- For the three and six months ended June 30, 2017, ENF retained approximately \$17 million and \$31 million (2016 - \$14 million and \$19 million), respectively, of cash in respect of reinvested dividends from its Dividend Reinvestment and Share Purchase Plan and used the proceeds to purchase 0.5 million and 0.9 million (2016 - 0.5 million and 0.7 million) Fund Units, respectively. It is expected that proceeds from Fund Unit issuances will ultimately be used to fund the secured capital growth projects associated with the Canadian liquids pipeline assets owned by EIPLP.

## ANALYSIS OF CASH DISTRIBUTIONS DECLARED

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(millions of Canadian dollars)</i>				
Cash provided by operating activities	119	102	241	255
Earnings/(loss)	105	(19)	179	197
Cash distributions declared	117	117	235	220
Excess/(shortfall) of cash provided by operating activities over cash distributions declared	2	(15)	6	35
Shortfall of earnings over cash distributions declared	(12)	(136)	(56)	(23)

For the second quarter of 2017, cash provided by operating activities exceeded cash distributions compared to the same period in 2016, which is primarily attributable to increased cash distributions received from the Fund's equity investment in ECT, discussed above in *Liquidity and Capital Resources*.

For the first half of 2017, the excess of cash provided by operating activities over cash distributions declared decreased compared to the corresponding period of 2016. Cash distributions received from the Fund's equity investment in ECT increased in the first half of 2017; however, this was offset by the timing of working capital payments in the first quarter of 2017.

Cash distributions received from the Fund's investments is the primary source of cash flow the Fund uses to pay distributions to its unitholders and service its long-term debt.

Earnings were \$12 million and \$56 million less than cash distributions for the three and six months ended June 30, 2017 (2016 - \$136 million and \$23 million), respectively. Earnings reflected non-cash items such as income from equity investments.

## QUARTERLY FINANCIAL INFORMATION

	2017			2016			2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3 <sup>1</sup>
<i>(millions of Canadian dollars)</i>								
Revenues	-	-	-	-	-	-	-	73
Income from equity investments <sup>2</sup>	<b>123</b>	92	477	27	5	238	28	1
Earnings/(loss)	<b>105</b>	74	446	5	(19)	216	2	14
Cash distributions received in excess of/(less than) equity earnings	<b>17</b>	49	(85)	102	123	(98)	100	78
Cash distributions declared	<b>117</b>	118	117	117	117	103	86	79
Cash distributions declared per unit	<b>0.5376</b>	0.5376	0.5376	0.5376	0.5376	0.5376	0.4723	0.4723

<sup>1</sup> The third quarter of 2015 includes two months accounted for on a consolidated basis and one month accounted for on an equity method basis as a result of the Accounting Impacts, as discussed below.

<sup>2</sup> Includes income from the Fund's investment in ECT subsequent to the close of the 2015 Transaction and income from the Fund's investment in Alliance Pipeline prior to the close of the 2015 Transaction recorded within Income from equity investment in ECT and Income from other equity investments on the Statements of Earnings.

On September 1, 2015, EIPLP acquired 100% interests in entities holding certain Canadian liquids pipelines, storage and renewable energy assets from Enbridge and certain of its subsidiaries (the 2015 Transaction).

The 2015 Transaction resulted in changes to the Fund's method of accounting for its investments in ECT and EIPLP from consolidation accounting to the equity method of accounting due to certain ownership and governance changes (the Accounting Impacts). These changes were applied prospectively from September 1, 2015, the closing date of the 2015 Transaction. Quarterly information presented for periods prior to the close of the 2015 Transaction on September 1, 2015 are presented on a consolidated basis and quarterly information presented for periods subsequent to the close of the 2015 Transaction are presented on an equity method basis. Further, cash distributions declared prior to September 1, 2015 include distributions on both the Fund Units and preferred units of ECT. Subsequent to September 1, 2015, cash distributions declared include only distributions on the Fund Units.

Several factors impact comparability of the Fund's financial results on a quarterly basis through its indirect investment in EIPLP, including, but not limited to, fluctuations in market prices such as foreign exchange rates and commodity prices, disposals of investments or assets and the timing of in-service dates of new projects.

EIPLP actively manages its exposure to market risks including, but not limited to, interest rates, commodity prices and foreign exchange rates. To the extent derivative instruments used to manage these risks are non-qualifying for the purposes of applying hedge accounting, changes in unrealized fair value gains and losses on these instruments will impact earnings.

In addition to the impacts of changes in unrealized gains and losses outlined above, significant items that have impacted quarterly financial information are as follows:

- In April 2017, Enbridge exchanged 21.7 million Fund Units for an equivalent amount of ENF common shares. In order to maintain its 19.9% interest in the Company, Enbridge retained 4.3 million of the common shares issued pursuant to such exchange and sold the remaining balance to the public. Upon closing of the transaction, Enbridge's economic interest in the Fund Group and ENF decreased from 86.9% to 84.6% and ENF's economic interest in the Fund Group increased from 16.4% to 19.2%.
- The fourth quarter of 2016 includes the sale of South Prairie Region assets, which closed on December 1, 2016 resulting in a pre-tax gain of \$850 million within EIPLP. Following the sale, a one-time cash distribution of \$264 million was received from ECT.
- The second quarter of 2016 includes reduced equity earnings from EIPLP due to the northeastern Alberta wildfires. Also in the second quarter of 2016, the Fund issued 25.4 million Fund Units increasing the total cash distributions declared.
- In the first quarter of 2016, the monthly Fund Unit distribution rate increased to \$0.1792 commencing with the January 2016 distribution.
- In the third quarter of 2015, revenues and earnings for the period decreased due to the Accounting Impacts.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The Fund's earnings, cash flows and other comprehensive income/(loss) (OCI) are subject to movements in interest rates. The Fund uses a combination of qualifying and non-qualifying derivative instruments to manage these risks. Refer to the Fund's 2016 Annual MD&A for further details on financial instrument risk management.

### THE 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 earnings and comprehensive income.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(millions of Canadian dollars)</i>				
Amount of unrealized loss recognized in OCI				
Interest rate contracts	12	(44)	3	(111)
Amount of loss reclassified from Accumulated other comprehensive income (AOCI) to earnings <i>(effective portion)</i>				
Interest rate contracts <sup>1</sup>	2	2	3	3
Amount of (gains)/loss reclassified from AOCI to earnings <i>(ineffective portion and amount excluded from effectiveness testing)</i>				
Interest rate contracts <sup>1</sup>	(2)	2	(1)	2

<sup>1</sup> Reported within Interest expense in the 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 its indirect investment in EIPLP, draws under committed credit facilities, issuance of MTNs and the issuance of Fund Units. The Fund maintains a current MTN shelf prospectus with Canadian securities regulators, which enables ready access to Canadian public capital markets, subject to market conditions. Additional liquidity, if necessary, is expected to be available through intercompany transactions with Enbridge or other related entities.

## 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 credit exposure limits and contractual requirements, netting arrangements and ongoing monitoring of counterparty credit exposure using external credit rating services and other analytical tools. Refer to the Fund's 2016 Annual MD&A for further details on the Fund's credit risk management.

## CHANGES IN ACCOUNTING POLICIES

### ADOPTION OF NEW STANDARDS

#### Clarifying the Definition of a Business in an Acquisition

Effective January 1, 2017, the Fund early adopted Accounting Standards Update (ASU) 2017-01 on a prospective basis. The new standard was issued with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (disposals) of assets or businesses. The adoption of the pronouncement did not have a material impact on the Fund's financial statements.

#### Accounting for Intra-Entity Asset Transfers

Effective January 1, 2017, the Fund early adopted ASU 2016-16 on a modified retrospective basis. The new standard was issued with the intent of improving the accounting for the income tax consequences of intra-entity asset transfers other than inventory. Under the new guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The adoption of the pronouncement did not have a material impact on the Fund's financial statements.

## FUND OWNERSHIP

The following table presents ownership of the Fund:

	As at July 21, 2017
<i>(number of Fund Units outstanding)</i>	
Held by Enbridge	72,492,383
Held by ENF	146,958,505
	<u>219,450,888</u>



**ENBRIDGE INCOME FUND**

**FINANCIAL STATEMENTS**  
*(unaudited)*

**June 30, 2017**

## STATEMENTS OF EARNINGS

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(unaudited; millions of Canadian dollars)</i>				
Income from equity investment in Enbridge Commercial Trust <i>(Note 3)</i>	123	5	215	243
Operating and administrative expense	-	-	-	(1)
Other income	-	-	-	1
Other income - affiliate	7	4	13	8
Interest expense	(25)	(28)	(49)	(54)
<b>Earnings/(loss) attributable to unitholders</b>	<b>105</b>	<b>(19)</b>	<b>179</b>	<b>197</b>

*See accompanying notes to the interim financial statements.*

## STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(unaudited; millions of Canadian dollars)</i>				
Earnings/(loss)	105	(19)	179	197
Other comprehensive income/(loss)				
Change in unrealized gains/(loss) on cash flow hedges	12	(43)	5	(110)
Other comprehensive loss from equity investee <i>(Note 3)</i>	(4)	(37)	(1)	(97)
Reclassification to earnings of loss on cash flow hedges	2	4	2	5
Other comprehensive income/(loss)	10	(76)	6	(202)
Comprehensive income/(loss) attributable to unitholders	115	(95)	185	(5)

*See accompanying notes to the interim financial statements.*

## STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

Six months ended June 30,	2017	2016
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Deficit</b>		
Balance at beginning of period	<b>(6,575)</b>	(5,171)
Earnings attributable to unitholders	<b>179</b>	197
Distributions to trust unitholders	<b>(235)</b>	(220)
Redemption value adjustment attributable to trust units <i>(Note 6)</i>	<b>554</b>	(876)
Equity investment dilution gain/(loss), net <i>(Note 3)</i>	<b>44</b>	(198)
Adjustment to Enbridge Income Partners LP's excess purchase price over historical carrying value acquired <i>(Note 3)</i>	-	(6)
<b>Balance at end of period</b>	<b>(6,033)</b>	(6,274)
<b>Accumulated other comprehensive loss</b>		
Balance at beginning of period	<b>(182)</b>	(108)
Other comprehensive income/(loss)	<b>6</b>	(202)
<b>Balance at end of period</b>	<b>(176)</b>	(310)
<b>Total unitholders' deficit</b>	<b>(6,209)</b>	(6,584)

See accompanying notes to the interim financial statements.



## STATEMENTS OF CASH FLOWS

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(unaudited; millions of Canadian dollars)</i>				
<b>Operating activities</b>				
Earnings/(loss)	105	(19)	179	197
Adjustments to reconcile earnings to net cash provided by operating activities:				
Earnings from equity investments	(123)	(5)	(215)	(243)
Distributions from equity investments	140	128	281	268
Other	1	3	1	4
Changes in operating assets and liabilities	(4)	(5)	(5)	29
Net cash provided by operating activities	119	102	241	255
<b>Investing activities</b>				
Acquisition of long-term investment	-	(718)	-	(718)
Affiliate loans, net	(248)	(377)	(481)	(439)
Net cash used in investing activities	(248)	(1,095)	(481)	(1,157)
<b>Financing activities</b>				
Net change in bank indebtedness	(4)	(3)	3	-
Net change in credit facility draws	325	400	535	400
Debenture and term note repayments	(100)	-	(100)	-
Trust units issued, net <i>(Note 6)</i>	17	708	31	713
Trust unit distributions declared	(117)	(117)	(235)	(220)
Change in distributions payable	-	5	-	9
Net cash provided by/(used in) financing activities	121	993	234	902
Decrease in cash and cash equivalents	(8)	-	(6)	-
Cash and cash equivalents at beginning of period	8	-	6	-
Cash and cash equivalents at end of period	-	-	-	-

See accompanying notes to the interim financial statements.

# STATEMENTS OF FINANCIAL POSITION

	June 30, 2017	December 31, 2016
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	-	6
Demand notes receivable from Enbridge Commercial Trust	1,231	654
Accounts receivable from affiliates	49	45
Accounts receivable and other	1	1
Current portion of derivative assets <i>(Note 4)</i>	1	1
Current portion of derivative assets from affiliates <i>(Note 4)</i>	14	18
	1,296	725
Long-term notes receivable from Enbridge Commercial Trust	100	196
Long-term investment <i>(Note 3)</i>	2,221	2,244
Long-term portion of derivative assets from affiliates <i>(Note 4)</i>	63	80
Deferred amounts and other assets	1	1
<b>Total assets</b>	<b>3,681</b>	<b>3,246</b>
<b>Liabilities and unitholders' equity</b>		
Current liabilities		
Bank indebtedness	4	1
Interest payable	20	20
Current portion of derivative liabilities <i>(Note 4)</i>	17	23
Current portion of derivative liabilities to affiliates <i>(Note 4)</i>	45	49
Accounts payable and other	1	1
Distributions payable to affiliates	39	39
Current portion of long-term debt	225	325
	351	458
Long-term debt	2,505	1,969
Long-term portion of derivative liabilities <i>(Note 4)</i>	109	127
Long-term portion of derivative liabilities to affiliates <i>(Note 4)</i>	3	4
	2,968	2,558
Trust units <i>(Note 6)</i>	6,922	7,445
	6,922	7,445
<b>Unitholders' deficit</b>		
Deficit	(6,033)	(6,575)
Accumulated other comprehensive loss	(176)	(182)
	(6,209)	(6,757)
<b>Total liabilities and unitholders' equity</b>	<b>3,681</b>	<b>3,246</b>

See accompanying notes to the interim financial statements.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

(unaudited)

## 1. BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Enbridge Income Fund (the Fund) have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim financial information. They do not include all of the information and footnotes required by U.S. GAAP for annual financial statements and should therefore be read in conjunction with the Fund's audited annual financial statements and notes for the year ended December 31, 2016. In the opinion of management, the interim financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Fund's financial position, results of operations and cash flows for the interim periods reported. These interim financial statements follow the same significant accounting policies as those included in the Fund's annual audited financial statements for the year ended December 31, 2016, except for the adoption of new standards (*Note 2*).

## 2. CHANGES IN ACCOUNTING POLICIES

### ADOPTION OF NEW STANDARDS

#### Clarifying the Definition of a Business in an Acquisition

Effective January 1, 2017, the Fund early adopted Accounting Standards Update (ASU) 2017-01 on a prospective basis. The new standard was issued with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (disposals) of assets or businesses. The adoption of the pronouncement did not have a material impact on the Fund's financial statements.

#### Accounting for Intra-Entity Asset Transfers

Effective January 1, 2017, the Fund early adopted ASU 2016-16 on a modified retrospective basis. The new standard was issued with the intent of improving the accounting for the income tax consequences of intra-entity asset transfers other than inventory. Under the new guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The adoption of the pronouncement did not have a material impact on the Fund's financial statements.

### 3. LONG-TERM INVESTMENT

#### INVESTMENT IN ENBRIDGE COMMERCIAL TRUST

As at June 30, 2017, Enbridge Commercial Trust (ECT) assets consist primarily of an equity investment in Enbridge Income Partners LP (EIPLP) and affiliate receivables. ECT's liabilities are primarily comprised of preferred units of ECT, held by Enbridge Inc. (Enbridge), and affiliate loans. As at June 30, 2017, the carrying value of ECT's assets was \$5,226 million and the carrying value of its liabilities was \$3,005 million.

	June 30, 2017	December 31, 2016
<i>(millions of Canadian dollars)</i>		
Investment balance at beginning of period	2,244	1,781
Investment acquired	-	718
EIPLP's excess purchase price over historical carrying value acquired	-	(6)
Equity investment income	215	747
Equity investment other comprehensive loss	(1)	(51)
Equity investment dilution gain/(loss), net	44	(156)
Distributions	(281)	(789)
Investment balance at end of period	2,221	2,244

At June 30, 2017 the Fund owned 306 million common units of ECT (December 31, 2016 - 306 million), which is all of ECT's issued and outstanding common units.

#### INDIRECT INVESTMENT IN EIPLP

At June 30, 2017, the Fund, through its 100% common unit ownership of ECT, owned 382 million (December 31, 2016 - 382 million) of EIPLP's issued and outstanding EIPLP Class A units, representing an indirect ownership of 45.5% (2016 – 45.8%) of EIPLP's total issued and outstanding common units.

	June 30, 2017	December 31, 2016
<i>(millions of Canadian dollars)</i>		
Investment balance at beginning of period	4,360	3,902
Investment acquired	-	718
EIPLP's excess purchase price over historical carrying value acquired	-	(6)
Equity investment income	378	1,068
Equity investment other comprehensive loss	(1)	(51)
Equity investment dilution gain/(loss), net	44	(156)
Distributions	(440)	(1,115)
Investment balance at end of period	4,341	4,360

Summarized financial information of EIPLP accounted for under the equity method was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(unaudited; millions of Canadian dollars)</i>				
Revenues	1,104	742	2,125	2,282
Earnings	509	250	950	1,030

## **4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

### **MARKET RISK**

The Fund's earnings, cash flows and other comprehensive income (OCI) are subject to movements in interest rates and foreign exchange rates. The Fund acts as an intermediary to pass along the foreign exchange risks to EIPLP. 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 mitigate the volatility of short-term interest rates on interest expense with the execution of floating to fixed rate interest rate swaps at an average swap rate of 2.5%.

The Fund's earnings, cash flows and OCI are also exposed to variability in longer term interest rates ahead of anticipated fixed rate debt issuances. Forward starting interest rate swaps may be used to hedge against the effect of future interest rate movements. The Fund has implemented a program to mitigate its exposure to long-term interest rate variability on select forecast term debt issuances with the execution of floating to fixed interest rate swaps at an average swap rate of 3.1%.

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

### **TOTAL DERIVATIVE INSTRUMENTS**

The following table summarizes the Statements of Financial Position 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 June 30, 2017 or December 31, 2016.

The Fund enters into individual International Swaps and Derivatives Association, Inc. 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 Statements of Financial Position.

<b>June 30, 2017</b>	Derivative Instruments used as Cash Flow Hedges	Non-Qualifying Derivative Instruments	Total Gross Derivative Instruments as Presented	Amounts Available for Offset	Total Net Derivative Instruments
<i>(millions of Canadian dollars)</i>					
Current portion of derivative assets					
Foreign exchange contracts	-	1	1	-	1
	-	1	1	-	1
Current portion of derivative assets - affiliates					
Foreign exchange contracts	-	14	14	(1)	13
	-	14	14	(1)	13
Long-term portion of derivative assets - affiliates					
Foreign exchange contracts	-	63	63	-	63
	-	63	63	-	63
Current portion of derivative liabilities					
Interest rate contracts	(3)	-	(3)	-	(3)
Foreign exchange contracts	-	(14)	(14)	-	(14)
	(3)	(14)	(17)	-	(17)
Current portion of derivative liabilities - affiliates					
Interest rate contracts	(44)	-	(44)	-	(44)
Foreign exchange contracts	-	(1)	(1)	1	-
	(44)	(1)	(45)	1	(44)
Long-term portion of derivative liabilities					
Interest rate contracts	(46)	-	(46)	-	(46)
Foreign exchange contracts	-	(63)	(63)	-	(63)
	(46)	(63)	(109)	-	(109)
Long-term portion of derivative liabilities - affiliates					
Interest rate contracts	(3)	-	(3)	-	(3)
Foreign exchange contracts	-	-	-	-	-
	(3)	-	(3)	-	(3)
Total net derivative liability					
Interest rate contracts	(96)	-	(96)	-	(96)
Foreign exchange contracts	-	-	-	-	-
	(96)	-	(96)	-	(96)

December 31, 2016	Derivative Instruments used as Cash Flow Hedges	Non-Qualifying Derivative Instruments	Total Gross Derivative Instruments as Presented	Amounts Available for Offset	Total Net Derivative Instruments
<i>(millions of Canadian dollars)</i>					
Current portion of derivative assets					
Foreign exchange contracts	-	1	1	-	1
	-	1	1	-	1
Current portion of derivative assets - affiliates					
Foreign exchange contracts	-	18	18	(1)	17
	-	18	18	(1)	17
Long-term portion of derivative assets - affiliates					
Foreign exchange contracts	-	80	80	-	80
	-	80	80	-	80
Current portion of derivative liabilities					
Interest rate contracts	(5)	-	(5)	-	(5)
Foreign exchange contracts	-	(18)	(18)	-	(18)
	(5)	(18)	(23)	-	(23)
Current portion of derivative liabilities - affiliates					
Interest rate contracts	(48)	-	(48)	-	(48)
Foreign exchange contracts	-	(1)	(1)	1	-
	(48)	(1)	(49)	1	(48)
Long-term portion of derivative liabilities					
Interest rate contracts	(47)	-	(47)	-	(47)
Foreign exchange contracts	-	(80)	(80)	-	(80)
	(47)	(80)	(127)	-	(127)
Long-term portion of derivative liabilities - affiliates					
Interest rate contracts	(4)	-	(4)	-	(4)
	(4)	-	(4)	-	(4)
Total net derivative liability					
Interest rate contracts	(104)	-	(104)	-	(104)
Foreign exchange contracts	-	-	-	-	-
	(104)	-	(104)	-	(104)

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

<b>June 30, 2017</b>	2017	2018	2019	2020	2021	Thereafter
Interest rate contracts - short-term borrowings <i>(millions of Canadian dollars)</i>	171	319	1	-	-	-
Interest rate contracts - long-term borrowings <i>(millions of Canadian dollars)</i>	800	350	-	-	-	-
Foreign exchange contracts - United States dollar forwards - purchase <i>(millions of United States dollars)</i>	49	92	57	63	69	222
Foreign exchange contracts - United States dollar forwards - sell <i>(millions of United States dollars)</i>	49	92	57	63	69	222

December 31, 2016	2017	2018	2019	2020	2021	Thereafter
Interest rate contracts - short-term borrowings <i>(millions of Canadian dollars)</i>	326	319	1	-	-	-
Interest rate contracts - long-term borrowings <i>(millions of Canadian dollars)</i>	800	350	-	-	-	-
Foreign exchange contracts - United States dollar forwards - purchase <i>(millions of United States dollars)</i>	99	92	57	63	69	222
Foreign exchange contracts - United States dollar forwards - sell <i>(millions of United States dollars)</i>	99	92	57	63	69	222

### 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 earnings and comprehensive income.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<i>(millions of Canadian dollars)</i>				
Amount of unrealized gains/(loss) recognized in OCI				
Interest rate contracts	12	(44)	3	(111)
Amount of (gains)/loss reclassified from AOCI to earnings <i>(effective portion)</i>				
Interest rate contracts <sup>1</sup>	2	2	3	3
Total (gains)/loss reclassified from AOCI to earnings <i>(effective portion)</i>	2	2	3	3
Amount of (gains)/loss reclassified from AOCI to earnings <i>(ineffective portion and amount excluded from effectiveness testing)</i>				
Interest rate contracts <sup>1</sup>	(2)	2	(1)	2

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

The estimated net amount of existing losses reported in Accumulated other comprehensive income/(loss) (AOCI) that is expected to be reclassified to net income within the next 12 months is \$7 million. Actual amounts reclassified to earnings depend on the interest rates in effect when derivative contracts that are currently outstanding are settled.

### Non-Qualifying Derivatives

The net unrealized gains and losses associated with changes in the fair value of the Fund's non-qualifying derivatives was nil for the three and six months ended June 30, 2017 and 2016.

### 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 its indirect investment in EIPLP, draws under committed credit facilities, issuance of medium-term notes (MTNs) and the issuance of the Fund's ordinary trust units (Fund Units). The Fund also maintains a current MTN shelf prospectus with Canadian securities regulators, which enables, subject to market conditions, ready access to Canadian public capital markets. Additional liquidity, if necessary, is expected to be available through intercompany transactions with Enbridge or other related entities.

### 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 credit exposure limits and contractual requirements, netting arrangements and ongoing monitoring of counterparty credit exposure using external credit rating services and other analytical tools.



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

	<b>June 30, 2017</b>	December 31, 2016
<i>(millions of Canadian dollars)</i>		
European financial institutions	<b>1</b>	1
Due from affiliate	<b>78</b>	98
	<b>79</b>	99

## **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 June 30, 2017 or December 31, 2016.

### **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 did not have any financial instruments categorized as Level 3 as at June 30, 2017 or at December 31, 2016.

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 or foreign exchange) 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 financial instruments, measured at fair value as follows:

<b>June 30, 2017</b>	Level 1	Level 2	Level 3	Total Gross Derivative Instruments
<i>(millions of Canadian dollars)</i>				
Financial assets				
Current derivative assets	-	15	-	15
Long-term derivative assets	-	63	-	63
Financial liabilities				
Current derivative liabilities	-	(62)	-	(62)
Long-term derivative liabilities	-	(112)	-	(112)
<b>Total net liability</b>	-	<b>(96)</b>	-	<b>(96)</b>

<b>December 31, 2016</b>	Level 1	Level 2	Level 3	Total Gross Derivative Instrument
<i>(millions of Canadian dollars)</i>				
Financial assets				
Current derivative assets	-	19	-	19
Long-term derivative assets	-	80	-	80
Financial liabilities				
Current derivative liabilities	-	(72)	-	(72)
Long-term derivative liabilities	-	(131)	-	(131)
<b>Total net liability</b>	-	<b>(104)</b>	-	<b>(104)</b>

The Fund's policy is to recognize transfers as at the last day of the reporting period. There were no transfers between levels as at June 30, 2017 and December 31, 2016.

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

At June 30, 2017, the Fund's long-term debt had a carrying value of \$2,734 million (December 31, 2016 - \$2,299 million) before debt issuance costs and a fair value of \$2,842 million (December 31, 2016 - \$2,415 million). This fair value measurement has been classified as a Level 2 fair value measurement.

## 5. DEBT

### CREDIT FACILITIES

	Maturity Dates	June 30, 2017		
		Total Facilities	Draws <sup>1</sup>	Available
<i>(millions of Canadian dollars)</i>				
Enbridge Income Fund	2019	<b>1,500</b>	<b>771</b>	<b>729</b>

<sup>1</sup> Includes facility draws and letters of credit that are back-stopped by the credit facility.

As at June 30, 2017, credit facility draws of \$760 million (December 31, 2016 - \$225 million) and letters of credit of \$11 million (December 31, 2016 - \$11 million) were supported by the availability of a long-term committed credit facility and therefore have been classified as long-term debt.

### DEBT COVENANTS

The Fund was in compliance with all terms and conditions of its credit facility agreement as at June 30, 2017.

## 6. TRUST UNITS

Six months ended June 30,	2017		2016	
	Number of Units	Amount	Number of Units	Amount
<i>(millions of Canadian dollars, number of units in millions)</i>				
Fund units, beginning of period	<b>218</b>	<b>7,445</b>	191	5,266
Redemption value adjustment	-	<b>(554)</b>	-	876
Issued	<b>1</b>	<b>31</b>	26	737
Share issue costs	-	-	-	(24)
Fund units, end of period <sup>1</sup>	<b>219</b>	<b>6,922</b>	217	6,855

<sup>1</sup> Enbridge owned 72 million trust units at June 30, 2017 (2016 - 94 million).