

# 2018 Third Quarter Report

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# ENBRIDGE INCOME FUND HOLDINGS INC. MANAGEMENT'S DISCUSSION AND ANALYSIS

**September 30, 2018**

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## GLOSSARY

DRIP	Dividend Reinvestment and Share Purchase Plan
ECT	Enbridge Commercial Trust
EIPLP	Enbridge Income Partners LP
Enbridge	Enbridge Inc.
ENF or the Company	Enbridge Income Fund Holdings Inc.
Fund Units	Ordinary trust units of the Fund
IFRS	International Financial Reporting Standards
MD&A	Management's Discussion and Analysis
the Arrangement Agreement	The arrangement agreement, as amended, entered into between Enbridge and ENF in connection with the Proposed Arrangement
the Fund	Enbridge Income Fund
the Fund Group	The Fund, ECT, EIPLP and the subsidiaries and investees of EIPLP
the Proposed Arrangement	The proposed arrangement between Enbridge and ENF pursuant to the terms of the Arrangement Agreement, under which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge

# **MANAGEMENT'S DISCUSSION & ANALYSIS**

## **FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

This Management's Discussion and Analysis (MD&A) dated November 2, 2018 should be read in conjunction with the unaudited interim financial statements and notes thereto of Enbridge Income Fund Holdings Inc. as at and for the three and nine months ended September 30, 2018, prepared in accordance with International Financial Reporting Standards (IFRS). It should also be read in conjunction with the audited financial statements and MD&A contained in Enbridge Income Fund Holdings Inc.'s Annual Report for the year ended December 31, 2017. All financial information is presented in Canadian dollars, unless otherwise indicated. Additional information related to Enbridge Income Fund Holdings Inc., including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **OVERVIEW**

The terms "we", "our", "us", "ENF" and "the Company" as used in this MD&A refer to Enbridge Income Fund Holdings Inc. unless the context suggests otherwise. The Company is a publicly traded corporation whose common shares trade on the Toronto Stock Exchange (TSX) under the symbol ENF. Our business is limited to our ownership interest in Enbridge Income Fund (the Fund) and our objective is to pay out a high proportion of distributable cash in the form of dividends to shareholders.

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 Enbridge Income Partners LP (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 system, which transports natural gas from Canada to the United States, and interests in renewable and alternative power generation assets. Readers are encouraged to read EIPLP's consolidated financial statements and MD&A which are filed under the Fund's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

The unitholders of the Fund are the Company and Enbridge Inc. (Enbridge), a North American transporter, distributor and generator of energy listed on the TSX and New York Stock Exchange. We are managed by Enbridge Management Services Inc. (the Manager or EMSI), a wholly-owned subsidiary of Enbridge. EMSI also serves as the manager of the Fund, Enbridge Commercial Trust (ECT), which is a wholly-owned investment of the Fund, and EIPLP. EIPLP is a limited partnership between ECT and Enbridge. The Fund, ECT, EIPLP and the subsidiaries and investees of EIPLP are collectively referred to as the Fund Group.

At September 30, 2018, Enbridge held 19.9% (December 31, 2017 - 19.9%) of the Company's common shares, with public shareholders holding the remaining 80.1% (December 31, 2017 - 80.1%). Further, at September 30, 2018, we held 70.9% (December 31, 2017 - 70.6%) of the issued and outstanding ordinary trust units of the Fund (Fund Units), and Enbridge held the remaining 29.1% (December 31, 2017 - 29.4%). Our overall economic interest in the Fund Group as at September 30, 2018 was 21.8% (December 31, 2017 - 21.8%).

### **RECENT DEVELOPMENTS**

#### **PROPOSED ARRANGEMENT**

On September 18, 2018, we announced our entry into an arrangement agreement (the Arrangement Agreement) with respect to an arrangement (the Proposed Arrangement), pursuant to which Enbridge will acquire all of our outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each common share of the Company will be exchanged for 0.7350 (the Agreed Exchange Ratio) of an Enbridge common share and cash of not less than \$0.45 per common share of the

Company (the Cash Component). The Agreed Exchange Ratio represents an increase of 9.8% relative to the unaffected ENF exchange ratio on May 16, 2018, and 11.3% inclusive of the Cash Component. The Proposed Arrangement is part of Enbridge's sponsored vehicle restructuring initiative to simplify its corporate structure.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by our shareholders present in person or by proxy at a special shareholders meeting (the Meeting) called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by our shareholders, present in person or by proxy at the Meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

As a result of the completion of the Proposed Arrangement, our common shares will no longer be publicly traded. Subject to our shareholder approval, the approval of the Court of Queen's Bench of Alberta and other customary closing conditions, the closing of the Proposed Arrangement is targeted to close in the fourth quarter of 2018.

#### **DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN**

On October 3, 2018, we announced the suspension of our amended and restated Dividend Reinvestment and Share Purchase Plan (DRIP) as a result of the Proposed Arrangement.

Prior to this announcement, our shareholders were able to participate in the DRIP, which enabled participants to reinvest their dividends in our common shares at a 2% discount to market price and to make additional optional cash payments to purchase common shares at the market price, free of brokerage or other charges.

As a result of the suspension of the DRIP, the dividend to be paid on November 15, 2018 to shareholders of record on October 31, 2018, will not be eligible for reinvestment pursuant to the DRIP. If the Company elects to reinstate the DRIP in the future, the shareholders that were enrolled in the DRIP at the time of suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

## ENBRIDGE INCOME FUND HOLDINGS INC. PERFORMANCE OVERVIEW

Our earnings and cash flows are derived from our investment in the Fund and are dependent upon our ownership interest in the Fund, the cash distributions per unit paid by the Fund and income taxes. Readers are encouraged to read the Fund's financial statements and MD&A, which are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars, except per unit, per share and share amounts)</i>				
<b>Earnings</b>				
Fund Unit distribution per unit	<b>0.6402</b>	0.5376	<b>1.9206</b>	1.6128
Cash distributions declared to holders of Fund Units	<b>159</b>	118	<b>476</b>	353
Percentage of Fund Units held by ENF	<b>70.8% - 70.9%</b>	66.9% - 67.0%	<b>70.6% - 70.9%</b>	56.9% - 67.0%
Distribution income, ENF	<b>113</b>	79	<b>337</b>	225
Unrealized fair value change in investment	<b>(166)</b>	(11)	<b>239</b>	(345)
Interest income and other	<b>1</b>	—	<b>3</b>	2
Income taxes recovery/(expense) <sup>1</sup>	<b>22</b>	—	<b>(35)</b>	41
Earnings/(loss), ENF <sup>1</sup>	<b>(30)</b>	68	<b>544</b>	(77)
Basic earnings/(loss) per common share <sup>1</sup>	<b>(0.17)</b>	0.46	<b>3.10</b>	(0.56)
Diluted earnings/(loss) per common share <sup>1</sup>	<b>(0.17)</b>	0.46	<b>2.17</b>	(0.56)
<b>Adjusted earnings</b>				
Adjusted earnings	<b>113</b>	77	<b>337</b>	221
Adjusted earnings per common share	<b>0.64</b>	0.52	<b>1.93</b>	1.60
Adjusted diluted earnings per common share	<b>0.64</b>	0.52	<b>1.91</b>	1.57
<b>Cash flow data</b>				
Cash provided by operating activities	<b>101</b>	80	<b>365</b>	222
Cash used in investing activities	<b>(30)</b>	(26)	<b>(147)</b>	(61)
Cash used in financing activities	<b>(73)</b>	(59)	<b>(216)</b>	(161)
<b>Dividends</b>				
Dividends declared	<b>100</b>	76	<b>297</b>	215
Dividends per common share	<b>0.5649</b>	0.5133	<b>1.6947</b>	1.5399
Adjusted dividend payout ratio	<b>88.5%</b>	98.7%	<b>88.1%</b>	97.3%
<b>Number of common shares outstanding<sup>2</sup></b>			<b>176,406,622</b>	147,345,711

<sup>1</sup> Comparative information for the three and nine months ended September 30, 2017 has been retrospectively adjusted to reflect the adoption of IFRS 9. Refer to Changes in Accounting Policies.

<sup>2</sup> As at September 30, 2018 and 2017, respectively.

### EARNINGS

For the three and nine months ended September 30, 2018, we incurred a loss of \$30 million and earnings of \$544 million compared with earnings of \$68 million and a loss of \$77 million in the corresponding 2017 periods, respectively.

The comparability of our earnings was impacted by non-operating factors, which are listed as adjusting items in the Non-GAAP Reconciliation table in *Non-GAAP Measures*. Details of non-operating factors impacting the comparability of our earnings for the three and nine months ended September 30, 2018 period-over-period include:

- unrealized fair value loss of \$166 million and a gain of \$239 million (\$143 million loss and \$207 million gain after-tax) for the three and nine months ended September 30, 2018 compared with losses of \$11 million and \$345 million (\$9 million and \$298 million after-tax) in the same periods of 2017, respectively, arising from changes in the fair value of our investment in the Fund, which is determined with reference to our common share price and is adjusted for assets and liabilities not applicable to the Fund. Effective January 1, 2018, we adopted IFRS 9 Financial Instruments on a retrospective basis, resulting in the unrealized fair value change being recognized in earnings, rather than in other comprehensive income. Refer to *Non-GAAP Measures* and *Changes in Accounting Policies* for further discussion.

After taking into consideration the non-operating factors above, the remaining period-over-period increase in earnings during the three and nine months ended September 30, 2018 is primarily explained by the following significant business factors:

- an increase in distribution income received from Fund Units in the third quarter and first nine months of 2018 compared with corresponding 2017 periods, as the Fund increased its monthly Fund Unit distribution to \$0.2134 per unit in January 2018, and we invested in additional Fund Units in December 2017 and on a monthly basis using cash retained under our DRIP; and
- a comparable amount of taxes incurred on distributions received from the Fund, which varies depending on the taxability of such distributions in any given period. To the extent that a portion of the distribution represents a tax-free inter-corporate dividend or return of capital, current tax will not be incurred on that portion of the distribution.

On a year-to-date basis, our increase in distribution income received from Fund Units was also driven by additional Fund Units acquired in April 2017 as a result of Enbridge's non-monetary exchange of Fund Units for common shares of the Company.

### **ADJUSTED EARNINGS**

Adjusted earnings for the three and nine months ended September 30, 2018 were \$113 million and \$337 million compared with \$77 million and \$221 million for the corresponding 2017 periods, respectively. Our adjusted earnings for both periods were impacted by the same factors impacting our earnings, after adjusting for non-operating factors, as discussed in *Enbridge Income Fund Holdings Inc. Performance Overview – Earnings*, which primarily included an increase in distribution income received from the Fund in both the third quarter and first nine months of 2018.

### **CASH FLOWS**

For the third quarter of 2018, cash provided by operating activities increased to \$101 million from \$80 million in the third quarter of 2017, while cash used in investing activities increased to \$30 million from \$26 million. For the three months ended September 30, 2018, cash used in financing activities increased to \$73 million from \$59 million for the same period in 2017.

For the first nine months of 2018, cash provided by operating activities increased to \$365 million from \$222 million in the first nine months of 2017, while cash used in investing activities increased to \$147 million from \$61 million. For the nine months ended September 30, 2018, cash used in financing activities increased to \$216 million from \$161 million for the same period in 2017.

Factors impacting our cash flows during the three and nine months ended September 30, 2018 period-over-period primarily include:

- an increase in cash provided by operating activities primarily due to greater distributions received from the Fund in 2018;
- an increase in cash used in investing activities due to additional Fund Units acquired through the DRIP in 2018 in both 2018 periods; and
- an increase in cash used in financing activities as a result of an increase in dividends paid in 2018.

On a year-to-date basis, cash used in investing activities also increased due to an increase in net advances made to a subsidiary of EIPLP on a subordinated demand loan.

Refer to *Liquidity and Capital Resources – Sources and Uses of Cash* for further discussion.

## **DIVIDENDS**

We pay monthly dividends to our shareholders. Dividends for the three and nine months ended September 30, 2018 were declared at a quarterly aggregate rate of \$0.5649 (2017 - \$0.5133) per common share, representing total dividends of \$100 million and \$297 million, respectively (2017 - \$76 million and \$215 million). Our adjusted dividend payout ratios were 88.5% and 88.1% (2017 - 98.7% and 97.3%) for the three and nine months ended September 30, 2018, respectively.

Factors impacting our dividends during the three and nine months ended September 30, 2018 period-over-period primarily include:

- an increase in our monthly dividend per common share in January 2018 by 10% over the 2017 dividends declared to \$0.1883 per common share; and
- an increase in our common shares outstanding during the third quarter and first nine months of 2018 following our common equity offering in December 2017.

On a year-to-date basis, our increase in dividends paid was also impacted by an increase in our common shares outstanding following Enbridge's non-monetary exchange of Fund Units for common shares of the Company in April 2017.

## **FORWARD-LOOKING INFORMATION**

*Forward-looking information, or forward-looking statements, have been included in this MD&A to provide information about the Company and the Fund Group, including management's assessment of the Company and the Fund Group's future plans and operations. 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); earnings/(loss) or adjusted earnings/(loss) per share; cash flows; dividends or distributions; distributions to the Company by the Fund; dividend growth and dividend payout expectation; working capital requirements; sources of liquidity and sufficiency of financial resources; flexibility of distributions; organic growth opportunities; the impact of the Proposed Arrangement, including the consummation thereof; Enbridge's separate agreements to purchase the outstanding public equity of Spectra Energy Partners, LP, Enbridge Energy Partners, L.P. and Enbridge Energy Management, L.L.C., including the consummation thereof; the DRIP, including the suspension thereof; use of retained cash; and investment opportunities.*

*Although the Company 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 labor 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 impact of the dividend policy on the Company's or the Fund Group's future cash flows; use of retained cash for future income tax payments; access to equity markets; potential acquisitions, dispositions or other strategic transactions; the Fund Group's credit ratings; capital project funding; earnings/(loss) or adjusted earnings/(loss); earnings/(loss) per share; cash flows; dividends or distributions; and the satisfaction of all conditions to the Proposed Arrangement and receipt of all necessary approvals. Assumptions regarding the 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 levels of demand for the Fund Group's services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which the Company and the Fund Group operate and may impact levels 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) and associated per share amounts, or future dividends or distributions. The most relevant assumptions associated with forward-looking statements on projects under construction, including completion dates and capital expenditures, include the following: availability and price of labor and construction materials; effects of inflation and foreign exchange rates on labor and material costs; effects of interest rates on borrowing costs; and the impact of weather and customer, government and regulatory approvals on construction and in-service schedules and cost recovery regimes.

The Company's forward-looking statements are subject to risks and uncertainties pertaining to future dividends, 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, the interpretation and impact of newly adopted tax policies; changes in trade agreements, exchange rates, interest rates, commodity prices, political decisions, supply of and demand for commodities and the closing of the Proposed Arrangement, including but not limited to those risks and uncertainties discussed in this MD&A and in the Company'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 Company'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 Company 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 Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

## NON-GAAP MEASURES

This MD&A contains references to our adjusted earnings and adjusted earnings per common share. Our adjusted earnings represent our earnings adjusted for non-operating factors. These factors, referred to as adjusting items, are reconciled and discussed in *Non-GAAP Reconciliation – Earnings to Adjusted Earnings*.

The Manager believes the presentation of our adjusted earnings give useful information to shareholders as they provide increased transparency and insight into the performance of ENF. The Manager uses our adjusted earnings to set targets, including the distribution payout target, and to assess the performance of ENF. Our adjusted earnings and adjusted earnings per common share are not measures that have standardized meanings prescribed by generally accepted accounting principles in the United States of America (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 table below provides a reconciliation of the GAAP and non-GAAP measures.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Earnings/(loss) <sup>1</sup>	(30)	68	544	(77)
Adjusting items:				
Unrealized fair value change in investment, net of tax <sup>2</sup>	143	9	(207)	298
Adjusted earnings	113	77	337	221

<sup>1</sup> Comparative information for the three and nine months ended September 30, 2017 has been retrospectively adjusted to reflect the adoption of IFRS 9. Refer to Changes in Accounting Policies.

<sup>2</sup> Represents unrealized fair value changes arising from the change in the fair value of our investment in the Fund, which is determined with reference to our common share price. Effective January 1, 2018, ENF adopted IFRS 9 Financial Instruments on a retrospective basis, resulting in the unrealized fair value change being recognized in earnings, rather than in other comprehensive income. Refer to Changes in Accounting Policies.

Adjusted earnings for the three and nine months ended September 30, 2018 were \$113 million and \$337 million compared with \$77 million and \$221 million in the same periods of 2017, respectively. The

significant business factors increasing our adjusted earnings are discussed at *Enbridge Income Fund Holdings Inc. Performance Overview – Adjusted Earnings*.

## LIQUIDITY AND CAPITAL RESOURCES

We pay out a high proportion of distributions received from the Fund. Retained cash is expected to be used for future income tax payments and as a reserve to sustain a predictable stream of dividends to our shareholders over the long term. Cash not required to fund dividends or to meet working capital requirements is advanced to a subsidiary of EIPLP pursuant to a subordinated demand loan with an interest rate of 4.3% per annum. At September 30, 2018, \$141 million (December 31, 2017 - \$72 million) was outstanding from a subsidiary of EIPLP.

Our working capital requirements are not expected to be significant in 2018. We have an agreement with ECT whereby ECT reimburses us for all expenses incurred relating to the normal course administration of the Company as a publicly traded corporation.

We did not have any outstanding long-term debt as at September 30, 2018 and December 31, 2017. Additional capital resources to finance our future investment in the Fund are expected to be available through access to equity markets, subject to our ability to access the market on favorable terms.

## SOURCES AND USES OF CASH

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Operating activities	101	80	365	222
Investing activities	(30)	(26)	(147)	(61)
Financing activities	(73)	(59)	(216)	(161)
Increase/(decrease) in cash and cash equivalents	(2)	(5)	2	—

Significant sources and uses of cash for the three and nine months ended September 30, 2018 and 2017 are summarized below:

### Operating Activities

Cash provided by operating activities reflects cash distributions received from the Fund, net of income taxes. Factors impacting the increase in cash provided by operating activities period-over-period primarily include:

- an increase in distributions received from the Fund in the third quarter and first nine months of 2018 due to a higher Fund Unit distribution rate that commenced in January 2018 and our increased ownership of the Fund in both periods of 2018.

On a year-to-date basis, cash provided by operating activities also increased due to the reimbursement of share issue costs paid in connection with our public equity offering in December 2017 that were received from the Fund in 2018, pursuant to a payment assistance agreement.

### Investing Activities

Cash used in investing activities primarily reflects the additional purchase of Fund Units, as well as advances to and repayments from a subsidiary of EIPLP pursuant to a subordinated demand loan, which are considered related party transactions. Factors impacting the increase in cash used in investing activities period-over-period primarily include:

- an increase in the amount of cash retained in respect of reinvested dividends to \$26 million and \$78 million for the three and nine months ended September 30, 2018, respectively (2017 - \$17 million and \$48 million), for which the proceeds were used to purchase 0.9 million and 2.7 million Fund Units (2017 - 0.6 million and 1.5 million). This represents average participation rates in the DRIP of 26.0% and 26.0% (2017 - 23.3% and 23.2%).

On a year-to-date basis, cash used in investing activities also increased due to an increase in net advances of \$69 million made to a subsidiary of EIPLP pursuant to a subordinated demand loan in the first nine months of 2018 compared with \$13 million in the corresponding period of 2017.

### **Financing Activities**

Cash used in financing activities primarily reflects common share issuances as well as our payment of monthly dividends to our shareholders, net of cash retained in respect of reinvested dividends under the DRIP. Our shareholders were able to participate in the DRIP, which enabled the participants to reinvest their dividends in common shares of the Company at a 2% discount to market price. Factors impacting the increase in cash used in financing activities period-over-period primarily include:

- an increase in dividends paid in both periods of 2018 as a result of additional common shares outstanding and the increase in monthly dividends paid per common share, which commenced in January 2018. The increase in dividends paid was partially offset by an increase in the amount of cash retained in respect of reinvested dividends discussed above.

## **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

### **GENERAL BUSINESS RISKS**

#### **Proposed Arrangement**

As discussed in *Recent Developments*, on September 18, 2018, we announced our entry into the Arrangement Agreement with respect to the Proposed Arrangement, pursuant to which Enbridge will acquire all of our outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each common share of the Company will be exchanged for 0.7350 of an Enbridge common share and a cash payment of not less than \$0.45 per common share of the Company.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by our shareholders present in person or by proxy at the Meeting called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by our shareholders, present in person or by proxy at the Meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

There can be no certainty that all conditions precedent to the Proposed Arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver or that the Arrangement Agreement will not be terminated by us or Enbridge prior to completion of the Proposed Arrangement.

Failure to complete the Proposed Arrangement, or significant delays in completing the Proposed Arrangement, could negatively affect our business and financial results and the trading prices of our common shares.

## CHANGES IN ACCOUNTING POLICIES

### ADOPTION OF NEW STANDARDS

#### Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments on a retrospective basis. IFRS 9 completes the International Accounting Standards Board's project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a single approach to determining whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The single approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Upon adoption of IFRS 9, the Company's investment in the Fund is no longer accounted for as an available for sale investment at fair value through other comprehensive income. Instead, the gains and losses, net of taxes, arising from changes in fair value of the investment are accounted for within earnings.

IFRS 9 also introduces the expected credit loss model which replaces the incurred loss model. Under the expected credit loss model, any credit losses are estimated based on a probability weighted average expected future cash flows taking into account all possible events of default over the life of the loan and receivables. The adoption of the credit loss model did not have a material impact on the Company's financial statements.

The following table presents the effect on the financial statement line items impacted by the adoption of IFRS 9 for the comparative periods:

	Before IFRS 9 adoption	Impact of adoption	Three months ended September 30, 2017
<i>(unaudited; millions of Canadian dollars)</i>			
Earnings before tax	79	(11)	68
Income tax expense	(2)	2	—
Earnings	77	(9)	68
Other comprehensive income/(loss)			
Other comprehensive loss	(11)	11	—
Income tax recovery	2	(2)	—
Comprehensive income	68	—	68

	Before IFRS 9 adoption	Impact of adoption	Nine months ended September 30, 2017
<i>(unaudited; millions of Canadian dollars)</i>			
Earnings/(loss) before tax	227	(345)	(118)
Income tax recovery/(expense)	(6)	47	41
Earnings/(loss)	221	(298)	(77)
Other comprehensive income/(loss)			
Other comprehensive loss	(345)	345	—
Income tax recovery	47	(47)	—
Comprehensive loss	(77)	—	(77)

	Before IFRS 9 adoption	Impact of adoption	December 31, 2017
<i>(unaudited; millions of Canadian dollars)</i>			
Retained earnings	94	360	454
Accumulated other comprehensive income	360	(360)	—

## SELECTED QUARTERLY FINANCIAL INFORMATION

	2018				2017			2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>(millions of Canadian dollars, except per share amounts)</i>								
Revenues	<b>114</b>	114	112	86	79	80	68	67
Earnings/(loss) <sup>1</sup>	<b>(30)</b>	758	(184)	(171)	68	(35)	(110)	142
Earnings/(loss) per common share <sup>1</sup>	<b>(0.17)</b>	4.33	(1.06)	(1.11)	0.46	(0.25)	(0.88)	1.15
Diluted earnings/(loss) per common share <sup>1</sup>	<b>(0.17)</b>	1.46	(1.06)	(1.11)	0.46	(0.25)	(0.88)	0.64
Dividends declared	<b>100</b>	99	98	80	76	75	64	58
Dividends declared per common	<b>0.5649</b>	0.5649	0.5649	0.5133	0.5133	0.5133	0.5133	0.4665

<sup>1</sup> Comparative information prior to January 1, 2018 has been retrospectively adjusted to reflect the adoption of IFRS 9. Refer to Changes in Accounting Policies.

Significant items that have impacted our financial results are as follows:

- Earnings/(loss) and Earnings/(loss) per common share for each period included non-cash, unrealized fair value gains and losses arising from our investment in the Fund, which are considered to be a non-operating factor.
- In January 2018, we increased our dividend per common share by 10% to \$0.1883 per month effective with the January dividend as a result of the anticipated growth in distributions from the Fund.
- In December 2017, we completed a public equity offering of 20.7 million common shares at a price of \$27.80 per share for gross proceeds of \$575 million. Concurrent with the closing of the public equity offering, Enbridge subscribed for 5.1 million common shares for gross proceeds of \$143 million, on a private placement basis, to maintain its 19.9% ownership interest in the Company. Upon closing of the transaction, Enbridge's economic interest in the Fund Group and the Company decreased from 84.6% to 82.5% and our economic interest in the Fund Group increased from 19.2% to 21.8%.
- Following our public offering in December 2017, we subscribed for 25.8 million of Fund Units as a result of our issuance of common shares to the public and Enbridge, which increased our total Fund Units owned to 173.7 million at that time. The incremental ownership of the Fund Units increased the amount of distributions received on the Fund Units and, therefore, increased our revenues and earnings.
- In April 2017, Enbridge exchanged 21.7 million Fund Units for an equivalent amount of the Company's 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.
- In January 2017, we increased our dividend per common share by 10% to \$0.1711 per month effective with the January dividend.
- EIPLP Class C units, ECT Preferred Units and Fund Units held by Enbridge, directly and indirectly, may be exchanged into common shares of the Company, subject to certain restrictions, creating potential dilution of the Company's earnings per common share.

## OUTSTANDING SHARE DATA

As at October 19, 2018, 176,703,569 common shares and one special voting share of the Company were issued and outstanding.



# ENBRIDGE INCOME FUND HOLDINGS INC. FINANCIAL STATEMENTS

**September 30, 2018**

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## ENBRIDGE INCOME FUND HOLDINGS INC. STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended		Nine months ended	
	September 30,		September 30,	
	<b>2018</b>	2017 <sup>1</sup>	<b>2018</b>	2017 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars, except per share amounts)</i>				
Distribution and other income	<b>114</b>	79	<b>340</b>	227
Unrealized fair value change in investment <i>(Note 5)</i>	<b>(166)</b>	(11)	<b>239</b>	(345)
Earnings/(loss) before tax	<b>(52)</b>	68	<b>579</b>	(118)
Income tax recovery/(expense)	<b>22</b>	—	<b>(35)</b>	41
Earnings/(loss)	<b>(30)</b>	68	<b>544</b>	(77)
Other comprehensive income	<b>—</b>	—	<b>—</b>	—
Comprehensive income/(loss)	<b>(30)</b>	68	<b>544</b>	(77)
Basic earnings/(loss) per common share	<b>(0.17)</b>	0.46	<b>3.10</b>	(0.56)
Diluted earnings/(loss) per common share	<b>(0.17)</b>	0.46	<b>2.17</b>	(0.56)

See accompanying notes to the interim financial statements.

<sup>1</sup> Retrospectively adjusted to reflect the adoption of International Financial Reporting Standards (IFRS) 9 (Note 3).

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

	Common shares	Special voting share	Share premium	Retained earnings <sup>1</sup>	Total
<i>(unaudited; millions of Canadian dollars)</i>					
December 31, 2017	4,469	—	192	454	5,115
Earnings	—	—	—	544	544
Common share dividends declared	—	—	—	(297)	(297)
Dividend reinvestment and share purchase plan	78	—	—	—	78
September 30, 2018	4,547	—	192	701	5,440

	Common shares	Special voting share	Share premium	Retained earnings <sup>1</sup>	Total
<i>(unaudited; millions of Canadian dollars)</i>					
December 31, 2016	2,984	—	192	997	4,173
Loss	—	—	—	(77)	(77)
Common share dividends declared	—	—	—	(215)	(215)
Shares issued	703	—	—	—	703
Dividend reinvestment and share purchase plan	48	—	—	—	48
September 30, 2017	3,735	—	192	705	4,632

See accompanying notes to the interim financial statements.

<sup>1</sup> Retrospectively adjusted to reflect the adoption of IFRS 9 (Note 3).



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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars)</i>				
<b>Operating activities</b>				
Earnings/(loss)	(30)	68	544	(77)
Adjustments to reconcile earnings/(loss) to net cash provided by operating activities:				
Unrealized fair value change in investment	166	11	(239)	345
Deferred income tax (recovery)/expense	(23)	(1)	32	(43)
Changes in operating assets and liabilities	(12)	2	28	(3)
Net cash provided by operating activities	101	80	365	222
<b>Investing activities</b>				
Purchase of Enbridge Income Fund trust units	(26)	(17)	(78)	(48)
Demand loan advances to affiliate	(41)	(20)	(129)	(34)
Demand loan repayments from affiliate	37	11	60	21
Net cash used in investing activities	(30)	(26)	(147)	(61)
<b>Financing activities</b>				
Common share dividends paid	(73)	(59)	(216)	(161)
Net cash used in financing activities	(73)	(59)	(216)	(161)
Net increase/(decrease) in cash and cash equivalents	(2)	(5)	2	—
Cash and cash equivalents at beginning of period	4	5	—	—
Cash and cash equivalents at end of period	2	—	2	—
<b>Supplementary cash flow information</b>				
Cash paid for income tax	—	1	1	2

See accompanying notes to the interim financial statements.

<sup>1</sup> Retrospectively adjusted to reflect the adoption of IFRS 9 (Note 3).

## ENBRIDGE INCOME FUND HOLDINGS INC. STATEMENTS OF FINANCIAL POSITION

	September 30, 2018	December 31, 2017 <sup>1</sup>
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	2	—
Accounts receivable and other	—	1
Accounts receivable from affiliate	5	23
Demand loan due from affiliate	141	72
Income taxes receivable	1	4
Distributions receivable	38	31
	<b>187</b>	<b>131</b>
Investment in Enbridge Income Fund <i>(Notes 5 and 8)</i>	<b>5,395</b>	<b>5,078</b>
<b>Total assets</b>	<b>5,582</b>	<b>5,209</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Accounts payable and other	14	1
Dividends payable	33	30
	<b>47</b>	<b>31</b>
Deferred income taxes	<b>95</b>	<b>63</b>
	<b>142</b>	<b>94</b>
Shareholders' equity		
Share capital	<b>4,547</b>	<b>4,469</b>
Share premium	<b>192</b>	<b>192</b>
Retained earnings	<b>701</b>	<b>454</b>
	<b>5,440</b>	<b>5,115</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,582</b>	<b>5,209</b>

See accompanying notes to the interim financial statements.

<sup>1</sup> Retrospectively adjusted to reflect the adoption of IFRS 9 (Note 3).

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

*(unaudited)*

### 1. BUSINESS OVERVIEW

Enbridge Income Fund Holdings Inc. (ENF or the Company) is a publicly traded corporation, incorporated on March 26, 2010 under the laws of the Province of Alberta. The Company's common shares commenced trading on the Toronto Stock Exchange on December 21, 2010. The Company holds an investment in Enbridge Income Fund (the Fund), which is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta.

The business of the Company is limited to its investment in the Fund. The Fund, through its indirect investment in Enbridge Income Partners LP (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.

On September 18, 2018, the Company announced that it has entered into a definitive agreement (the Agreement) with respect to the Proposed Arrangement, pursuant to which Enbridge Inc. (Enbridge) will acquire all of the Company's outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each common share of the Company will be exchanged for 0.7350 (the Agreed Exchange Ratio) of an Enbridge common share and cash of not less than \$0.45 per common share of the Company (the Cash Component). The Agreed Exchange Ratio represents an increase of 9.8% relative to the unaffected ENF exchange ratio on May 16, 2018, and 11.3% inclusive of the Cash Component. The Proposed Arrangement is part of Enbridge's sponsored vehicle restructuring initiative to simplify its corporate structure.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by our shareholders present in person or by proxy at a special shareholders meeting (the Meeting) called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by our shareholders, present in person or by proxy at the Meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

### 2. BASIS OF PREPARATION

The accompanying unaudited interim condensed financial statements of the Company have been prepared in accordance with IFRS International Accounting Standard (IAS) 34, Interim Financial Reporting. They do not include all of the information and notes required by IFRS for annual financial statements and should therefore be read in conjunction with ENF's audited annual financial statements and notes for the year ended December 31, 2017. These interim condensed financial statements follow the same significant accounting policies as those included in ENF's annual financial statements for the year ended December 31, 2017, except for the adoption of new standards (*Note 3*). These financial statements were authorized for issuance by the Board of Directors on November 2, 2018.

### 3. CHANGES IN ACCOUNTING POLICIES

#### ADOPTION OF NEW STANDARDS

##### Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 Financial Instruments on a retrospective basis. IFRS 9 completes the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a single approach to determining whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The single approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Upon adoption of IFRS 9, the Company's investment in the Fund is no longer accounted for as an available for sale investment at fair value through other comprehensive income. Instead, the gains and losses, net of taxes, arising from changes in fair value of the investment are accounted for within earnings.

IFRS 9 also introduces the expected credit loss model which replaces the incurred loss model. Under the expected credit loss model, any credit losses are estimated based on a probability weighted average expected future cash flows taking into account all possible events of default over the life of the loan and receivables. The adoption of the credit loss model did not have a material impact on the Company's financial statements.

The following table presents the effect on the financial statement line items impacted by the adoption of IFRS 9 for the comparative periods:

	Before IFRS 9 adoption	Impact of adoption	Three months ended September 30, 2017
<i>(unaudited; millions of Canadian dollars)</i>			
Earnings before tax	79	(11)	68
Income tax recovery/(expense)	(2)	2	—
Earnings	77	(9)	68
Other comprehensive income/(loss)			
Other comprehensive loss	(11)	11	—
Income tax recovery/(expense)	2	(2)	—
Comprehensive earnings	68	—	68
<i>(unaudited; millions of Canadian dollars)</i>			
Earnings/(loss) before tax	227	(345)	(118)
Income tax recovery/(expense)	(6)	47	41
Earnings/(loss)	221	(298)	(77)
Other comprehensive income/(loss)			
Other comprehensive loss	(345)	345	—
Income tax recovery/(expense)	47	(47)	—
Comprehensive loss	(77)	—	(77)
<i>(unaudited; millions of Canadian dollars)</i>			
	Before IFRS 9 adoption	Impact of adoption	December 31, 2017
Retained earnings	94	360	454
Accumulated other comprehensive income	360	(360)	—

## 4. EARNINGS PER COMMON SHARE

### BASIC

Earnings per common share is calculated by dividing earnings by the weighted average number of common shares outstanding.

### DILUTED

Enbridge directly and indirectly holds ordinary trust units of the Fund (Fund Units), preferred units of Enbridge Commercial Trust (ECT Preferred Units) and EIPLP Class C units, which may be exchanged into common shares of the Company. If the securities are exchanged into common shares of the Company, the Company would subscribe for the same number of additional Fund Units, which would increase the Company's distribution income.

Weighted average common shares outstanding used to calculate basic and diluted earnings common per share are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017 <sup>1</sup>	2018	2017 <sup>1</sup>
<b>Numerator</b> (millions of Canadian dollars)				
Earnings/(loss)	(30)	68	544	(77)
Dilutive effect of convertible securities	—	—	1,146	—
Numerator for diluted earnings/(loss) per common share	(30)	68	1,690	(77)
<b>Denominator</b> (millions of shares)				
Weighted average number of shares outstanding	176	147	175	138
Dilutive effect of convertible securities:				
Fund Units	—	—	72	—
ECT Preferred Units	—	—	88	—
EIPLP Class C Units	—	—	443	—
Denominator for diluted earnings/(loss) per common share	176	147	778	138

<sup>1</sup> Retrospectively adjusted to reflect the adoption of IFRS 9 (Note 3).

For the three months ended September 30, 2018, anti-dilutive convertible securities of 72.5 million Fund Units, 87.7 million ECT Preferred Units and 442.9 million Class C Units were excluded from the diluted earnings per common share calculation.

For the three months ended September 30, 2017, anti-dilutive convertible securities of 72.5 million Fund Units, 87.7 million ECT Preferred Units and 442.9 million Class C Units were excluded from the diluted earnings per common share calculation.

For the nine months ended September 30, 2017, anti-dilutive convertible securities of 81.0 million of Fund Units, 87.7 million ECT Preferred Units and 442.9 million Class C Units respectively were excluded from the diluted loss per common share calculation.

## 5. INVESTMENT IN ENBRIDGE INCOME FUND

At September 30, 2018, the Company owned 176.4 million units (December 31, 2017 - 173.7 million), or 70.9% (December 31, 2017 - 70.6%), of the Fund's issued and outstanding Fund Units.

	Nine months ended September 30, 2018	Year ended December 31, 2017
<i>(millions of Canadian dollars)</i>		
Balance at beginning of period	5,078	4,235
Investment acquired <sup>1,2,3</sup>	78	1,485
Fair value change for the period	239	(642)
Balance at end of period	5,395	5,078

<sup>1</sup> The Company used the cash retained and invested under its Dividend Reinvestment and Share Purchase Plan (DRIP) to purchase three million Fund Units in each of the nine months ended September 30, 2018 and the year ended December 31, 2017.

<sup>2</sup> On April 18, 2017, the Company received 21.7 million Fund Units in connection with Enbridge's exchange of 21.7 million Fund Units for common shares of the Company.

<sup>3</sup> On December 7, 2017, the Company used the proceeds from its public equity offering to purchase 25.8 million Fund Units.

### DISTRIBUTION INCOME

The Fund declared distributions on a monthly basis at a rate of \$0.2134 (2017 - \$0.1792) per unit during the nine months ended September 30, 2018 or \$113 million and \$337 million (2017 - \$79 million and \$225 million) in aggregate to the Company for the three and nine months ended September 30, 2018, respectively.

### SUMMARIZED FINANCIAL INFORMATION<sup>1</sup>

Summarized financial information of the Fund which supports the Company's earnings, derived from the Fund's financial statements prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Income from equity investments	172	148	228	363
Earnings	151	132	174	311
Other comprehensive income	9	31	32	37
Total comprehensive income	160	163	206	348

<sup>1</sup> Summarized financial information of the Fund is prepared in accordance with U.S. GAAP. As such the results may have been different had they been prepared in accordance with IFRS.

	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
Current assets	341	1,018
Non-current assets	2,600	2,846
Current liabilities	514	225
Non-current liabilities	1,372	2,420

<sup>1</sup> Summarized financial information of the Fund is prepared in accordance with U.S. GAAP. As such the results may have been different had they been prepared in accordance with IFRS.

## 6. SHARE CAPITAL AND SHARE PREMIUM

### DIVIDENDS

The Company declared monthly dividends of \$0.1883 (2017 - \$0.1711) per share during the nine months ended September 30, 2018, which were paid in the following month.

On October 15, 2018, the Company announced a monthly dividend of \$0.1883 per common share to be paid on November 15, 2018 to shareholders of record on October 31, 2018.

### DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

On October 3, 2018, the Company announced the suspension of its amended and restated DRIP as a result of the Proposed Arrangement.

Prior to this announcement, the Company's shareholders were able to participate in the DRIP, which enabled participants to reinvest their dividends in common shares of the Company at a 2% discount to market price and to make additional optional cash payments to purchase common shares at the market price, free of brokerage or other charges.

As a result of the suspension of the DRIP, the dividend to be paid on November 15, 2018 to shareholders of record on October 31, 2018, will not be eligible for reinvestment pursuant to the DRIP. If the Company elects to reinstate the DRIP in the future, the shareholders that were enrolled in the DRIP at the time of suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

## 7. INCOME TAX

The effective income tax rates for the three and nine months ended September 30, 2018 were 42.3% and 6.0%, respectively (2017 - nil and 34.7%). The period-over-period change in the effective income tax rate is due to the impact of non-taxable distributions received relative to the change in earnings for the three and nine months ended September 30, 2018. The Company incurred minimal current income taxes for the three and nine months ended September 30, 2018 and 2017.

## 8. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The Company 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 Company did not have any financial instruments categorized as Level 1 as at September 30, 2018 or December 31, 2017.

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### **LEVEL 2**

Level 2 includes financial instrument valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. The fair value measurement of the investment in the Fund is classified as Level 2, as the valuation technique references the quoted market price of the Company's common shares, and adjusts for assets and liabilities not applicable to the Fund. At September 30, 2018, the Company's investment in the Fund had a fair value of \$5.4 billion (December 31, 2017 - \$5.1 billion).

### **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 Company did not have any financial instruments categorized as Level 3 as at September 30, 2018 or December 31, 2017.

The Company's policy is to recognize transfers as at the last day of the reporting period. There were no transfers between levels as at September 30, 2018 or 2017.





# ENBRIDGE INCOME FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

**September 30, 2018**

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## GLOSSARY

Adjusted EBITDA	Adjusted earnings before interest, income taxes and depreciation and amortization
DCF	Distributable cash flow
EBITDA	Earnings before interest, income taxes and depreciation and amortization
ECT	Enbridge Commercial Trust
EEP	Enbridge Energy Partners, L.P.
EIPLP	Enbridge Income Partners LP
Enbridge	Enbridge Inc.
ENF	Enbridge Income Fund Holdings Inc.
FERC	Federal Energy Regulatory Commission
Fund Units	Ordinary trust units of the Fund
IJT	International Joint Tariff
MD&A	Management's Discussion and Analysis
MTN	Medium-term note
the Arrangement Agreement	The arrangement agreement, as amended, entered into between Enbridge and ENF in connection with the Proposed Arrangement
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.
the Proposed Arrangement	The proposed arrangement between Enbridge and ENF pursuant to the terms of the Arrangement Agreement, under which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge

# **MANAGEMENT'S DISCUSSION & ANALYSIS**

## **FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018**

This Management's Discussion and Analysis (MD&A) dated November 2, 2018 should be read in conjunction with the unaudited interim financial statements and notes thereto of Enbridge Income Fund as at and for the three and nine months ended September 30, 2018, 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 audited financial statements and MD&A for the year ended December 31, 2017.

All financial measures presented in this MD&A are expressed in Canadian dollars, unless otherwise indicated. Additional information related to Enbridge Income Fund, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information related to Enbridge Income Partners LP (EIPLP), including its financial statements and MD&A, is also available on SEDAR under Enbridge Income Fund's profile.

### **OVERVIEW**

The terms "we", "our", "us" and "the Fund" as used in this MD&A refer to Enbridge Income Fund unless the context suggests otherwise. The Fund is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. We, through our indirect investment in EIPLP, are 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. EIPLP is a partnership between Enbridge Commercial Trust (ECT) and Enbridge Inc. (Enbridge).

The unitholders of the Fund are Enbridge Income Fund Holdings Inc. (ENF), a public company listed on the Toronto Stock Exchange (TSX), and Enbridge, a North American transporter, distributor and generator of energy listed on the TSX and New York Stock Exchange. The Fund is a member of the Fund Group, which also includes ECT, EIPLP and the subsidiaries and investees of EIPLP. We own a direct investment in ECT and an indirect investment in EIPLP. Our financial performance is underpinned by the results of EIPLP, which holds the underlying operating entities and investments of the Fund Group. Enbridge, through its wholly-owned subsidiary Enbridge Management Services Inc. (the Manager or EMSI), 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.

Enbridge's total economic interest in the Fund Group and ENF was 82.6% at September 30, 2018 based on its indirect interest in the Fund through ENF, its direct interest in the Fund through ordinary trust units of the Fund (Fund Units), its interest in preferred units of ECT and its direct and indirect interest in units of EIPLP.

### **RECENT DEVELOPMENTS**

#### **PROPOSED ARRANGEMENT**

The Fund Group is owned by Enbridge and ENF. On September 18, 2018, ENF announced its entry into an arrangement agreement (the Arrangement Agreement) with respect to an arrangement (the Proposed Arrangement), pursuant to which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each ENF common share will be exchanged for 0.7350 (the Agreed Exchange Ratio) of an Enbridge common share and cash of not less than \$0.45 per ENF common share (the Cash Component). The Agreed Exchange Ratio represents an increase of 9.8% relative to the unaffected ENF exchange ratio on May 16, 2018, and 11.3% inclusive of the Cash Component. The Proposed Arrangement is part of Enbridge's sponsored vehicle restructuring initiative to simplify its corporate structure.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by ENF's shareholders present in person or by proxy at a special shareholders meeting called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by ENF's shareholders, present in person or by proxy at the special shareholders meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

As a result of the completion of the Proposed Arrangement, ENF's common shares will no longer be publicly traded. Subject to ENF shareholder approval, the approval of the Court of Queen's Bench of Alberta and other customary closing conditions, the Proposed Arrangement is targeted to close in the fourth quarter of 2018.

#### **REVISED FERC POLICY ON TREATMENT OF INCOME TAXES**

On March 15, 2018, the Federal Energy Regulatory Commission (FERC) changed its long-standing policy on the treatment of income tax amounts included in the rates of pipelines and other entities subject to cost of service rate regulation within a Master Limited Partnership (MLP). On July 18, 2018, the FERC issued an order that: (i) dismissed all requests for rehearing of its March 15, 2018 revised policy statement and explained that its revised policy statement does not establish a binding rule, but is instead an expression of general policy that the FERC intends to follow in the future; and (ii) provides guidance that if an MLP or other tax pass-through pipeline eliminates its income tax allowance from its cost of service pursuant to the revised policy statement, then Accumulated Deferred Income Taxes (ADIT) will similarly be removed from the cost of service and MLP pipelines may also eliminate previously-accumulated sums in ADIT. As a statement of general policy, the FERC will consider alternative application of its tax allowance and ADIT policy on a case by case basis.

Although we are not directly impacted by the FERC actions, under the International Joint Tariff (IJT) mechanism, reductions or increases in the Enbridge Energy Partners, L.P. (EEP) tariff rates will create an offsetting revenue increase or decrease, respectively, on EIPLP's Canadian Mainline, which would impact our indirect equity earnings from EIPLP. The impact of the FERC policy change on EEP's tariff rates is subject to, among other things, the outcome of Enbridge's agreement to acquire EEP's publicly owned equity securities, which would mitigate the impacts of the policy change at EEP.

#### **RENEWABLE ASSETS TRANSACTION**

On August 1, 2018, EIPLP sold a 49% interest in wind and solar facilities included within its Green Power segment (the Renewable Assets) to the Canada Pension Plan Investment Board for total cash proceeds of approximately \$1.05 billion. EIPLP continues to own a 51% interest in the Renewable Assets, and Enbridge continues to manage, operate and provide administrative services for the Renewable Assets. The Fund Group utilized a portion of the proceeds to repay credit facility and commercial paper borrowings.

## ENBRIDGE INCOME FUND PERFORMANCE OVERVIEW

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars, except per unit amounts)</i>				
<b>Earnings</b>	<b>151</b>	132	<b>174</b>	311
<b>Cash flow data</b>				
Cash provided by operating activities	177	137	452	378
Cash provided by/(used in) investing activities	297	—	695	(481)
Cash provided by/(used in) financing activities	(473)	(137)	(1,145)	97
<b>Distributions</b>				
Fund Unit distributions declared	159	118	476	353
Fund Unit distribution per unit	<b>0.6402</b>	0.5376	<b>1.9206</b>	1.6128

### EARNINGS

For the three and nine months ended September 30, 2018, earnings were \$151 million and \$174 million compared with \$132 million and \$311 million in 2017, respectively. Our earnings are primarily comprised of income from our indirect investment in EIPLP, reduced by incentive fees and preferred distributions paid to Enbridge by ECT. Our equity investment earnings were impacted by the following significant unusual, non-recurring or non-operating factors in EIPLP's earnings during the three and nine months ended September 30, 2018:

- EIPLP's non-cash, unrealized derivative gain on the Canadian Mainline of \$204 million and a loss of \$342 million (\$148 million gain and \$252 million loss after-tax) compared with gains of \$326 million and \$747 million (\$238 million and \$545 million after-tax) in the same periods of 2017.

In addition, on a year-to-date basis in 2018, significant unusual, non-recurring or non-operating factors impacting EIPLP's earnings include:

- EIPLP's asset impairment within an equity investment of \$22 million (\$16 million after-tax);
- EIPLP's asset write-down loss of \$108 million (\$108 million after-tax); and
- EIPLP's \$267 million deferred income tax recovery related to a change in assertion for EIPLP's investment in renewable assets due to EIPLP's sale of a 49% interest, which resulted in the recognition of previously unrecognized tax basis.

After taking into consideration the unusual, non-recurring or non-operating factors above, the remaining increase in our indirect equity earnings of EIPLP during the three and nine months ended September 30, 2018 is primarily explained by the following significant business factors:

- stronger performance from the Canadian Mainline within EIPLP's Liquids Pipelines segment in the third quarter and first nine months of 2018, primarily due to higher foreign exchange hedge rates used to record United States dollar denominated Canadian Mainline revenues, higher Canadian Mainline IJT Residual Benchmark Tolls and higher throughput driven by capacity optimization initiatives implemented in 2017;
- additional revenue generated from assets placed into service during 2017 within the Regional Oil Sands System; and
- stronger contributions from EIPLP's Gas Pipelines segment and Green Power segment.

Refer to *Non-GAAP Measures – Enbridge Income Partners LP Performance Overview – EIPLP Adjusted EBITDA* for further discussion.

## **CASH FLOWS**

For the third quarter of 2018, cash provided by operating activities increased to \$177 million from \$137 million in the third quarter of 2017, while cash provided by investing activities was \$297 million compared with nil in the prior year. For the three months ended September 30, 2018, cash used in financing activities was \$473 million compared with cash used in financing activities of \$137 million for the same period in 2017.

For the nine month ended September 30, 2018, cash provided by operating activities increased to \$452 million from \$378 million in 2017, while cash provided by investing activities was \$695 million compared with cash used in investing activities of \$481 million in the prior year. For the nine months ended September 30, 2018, cash used in financing activities was \$1,145 million compared with \$97 million for the same period in 2017.

Factors impacting our cash flows during the three and nine months ended September 30, 2018 period-over-period primarily include:

- an increase in cash provided by operating activities primarily due to higher distributions received from ECT in 2018, driven by an increase in the ECT common unit distribution rate commencing in January 2018 and our purchase of additional ECT common units in December 2017. Distributions received from ECT are underpinned by distributions from EIPLP and reflect the impacts to earnings discussed above;
- an increase in cash provided by investing activities as we received an increase in net repayments on a demand note receivable from ECT in the third quarter and first nine months of 2018 compared with the corresponding 2017 periods; and
- an increase in cash used in financing activities due to credit facility repayments, greater Fund Unit distributions paid in 2018 and the absence of cash provided through bank indebtedness in 2018.

On a year-to-date basis, the increase in cash provided by operating activities was partially offset by our reimbursement to ENF in 2018 of share issue costs paid in connection with ENF's public equity offering in December 2017, pursuant to a payment assistance agreement. In addition, the increase in cash used in financing activities for the first nine months of 2018 was partially offset by a repayment of a medium-term note (MTN) in the second quarter of 2017, with no such repayments occurring in 2018.

Refer to *Liquidity and Capital Resources – Sources and Uses of Cash* for further discussion.

## **DISTRIBUTIONS**

We pay monthly distributions to our unitholders. For the three and nine months ended September 30, 2018, distributions were declared monthly at a quarterly aggregate rate of \$0.6402 (2017 - \$0.5376) per unit, representing total distributions of \$159 million and \$476 million, respectively (2017 - \$118 million and \$353 million). Factors impacting our distributions to partners during the three and nine months ended September 30, 2018 period-over-period primarily include:

- an increase in distributions that resulted from a higher Fund Unit distribution rate commencing in January 2018 and a greater number of Fund Units outstanding following our issuance in December 2017.

## **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); adjusted earnings/(loss), adjusted earnings before interest, income taxes and depreciation and amortization (EBITDA); distributable cash flow (DCF); cash flows; capital expenditures; capital requirements through 2018; organic growth opportunities beyond secured projects; impact of hedging program; future distributions to the Fund by ECT; use of proceeds from the sale of Fund Units; taxation of distributions; the Proposed Arrangement, including the consummation thereof; Enbridge's separate agreements to purchase the outstanding public equity of Spectra Energy Partners, LP, EEP and Enbridge Energy Management, L.L.C., including the consummation thereof; the impact of the revised FERC policy announced March 15, 2018 and order issued on July 18, 2018; and use of proceeds, including the timing of closing and future distributions and distribution targets.*

*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, demand and prices for crude oil, natural gas, natural gas liquids (NGL) and renewable energy; exchange rates; inflation; Canadian pipeline export capacity; levels of competition; anticipated operating and capital requirements; interest rates; availability and price of labor and construction materials; operational reliability; customer and regulatory approvals; maintenance of support and regulatory approvals for the Fund Group's projects; potential acquisitions, dispositions or other strategic transactions; in-service dates; weather; the Fund Group's credit ratings; earnings/(loss); adjusted earnings/(loss) or adjusted earnings before interest, income taxes and depreciation and amortization (adjusted EBITDA); cash flows and DCF; distributions; and the satisfaction of all conditions to the Proposed Arrangement and receipt of all necessary approvals. 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), adjusted EBITDA, DCF or future distributions. The most relevant assumptions associated with forward-looking statements on projects under construction, including completion dates and capital expenditures include the following: availability and price of labor and construction materials; effects of inflation and foreign exchange rates on labor and material costs; effects of interest rates on borrowing costs; 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 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, the interpretation and impact of newly adopted tax and other regulatory policies, changes in trade agreements; exchange rates, interest rates, commodity prices and supply of and demand for commodities and the closing of the Proposed Arrangement, 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 our adjusted earnings, EIPLP adjusted EBITDA and EIPLP DCF. Our adjusted earnings represent our earnings adjusted for unusual, non-recurring or non-operating factors, including unusual, non-recurring or non-operating factors underpinning our indirect equity earnings of EIPLP. EIPLP adjusted EBITDA represents EIPLP's EBITDA 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 Measures – Non-GAAP Reconciliation – Earnings to Adjusted Earnings* and *Enbridge Income Partners LP Performance Overview*.

EIPLP DCF 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 DCF consists of EIPLP adjusted EBITDA 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 DCF 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 our adjusted earnings, EIPLP adjusted EBITDA and EIPLP DCF give useful information to unitholders as they provide increased transparency and insight into the performance of the Fund Group. The Manager uses our adjusted earnings, EIPLP adjusted EBITDA and EIPLP DCF to set targets, including the distribution payout target, and to assess the performance of the Fund Group. Our adjusted earnings, EIPLP adjusted EBITDA and EIPLP DCF 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Earnings	151	132	174	311
Fund adjusting items:				
Adjusting items at EIPLP <sup>1</sup>	(77)	(110)	56	(253)
Other	5	—	5	—
Adjusted earnings	79	22	235	58

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

Adjusted earnings for three and nine months ended September 30, 2018 were \$79 million and \$235 million compared with \$22 million and \$58 million for the corresponding 2017 periods, respectively. Our adjusted earnings were impacted by the same factors impacting earnings as discussed in *Enbridge Income Fund Performance Overview – Earnings*; however, we adjusted for ECT's portion of the following significant unusual, non-recurring or non-operating items within earnings of EIPLP during the three and nine months ended September 30, 2018:

- EIPLP's non-cash, unrealized derivative gain on the Canadian Mainline of \$204 million and a loss of \$342 million (\$148 million gain and \$252 million loss after-tax) compared with gains of \$326 million and \$747 million (\$238 million and \$545 million after-tax) in the same periods of 2017.



In addition, on a year-to-date basis in 2018, significant unusual, non-recurring or non-operating factors impacting EIPLP's earnings include:

- EIPLP's asset impairment within an equity investment of \$22 million (\$16 million after-tax);
- EIPLP's asset write-down loss of \$108 million (\$108 million after-tax); and
- EIPLP's \$267 million deferred income tax recovery related to a change in assertion for EIPLP's investment in renewable assets due to EIPLP's sale of a 49% interest, which resulted in the recognition of previously unrecognized tax basis.

On a year-to-date basis, the increase in adjusted earnings reflected the stronger operating results discussed at *Non-GAAP Measures – Enbridge Income Partners LP Performance Overview – EIPLP Adjusted EBITDA*.

## ENBRIDGE INCOME PARTNERS LP PERFORMANCE OVERVIEW

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars, except per unit amounts)</i>				
Earnings before interest, income taxes and depreciation and amortization	1,128	978	2,251	2,648
Adjusting items:				
Changes in unrealized derivative fair value (gain)/loss	(215)	(346)	342	(791)
Asset write-down loss	—	—	108	—
Equity investment asset impairment	—	—	22	—
Other	10	26	18	60
<b>EIPLP adjusted EBITDA<sup>1</sup></b>	<b>923</b>	<b>658</b>	<b>2,741</b>	<b>1,917</b>
<b>EIPLP DCF<sup>1</sup></b>	<b>767</b>	<b>540</b>	<b>2,238</b>	<b>1,566</b>
Distributions				
Cash distributions declared to ECT <sup>2</sup>	268	220	803	660
Cash distributions declared to Enbridge <sup>3</sup>	316	250	946	750
TPDR and Class D unit distributions declared to Enbridge <sup>4</sup>	121	75	354	220

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

<sup>2</sup> Class A unit distributions to ECT paid in cash.

<sup>3</sup> Class C unit and Incentive Distribution Right (IDR) distributions paid in cash. IDR represents the cash component of the Special Interest Rights (SIR) distribution.

<sup>4</sup> Class D unit and Temporary Performance Distribution Right (TPDR) distributions paid in-kind. TPDR distributes Class D units and refers to the paid-in-kind component of the SIR distribution. Class D unit distributions are also paid-in-kind with the issuance of additional Class D units.

## EIPLP Adjusted EBITDA

Significant business factors increasing EIPLP's adjusted EBITDA during the three and nine months ended September 30, 2018 period-over-period include:

- higher foreign exchange hedge rates used to record United States dollar denominated Canadian Mainline revenues in the third quarter and first nine months of 2018. 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;
- higher Canadian Mainline revenues due to higher Canadian Mainline IJT Residual Benchmark Tolls of US\$1.92 and US\$1.82 for the third quarter and first nine months of 2018, respectively, compared to US\$1.64 and US\$1.58 for the corresponding periods of 2017, respectively;
- strengthened Canadian Mainline throughput in 2018 driven by capacity optimization initiatives implemented in 2017;

- additional revenue generated in 2018 on assets placed into service during 2017, primarily including the Wood Buffalo Extension;
- an increase in seasonal firm service revenue in 2018 at Alliance Pipeline within EIPLP's Gas Pipelines segment; and
- stronger contributions from our Green Power segment due to stronger wind resources.

EIPLP's adjusted EBITDA for the year-to-date period also benefited from the Norlite Pipeline System being placed into service in May 2017 within its Liquids Pipelines segment and a net gain of \$11 million within its Green Power segment in the first quarter of 2018 from an arbitration settlement related to its wind facilities located in Quebec.

### **EIPLP DCF**

Significant business factors impacting EIPLP's DCF during the three and nine months ended September 30, 2018 period-over-period include:

- stronger contributions from EIPLP's Canadian Mainline on a quarter-to-date and year-to-date basis in 2018 due to higher Canadian Mainline IJT Residual Benchmark Tolls, higher foreign exchange hedge rates used to record United States dollar denominated Canadian Mainline revenues, and stronger Canadian Mainline throughput as a result of capacity optimization initiatives implemented in 2017;
- additional contributions from Regional Oil Sands System in 2018 on assets placed into service during 2017; and
- higher cash distributions received from Alliance Pipeline in 2018; partially offset by
- higher interest expense due to lower capitalized interest and higher levels of debt outstanding in 2018;
- higher adjusted current income taxes, primarily due to an increase in adjusted earnings before income taxes in 2018; and
- greater IDR cash distributions paid in 2018 by EIPLP, which increase as Fund Unit distributions increase.

### **EIPLP Distributions**

Factors impacting EIPLP's distributions to partners during the three and nine months ended September 30, 2018 period-over-period primarily include:

- an increase in cash distributions declared to ECT due to a higher distribution rate for Class A units in 2018 as well as additional Class A units outstanding to ECT following the December 2017 issuance;
- an increase in cash distributions declared to Enbridge due to a higher distribution rate for Class C units in 2018 and an increase in IDR distributions in 2018; and
- an increase in paid in-kind distributions declared to Enbridge due to a higher distribution rate for Class D units in 2018 and additional Class D units outstanding in 2018.

The distributions received by ECT are used to fund the fees paid to Enbridge and distributions payable to its unitholders, Enbridge and the Fund.

## LIQUIDITY AND CAPITAL RESOURCES

In keeping with our low risk value proposition, we actively monitor and manage exposure to financial risks. Our 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 September 30, 2018, we had a \$1,500 million committed credit facility, of which nil (December 31, 2017 - \$755 million) was drawn and letters of credit totaling \$9 million (December 31, 2017 - \$11 million) were issued, leaving \$1,491 million (December 31, 2017 - \$734 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 September 30, 2018.

### SOURCES AND USES OF CASH

Our primary uses of cash are distributions to unitholders, investments, administrative expense and interest and principal repayments on our 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 our 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		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Operating activities	177	137	452	378
Investing activities	297	—	695	(481)
Financing activities	(473)	(137)	(1,145)	97
Increase/(decrease) in cash and cash equivalents	1	—	2	(6)

Significant sources and uses of cash for the three and nine months ended September 30, 2018 and 2017 are summarized below:

#### Operating Activities

Cash provided by operating activities primarily reflects distributions received from our investment in ECT. Factors impacting the increase in cash provided by operating activities period-over-period primarily include:

- an increase in distributions received from ECT in 2018 due to a higher ECT common unit distribution rate as well as our purchase of ECT common units in December 2017.

On a year-to-date basis, the increase in cash provided by operating activities was partially offset by our reimbursement to ENF in 2018 of share issue costs paid in connection with ENF's public equity offering in December 2017, pursuant to a payment assistance agreement.

#### Investing Activities

Cash provided by investing activities primarily reflects additional investments in ECT common units along with issuances and repayments of loans to affiliates. Factors impacting the increase in cash provided by investing activities period-over-period primarily include:

- net repayments of \$297 million and \$695 million on a demand note receivable from ECT in the third quarter and first nine months of 2018 compared with net advances of nil and \$481 million in the corresponding 2017 periods, respectively.

### Financing Activities

Cash used in financing activities primarily relates to issuances and repayments of external debt and loans from affiliates, along with the payment of Fund Unit distributions. In addition, ENF subscribed for additional Fund Units each month using proceeds from its common share issuances under its Dividend Reinvestment and Share Purchase Plan, which was suspended on October 3, 2018 as a result of the Proposed Arrangement. Factors impacting the increase in cash used in financing activities period-over-period primarily include:

- an increase in credit facility repayments in 2018;
- an increase in Fund Unit distributions paid due to a higher distribution rate that commenced in January 2018 and additional Fund Units outstanding following the issuance to ENF in December 2017; and
- the absence of cash provided through bank indebtedness in 2018; partially offset by
- an increase in the amount of cash ENF retained in respect of reinvested dividends of \$26 million and \$78 million for the three and nine months ended September 30, 2018, respectively (2017 - \$17 million and \$48 million), for which the proceeds were used to purchase 0.9 million and 2.7 million Fund Units (2017 - 0.6 million and 1.5 million).

On a year-to-date basis, the increase in cash used in financing activities was partially offset by a repayment of a \$100 million MTN in the second quarter of 2017, with no such repayment occurring in 2018.

### ANALYSIS OF CASH DISTRIBUTIONS DECLARED

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Cash provided by operating activities	177	137	452	378
Earnings	151	132	174	311
Cash distributions declared	159	118	476	353
Excess/(shortfall) of cash provided by operating activities over cash distributions declared	18	19	(24)	25
Excess/(shortfall) of earnings over cash distributions	(8)	14	(302)	(42)

Cash distributions received from our investment in ECT are the primary source of cash flow we use to pay distributions to our unitholders and service our long-term debt. During the nine months ended September 30, 2018, there was a shortfall of cash provided by operating activities over cash distributions declared, largely due to fluctuations in our operating assets and liabilities in the normal course due to the timing of cash receipts and payments and our reimbursement to ENF of share issue costs in 2018, pursuant to a payment assistance agreement, that ENF paid in connection with its public equity offering in December 2017, respectively.

Earnings were \$8 million and \$302 million less than cash distributions declared for the three and nine months ended September 30, 2018, respectively (2017 - \$14 million excess and \$42 million shortfall). Earnings reflected non-cash items such as income from equity investments, which was impacted by the factors discussed in *Non-GAAP Measures – Enbridge Income Partners LP Performance Overview*.

## QUARTERLY FINANCIAL INFORMATION

	2018				2017			2016
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>(millions of Canadian dollars)</i>								
Income/(loss) from equity investment	<b>172</b>	124	(68)	81	148	123	92	477
Earnings/(loss)	<b>151</b>	108	(85)	(9)	132	105	74	446
Cash distributions received in excess of/(less than) equity earnings	<b>6</b>	54	246	63	(9)	17	49	(85)
Fund Unit distributions declared	<b>159</b>	159	158	124	118	117	118	117
Fund Unit distribution per unit	<b>0.6402</b>	0.6402	0.6402	0.5376	0.5376	0.5376	0.5376	0.5376

Several factors impact comparability of our financial results through our 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, non-cash, unrealized derivative gains and losses on these instruments will impact earnings.

In addition to the impacts of non-cash, unrealized derivative gains and losses outlined above, significant items that have impacted our financial results are as follows:

- In January 2018, we increased our Fund Unit distribution rate to \$0.2134 per month effective with the January distribution.
- In December 2017, ENF completed a public equity offering of 20.7 million common shares at a price of \$27.80 per share for gross proceeds of \$575 million. Concurrent with the closing of the public equity offering, Enbridge subscribed for 5.1 million ENF common shares for gross proceeds of \$143 million, on a private placement basis, to maintain its 19.9% ownership interest in ENF. Upon closing of the transaction, Enbridge's economic interest in the Fund Group and ENF decreased from 84.6% to 82.5% and ENF's economic interest in the Fund Group increased from 19.2% to 21.8%.
- In December 2017, ENF used the gross proceeds from its common share issuance to subscribe for 25.8 million Fund Units for gross proceeds of \$718 million, which were, in turn, used to invest in 25.8 million ECT common units. ECT used the proceeds to invest in 25.8 million Class A units of EIPLP, increasing our indirect investment in EIPLP to 46.9%.
- 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 ENF, Enbridge retained 4.3 million of the common shares issued pursuant to such exchange and sold the remaining balance to the public.
- The fourth quarter of 2016 includes the sale of South Prairie Region assets, which closed on December 1, 2016, resulting in a before-tax gain of \$850 million within EIPLP. Following the sale, a one-time cash distribution of \$264 million was received from ECT.

## 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 DCF of the Fund Group.

### INTEREST RATE RISK

Our earnings, cash flows and other comprehensive income (OCI) are subject to movements in interest rates. We use qualifying derivative instruments to manage interest rate risk. Refer to the Fund's 2017 Annual MD&A for further details on financial instrument risk management.

### EFFECT OF DERIVATIVE INSTRUMENTS ON THE STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

The following table presents the effect of cash flow hedges on our earnings and comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Amount of unrealized gain recognized in OCI				
Interest rate contracts	—	31	1	34
Amount of loss reclassified from Accumulated other comprehensive income (AOCI) to earnings <i>(effective portion)</i>				
Interest rate contracts <sup>1</sup>	1	1	3	4
Amount of gain reclassified from AOCI to earnings <i>(ineffective portion and amount excluded from effectiveness testing)</i>				
Interest rate contracts <sup>1</sup>	—	(2)	—	(3)

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

### LIQUIDITY RISK

Liquidity risk is the risk that we will not be able to meet our financial obligations, including commitments, as they become due. In order to manage this risk, we forecast cash requirements over the near and long term to determine whether sufficient funds will be available when required. Our primary sources of liquidity and capital resources are funds generated from our indirect investment in EIPLP, draws under committed credit facilities, the 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 instruments may result in exposure to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations. We enter 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.

## **GENERAL BUSINESS RISKS**

### **Proposed Arrangement**

The Fund is a member of the Fund Group, which is owned by Enbridge and ENF, a public company listed on the TSX. As discussed in *Recent Developments*, on September 18, 2018, ENF announced its entry into the Arrangement Agreement with respect to the Proposed Arrangement, pursuant to which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each ENF common share will be exchanged for 0.7350 of an Enbridge common share and a cash payment of not less than \$0.45 per ENF common share.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by ENF's shareholders present in person or by proxy at a special shareholders meeting called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by ENF's shareholders, present in person or by proxy at the special shareholders meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

There can be no certainty that all conditions precedent to the Proposed Arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver or that the Arrangement Agreement will not be terminated by ENF or Enbridge prior to completion of the Proposed Arrangement.

Failure to complete the Proposed Arrangement, or significant delays in completing the Proposed Arrangement, could negatively affect ENF's business and financial results and the trading prices of ENF's common shares.

## **CHANGES IN ACCOUNTING POLICIES**

### **ADOPTION OF NEW STANDARDS**

#### **Simplifying Cash Flow Classification**

Effective January 1, 2018, we adopted Accounting Standards Update (ASU) 2016-15 on a retrospective basis. The new standard reduces diversity in practice of how certain cash receipts and cash payments are classified in the statement of cash flows. The new guidance addresses eight specific presentation issues. We assessed each of the eight specific presentation issues and the adoption of this ASU did not have a material impact on our financial statements.

#### **Recognition and Measurement of Financial Assets and Liabilities**

Effective January 1, 2018, we adopted ASU 2016-01 on a prospective basis. The new standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial instruments for disclosure purposes is measured using an exit price, which is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this accounting update did not have a material impact on our financial statements.

### **FUTURE ACCOUNTING POLICY CHANGES**

#### **Amended Guidance on Cloud Computing Arrangements**

In August 2018, ASU 2018-15 was issued to provide guidance on the accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. The amendment aligns the

accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Additionally, ASU 2018-15 specifies that an entity would apply Accounting Standards Codification (ASC) 350-40 to determine which implementation costs related to a hosting arrangement that is a service contract should be capitalized and which should be expensed. Furthermore, the amendments in the update require capitalized costs be amortized on a straight-line basis generally over the term of the arrangement and presented in the same income statement line as fees paid for the hosting service. The new standard also requires that the balance sheet presentation of capitalized implementation costs to be the same as that of the prepayment of fees related to the hosting arrangement, as well as similar consistency in classifications from a cash flow statement perspective. ASU 2018-15 is effective January 1, 2020 and early adoption is permitted. We are currently assessing the impact of the new standard on our financial statements.

**Disclosure Effectiveness**

In August 2018, the Financial Accounting Standards Board issued amendments as a part of its disclosure framework project aimed to improve the effectiveness of disclosures in the notes to financial statements.

ASU 2018-13 was issued to modify the disclosure requirements in ASC 820, Fair Value Measurement. The amendments in ASU 2018-13 eliminate and modify some disclosures, while also adding new disclosures for fair value measurements. This update is effective January 1, 2020, however entities are permitted to early adopt the eliminated or modified disclosures. We are currently assessing the impact of the new standard on our financial statements.

**FUND OWNERSHIP**

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

	As at October 19, 2018
<i>(number Fund Units outstanding)</i>	
Held by Enbridge	72,492,383
Held by ENF	176,703,569
	<u>249,195,952</u>





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# ENBRIDGE INCOME FUND FINANCIAL STATEMENTS

**September 30, 2018**



## ENBRIDGE INCOME FUND STATEMENTS OF EARNINGS

	Three months ended September 30,		Nine months ended September 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
<i>(unaudited; millions of Canadian dollars)</i>				
Income from equity investment in Enbridge Commercial Trust <i>(Note 3)</i>	<b>172</b>	148	<b>228</b>	363
Operating and administrative expense	<b>(6)</b>	(1)	<b>(6)</b>	(1)
Other income	<b>1</b>	—	<b>—</b>	—
Other income - affiliates	<b>6</b>	10	<b>20</b>	23
Interest expense	<b>(22)</b>	(25)	<b>(68)</b>	(74)
<b>Earnings attributable to unitholders</b>	<b>151</b>	132	<b>174</b>	311

See accompanying notes to the interim financial statements.

## ENBRIDGE INCOME FUND STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended		Nine months ended	
	September 30,		September 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
<i>(unaudited; millions of Canadian dollars)</i>				
Earnings	<b>151</b>	132	<b>174</b>	311
Other comprehensive income				
Change in unrealized gain on cash flow hedges	<b>—</b>	28	<b>1</b>	33
Other comprehensive income from equity investee <i>(Note 3)</i>	<b>8</b>	3	<b>28</b>	2
Reclassification to earnings of loss on cash flow hedges	<b>1</b>	—	<b>3</b>	2
Other comprehensive income	<b>9</b>	31	<b>32</b>	37
<b>Comprehensive income</b>	<b>160</b>	163	<b>206</b>	348

See accompanying notes to the interim financial statements.

## ENBRIDGE INCOME FUND

### STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

	Deficit	Accumulated other comprehensive loss	Total
<i>(unaudited; millions of Canadian dollars)</i>			
December 31, 2017	<b>(5,880)</b>	<b>(97)</b>	<b>(5,977)</b>
Enbridge Income Partners LP retrospective adoption of accounting standard <i>(Note 3)</i>	<b>(68)</b>	—	<b>(68)</b>
Earnings attributable to unitholders	<b>174</b>	—	<b>174</b>
Other comprehensive income	—	<b>32</b>	<b>32</b>
Distributions to unitholders	<b>(476)</b>	—	<b>(476)</b>
Redemption value adjustment attributable to trust units <i>(Note 5)</i>	<b>(337)</b>	—	<b>(337)</b>
Equity investment dilution gain, net <i>(Note 3)</i>	<b>96</b>	—	<b>96</b>
September 30, 2018	<b>(6,491)</b>	<b>(65)</b>	<b>(6,556)</b>

	Deficit	Accumulated other comprehensive loss	Total
<i>(unaudited; millions of Canadian dollars)</i>			
December 31, 2016	(6,575)	(182)	(6,757)
Earnings attributable to unitholders	311	—	311
Other comprehensive income	—	37	37
Distributions to unitholders	(353)	—	(353)
Redemption value adjustment attributable to trust units <i>(Note 5)</i>	569	—	569
Equity investment dilution gain, net	65	—	65
September 30, 2017	(5,983)	(145)	(6,128)

See accompanying notes to the interim financial statements.

## ENBRIDGE INCOME FUND STATEMENTS OF CASH FLOWS

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(unaudited; millions of Canadian dollars)</i>				
<b>Operating activities</b>				
Earnings	151	132	174	311
Adjustments to reconcile earnings to net cash provided by operating activities:				
Earnings from equity investments <i>(Note 3)</i>	(172)	(148)	(228)	(363)
Distributions from equity investments <i>(Note 3)</i>	178	139	534	420
Other	—	1	3	2
Changes in operating assets and liabilities	20	13	(31)	8
Net cash provided by operating activities	177	137	452	378
<b>Investing activities</b>				
Affiliate loans, net	297	—	695	(481)
Net cash provided by/(used in) investing activities	297	—	695	(481)
<b>Financing activities</b>				
Net change in bank indebtedness	—	125	—	128
Net change in credit facility draws	(340)	(161)	(755)	374
Repayment of medium term notes	—	—	—	(100)
Trust units issued, net	26	17	78	48
Trust unit distributions declared	(159)	(118)	(476)	(353)
Change in distributions payable	—	—	8	—
Net cash provided by/(used in) financing activities	(473)	(137)	(1,145)	97
Net increase/(decrease) in cash and cash equivalents	1	—	2	(6)
Cash and cash equivalents at beginning of period	3	—	2	6
Cash and cash equivalents at end of period	4	—	4	—

See accompanying notes to the interim financial statements.

## ENBRIDGE INCOME FUND STATEMENTS OF FINANCIAL POSITION

	September 30, 2018	December 31, 2017
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	4	2
Demand note receivable from Enbridge Commercial Trust <i>(Note 7)</i>	254	949
Accounts receivable and other	10	2
Accounts receivable from affiliates	63	54
Current portion of derivative assets <i>(Note 6)</i>	—	1
Current portion of derivative assets from affiliates <i>(Note 6)</i>	10	10
	<b>341</b>	1,018
Long-term note receivable from Enbridge Commercial Trust <i>(Note 7)</i>	100	100
Long-term investment <i>(Note 3)</i>	2,452	2,702
Long-term portion of derivative assets from affiliates <i>(Note 6)</i>	47	43
Deferred amounts and other assets	1	1
<b>Total assets</b>	<b>2,941</b>	<b>3,864</b>
<b>Liabilities and unitholders' equity</b>		
Current liabilities		
Interest payable	22	19
Current portion of derivative liabilities <i>(Note 6)</i>	10	12
Current portion of derivative liabilities to affiliates <i>(Note 6)</i>	—	1
Accounts payable and other	1	1
Other accounts payable to affiliates	6	23
Distributions payable to affiliates	54	46
Current portion of long-term debt	421	123
	<b>514</b>	225
Long-term debt	1,325	2,377
Long-term portion of derivative liabilities <i>(Note 6)</i>	47	43
	<b>1,886</b>	2,645
Trust units <i>(Note 5)</i>	7,611	7,196
	<b>7,611</b>	7,196
Unitholders' deficit		
Deficit	(6,491)	(5,880)
Accumulated other comprehensive loss	(65)	(97)
	<b>(6,556)</b>	<b>(5,977)</b>
<b>Total liabilities and unitholders' equity</b>	<b>2,941</b>	<b>3,864</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, 2017. In the opinion of management, the interim financial statements contain all 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, 2017, except for the adoption of new standards (*Note 2*). Amounts are stated in Canadian dollars unless otherwise noted.

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 Group is owned by Enbridge Inc. and Enbridge Income Fund Holdings Inc. (ENF), a public company listed on the Toronto Stock Exchange. On September 18, 2018, ENF announced its entry into an arrangement agreement (the Arrangement Agreement) with respect to an arrangement (the Proposed Arrangement), pursuant to which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each ENF common share will be exchanged for 0.7350 (the Agreed Exchange Ratio) of an Enbridge common share and cash of not less than \$0.45 per ENF common share (the Cash Component). The Agreed Exchange Ratio represents an increase of 9.8% relative to the unaffected ENF exchange ratio on May 16, 2018, and 11.3% inclusive of the Cash Component. The Proposed Arrangement is part of Enbridge's sponsored vehicle restructuring initiative to simplify its corporate structure.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by ENF's shareholders present in person or by proxy at a special shareholders meeting called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by ENF's shareholders, present in person or by proxy at the special shareholders meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

## 2. CHANGES IN ACCOUNTING POLICIES

### ADOPTION OF NEW STANDARDS

#### Simplifying Cash Flow Classification

Effective January 1, 2018, the Fund adopted Accounting Standards Update (ASU) 2016-15 on a retrospective basis. The new standard reduces diversity in practice of how certain cash receipts and cash payments are classified in the statement of cash flows. The new guidance addresses eight specific presentation issues. The Fund assessed each of the eight specific presentation issues and the adoption of this ASU did not have a material impact on its financial statements.

#### Recognition and Measurement of Financial Assets and Liabilities

Effective January 1, 2018, the Fund adopted ASU 2016-01 on a prospective basis. The new standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with

readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial instruments for disclosure purposes is measured using an exit price, which is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this accounting update did not have a material impact on the Fund's financial statements.

## **FUTURE ACCOUNTING POLICY CHANGES**

### **Amended Guidance on Cloud Computing Arrangements**

In August 2018, ASU 2018-15 was issued to provide guidance on the accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. The amendment aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Additionally, ASU 2018-15 specifies that an entity would apply Accounting Standards Codification (ASC) 350-40 to determine which implementation costs related to a hosting arrangement that is a service contract should be capitalized and which should be expensed. Furthermore, the amendments in the update require capitalized costs be amortized on a straight-line basis generally over the term of the arrangement and presented in the same income statement line as fees paid for the hosting service. The new standard also requires that the balance sheet presentation of capitalized implementation costs to be the same as that of the prepayment of fees related to the hosting arrangement, as well as similar consistency in classifications from a cash flow statement perspective. ASU 2018-15 is effective January 1, 2020 and early adoption is permitted. The Fund is currently assessing the impact of the new standard on its financial statements.

### **Disclosure Effectiveness**

In August 2018, the Financial Accounting Standards Board issued amendments as a part of its disclosure framework project aimed to improve the effectiveness of disclosures in the notes to financial statements.

ASU 2018-13 was issued to modify the disclosure requirements in ASC 820, Fair Value Measurement. The amendments in ASU 2018-13 eliminate and modify some disclosures, while also adding new disclosures for fair value measurements. This update is effective January 1, 2020, however entities are permitted to early adopt the eliminated or modified disclosures. The Fund is currently assessing the impact of the new standard on its financial statements.

## **3. LONG-TERM INVESTMENT**

### **INVESTMENT IN ENBRIDGE COMMERCIAL TRUST**

As at September 30, 2018, the Fund's maximum exposure to loss is limited to the carrying amount of its equity investment in ECT, which is \$2,452 million (December 31, 2017 - \$2,702 million). As at September 30, 2018, the carrying value of ECT's assets was \$4,769 million and the carrying value of its liabilities was \$2,317 million.



	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
Investment balance at beginning of period	2,702	2,244
Investment acquired	—	718
Equity investment income	228	444
Equity investment other comprehensive income/(loss)	28	(2)
Retrospective adoption of accounting standard <sup>1</sup>	(68)	—
Equity investment dilution gain/(loss), net	96	(138)
Distributions	(534)	(564)
<b>Investment balance at end of period</b>	<b>2,452</b>	<b>2,702</b>

<sup>1</sup> Effective January 1, 2018, EIPLP adopted ASC 606 - Revenues from Contracts with Customers on a modified retrospective basis.

As at September 30, 2018, the Fund owned 332 million (December 31, 2017 - 332 million) units of ECT, representing all of ECT's issued and outstanding common units.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Income from equity investment in EIPLP	263	229	502	607
Incentive fee - affiliate	(31)	(31)	(95)	(92)
Operating and administrative expense	—	(1)	(1)	(2)
Other income - affiliate	1	6	10	13
Interest expense - affiliate <sup>1</sup>	(61)	(55)	(188)	(163)
<b>Earnings attributable to unitholder</b>	<b>172</b>	<b>148</b>	<b>228</b>	<b>363</b>

<sup>1</sup> For the three and nine months ended September 30, 2018, interest expense included \$56 million and \$168 million, respectively, (2017 - \$47 million and \$141 million) of ECT Preferred Unit distributions to Enbridge and \$5 million and \$20 million (2017 - \$8 million and \$22 million) of interest expense on notes payable to the Fund.

	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
Demand note receivable from EIPLP	—	427
Other current assets	92	81
Long-term note receivable from EIPLP	100	100
Long-term investment	4,577	4,822
Due to affiliates	98	34
Demand note payable to the Fund	254	949
Demand note payable to EIPLP	209	—
Distributions payable to affiliates	78	67
Long-term note payable to the Fund	100	100
Preferred units	1,578	1,578
Trust units	9,423	9,766
<b>Unitholder's deficit</b>	<b>(6,971)</b>	<b>(7,064)</b>

#### INDIRECT INVESTMENT IN EIPLP

At September 30, 2018, the Fund, through its 100% ownership of ECT, owned 408 million (December 31, 2017 - 408 million) of the issued and outstanding EIPLP Class A Units, representing an indirect ownership of 46.3% (December 31, 2017 - 46.9%) of EIPLP's total issued and outstanding common units.

The following table represents ECT's investment in EIPLP:

	<b>September 30, 2018</b>	December 31, 2017
<i>(millions of Canadian dollars)</i>		
Investment balance at beginning of period	4,821	4,360
Investment acquired	—	718
Equity investment income	502	769
Equity investment other comprehensive income/(loss)	28	(2)
Retrospective adoption of accounting standard <sup>1</sup>	(68)	—
Equity investment dilution gain/(loss), net	96	(138)
Distributions	(802)	(886)
Investment balance at end of period	<b>4,577</b>	4,821

<sup>1</sup> Effective January 1, 2018, EIPLP adopted ASC 606 - Revenues from Contracts with Customers on a modified retrospective basis.

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

	Three months ended September 30,		Nine months ended September 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
<i>(millions of Canadian dollars)</i>				
Revenues	<b>1,401</b>	1,223	<b>3,101</b>	3,348
Earnings	<b>695</b>	565	<b>1,459</b>	1,515

On August 1, 2018, EIPLP sold a 49% interest in wind and solar facilities included within its Green Power segment (the Renewable Assets) to an unrelated party for total cash proceeds of approximately \$1.05 billion. EIPLP maintains a 51% interest in the Renewable Assets, and Enbridge continues to manage, operate and provide administrative services for the Renewable Assets.

## 4. DEBT

### CREDIT FACILITY

	Maturity	<b>September 30, 2018</b>		
		Total Facility	Draws <sup>1</sup>	Available
<i>(millions of Canadian dollars)</i>				
Enbridge Income Fund	2020	<b>1,500</b>	<b>9</b>	<b>1,491</b>

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

As at September 30, 2018, credit facility draws of nil (December 31, 2017 - \$755 million) and letters of credit of \$9 million (December 31, 2017 - \$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 committed credit facility agreement as at September 30, 2018.

## 5. TRUST UNITS

Nine months ended September 30, <i>(millions of Canadian dollars; numbers of units in millions)</i>	2018		2017	
	Number of Units	Amount	Number of Units	Amount
Balance at beginning of period	246	7,196	218	7,445
Redemption value adjustment	—	337	—	(569)
Issued	3	78	1	48
Balance at end of period <sup>1</sup>	249	7,611	219	6,924

<sup>1</sup> Enbridge owned 72 million common trust units at September 30, 2018 (2017 - 72 million).

During the nine months ended September 30, 2018, ENF subscribed for additional Fund Units each month using proceeds of \$78 million (2017 - \$48 million) from its common share issuances under its Dividend Reinvestment and Share Purchase Plan, which was suspended on October 3, 2018 as a result of the Proposed Arrangement.

## 6. 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 and cash flows are also exposed to variability in longer term interest rates ahead of anticipated fixed rate debt issuances. Forward starting interest rate swaps may be used to hedge against the effect of future interest rate movements. The Fund has implemented a program to mitigate its exposure to long-term interest rate variability on select forecast term debt issuances. In December 2017, the Fund canceled all forecasted fixed rate debt issuances for 2018 and 2019. At that time, the Fund terminated all active long-term interest rate swaps. The Fund may elect to utilize the program in the future.

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 September 30, 2018 or December 31, 2017.

The Fund enters into individual International Swaps and Derivatives Association, Inc. agreements, or other similar derivative agreements, with certain of its financial 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 financial 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>September 30, 2018</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	—	—	—	—	—
	—	—	—	—	—
Current portion of derivative assets - affiliates					
Foreign exchange contracts	—	10	10	—	10
	—	10	10	—	10
Long-term portion of derivative assets - affiliates					
Foreign exchange contracts	—	47	47	—	47
	—	47	47	—	47
Current portion of derivative liabilities					
Interest rate contracts	—	—	—	—	—
Foreign exchange contracts	—	(10)	(10)	—	(10)
	—	(10)	(10)	—	(10)
Current portion of derivative liabilities - affiliates					
Foreign exchange contracts	—	—	—	—	—
	—	—	—	—	—
Long-term portion of derivative liabilities					
Foreign exchange contracts	—	(47)	(47)	—	(47)
	—	(47)	(47)	—	(47)
Long-term portion of derivative liabilities - affiliates					
Interest rate contracts	—	—	—	—	—
	—	—	—	—	—
Total net derivative liability					
Interest rate contracts	—	—	—	—	—
Foreign exchange contracts	—	—	—	—	—
	—	—	—	—	—

December 31, 2017	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	—	10	10	(1)	9
	—	10	10	(1)	9
Long-term portion of derivative assets - affiliates					
Foreign exchange contracts	—	43	43	—	43
	—	43	43	—	43
Current portion of derivative liabilities					
Interest rate contracts	(2)	—	(2)	—	(2)
Foreign exchange contracts	—	(10)	(10)	—	(10)
	(2)	(10)	(12)	—	(12)
Current portion of derivative liabilities - affiliates					
Foreign exchange contracts	—	(1)	(1)	1	—
	—	(1)	(1)	1	—
Long-term portion of derivative liabilities					
Foreign exchange contracts	—	(43)	(43)	—	(43)
	—	(43)	(43)	—	(43)
Long-term portion of derivative liabilities - affiliates					
Interest rate contracts	—	—	—	—	—
	—	—	—	—	—
Total net derivative liability					
Interest rate contracts	(2)	—	(2)	—	(2)
Foreign exchange contracts	—	—	—	—	—
	(2)	—	(2)	—	(2)

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

<b>September 30, 2018</b>	2018	2019	2020	2021	2022	Thereafter
Interest rate contracts - short-term borrowings <i>(millions of Canadian dollars)</i>	77	1	—	—	—	—
Foreign exchange contracts - United States dollar forwards - purchase <i>(millions of United States dollars)</i>	20	57	63	69	72	150
Foreign exchange contracts - United States dollar forwards - sell <i>(millions of United States dollars)</i>	20	57	63	69	72	150
<b>December 31, 2017</b>	2018	2019	2020	2021	2022	Thereafter
Interest rate contracts - short-term borrowings <i>(millions of Canadian dollars)</i>	319	1	—	—	—	—
Foreign exchange contracts - United States dollar forwards - purchase <i>(millions of United States dollars)</i>	92	57	63	69	72	150
Foreign exchange contracts - United States dollar forwards - sell <i>(millions of United States dollars)</i>	92	57	63	69	72	150

## 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		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Amount of unrealized gain recognized in OCI				
Interest rate contracts	—	31	1	34
Amount of loss reclassified from accumulated other comprehensive income (AOCI) to earnings <i>(effective</i>				
Interest rate contracts <sup>1</sup>	1	1	3	4
Amount of gain reclassified from AOCI to earnings <i>(ineffective portion and amount excluded from effectiveness testing)</i>				
Interest rate contracts <sup>1</sup>	—	(2)	—	(3)

<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 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, the issuance of medium-term notes (MTNs) and the issuance of ordinary trust units of the Fund (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 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 has credit concentrations and credit exposure, with respect to derivative instruments, in the following counterparty segments:

	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
European financial institutions	—	1
Due from affiliates	57	53
	57	54

## 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 are 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, 2018 or December 31, 2017.

### 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 September 30, 2018 or December 31, 2017.

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:

	Level 1	Level 2	Level 3	Total Gross Derivative Instruments
<b>September 30, 2018</b>				
<i>(millions of Canadian dollars)</i>				
Financial assets				
Current derivative assets	—	10	—	10
Long-term derivative assets	—	47	—	47
Financial liabilities				
Current derivative liabilities	—	(10)	—	(10)
Long-term derivative liabilities	—	(47)	—	(47)
<b>Total net liability</b>	—	—	—	—

December 31, 2017	Level 1	Level 2	Level 3	Total Gross Derivative Instruments
<i>(in millions of Canadian dollars)</i>				
Financial assets				
Current derivative assets	—	11	—	11
Long-term derivative assets	—	43	—	43
Financial liabilities				
Current derivative liabilities	—	(13)	—	(13)
Long-term derivative liabilities	—	(43)	—	(43)
<b>Total net liability</b>	<b>—</b>	<b>(2)</b>	<b>—</b>	<b>(2)</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 September 30, 2018 or December 31, 2017.

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

At September 30, 2018, the Fund's long-term debt had a carrying value of \$1,750 million (December 31, 2017 - \$2,500 million) before debt issuance costs and a fair value of \$1,781 million (December 31, 2017 - \$2,571 million).

The fair value of other financial assets and liabilities other than derivative instruments and long-term debt approximate their cost due to the short period to maturity.

## **7. RELATED PARTY TRANSACTIONS**

#### **DEMAND NOTE RECEIVABLE FROM ENBRIDGE COMMERCIAL TRUST**

	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
Floating interest rate note, due on demand from ECT	254	949

#### **LONG-TERM NOTE RECEIVABLE FROM ENBRIDGE COMMERCIAL TRUST**

	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
7.00% note due November 12, 2020 from ECT	100	100



# ENBRIDGE INCOME PARTNERS LP MANAGEMENT'S DISCUSSION AND ANALYSIS

**September 30, 2018**

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## GLOSSARY

Adjusted EBITDA	Adjusted earnings before interest, income taxes and depreciation and amortization
ASU	Accounting Standards Update
Canadian L3R Program	Canadian portion of the Line 3 Replacement Program
CTS	Competitive Toll Settlement
DCF	Distributable cash flow
EBITDA	Earnings before interest, income taxes and depreciation and amortization
ECT	Enbridge Commercial Trust
EEP	Enbridge Energy Partners, L.P.
EIPLP	Enbridge Income Partners LP
Enbridge	Enbridge Inc.
ENF	Enbridge Income Fund Holdings Inc.
EPI	Enbridge Pipelines Inc.
FERC	Federal Energy Regulatory Commission
IDR	Incentive Distribution Right
IJT	International Joint Tariff
MD&A	Management's Discussion and Analysis
MNPUC	Minnesota Public Utilities Commission
the Arrangement Agreement	The arrangement agreement, as amended, entered into between Enbridge and ENF in connection with the Proposed Arrangement
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.
the Proposed Arrangement	The proposed arrangement between Enbridge and ENF pursuant to the terms of the Arrangement Agreement, under which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge
the Renewable Assets	Renewable assets held by Enbridge Canadian Renewable LP
U.S. L3R Program	United States portion of the Line 3 Replacement Program

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018

This Management's Discussion and Analysis (MD&A) dated November 2, 2018 should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto of Enbridge Income Partners LP as at and for the three and nine months ended September 30, 2018, 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 audited consolidated financial statements and MD&A for the year ended December 31, 2017.

All financial measures presented in this MD&A are expressed in Canadian dollars, unless otherwise indicated. Enbridge Income Partners LP supplements Enbridge Income Fund's (the Fund) financial statements and MD&A, and additional information related to Enbridge Income Partners LP is available under the Fund's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Effective December 31, 2017, Enbridge Income Partners LP revised its segmented information presentation on a retrospective basis to align with current changes in reporting to the Chief Operating Decision Maker in assessing Enbridge Income Partners LP's performance and making decisions on allocation of resources to the segments. Enbridge Income Partners LP changed its profit measure to Earnings before interest, income taxes and depreciation and amortization (EBITDA) from its previous measure of Earnings before interest and income taxes.

### OVERVIEW

The terms "we", "our", "us" and "EIPLP" as used in this MD&A refer to Enbridge Income Partners LP unless the context suggests otherwise. EIPLP was formed in 2002, and we are involved in the generation, transportation and storage of energy through our interests in our liquids pipelines business, including the Canadian Mainline and the Regional Oil Sands System, our 50% interest in the Alliance Pipeline, which transports natural gas from Canada to the United States, and our renewable and alternative power generation assets.

EIPLP is a member of the Fund Group, which also includes Enbridge Commercial Trust (ECT) and the Fund. We hold all of the underlying operating entities of the Fund Group through our subsidiaries and investees. Enbridge Inc. (Enbridge), through its wholly-owned subsidiary, Enbridge Management Services Inc. (the Manager or EMSI), 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 limited partners of EIPLP are ECT and Enbridge and certain of its subsidiaries.

We conduct our business through three business segments: Liquids Pipelines, Gas Pipelines and Green Power.

#### Liquids Pipelines

Liquids Pipelines consists of common carrier and contract pipelines, feeder pipelines and gathering systems that transport crude oil, natural gas liquids (NGL) and terminals in Canada, including Canadian Mainline, Regional Oil Sands System, Southern Lights Pipeline, which includes the Canadian portion of Southern Lights Pipeline and Class A units of certain Enbridge subsidiaries which provide a defined cash flow stream (Southern Lights Class A units) from the United States portion of Southern Lights Pipeline, Bakken Expansion Pipeline and Storage Facilities and Other.

#### Gas Pipelines

Gas Pipelines includes our 50% interest in the Alliance Pipeline system, which transports liquids-rich natural gas from northeast British Columbia, northwest Alberta and the Bakken area of North Dakota to Channahon, Illinois.

## **Green Power**

Green Power consists of wind facilities, solar facilities and waste heat recovery facilities located in the provinces of Alberta, Saskatchewan, Ontario and Quebec.

## **Eliminations and Other**

In addition to the segments noted above, Eliminations and Other includes operating and administrative costs and foreign exchange costs which are not allocated to business segments. Also included in Eliminations and Other are new business development activities, general corporate investments and elimination of transactions between segments required to present financial performance and financial position on a consolidated basis.

## **RECENT DEVELOPMENTS**

### **PROPOSED ARRANGEMENT**

The Fund Group is owned by Enbridge and Enbridge Income Fund Holdings Inc. (ENF), a public company listed on the Toronto Stock Exchange (TSX). On September 18, 2018, ENF announced its entry into an arrangement agreement (the Arrangement Agreement) with respect to an arrangement (the Proposed Arrangement), pursuant to which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each ENF common share will be exchanged for 0.7350 (the Agreed Exchange Ratio) of an Enbridge common share and cash of not less than \$0.45 per ENF common share (the Cash Component). The Agreed Exchange Ratio represents an increase of 9.8% relative to the unaffected ENF exchange ratio on May 16, 2018, and 11.3% inclusive of the Cash Component. The Proposed Arrangement is part of Enbridge's sponsored vehicle restructuring initiative to simplify its corporate structure.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by ENF's shareholders present in person or by proxy at a special shareholders meeting called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by ENF's shareholders, present in person or by proxy at the special shareholders meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

As a result of the completion of the Proposed Arrangement, ENF's common shares will no longer be publicly traded. Subject to ENF shareholder approval, the approval of the Court of Queen's Bench of Alberta and other customary closing conditions, the Proposed Arrangement is targeted to close in the fourth quarter of 2018.

### **REVISED FERC POLICY ON TREATMENT OF INCOME TAXES**

On March 15, 2018, the Federal Energy Regulatory Commission (FERC) changed its long-standing policy on the treatment of income tax amounts included in the rates of pipelines and other entities subject to cost of service rate regulation within a Master Limited Partnership (MLP). On July 18, 2018, the FERC issued an order that: (i) dismissed all requests for rehearing of its March 15, 2018 revised policy statement and explained that its revised policy statement does not establish a binding rule, but is instead an expression of general policy that the FERC intends to follow in the future; and (ii) provides guidance that if an MLP or other tax pass-through pipeline eliminates its income tax allowance from its cost of service pursuant to the revised policy statement, then Accumulated Deferred Income Taxes (ADIT) will similarly be removed from the cost of service and MLP pipelines may also eliminate previously-accumulated sums in ADIT. As a statement of general policy, the FERC will consider alternative application of its tax allowance and ADIT policy on a case by case basis.

Although EIPLP is not directly impacted by the FERC actions, under the International Joint Tariff (IJT) mechanism, reductions or increases in the Enbridge Energy Partners, L.P. (EEP) tariff rates will create an offsetting revenue increase or decrease, respectively, on the Canadian Mainline. The impact of the FERC

policy change on EEP's tariff rates is subject to, among other things, the outcome of Enbridge's agreement to acquire EEP's publicly owned equity securities, which would mitigate the impacts of the policy change at EEP.

#### **RENEWABLE ASSETS TRANSACTION**

On August 1, 2018, we sold a 49% interest in wind and solar facilities included within our Green Power segment (the Renewable Assets) to the Canada Pension Plan Investment Board (CPPIB) for total cash proceeds of approximately \$1.05 billion. We continue to own a 51% interest in the Renewable Assets, and Enbridge continues to manage, operate and provide administrative services for the Renewable Assets. The Fund Group utilized a portion of the proceeds to repay credit facility and commercial paper borrowings.

To facilitate the sale, on August 1, 2018, our wholly-owned subsidiaries transferred the Renewable Assets to a newly formed partnership, Enbridge Canadian Renewable LP (ECRLP). Subsequently, a 49% interest in ECRLP and the newly formed general partner, Enbridge Canadian Renewable GP was sold to CPPIB.

Following the Renewable Assets transaction, we maintain a controlling financial interest and therefore consolidate ECRLP. In addition, we recognize a noncontrolling interest to reflect the interest that we do not hold in the Renewable Assets. For further details on the Renewable Assets transaction, refer to EIPLP's third quarter interim consolidated financial statements.

#### **ALLIANCE PIPELINE NEW OPERATING MODEL**

On June 25, 2018, Alliance Pipeline completed the previously announced conversion of the operation and administration of Alliance Pipeline into an owner-operator model, with its functions being split between our Manager and Pembina Pipeline Corporation (Pembina). We hold a 50% interest in Alliance Pipeline, while Pembina holds the remaining 50% interest. The new operating model took effect on June 25, 2018 and will continue to safely and efficiently deliver more value to all stakeholders.

#### **MNPUC APPROVAL OF U.S. LINE 3 REPLACEMENT PROGRAM**

On June 28, 2018, the Minnesota Public Utilities Commission (MNPUC) approved the issuance to EEP of a Certificate of Need (Certificate) and Route Permit for construction of the United States portion of the Line 3 Replacement Program (U.S. L3R Program) in Minnesota. The Route Permit adopted EEP's preferred route, with minor modifications and subject to certain conditions. EIPLP is executing the Canadian portion of the Line 3 Replacement Program (Canadian L3R Program), which is currently under construction. For further details on the Line 3 Replacement Program, refer to *Growth Project – Regulatory Matters – Canadian Line 3 Replacement Program*.

## CONSOLIDATED EARNINGS

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Liquids Pipelines	1,018	890	1,848	2,321
Gas Pipelines	53	51	171	156
Green Power	53	49	185	188
Eliminations and Other	4	(12)	47	(17)
Earnings before interest, income taxes and depreciation and amortization	1,128	978	2,251	2,648
Depreciation and amortization	(180)	(167)	(535)	(490)
Interest expense	(110)	(107)	(341)	(308)
Income tax recovery/(expense)	(143)	(139)	84	(335)
Special interest rights distributions - TPDR <sup>1</sup>	(102)	(66)	(305)	(198)
Special interest rights distributions - IDR <sup>2</sup>	(32)	(12)	(95)	(36)
Earnings attributable to general and limited partners	561	487	1,059	1,281

<sup>1</sup> *Temporary Performance Distribution Right (TPDR) distributes Class D units and refers to the paid-in-kind component of the Special Interest Rights (SIR) distribution. Class D unit distributions are also paid-in-kind with the issuance of additional Class D units (see Liquidity and Capital Resources – Sources and Uses of Cash – Distributions).*

<sup>2</sup> *Incentive Distribution Right (IDR) refers to the cash component of the SIR distribution (see Liquidity and Capital Resources – Sources and Uses of Cash – Distributions).*

### EARNINGS ATTRIBUTABLE TO GENERAL AND LIMITED PARTNERS

Earnings attributable to general and limited partners were \$561 million and \$1,059 million for the three and nine months ended September 30, 2018 compared with \$487 million and \$1,281 million in the corresponding 2017 periods, respectively.

The comparability of our earnings was impacted by a number of unusual, non-recurring or non-operating factors that are listed in the Non-GAAP Reconciliation tables and discussed in the results for each reporting segment. Details of significant unusual, non-recurring or non-operating factors impacting the comparability of our earnings attributable to general and limited partners for the three and nine months ended September 30, 2018 period-over-period include:

- a non-cash, unrealized derivative gain for the Canadian Mainline of \$204 million and a loss of \$342 million (\$148 million gain and \$252 million loss after-tax) for the three and nine months ended September 30, 2018 compared with gains of \$326 million and \$747 million (\$238 million and \$545 million gains after-tax) in the same periods of 2017, respectively, reflecting net fair value gains and losses arising from changes in the mark-to-market value of derivative financial instruments used to manage foreign exchange rates, power costs and the price of allowance oil that are inherent in the Competitive Toll Settlement (CTS), which drives Canadian Mainline revenue.

As it pertains to the non-cash, unrealized derivative fair value gains and losses discussed above, we have a comprehensive long-term economic hedging program to mitigate interest rate, foreign exchange and commodity price risks that create volatility in short-term earnings through the recognition of non-cash, unrealized gains and losses on financial derivative instruments used to hedge these risks. Over the long term, we believe our hedging program supports reliable cash flows.

On a year to date basis, significant unusual, non-recurring or non-operating factors impacting our earnings attributable to general and limited partners also include:

- a loss of \$22 million (\$16 million after-tax) attributable to us in the first quarter of 2018 from our equity investment in NRGreen Power Limited Partnership's (NRGreen) Chickadee Creek Waste Heat Recovery Facility (Chickadee Creek) located in Alberta;
- a loss of \$108 million related to Line 10, a component of the Canadian Mainline, resulting from its classification as an asset held for sale and the subsequent measurement at the lower of carrying value or fair value less costs to sell; and
- a \$267 million deferred income tax recovery during the nine months ended September 30, 2018, related to a change in assertion for our investment in renewable assets due to our sale of a 49% interest, which resulted in the recognition of previously unrecognized tax basis.

After taking into consideration the factors above, the remaining increase is primarily explained by the following significant business factors:

- stronger performance from the Canadian Mainline within our Liquids Pipelines segment in the third quarter and first nine months of 2018, primarily due to higher foreign exchange hedge rates used to record United States dollar denominated Canadian Mainline revenues, higher Canadian Mainline IJT Residual Benchmark Tolls and higher throughput driven by capacity optimization initiatives implemented in 2017;
- additional revenue generated from assets placed into service during 2017 within the Regional Oil Sands System; and
- stronger contributions from our Gas Pipelines segment and our Green Power segment; partially offset by
- an increase in interest expense due to lower capitalized interest and higher levels of debt outstanding throughout 2018;
- higher income tax expense after adjusting for the tax impacts of the unusual, non-recurring or non-operating factors discussed above, primarily reflecting the increase in adjusted earnings before income taxes in 2018; and
- greater SIR distributions in 2018, which increase as Fund Unit distributions increase.

Refer to *Non-GAAP Measures – Non-GAAP Reconciliations – Adjusted Earnings Attributable to General and Limited Partners* and the results of operations for each reporting segment for further discussion.

## **FORWARD-LOOKING INFORMATION**

*Forward-looking information, or forward-looking statements, have been included in this MD&A to provide information about EIPLP and EIPLP's subsidiaries and affiliates, including management's assessment of EIPLP's plans and operations. 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); EBITDA or adjusted earnings before interest, income taxes and depreciation and amortization (adjusted EBITDA); effect of the increase or decrease of the Canadian Mainline IJT Residual Benchmark Toll on adjusted EBITDA; distributable cash flow (DCF); cash flows; distributions and policy; costs related to announced projects and projects under construction; in-service dates for announced projects and projects under construction; capital expenditures; recovery of the costs of the Canadian L3R Program through the use of surcharges; actions of regulators; commodity prices; supply forecasts; impact of hedging program; impact of the Canadian L3R Program on existing integrity programs; outcome of proceedings in respect of the Canadian L3R Program and the U.S. L3R Program; Alliance Pipeline operating model and expansion project; the Proposed Arrangement, including the consummation thereof; Enbridge's separate agreements to purchase the outstanding public equity of Spectra Energy Partners, LP, Enbridge Energy Partners, L.P. and Enbridge Energy Management, L.L.C., including the consummation thereof; the impact of the revised FERC policy announced March 15, 2018 and order issued on July 18, 2018; receipt of approvals required from state agencies for the construction of the U.S. L3R Program; impact of Accounting Standards Update (ASU) 2018-01; and sources of liquidity and sufficiency of financial resources.*

*Although EIPLP 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, 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 labor and construction materials; operational reliability; customer and regulatory approvals; maintenance of support and regulatory approvals for EIPLP's projects (including the Canadian and U.S. L3R Program); anticipated in-service dates; weather; credit ratings; capital project funding; anticipated refinancing of debt upon maturity; potential acquisitions, dispositions or other strategic transactions; earnings/(loss) or adjusted earnings/(loss); EBITDA or adjusted EBITDA; cash flows and DCF; distributions; and the satisfaction of all conditions to the Proposed Arrangement and receipt of all necessary approvals. 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 levels of demand for EIPLP's services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which EIPLP operates and may impact levels of demand for EIPLP'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), EBITDA, adjusted EBITDA, DCF, cash flows and distributions. The most relevant assumptions associated with forward-looking statements on announced projects and projects under construction, including estimated completion dates and expected capital expenditures, include the following: availability and price of labor and construction materials; effects of inflation and foreign exchange rates on labor 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.*

*EIPLP's forward-looking statements are subject to risks and uncertainties pertaining to distribution policy, 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, the interpretation and impact of newly adopted tax and other regulatory policies, changes in trade agreements, exchange rates, interest rates, commodity prices, political decisions, supply of and demand for commodities and the closing of the Proposed Arrangement, including but not limited to those risks and uncertainties discussed in this MD&A. 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 EIPLP'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, EIPLP 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 EIPLP or persons acting on EIPLP's behalf, are expressly qualified in their entirety by these cautionary statements.*

## **NON-GAAP MEASURES**

This MD&A contains references to adjusted EBITDA, adjusted earnings and DCF. Adjusted EBITDA represents EBITDA adjusted for unusual, non-recurring or non-operating factors on both a consolidated and segmented basis. Adjusted earnings represent earnings adjusted for unusual, non-recurring or non-operating factors included in adjusted EBITDA, as well as adjustments for unusual, non-recurring or non-operating factors in respect of interest expense and income taxes on a consolidated basis. These factors, referred to as adjusting items, are reconciled and discussed in the financial results sections for the affected business segments.

DCF represents cash available to fund distributions on Class A and Class C units, as well as for debt repayments and reserves. DCF consists of adjusted EBITDA further adjusted for non-cash items, representing cash flow from our 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. DCF 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 adjusted EBITDA, adjusted earnings and DCF give useful information to partners and unitholders as they provide increased transparency and insight into our performance. The Manager uses adjusted EBITDA, adjusted earnings and DCF to set targets and to assess our performance. Adjusted EBITDA, adjusted earnings and DCF are not measures that have standardized meaning 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 RECONCILIATIONS

### EBITDA to Adjusted EBITDA

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Earnings before interest, income taxes and depreciation and amortization	1,128	978	2,251	2,648
Adjusting items <sup>1</sup> :				
Changes in unrealized derivative fair value (gain)/loss <sup>2</sup>	(215)	(346)	342	(791)
Asset write-down loss	—	—	108	—
Equity investment asset impairment	—	—	22	—
Unrealized (gain)/loss on translation of United States dollar intercompany loan receivable	10	25	(5)	51
Lease termination costs	—	—	23	—
Leak remediation costs	—	3	—	15
Leak insurance recoveries	—	(2)	—	(6)
Adjusted earnings before interest, income taxes and amortization and depreciation	923	658	2,741	1,917

1 The above table summarizes adjusting items by nature. For a detailed listing of adjusting items by segment, refer to individual segment discussions.

2 Changes in unrealized derivative fair value gains and losses are presented net of amounts realized on the settlement of derivative contracts during the applicable period.

### Adjusted EBITDA to Adjusted Earnings

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Liquids Pipelines	805	548	2,328	1,550
Gas Pipelines	52	49	169	149
Green Power	52	48	202	184
Eliminations and Other	14	13	42	34
Adjusted earnings before interest, income taxes and depreciation and amortization	923	658	2,741	1,917
Depreciation and amortization	(180)	(167)	(535)	(490)
Interest expense <sup>1</sup>	(112)	(108)	(343)	(312)
Income tax expense <sup>1</sup>	(94)	(50)	(286)	(132)
Special interest rights distributions - TPDR	(102)	(66)	(305)	(198)
Special interest rights distributions - IDR	(32)	(12)	(95)	(36)
Adjusted earnings attributable to general and limited partners	403	255	1,177	749

1 These balances are presented net of adjusting items.

### **Adjusted Earnings Attributable to General and Limited Partners**

Adjusted earnings attributable to general and limited partners were \$403 million and \$1,177 million for the third quarter and first nine months of 2018 compared with \$255 million and \$749 million in the corresponding 2017 periods, respectively. Significant business factors increasing our adjusted earnings attributable to general and limited partners for the three and nine months ended September 30, 2018 period-over-period include:

- higher foreign exchange hedge rates used to record United States dollar denominated Canadian Mainline revenues in the third quarter and first nine months of 2018. The IJT Benchmark Toll and its components are set in United States dollars, and the majority of our foreign exchange risk on Canadian Mainline revenues is hedged;
- higher Canadian Mainline revenues due to higher Canadian Mainline IJT Residual Benchmark Tolls of US\$1.92 and US\$1.82 for the third quarter and first nine months of 2018, respectively, compared to US\$1.64 and US\$1.58 for the corresponding periods of 2017, respectively;
- strengthened Canadian Mainline throughput in 2018 driven by capacity optimization initiatives implemented in 2017;
- additional revenue generated in 2018 on assets placed into service during 2017, primarily including the Wood Buffalo Extension;
- an increase in seasonal firm service revenue in 2018 at Alliance Pipeline within our Gas Pipelines segment; and
- stronger contributions from our Green Power segment due to stronger wind resources.

The positive factors above were partially offset by:

- an increase in interest expense due to lower capitalized interest and higher levels of debt outstanding throughout 2018;
- higher adjusted income tax expense, primarily driven by the increase in adjusted earnings before income taxes in 2018; and
- greater SIR distributions in 2018, which increase as Fund Unit distributions increase.

Adjusted earnings attributable to general and limited partners for the year-to-date period also benefited from the Norlite Pipeline System (Norlite) being placed into service in May 2017 within our Liquids Pipelines segment and a net gain of \$11 million within our Green Power segment in the first quarter of 2018 from an arbitration settlement related to our wind facilities located in Quebec.

## Cash Provided by Operating Activities to Distributable Cash Flow

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(unaudited; millions of Canadian dollars)</i>				
Cash provided by operating activities	879	516	2,455	1,697
Adjusted for changes in operating assets and liabilities	(117)	1	(188)	(139)
	762	517	2,267	1,558
Maintenance capital expenditures <sup>1</sup>	(18)	(13)	(55)	(42)
Significant adjusting items:				
Special interest rights distributions - IDR	(32)	(12)	(95)	(36)
Other receipts of cash not recognized in revenue <sup>2</sup>	14	18	48	45
Lease termination costs	—	—	23	—
Leak remediation costs	—	3	—	15
Leak insurance recoveries	—	(2)	—	(6)
Other adjusting items	41	29	50	32
Distributable cash flow	767	540	2,238	1,566

<sup>1</sup> Maintenance capital expenditures are expenditures that are required for the ongoing support and maintenance of the existing pipeline system or that are necessary to maintain the service capability of the existing assets (including the replacement of components that are worn, obsolete or completing their useful lives). For the purpose of DCF, maintenance capital excludes expenditures that extend asset useful lives, increase capacities from existing levels or reduce costs to enhance revenues or provide enhancements to the service capability of the existing assets. Maintenance capital expenditures occur primarily within our Liquids Pipelines segment.

<sup>2</sup> Consists of cash received net of revenue recognized for contracts under make-up rights and similar deferred revenue arrangements.

## Adjusted EBITDA to Distributable Cash Flow

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Adjusted earnings before interest, income taxes and depreciation and amortization	923	658	2,741	1,917
Cash distributions in excess of equity earnings <sup>1</sup>	15	6	31	13
Maintenance capital expenditures <sup>2</sup>	(18)	(13)	(55)	(42)
Interest expense <sup>1</sup>	(108)	(101)	(326)	(294)
Current income taxes <sup>1</sup>	(31)	(19)	(117)	(49)
Special interest rights distributions - IDR	(32)	(12)	(95)	(36)
Other receipts of cash not recognized in revenue <sup>3</sup>	14	17	48	45
Other adjusting items	4	4	11	12
Distributable cash flow	767	540	2,238	1,566

<sup>1</sup> These balances are presented net of adjusting items.

<sup>2</sup> Maintenance capital expenditures are expenditures that are required for the ongoing support and maintenance of the existing pipeline system or that are necessary to maintain the service capability of the existing assets (including the replacement of components that are worn, obsolete or completing their useful lives). For the purpose of DCF, maintenance capital excludes expenditures that extend asset useful lives, increase capacities from existing levels or reduce costs to enhance revenues or provide enhancements to the service capability of the existing assets. Maintenance capital expenditures occur primarily within our Liquids Pipelines segment.

<sup>3</sup> Consists of cash received net of revenue recognized for contracts under make-up rights and similar deferred revenue arrangements.

## Distributable Cash Flow

DCF represents cash available to fund distributions on Class A and Class C units, as well as for debt repayments and reserves. Such reserves are determined by the Manager and are used for payment of committed charges, such as interest and income taxes, and for execution of the capital maintenance program.

Our DCF was \$767 million and \$2,238 million for the three and nine months ended September 30, 2018 compared with \$540 million and \$1,566 million for the same periods in 2017, respectively. Significant business factors impacting our DCF for the three and nine months ended September 30, 2018 period-over-period include:

- stronger contributions from our Canadian Mainline on a quarter-to-date and year-to-date basis in 2018 due to higher Canadian Mainline IJT Residual Benchmark Tolls, higher foreign exchange hedge rates used to record United States dollar denominated Canadian Mainline revenues, and stronger Canadian Mainline throughput as a result of capacity optimization initiatives implemented in 2017;
- additional contributions from Regional Oil Sands System in 2018 on assets placed into service during 2017; and
- higher cash distributions received from Alliance Pipeline in 2018; partially offset by
- higher interest expense due to lower capitalized interest and higher levels of debt outstanding in 2018;
- higher adjusted current income taxes, primarily due to an increase in adjusted earnings before income taxes in 2018; and
- greater IDR cash distributions paid in 2018, which increase as Fund Unit distributions increase.

## **GROWTH PROJECT – REGULATORY MATTERS**

### **Canadian Line 3 Replacement Program**

The Canadian L3R program involves the replacement of the existing Line 3 crude oil pipeline between Hardisty, Alberta and Gretna, Manitoba. The Canadian L3R Program is currently under construction.

The U.S. L3R Program is being executed by EEP and will complement existing integrity programs by replacing approximately 576 kilometers (358 miles) of the remaining line segments of the existing Line 3 pipeline between Neche, North Dakota and Superior, Wisconsin. EEP has the authorization to replace Line 3 in North Dakota and Wisconsin. EEP is in the process of obtaining the appropriate permits for constructing the U.S. L3R Program in Minnesota. The project requires both a Certificate and Route Permit from the MNPUC.

On June 28, 2018, the MNPUC approved the issuance of a Certificate and Route Permit that adopts EEP's preferred route, with minor modifications and subject to certain conditions. The MNPUC issued its Certificate order on September 5, 2018. The Route Permit was issued on October 26, 2018. Permits are also required from the United States Army Corps of Engineers, state agencies (including the Minnesota Department of Natural Resources and the Minnesota Pollution Control Agency) and local government authorities in Minnesota. EEP anticipates the receipt of all required permits in time to commence construction activities during the first quarter of 2019, and continues to anticipate an in-service date for the project in the second half of 2019.

## FINANCIAL RESULTS

### LIQUIDS PIPELINES

#### Earnings Before Interest, Income Taxes and Depreciation and Amortization

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Canadian Mainline	537	348	1,533	975
Regional Oil Sands System	214	152	642	418
Southern Lights Pipeline	28	30	81	90
Bakken Expansion Pipeline	8	4	19	21
Storage Facilities and Other	18	14	53	46
Adjusted earnings before interest, income taxes and depreciation and amortization	805	548	2,328	1,550
Canadian Mainline - changes in unrealized derivative fair value gain/(loss)	204	326	(342)	747
Canadian Mainline - asset write-down loss	—	—	(108)	—
Canadian Mainline - lease termination costs	—	—	(23)	—
Canadian Mainline - leak remediation costs	—	(3)	—	(15)
Regional Oil Sands System - leak insurance recoveries	—	2	—	6
Southern Lights Pipeline - changes in unrealized derivative fair value gain/(loss)	9	17	(7)	33
Earnings before interest, income taxes and depreciation and amortization	1,018	890	1,848	2,321

Additional details on items impacting Liquids Pipelines EBITDA include:

- Canadian Mainline EBITDA for each period reflected a non-cash, unrealized gain and loss, reflecting net fair value gains and losses arising from changes in the mark-to-market value of derivative financial instruments used to manage foreign exchange and commodity price risks inherent within the CTS;
- Canadian Mainline EBITDA for 2018 reflected a loss related to Line 10, a component of the Canadian Mainline, resulting from its classification as an asset held for sale and the subsequent measurement at the lower of carrying value or fair value less costs to sell;
- Canadian Mainline EBITDA for 2018 reflected office lease termination costs;
- Canadian Mainline EBITDA for 2017 included charges related to the crude oil release on Line 2A, which occurred in February 2017;
- Regional Oil Sands System EBITDA for 2017 included insurance recoveries associated with the Line 37 crude oil release, which occurred in June 2013; and
- Southern Lights Pipeline EBITDA for each period reflected net fair value gains on derivative financial instruments used to manage foreign exchange risk on United States dollar cash flows from Southern Lights Class A units.

#### Canadian Mainline

Canadian Mainline adjusted EBITDA was \$537 million and \$1,533 million for the three and nine months ended September 30, 2018 compared with \$348 million and \$975 million for the same periods in 2017, respectively. Significant business factors increasing Canadian Mainline adjusted EBITDA for the three and nine months ended September 30, 2018 period-over-period include:

- higher average throughput in 2018 driven by capacity optimization initiatives implemented in 2017 and greater supply;

- higher average Canadian Mainline IJT Residual Benchmark Tolls of US\$1.92 and US\$1.82 for the third quarter and first nine months of 2018, respectively, compared to US\$1.64 and US\$1.58 for the corresponding periods of 2017, respectively; and
- a higher foreign exchange hedge rate used to record United States dollar denominated Canadian Mainline revenues of \$1.26 for each of the third quarter and first nine months of 2018 compared with \$1.07 and \$1.05 for the corresponding periods in 2017.

Supplemental information related to the Canadian Mainline for the three and nine months ended September 30, 2018 and 2017 is provided below:

September 30,	2018	2017
<i>(United States dollars per barrel)</i>		
IJT Benchmark Toll <sup>1</sup>	<b>\$4.15</b>	\$4.07
Lakehead System Local Toll <sup>2</sup>	<b>\$2.23</b>	\$2.43
Canadian Mainline IJT Residual Benchmark Toll <sup>3</sup>	<b>\$1.92</b>	\$1.64

1 The IJT Benchmark Toll is per barrel of heavy crude oil transported from Hardisty, Alberta to Chicago, Illinois. A separate distance adjusted toll applies to shipments originating at receipt points other than Hardisty and lighter hydrocarbon liquids pay a lower toll than heavy crude oil. Effective July 1, 2017 this toll increased to US\$4.07. Effective July 1, 2018, this toll increased to US\$4.15.

2 The Lakehead System Local Toll is per barrel of heavy crude oil transported from Neche, North Dakota to Chicago, Illinois. Effective April 1, 2017, this toll decreased to US\$2.43. Effective April 1, 2018, this toll decreased to US\$2.18. Effective July 1, 2018, this toll increased to US\$2.23.

3 The Canadian Mainline IJT Residual Benchmark Toll is per barrel of heavy crude oil transported from Hardisty, Alberta to Gretna, Manitoba. For any shipment, this toll is the difference between the IJT Benchmark Toll and the Lakehead System Local Toll. Effective April 1, 2017, this toll increased to US\$1.62, coinciding with the revised Lakehead System Local Toll. Effective July 1, 2017 this toll increased to US\$1.64. Effective April 1, 2018, this toll increased to US\$1.89, coinciding with the revised Lakehead System Local Toll. Effective July 1, 2018, this toll increased to US\$1.92.

#### Throughput Volume<sup>1</sup>

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(thousands of barrels per day)</i>				
Average throughput volume <sup>1</sup>	<b>2,578</b>	2,492	<b>2,613</b>	2,511

1 Throughput volume represents mainline deliveries ex-Gretna, Manitoba which is made up of United States and eastern Canada deliveries originating from western Canada.

#### Regional Oil Sands System

Regional Oil Sands System adjusted EBITDA was \$214 million and \$642 million for the three and nine months ended September 30, 2018 compared with \$152 million and \$418 million for the corresponding 2017 periods, respectively. Significant business factors impacting Regional Oil Sands System adjusted EBITDA for the three and nine months ended September 30, 2018 period-over-period include:

- additional EBITDA generated in 2018 as a result of new projects that went into service later in 2017, which primarily include the Wood Buffalo Extension in December 2017.

On a year-to-date basis, Regional Oil Sands System adjusted EBITDA also benefited from contributions from Norlite, which went into service in May 2017, and higher average throughput on Waupisoo Pipeline during the nine months ended September 30, 2018.

## GAS PIPELINES

### Earnings Before Interest, Income Taxes and Depreciation and Amortization

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Gas Pipelines	52	49	169	149
Adjusted earnings before interest, income taxes and depreciation and amortization	52	49	169	149
Changes in unrealized derivative fair value gain	1	2	2	7
Earnings before interest, income taxes and depreciation and amortization	53	51	171	156

Additional details on items impacting Gas Pipelines EBITDA include:

- Gas Pipelines EBITDA for 2017 reflected a non-cash, unrealized fair value gain, reflecting net fair value gains and losses arising from the change in the mark-to-market of derivative financial instruments used to manage foreign exchange exposures associated with United States dollar denominated distributions from Alliance Pipeline.

Gas Pipelines adjusted EBITDA was \$52 million and \$169 million for the three and nine months ended September 30, 2018 compared with \$49 million and \$149 million for the same periods of 2017, respectively. Significant business factors impacting Gas Pipelines adjusted EBITDA for the nine months ended September 30, 2018 period-over-period include:

- higher revenues at Alliance Pipeline in 2018 due to strong demand for seasonal firm and interruptible service.

Partially offsetting the higher year-to-date revenues at Alliance Pipeline in 2018 were lower interruptible service rates in the third quarter of 2018.

### Throughput Volume

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of cubic feet per day)</i>				
Average throughput volume				
Alliance Pipeline - Canada	1,545	1,530	1,589	1,559
Alliance Pipeline - US	1,708	1,643	1,721	1,663

## GREEN POWER

### Earnings Before Interest, Income Taxes and Depreciation and Amortization

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Green Power	52	48	202	184
Adjusted earnings before interest, income taxes and depreciation and amortization	52	48	202	184
Changes in unrealized derivative fair value gain	1	1	5	4
Equity investment asset impairment	—	—	(22)	—
Earnings before interest, income taxes and depreciation and amortization	53	49	185	188

Additional details on items impacting Green Power EBITDA include:

- Green Power EBITDA for each period reflected a non-cash, unrealized fair value gain, reflecting net fair value gains and losses arising from the change in the mark-to-market of derivative financial instruments used to manage commodity price risk; and
- Green Power EBITDA for 2018 reflected an asset impairment charge from our equity investment in NRGreen related to Chickadee Creek in Alberta.

Green Power adjusted EBITDA was \$52 million and \$202 million for the three and nine months ended September 30, 2018 compared with \$48 million and \$184 million for the corresponding 2017 periods, respectively. Significant business factors impacting Green Power adjusted EBITDA for the three and nine months ended September 30, 2018 period-over-period include:

- stronger wind resources, primarily relating to our wind facilities located in Ontario for the third quarter of 2018 and our wind facilities located in Quebec for the first half of 2018.

On a year-to-date basis, Green Power adjusted EBITDA also benefited from a net gain of \$11 million in the first quarter of 2018 from an arbitration settlement related to our wind facilities located in Quebec.

### Production

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(thousands of megawatt hours produced)</i>				
Wind Facilities	484	471	1,911	1,829
Solar Facilities	46	51	123	126
Waste Heat Facilities	23	22	75	72



## ELIMINATIONS AND OTHER

### Earnings Before Interest, Income Taxes and Depreciation and Amortization

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Dividend income from affiliate	10	10	28	29
Other	4	3	14	5
Adjusted earnings before interest, income taxes and depreciation and amortization	14	13	42	34
Unrealized gain/(loss) on translation of United States dollar intercompany loan receivable	(10)	(25)	5	(51)
Earnings/(loss) before interest, income taxes and depreciation and amortization	4	(12)	47	(17)

Eliminations and Other primarily includes dividend income from our Series A Preferred Shares investment in Enbridge Employee Services Canada Inc. and realized foreign exchange gains and losses generated from repayments received from a subsidiary on an intercompany loan receivable denominated in United States dollars.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are distributions to our partners, administrative and operational expenses, maintenance and growth capital spending, as well as interest and principal repayments on our long-term debt. We generate cash from operations, commercial paper issuances and credit facility draws, through the periodic issuance of public term debt and the issuance of units to our partners. Additionally, to ensure ongoing liquidity and to mitigate the risk of capital market disruption, we maintain a committed bank credit facility. In addition to ensuring adequate liquidity, we actively manage our bank funding sources to optimize pricing and other terms. All of the above noted debt, commercial paper and credit facility are held through our wholly-owned subsidiary, Enbridge Pipelines Inc. (EPI). Additional liquidity, if necessary, is expected to be available through intercompany transactions with Enbridge, the Fund or other related entities.

### BANK CREDIT AND LIQUIDITY

Long-term debt primarily consists of a committed credit facility and medium-term notes. As at September 30, 2018, EIPLP's subsidiary, EPI, had a \$3,000 million (December 31, 2017 - \$3,005 million) committed credit facility, of which \$1,786 million (December 31, 2017 - \$1,567 million) was unutilized. In addition to this committed credit facility, EPI had access to Enbridge's demand letter of credit facilities at September 30, 2018 totaling \$550 million (December 31, 2017 - \$500 million) of which \$344 million (December 31, 2017 - \$299 million) were unutilized. As at September 30, 2018, \$41 million (December 31, 2017 - \$19 million) letters of credit were issued by EPI.

EPI must adhere to covenants under its credit facility agreement and Trust Indenture. Under the terms of EPI's Trust Indenture, in order to continue to issue long-term debt, EPI must maintain a ratio of Consolidated Funded Obligations to Total Consolidated Capitalization of less than 75%. Total Consolidated Capitalization consists of shareholder's equity, long-term debt and deferred income taxes. As at September 30, 2018, EPI was in compliance with all debt covenants.

Our net available liquidity of \$1,826 million, as at September 30, 2018, was inclusive of \$40 million of unrestricted cash and cash equivalents. Our net available liquidity, together with cash from operations, intercompany funding and proceeds of debt capital market transactions, is expected to be sufficient to finance capital expenditures requirements, fund liabilities as they become due, fund debt retirements and pay distributions.

## SOURCES AND USES OF CASH

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Operating activities	879	516	2,455	1,697
Investing activities	(589)	(238)	(1,173)	(1,048)
Financing activities	(280)	(60)	(1,260)	(441)
Effect of translation of foreign denominated cash and cash equivalents	—	(2)	1	(3)
Increase in cash and cash equivalents	10	216	23	205

Significant sources and uses of cash for the three and nine months ended September 30, 2018 and 2017 are summarized below:

### Operating Activities

Factors impacting the increase in cash provided by operating activities period-over-period primarily include:

- the operating factors discussed under *Consolidated Earnings – Earnings Attributable to General and Limited Partners*, which primarily included stronger contributions from our Liquids Pipelines segment in 2018; and
- fluctuations in our operating assets and liabilities in the normal course due to various factors including the timing of tax payments, general variations in activity levels within our businesses, as well as timing of cash receipts and payments.

### Investing Activities

Cash used in investing activities primarily relates to capital expenditures to execute our growth capital program. The timing of capital expenditures is impacted by project approval, construction and in-service dates. Factors impacting the increase in cash used in investing activities period-over-period primarily include:

- net advances of \$195 million on loans to affiliates in both the third quarter and first nine months of 2018 compared with no such advances in the same periods of 2017, respectively; and
- an increase in capital expenditures to \$416 million in the three months ended September 30, 2018 from \$253 million in the same period of 2017, due to higher spending on the Canadian L3R Program.

On a year-to-date basis, the increase in cash used in investing activities was partially offset by a decrease in capital expenditures due to the completion of several growth projects in 2017.

### Financing Activities

Cash used in financing activities primarily relates to issuances and repayments of external debt and loans from affiliates, along with cash distributions to partners. Factors impacting the increase in cash used in financing activities period-over-period primarily include:

- net repayments of \$53 million and \$356 million on loans from affiliates in the third quarter and first nine months of 2018 compared with net advances of \$9 million and \$491 million in the corresponding 2017 periods, respectively;
- an increase in credit facility repayments in 2018
- an increase in distributions to partners due to higher distribution rates for our Class A and C units commencing in January 2018 as well as additional Class A units outstanding following our December 2017 issuance; and

- an increase in IDR cash distributions paid in 2018, which increase as Fund Unit distributions increase; partially offset by
- proceeds of \$1.05 billion received from our sale of a 49% interest in the Renewable Assets to the CPPIB on August 1, 2018.

## Distributions

The following tables summarize the cash and non-cash distributions declared by EIPLP for the three and nine months ended September 30, 2018 and 2017.

### Class A Units

	2018		2017	
	Distribution per Unit <sup>1</sup>	Total	Distribution per Unit <sup>1</sup>	Total
<i>(millions of Canadian dollars, except distribution rate)</i>				
Three months ended March 31,	<b>0.6555</b>	<b>268</b>	0.5760	220
Three months ended June 30,	<b>0.6555</b>	<b>267</b>	0.5760	220
Three months ended September 30,	<b>0.6555</b>	<b>268</b>	0.5760	220
Nine months ended September 30,	<b>1.9665</b>	<b>803</b>	1.7280	660

<sup>1</sup> Class A unit distributions are declared monthly and paid in cash in the following month.

### Class C Units

	2018		2017	
	Distribution per Unit <sup>1</sup>	Total	Distribution per Unit <sup>1</sup>	Total
<i>(millions of Canadian dollars, except distribution rate)</i>				
Three months ended March 31,	<b>0.6402</b>	<b>284</b>	0.5376	238
Three months ended June 30,	<b>0.6402</b>	<b>283</b>	0.5376	238
Three months ended September 30,	<b>0.6402</b>	<b>284</b>	0.5376	238
Nine months ended September 30,	<b>1.9206</b>	<b>851</b>	1.6128	714

<sup>1</sup> Class C unit distributions are declared monthly and paid in cash in the following month.

### Class D Units

	2018		2017	
	Distribution per Unit <sup>1</sup>	Total	Distribution per Unit <sup>1</sup>	Total
<i>(millions of Canadian dollars, except distribution rate)</i>				
Three months ended March 31,	<b>0.6402</b>	<b>14</b>	0.5376	6
Three months ended June 30,	<b>0.6402</b>	<b>16</b>	0.5376	7
Three months ended September 30,	<b>0.6402</b>	<b>19</b>	0.5376	9
Nine months ended September 30,	<b>1.9206</b>	<b>49</b>	1.6128	22

<sup>1</sup> Class D unit distributions are declared monthly and paid-in-kind with the issuance of additional Class D units in the following month.

### Special Interest Rights – TPDR

	2018	2017
	Total <sup>1</sup>	Total <sup>1</sup>
<i>(millions of Canadian dollars)</i>		
Three months ended March 31,	<b>101</b>	66
Three months ended June 30,	<b>102</b>	66
Three months ended September 30,	<b>102</b>	66
Nine months ended September 30,	<b>305</b>	198

<sup>1</sup> TPDR distributions are declared monthly and paid-in-kind to holders of the SIR with the issuance of additional Class D units in the following month.

## Special Interest Rights – IDR

	2018	2017
	Total <sup>1</sup>	Total <sup>1</sup>
<i>(millions of Canadian dollars)</i>		
Three months ended March 31,	32	12
Three months ended June 30,	31	12
Three months ended September 30,	32	12
Nine months ended September 30,	95	36

<sup>1</sup> IDR distributions are declared monthly and paid in cash to holders of the SIR in the following month.

## CAPITAL EXPENDITURE COMMITMENTS

We have signed contracts for the purchase of services, pipe and other materials totaling \$1,406 million, which are expected to be paid over the next five years.

## LITIGATION

EIPLP and its subsidiaries are subject to various legal and regulatory actions and proceedings which arise in the normal course of business, including interventions in regulatory proceedings and challenges to regulatory approvals and permits by special interest groups. While the final outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolution of such actions and proceedings will not have a material impact on EIPLP's consolidated financial position or results of operations.

## QUARTERLY FINANCIAL INFORMATION

	2018			2017			2016	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<i>(millions of Canadian dollars)</i>								
Revenues	1,401	892	808	1,047	1,223	1,104	1,021	787
Earnings attributable to general and limited partners	561	456	42	332	487	431	363	890

Several factors impact comparability of our financial results, 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.

Our revenues can be impacted by several factors. Our transportation assets operating under market-based arrangements generate revenues driven by volumes transported and the corresponding tolls for transportation services. For assets operating under take-or-pay contracts, revenues reflect the terms of the underlying contract for services or capacity. For rate-regulated assets, revenues are charged in accordance with tolls established by the regulator, and in most cost-of-service based arrangements are reflective of our cost to provide the service plus a regulator-approved rate of return. In addition, our electricity sales can be impacted by weather conditions.

We actively manage our exposure to market risks including, but not limited to, commodity prices, interest rates 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 derivative 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 our financial results are as follows:

- In the first quarter and second quarter of 2018, we recorded losses of \$98 million and an additional \$10 million related to our Line 10 crude oil pipeline, respectively.
- In the first quarter of 2018, we recorded a loss of \$22 million related to NRGreen's Chickadee Creek in Alberta.
- We issued 25.8 million Class A units to ECT in December 2017. The proceeds were used to fund our secured growth program.
- Included in the fourth quarter of 2016 was a before-tax gain of \$850 million related to the disposition of the South Prairie Region assets within our Liquids Pipelines segment.
- Our Green Power segment is subject to seasonal variations. This is driven by generally 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.

Finally, we undertook a substantial capital program in recent years and the timing of construction and completion of growth projects may impact the comparability of quarterly results. Refer to EIPLP's 2017 Annual MD&A for further details on our recent capital expansion initiatives, including construction commencement and in-service dates.

## **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

Maintaining a reliable and low risk business model is central to our objective of paying out a predictable cash flow to partners. The Fund Group actively manages both financial and non-financial risks that we are exposed to. 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 DCF of the Fund Group.

Our earnings, cash flows and other comprehensive income (OCI) are subject to movements in foreign exchange rates, interest rates and commodity prices. We use a combination of qualifying and non-qualifying derivative instruments to manage the risks. Refer to EIPLP's 2017 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 our consolidated earnings and consolidated comprehensive income, before the effect of income taxes.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Amount of unrealized gain/(loss) recognized in OCI				
Cash flow hedges				
Foreign exchange contracts	—	(1)	(1)	(1)
Interest rate contracts	46	36	58	39
Commodity contracts	4	4	1	16
	50	39	58	54
Amount of (gain)/loss reclassified from Accumulated other comprehensive income (AOCI) to earnings <i>(effective portion)</i>				
Interest rate contracts <sup>1</sup>	5	7	16	19
Commodity contracts <sup>2</sup>	—	(2)	(1)	(6)
	5	5	15	13
Amount of gain reclassified from AOCI to earnings <i>(ineffective portion and amount excluded from effectiveness testing)</i>				
Interest rate contracts <sup>1</sup>	(2)	(2)	(2)	(2)
	(2)	(2)	(2)	(2)
Amount of gain/(loss) from non-qualifying derivatives included in earnings				
Foreign exchange contracts <sup>3</sup>	219	357	(350)	771
Commodity contracts <sup>2</sup>	(3)	4	11	27
	216	361	(339)	798

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

<sup>2</sup> Reported within Transportation and other services revenues, Electricity sales revenues, Operating and administrative expense and Other income/(expense) in the Consolidated Statements of Earnings.

<sup>3</sup> Reported within Transportation and other services revenues and Other income/(expense) in the Consolidated Statements of Earnings.

## LIQUIDITY RISK

Liquidity risk is the risk we will not be able to meet our financial obligations, including commitments and guarantees, as they become due. In order to manage this risk, we forecast cash requirements over the near and long term to determine whether sufficient funds will be available when required. We generate cash from operations, commercial paper issuances and credit facility draws, through the periodic issuance of public term debt and issuance of units to our partners. Additionally, to ensure ongoing liquidity and to mitigate the risk of market disruption, we maintain a committed bank credit facility. We actively manage our bank funding sources to optimize pricing and other terms. Additional liquidity, if necessary, is expected to be available through intercompany transactions with Enbridge or other related entities.

## CREDIT RISK

Entering into derivative instruments may result in exposure to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations. In order to mitigate this risk, we enter into risk management transactions primarily 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.

## **GENERAL BUSINESS RISKS**

### **Proposed Arrangement**

EIPLP is a member of the Fund Group, which is owned by Enbridge and ENF, a public company listed on the TSX. As discussed in *Recent Developments*, on September 18, 2018, ENF announced its entry into the Arrangement Agreement with respect to the Proposed Arrangement, pursuant to which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each ENF common share will be exchanged for 0.7350 of an Enbridge common share and a cash payment of not less than \$0.45 per ENF common share.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by ENF's shareholders present in person or by proxy at a special shareholders meeting called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by ENF's shareholders, present in person or by proxy at the special shareholders meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

There can be no certainty that all conditions precedent to the Proposed Arrangement will be satisfied or waived, nor can there be any certainty of the timing of their satisfaction or waiver or that the Arrangement Agreement will not be terminated by ENF or Enbridge prior to completion of the Proposed Arrangement.

Failure to complete the Proposed Arrangement, or significant delays in completing the Proposed Arrangement, could negatively affect ENF's business and financial results and the trading prices of ENF's common shares.

## **CHANGES IN ACCOUNTING POLICIES**

### **ADOPTION OF NEW STANDARDS**

#### **Clarifying Guidance on Derecognition and Partial Sales of Nonfinancial Assets**

Effective January 1, 2018, we adopted ASU 2017-05 on a modified retrospective basis. The new standard clarifies the scope provisions of nonfinancial assets and how to allocate consideration to each distinct asset upon sale or partial sale, and amends the guidance for derecognition of a distinct nonfinancial asset in partial sale transactions so that an in-scope partial sale results in the recognition of a full gain or loss. The adoption of this accounting update did not have a material impact on our consolidated financial statements.

#### **Simplifying Cash Flow Classification**

Effective January 1, 2018, we adopted ASU 2016-15 on a retrospective basis. The new standard reduces diversity in practice of how certain cash receipts and cash payments are classified in the statement of cash flows. The new guidance addresses eight specific presentation issues. We assessed each of the eight specific presentation issues and the adoption of this ASU did not have a material impact on our consolidated financial statements.

#### **Recognition and Measurement of Financial Assets and Liabilities**

Effective January 1, 2018, we adopted ASU 2016-01 on a prospective basis. The new standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial assets and liabilities is

measured using the exit price notion, which is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this accounting update did not have a material impact on our consolidated financial statements.

### Revenue from Contracts with Customers

Effective January 1, 2018, we adopted ASU 2014-09 on a modified retrospective basis to contracts that were not complete at the date of initial application. The new standard was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the previous standards.

In adopting Accounting Standards Codification (ASC) 606, we applied the practical expedient for contract modifications whereby contracts that were modified before January 1, 2018 were not retrospectively restated. Instead, the aggregate effect of all contract modifications occurring before that time has been reflected when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied obligations.

The following table presents the effect of the adoption of ASC 606 at January 1, 2018 on EIPLP's Consolidated Statements of Financial Position. For the three and nine months ended September 30, 2018, the effect of the adoption of ASC 606 on our Consolidated Statement of Earnings was not material.

	Balance at December 31, 2017	Adjustments due to ASC 606	Balance at January 1, 2018
<i>(millions of Canadian dollars)</i>			
<b>Assets</b>			
Deferred amounts and other assets <sup>1,2</sup>	1,988	(179)	1,809
Property, plant and equipment, net <sup>2</sup>	23,622	90	23,712
<b>Liabilities</b>			
Accounts payable and other <sup>1,2</sup>	914	62	976
Other long-term liabilities <sup>2</sup>	1,425	45	1,470
Deferred income taxes <sup>1,2</sup>	2,327	(53)	2,274
Partners' capital <sup>1,2</sup>	(3,693)	(143)	(3,836)

1 Revenue was previously recognized for a certain contract within the Liquids Pipelines business unit using a formula-based method. Under the new revenue standard, revenue from this contract is recognized on a straight-line basis over the term of the agreement in order to reflect the fulfilment of EIPLP's performance obligation to provide up to a specified volume of pipeline capacity throughout the term of the contract. The effect of this change has resulted in:

- a. A reduction in contract assets, included within deferred amounts and other assets, of \$188 million at January 1, 2018;
- b. An increase in accounts payable and other (current deferred revenue) of \$58 million at January 1, 2018;
- c. A reduction in deferred income tax liability of \$66 million at January 1, 2018; and
- d. A reduction in partners' capital of \$179 million at January 1, 2018 to record the effect of the above items.

2 Certain payments received from customers to offset the cost of constructing assets required to provide services to those customers, referred to as Contributions in Aid of Construction (CIACs) were previously recorded as reductions of property, plant and equipment regardless of whether the amounts were imposed by regulation or were the result of negotiations with customers. Under the new revenue standard, CIACs which are negotiated as part of an agreement to provide transportation and other services to a customer are considered to be advance payments for future services and are recognized as revenue when those future services are provided. Accordingly, negotiated CIACs are accounted for as deferred revenue and recognized as revenue over the term of the associated revenue contract. The effect of this change has resulted in:

- a. An increase in contract assets, included within deferred amounts and other assets of \$9 million at January 1, 2018;
- e. An increase in property, plant and equipment of \$90 million at January 1, 2018;
- f. An increase in deferred income tax liability of \$13 million at January 1, 2018;
- g. An increase in other long-term liabilities (deferred revenue) of \$45 million at January 1, 2018;
- h. An increase in accounts payable and other (current deferred revenue) of \$4 million at January 1, 2018; and
- i. An increase in partners' capital of \$36 million at January 1, 2018 to record the effect of the above items.



## **FUTURE ACCOUNTING POLICY CHANGES**

### **Amended Guidance on Cloud Computing Arrangements**

In August 2018, ASU 2018-15 was issued to provide guidance on the accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. The amendment aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Additionally ASU 2018-15 specifies that an entity would apply ASC 350-40 to determine which implementation costs related to a hosting arrangement that is a service contract should be capitalized and which should be expensed. Furthermore, the amendments in the update require capitalized costs be amortized on a straight-line basis generally over the term of the arrangement and presented in the same income statement line as fees paid for the hosting service. The new standard also requires that the balance sheet presentation of capitalized implementation costs to be the same as that of the prepayment of fees related to the hosting arrangement, as well as similar consistency in classifications from a cash flow statement perspective. ASU 2018-15 is effective January 1, 2020 and early adoption is permitted. We are currently assessing the impact of the new standard on our consolidated financial statements.

### **Disclosure Effectiveness**

In August 2018, the Financial Accounting Standards Board issued amendments as a part of its disclosure framework project aimed to improve the effectiveness of disclosures in the notes to financial statements.

ASU 2018-13 was issued to modify the disclosure requirements in ASC 820, Fair Value Measurement. The amendments in ASU 2018-13 eliminate and modify some disclosures, while also adding new disclosures for fair value measurements. This update is effective January 1, 2020, however entities are permitted to early adopt the eliminated or modified disclosures. We are currently assessing the impact of the new standard on our consolidated financial statements.

### **Recognition of Leases**

ASU 2016-02 was issued in February 2016 with the intent to increase transparency and comparability among organizations. It requires lessees of operating lease arrangements to recognize lease assets and lease liabilities on the statement of financial position and disclose additional key information about lease agreements. The accounting update also replaces the current definition of a lease and requires that an arrangement be recognized as a lease when a customer has the right to obtain substantially all of the economic benefits from the use of an asset, as well as the right to direct the use of the asset. We will adopt the new standard on January 1, 2019 and we intend to apply the transition practical expedients offered in connection with this update. The election to apply the package of practical expedients allows an entity to not apply the new lease standard to the prior year comparative periods in the year of adoption. Application of the package of practical expedients also permits entities not to reassess a) whether any expired or existing contracts contain leases in accordance with the new guidance, b) lease classifications, and c) whether initial direct costs capitalized under ASC 840 continue to meet the definition of initial direct costs under the new guidance.

Further, ASU 2018-01 was issued in January 2018 to address stakeholder concerns about the costs and complexity of complying with the transition provisions of the new lease requirements as they relate to land easements. The amendments provide an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under existing guidance. We intend to elect this practical expedient in connection with the adoption of the new lease requirements.

We are in the process of identifying existing lease contracts and performing detailed evaluations of our leases under the new accounting requirements. We believe the most significant change to our financial statements will be the recognition of lease liabilities and right-of-use assets in our consolidated statement of financial position for operating leases. We continue to assess the necessary changes to accounting and business processes in order to implement the recognition and disclosure requirements of the new lease standard.

## EIPLP OWNERSHIP

The following presents the partners' ownership of EIPLP:

As at October 19, 2018

*(number of units outstanding)*

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**Class A units**

Held by Enbridge Income Partners GP Inc. 40,471

Held by Enbridge Commercial Trust 408,045,956

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408,086,427

**Class C units<sup>1</sup>**

Held by Enbridge Inc. 442,923,363

**Class D units<sup>2</sup>**

Held by Enbridge Inc. 31,814,931

**Class E unit**

Held by Enbridge Inc. 1

**Special Interest Rights - SIR**

Held by Enbridge Inc. 1,000

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*1 Class C units may, at the option of the holder, be exchanged in whole or in part for preferred units of ECT, ordinary trust units of the Fund or ENF common shares.*

*2 The Class D units may, at the option of the holder, be exchanged for Class C units commencing on the fourth anniversary of the year of issuance.*

ENBRIDGE INCOME PARTNERS LP  
FINANCIAL STATEMENTS

**September 30, 2018**

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## ENBRIDGE INCOME PARTNERS LP CONSOLIDATED STATEMENTS OF EARNINGS

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(unaudited; millions of Canadian dollars)</i>				
Operating revenues				
Transportation and other services	1,312	1,149	2,794	3,080
Electricity sales	68	66	241	234
Revenues - affiliates	21	8	66	34
<b>Total operating revenues</b>	<b>1,401</b>	<b>1,223</b>	<b>3,101</b>	<b>3,348</b>
Operating expenses				
Operating and administrative	255	223	700	625
Operating and administrative, net - affiliates	89	88	268	281
Depreciation and amortization	180	167	535	490
Environmental costs, net of recoveries	—	(2)	(10)	(6)
Asset impairment <i>(Note 5)</i>	—	—	108	—
<b>Total operating expenses</b>	<b>524</b>	<b>476</b>	<b>1,601</b>	<b>1,390</b>
Operating income	877	747	1,500	1,958
Income from equity investments	53	48	152	152
Other income/(expense)				
Interest income - affiliates	9	14	28	45
Dividend income from affiliated company	10	10	28	29
Other	(1)	(8)	8	(26)
Interest expense	(43)	(37)	(140)	(105)
Interest expense - affiliates	(67)	(70)	(201)	(203)
Earnings before income tax	838	704	1,375	1,850
Income tax recovery/(expense)	(143)	(139)	84	(335)
Earnings	695	565	1,459	1,515
Special interest rights distributions				
Temporary performance distribution rights	(102)	(66)	(305)	(198)
Incentive distribution rights	(32)	(12)	(95)	(36)
<b>Earnings attributable to general and limited partners</b>	<b>561</b>	<b>487</b>	<b>1,059</b>	<b>1,281</b>
Earnings attributable to general partner's interest	—	—	—	—
Earnings attributable to limited partners' interests	561	487	1,059	1,281
	<b>561</b>	<b>487</b>	<b>1,059</b>	<b>1,281</b>

See accompanying notes to the interim financial statements.

## ENBRIDGE INCOME PARTNERS LP

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended		Nine months ended	
	September 30,		September 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
<i>(unaudited; millions of Canadian dollars)</i>				
Earnings	<b>695</b>	565	<b>1,459</b>	1,515
Other comprehensive income/(loss), net of tax				
Change in unrealized gain on cash flow hedges	<b>37</b>	28	<b>44</b>	40
Reclassification to earnings of loss on cash flow hedges	<b>1</b>	2	<b>8</b>	6
Foreign currency translation adjustments	<b>(11)</b>	(22)	<b>18</b>	(42)
Other	<b>(11)</b>	—	<b>(11)</b>	—
Other comprehensive income, net of tax	<b>16</b>	8	<b>59</b>	4
<b>Comprehensive income</b>	<b>711</b>	573	<b>1,518</b>	1,519

See accompanying notes to the interim financial statements.

## ENBRIDGE INCOME PARTNERS LP CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	General partner's capital deficit	Limited partners' capital - Enbridge Commercial Trust	Special interest rights	Accumulated other comprehensive loss	Noncontrolling interests	Total
<i>(unaudited; millions of Canadian dollars)</i>						
December 31, 2017	(8,758)	2,697	2,565	(197)	—	(3,693)
Retrospective adoption of accounting standard (Note 2)	—	(143)	—	—	—	(143)
Earnings allocation	—	502	—	—	—	502
Other comprehensive income, net of tax	—	—	—	59	—	59
Redemption value adjustment attributable to Class C and D units	—	(979)	—	—	—	(979)
Distributions	—	(803)	—	—	—	(803)
Sale of noncontrolling interest in subsidiary (Note 6)	—	62	—	—	965	1,027
Other	—	11	—	—	—	11
September 30, 2018	(8,758)	1,347	2,565	(138)	965	(4,019)

	General partner's capital deficit	Limited partners' capital - Enbridge Commercial Trust	Special interest rights	Accumulated other comprehensive loss	Noncontrolling interests	Total
<i>(unaudited; millions of Canadian dollars)</i>						
December 31, 2016	(8,758)	—	2,565	(196)	—	(6,389)
Earnings allocation	—	608	—	—	—	608
Other comprehensive income, net of tax	—	—	—	4	—	4
Redemption value adjustment attributable to Class C and D units	—	1,127	—	—	—	1,127
Distributions	—	(661)	—	—	—	(661)
September 30, 2017	(8,758)	1,074	2,565	(192)	—	(5,311)

See accompanying notes to the interim financial statements.

## ENBRIDGE INCOME PARTNERS LP CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(unaudited; millions of Canadian dollars)</i>				
<b>Operating activities</b>				
Earnings	695	565	1,459	1,515
Adjustments to reconcile earnings to net cash provided by operating activities:				
Depreciation and amortization	180	167	535	490
Deferred income tax (recovery)/expense	112	120	(201)	286
Changes in unrealized (gain)/loss on derivative instruments, net (Note 13)	(216)	(361)	339	(798)
Cash distributions in excess of/(less than) equity earnings	(15)	6	23	13
Asset impairment (Note 5)	—	—	108	—
Hedge ineffectiveness	(2)	(2)	(2)	(2)
Unrealized (gain)/loss on foreign intercompany loan	10	24	(5)	50
Other	(2)	(2)	11	4
Changes in operating assets and liabilities	117	(1)	188	139
<b>Net cash provided by operating activities</b>	<b>879</b>	<b>516</b>	<b>2,455</b>	<b>1,697</b>
<b>Investing activities</b>				
Capital expenditures	(416)	(253)	(970)	(998)
Joint venture financing	6	25	(7)	(16)
Long-term investments	29	—	29	1
Restricted long-term investments	(15)	(11)	(42)	(42)
Additions to intangible assets	—	—	—	(3)
Long-term receivable from affiliate	(10)	1	—	10
Affiliate loans, net	(195)	—	(195)	—
Other	12	—	12	—
<b>Net cash used in investing activities</b>	<b>(589)</b>	<b>(238)</b>	<b>(1,173)</b>	<b>(1,048)</b>
<b>Financing activities</b>				
Affiliate loans, net	(53)	9	(356)	491
Net change in commercial paper and credit facility draws	(685)	402	(220)	484
Debenture and term note repayments	(8)	—	(17)	(7)
Distributions to partners	(584)	(471)	(1,717)	(1,409)
Sale of noncontrolling interest in subsidiary (Note 6)	1,050	—	1,050	—
<b>Net cash used in financing activities</b>	<b>(280)</b>	<b>(60)</b>	<b>(1,260)</b>	<b>(441)</b>
Effect of translation of foreign denominated cash and cash equivalents	—	(2)	1	(3)
<b>Net increase in cash and cash equivalents</b>	<b>10</b>	<b>216</b>	<b>23</b>	<b>205</b>
Cash and cash equivalents at beginning of period	30	111	17	122
<b>Cash and cash equivalents at end of period</b>	<b>40</b>	<b>327</b>	<b>40</b>	<b>327</b>

See accompanying notes to the interim financial statements.

# ENBRIDGE INCOME PARTNERS LP

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2018	December 31, 2017
<i>(unaudited; millions of Canadian dollars)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	40	17
Accounts receivable and other	543	525
Accounts receivable from affiliates	117	141
Loans to affiliates <i>(Note 15)</i>	212	3
	912	686
Property, plant and equipment, net	24,145	23,622
Long-term receivable from affiliate	717	710
Investment in affiliated company	514	514
Long-term investments	386	431
Restricted long-term investments	177	135
Deferred amounts and other assets	1,999	1,988
Intangible assets, net	101	107
Goodwill	29	29
Deferred income taxes	104	109
Asset held for sale <i>(Note 5)</i>	99	—
<b>Total assets</b>	<b>29,183</b>	<b>28,331</b>
<b>Liabilities and partners' capital</b>		
Current liabilities		
Accounts payable and other	1,289	914
Accounts payable to affiliates	336	314
Distributions payable to affiliates	235	188
Interest payable	75	62
Loans from affiliates <i>(Note 15)</i>	199	555
Current portion of long-term debt	319	327
	2,453	2,360
Long-term debt	5,900	6,132
Other long-term liabilities	1,804	1,425
Loans from affiliates <i>(Note 15)</i>	5,801	5,801
Deferred income taxes	2,290	2,327
	18,248	18,045
Contingencies		
Class C units <i>(Note 10)</i>	13,545	12,947
Class D units <i>(Note 10)</i>	934	557
Class E unit	475	475
	14,954	13,979
Partners' capital		
General partner's capital deficit	(8,758)	(8,758)
Limited partners' capital	1,347	2,697
Special interest rights	2,565	2,565
Accumulated other comprehensive loss <i>(Note 12)</i>	(138)	(197)
Total partners' capital	(4,984)	(3,693)
Noncontrolling interests	965	—
	(4,019)	(3,693)
<b>Total liabilities and partners' capital</b>	<b>29,183</b>	<b>28,331</b>

See accompanying notes to the interim financial statements.



# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited)*

## 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Enbridge Income Partners LP (EIPLP) have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim consolidated financial information. They do not include all of the information and notes required by U.S. GAAP for annual consolidated financial statements and should therefore be read in conjunction with EIPLP's audited annual consolidated financial statements and notes for the year ended December 31, 2017. In the opinion of management, the interim consolidated financial statements contain all normal recurring adjustments necessary to present fairly EIPLP's financial position, results of operations and cash flows for the interim periods reported. These interim consolidated financial statements follow the same significant accounting policies as those included in EIPLP's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards (*Note 2*). Certain comparative amounts presented have been restated accordingly to be consistent with the current period presentation. Amounts are stated in Canadian dollars unless otherwise noted.

EIPLP's operations and earnings for interim periods can be affected by seasonal fluctuations, such as the supply of and demand for crude oil and natural gas, and may not be indicative of annual results.

EIPLP is a member of the Fund Group, which also includes Enbridge Commercial Trust (ECT) and Enbridge Income Fund. The Fund Group is owned by Enbridge Inc. (Enbridge) and Enbridge Income Fund Holdings Inc. (ENF), a public company listed on the Toronto Stock Exchange. On September 18, 2018, ENF announced its entry into an arrangement agreement (the Arrangement Agreement) with respect to an arrangement (the Proposed Arrangement), pursuant to which Enbridge will acquire all of ENF's outstanding common shares not currently owned by Enbridge. Under the terms of the Arrangement Agreement, each ENF common share will be exchanged for 0.7350 (the Agreed Exchange Ratio) of an Enbridge common share and cash of not less than \$0.45 per ENF common share (the Cash Component). The Agreed Exchange Ratio represents an increase of 9.8% relative to the unaffected ENF exchange ratio on May 16, 2018, and 11.3% inclusive of the Cash Component. The Proposed Arrangement is part of Enbridge's sponsored vehicle restructuring initiative to simplify its corporate structure.

The completion of the Proposed Arrangement is subject to certain customary closing conditions, including (i) the approval by 66 2/3% of the votes cast by ENF's shareholders present in person or by proxy at a special shareholders meeting called for November 6, 2018 to consider the Proposed Arrangement; and (ii) by a majority of the votes cast by ENF's shareholders, present in person or by proxy at the special shareholders meeting, after excluding the votes cast by Enbridge, its affiliates and certain other related parties.

## 2. CHANGES IN ACCOUNTING POLICIES

### ADOPTION OF NEW STANDARDS

#### **Clarifying Guidance on Derecognition and Partial Sales of Nonfinancial Assets**

Effective January 1, 2018, EIPLP adopted Accounting Standards Update (ASU) 2017-05 on a modified retrospective basis. The new standard clarifies the scope provisions of nonfinancial assets and how to allocate consideration to each distinct asset upon sale or partial sale, and amends the guidance for derecognition of a distinct nonfinancial asset in partial sale transactions so that an in-scope partial sale results in the recognition of a full gain or loss. The adoption of this accounting update did not have a material impact on EIPLP's consolidated financial statements.

#### **Simplifying Cash Flow Classification**

Effective January 1, 2018, EIPLP adopted ASU 2016-15 on a retrospective basis. The new standard reduces diversity in practice of how certain cash receipts and cash payments are classified in the statement of cash flows. The new guidance addresses eight specific presentation issues. EIPLP assessed each of the eight specific presentation issues and the adoption of this ASU did not have a material impact on its consolidated financial statements.

#### **Recognition and Measurement of Financial Assets and Liabilities**

Effective January 1, 2018, EIPLP adopted ASU 2016-01 on a prospective basis. The new standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial assets and liabilities is measured using the exit price notion, which is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this accounting update did not have a material impact on EIPLP's consolidated financial statements.

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

Effective January 1, 2018, EIPLP adopted ASU 2014-09 on a modified retrospective basis to contracts that were not complete at the date of initial application. The new standard was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the previous standards.

In adopting Accounting Standards Codification (ASC) 606, EIPLP applied the practical expedient for contract modifications whereby contracts that were modified before January 1, 2018 were not retrospectively restated. Instead, the aggregate effect of all contract modifications occurring before that time has been reflected when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to satisfied and unsatisfied obligations.

The following table presents the effect of the adoption of ASC 606 at January 1, 2018 on EIPLP's Consolidated Statements of Financial Position. For the three and nine months ended September 30, 2018, the effect of the adoption of ASC 606 on EIPLP's Consolidated Statement of Earnings was not material.

	Balance at December 31, 2017	Adjustments due to ASC 606	Balance at January 1, 2018
<i>(millions of Canadian dollars)</i>			
<b>Assets</b>			
Deferred amounts and other assets <sup>1,2</sup>	1,988	(179)	1,809
Property, plant and equipment, net <sup>2</sup>	23,622	90	23,712
<b>Liabilities</b>			
Accounts payable and other <sup>1,2</sup>	914	62	976
Other long-term liabilities <sup>2</sup>	1,425	45	1,470
Deferred income taxes <sup>1,2</sup>	2,327	(53)	2,274
Partners' capital <sup>1,2</sup>	(3,693)	(143)	(3,836)

- 1 Revenue was previously recognized for a certain contract within the Liquids Pipelines business unit using a formula-based method. Under the new revenue standard, revenue from this contract is recognized on a straight-line basis over the term of the agreement in order to reflect the fulfilment of EIPLP's performance obligation to provide up to a specified volume of pipeline capacity throughout the term of the contract. The effect of this change has resulted in:
- a. A reduction in contract assets, included within deferred amounts and other assets, of \$188 million at January 1, 2018;
  - b. An increase in accounts payable and other (current deferred revenue) of \$58 million at January 1, 2018;
  - c. A reduction in deferred income tax liability of \$66 million at January 1, 2018; and
  - d. A reduction in partners' capital of \$179 million at January 1, 2018 to record the effect of the above items.
- 2 Certain payments received from customers to offset the cost of constructing assets required to provide services to those customers, referred to as Contributions in Aid of Construction (CIACs) were previously recorded as reductions of property, plant and equipment regardless of whether the amounts were imposed by regulation or were the result of negotiations with customers. Under the new revenue standard, CIACs which are negotiated as part of an agreement to provide transportation and other services to a customer are considered to be advance payments for future services and are recognized as revenue when those future services are provided. Accordingly, negotiated CIACs are accounted for as deferred revenue and recognized as revenue over the term of the associated revenue contract. The effect of this change has resulted in:
- a. An increase in contract assets, included within deferred amounts and other assets of \$9 million at January 1, 2018;
  - a. An increase in property, plant and equipment of \$90 million at January 1, 2018;
  - b. An increase in deferred income tax liability of \$13 million at January 1, 2018;
  - c. An increase in other long-term liabilities (deferred revenue) of \$45 million at January 1, 2018;
  - d. An increase in accounts payable and other (current deferred revenue) of \$4 million at January 1, 2018; and
  - e. An increase in partners' capital of \$36 million at January 1, 2018 to record the effect of the above items.

## FUTURE ACCOUNTING POLICY CHANGES

### Amended Guidance on Cloud Computing Arrangements

In August 2018, ASU 2018-15 was issued to provide guidance on the accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. The amendment aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Additionally ASU 2018-15 specifies that an entity would apply ASC 350-40 to determine which implementation costs related to a hosting arrangement that is a service contract should be capitalized and which should be expensed. Furthermore, the amendments in the update require capitalized costs be amortized on a straight-line basis generally over the term of the arrangement and presented in the same income statement line as fees paid for the hosting service. The new standard also requires that the balance sheet presentation of capitalized implementation costs to be the same as that of the prepayment of fees related to the hosting arrangement, as well as similar consistency in classifications from a cash flow statement perspective. ASU 2018-15 is effective January 1, 2020 and early adoption is permitted. EIPLP is currently assessing the impact of the new standard on its consolidated financial statements.

### Disclosure Effectiveness

In August 2018, the Financial Accounting Standards Board issued amendments as a part of its disclosure framework project aimed to improve the effectiveness of disclosures in the notes to financial statements.

ASU 2018-13 was issued to modify the disclosure requirements in ASC 820, Fair Value Measurement. The amendments in ASU 2018-13 eliminate and modify some disclosures, while also adding new disclosures for fair value measurements. This update is effective January 1, 2020, however entities are permitted to early adopt the eliminated or modified disclosures. EIPLP is currently assessing the impact of the new standard on its consolidated financial statements.

## **Recognition of Leases**

ASU 2016-02 was issued in February 2016 with the intent to increase transparency and comparability among organizations. It requires lessees of operating lease arrangements to recognize lease assets and lease liabilities on the statement of financial position and disclose additional key information about lease agreements. The accounting update also replaces the current definition of a lease and requires that an arrangement be recognized as a lease when a customer has the right to obtain substantially all of the economic benefits from the use of an asset, as well as the right to direct the use of the asset. EIPLP will adopt the new standard on January 1, 2019 and EIPLP intends to apply the transition practical expedients offered in connection with this update. The election to apply the package of practical expedients allows an entity to not apply the new lease standard to the prior year comparative periods in the year of adoption. Application of the package of practical expedients also permits entities not to reassess a) whether any expired or existing contracts contain leases in accordance with the new guidance, b) lease classifications, and c) whether initial direct costs capitalized under ASC 840 continue to meet the definition of initial direct costs under the new guidance.

Further, ASU 2018-01 was issued in January 2018 to address stakeholder concerns about the costs and complexity of complying with the transition provisions of the new lease requirements as they relate to land easements. The amendments provide an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under existing guidance. EIPLP intends to elect this practical expedient in connection with the adoption of the new lease requirements.

In July 2018, ASU 2018-11 was issued to address additional stakeholder concerns regarding the unanticipated costs and complexities associated with the modified retrospective transition method as well as the requirement for lessors to separate components of a contract. Under the new guidance, entities are provided with an additional transition method which allows entities to apply the new standard at the date of adoption and to elect not to recast comparative periods presented. This amendment also provides a practical expedient which allows lessors to combine associated lease and nonlease components within a contract when certain conditions are met. EIPLP intends to adopt the new transition option in connection with the adoption of the new lease requirements; however EIPLP continues to evaluate the lessor practical expedient to combine lease and nonlease components.

EIPLP is in the process of identifying existing lease contracts and performing detailed evaluations of its leases under the new accounting requirements. EIPLP believes the most significant change to its financial statements will be the recognition of lease liabilities and right-of-use assets in its consolidated statement of financial position for operating leases. EIPLP continues to assess the necessary changes to accounting and business processes in order to implement the recognition and disclosure requirements of the new lease standard.

### 3. REVENUES

#### REVENUE FROM CONTRACTS WITH CUSTOMERS

##### Major products and services

Three months ended September 30, 2018	Liquids Pipelines	Green Power	Consolidated
<i>(millions of Canadian dollars)</i>			
Transportation revenue <sup>1</sup>	1,087	—	1,087
Storage and other revenue <sup>2</sup>	25	—	25
Electricity sales <sup>3</sup>	—	66	66
Total revenue from contracts with customers <sup>4</sup>	1,112	66	1,178
Other revenue <sup>5</sup>	221	2	223
Total revenue	1,333	68	1,401

Nine months ended September 30, 2018	Liquids Pipelines	Green Power	Consolidated
<i>(millions of Canadian dollars)</i>			
Transportation revenue <sup>1</sup>	3,094	—	3,094
Storage and other revenue <sup>2</sup>	73	—	73
Electricity sales <sup>3</sup>	—	234	234
Total revenue from contracts with customers <sup>4</sup>	3,167	234	3,401
Other revenue <sup>5</sup>	(307)	7	(300)
Total revenue	2,860	241	3,101

1 Performance obligation includes the transportation of crude oil.

2 Performance obligation includes the storage of crude oil.

3 Performance obligation includes the delivery of electricity from renewable energy generation facilities.

4 Revenue from products and services transferred over time.

5 Includes mark-to-market gain/(loss) from EIPLP's hedging program.

#### Contract balances

	Accounts Receivable	Contract Assets	Contract Liabilities
<i>(millions of Canadian dollars)</i>			
Balance at January 1, 2018	449	255	371
Balance at September 30, 2018	476	257	456

Payments are received monthly from customers under long-term transportation contracts.

Contract assets represent the amount of revenue which has been recognized in advance of payments received for performance obligations EIPLP has fulfilled (or partially fulfilled) and prior to the point in time at which EIPLP's right to the payment is unconditional. Amounts included in contract assets are transferred to accounts receivable when EIPLP's right to the consideration becomes unconditional.

Contract liabilities primarily relate to make-up rights and deferred revenues. Revenue recognized during the three and nine months ended September 30, 2018 relating to make-up rights and deferred revenues that existed at December 31, 2017 was \$16 million and \$40 million, respectively. Increases in contract liabilities from cash received, net of amounts recognized as revenue during the three and nine months ended September 30, 2018 were \$39 million and \$125 million, respectively.

### **Revenue to be recognized from unfulfilled performance obligations**

The total revenue from performance obligations expected to be fulfilled in future periods is \$15.8 billion, of which \$0.3 billion and \$1.1 billion is expected to be recognized during the remaining three months of the year ending December 31, 2018 and the year ending December 31, 2019, respectively.

The revenues excluded from the amounts above based on optional exemptions available under ASC 606, as explained below, represent a significant portion of EIPLP's overall revenues and revenues from contracts with customers. Certain revenues such as flow-through operating costs charged to shippers are recognized at the amount for which EIPLP has the right to invoice its customers. Those revenues are not included in the amounts for revenue to be recognized in the future from unfulfilled performance obligations above. Variable consideration is excluded from the amounts above due to the uncertainty of the associated consideration, which is generally resolved when actual volumes and prices are determined. For example, EIPLP considers interruptible transportation service revenues to be variable revenues since volumes cannot be estimated. Additionally, the effect of escalation on certain tolls which are contractually escalated for inflation has not been reflected in the amounts above as it is not possible to reliably estimate future inflation rates. Revenues for periods extending beyond the current rate settlement term for regulated contracts where the tolls are periodically reset by the regulator are excluded from the amounts above since future tolls remain unknown. Finally, revenues from contracts with customers which have an original expected duration of one year or less are excluded from the amounts above.

### **SIGNIFICANT JUDGMENTS MADE IN RECOGNIZING REVENUE**

#### **Long-term transportation agreements**

For long-term transportation agreements, significant judgments pertain to the period over which revenue is recognized and whether the agreement provides for make-up rights for the shippers. Transportation revenue earned from firm contracted capacity arrangements is recognized ratably over the contract period. Transportation revenue from interruptible or volumetric-based arrangements is recognized when services are performed.

#### **Estimates of variable consideration**

Revenue from arrangements subject to variable consideration is recognized only when the amount of variable consideration can be reasonably estimated. This occurs when actual volumes are sold or transported and actual tolls are determined.

### **Recognition and measurement of revenue**

#### **Performance obligations satisfied over time**

For arrangements involving the transportation of crude oil where the transportation services are simultaneously received and consumed by the shipper or customer, EIPLP recognizes revenue over time using an output method based on volumes of commodities delivered or transported.

#### **Determination of tolls**

Prices for transportation services are determined based on the capital cost of the pipelines and associated infrastructure required to provide such services plus a rate of return on capital invested that is determined either through negotiations with customers or through regulatory processes for those operations that are subject to rate regulation.

## 4. SEGMENTED INFORMATION

Effective December 31, 2017, EIPLP revised its segmented information presentation on a retrospective basis to present Earnings before interest, income taxes and depreciation and amortization of each segment as opposed to Earnings before interest and income taxes.

Segmented information for the three and nine months ended September 30, 2018 and 2017 were as follows:

<b>Three months ended September 30, 2018</b>	Liquids Pipelines	Gas Pipelines	Green Power	Eliminations and Other	Consolidated
<i>(millions of Canadian dollars)</i>					
Revenues	1,333	—	68	—	1,401
Operating and administrative	(328)	—	(16)	—	(344)
	1,005	—	52	—	1,057
Income from equity investments	—	53	—	—	53
Other income	13	—	1	4	18
Earnings before interest and income taxes and depreciation and amortization	1,018	53	53	4	1,128
Depreciation and amortization					(180)
Interest expense					(110)
Income tax expense					(143)
Special interest rights distributions					(134)
Earnings attributable to general and limited partners					561
Capital expenditures	416	—	—	—	416
<b>Three months ended September 30, 2017</b>					
<i>(millions of Canadian dollars)</i>					
Revenues	1,157	—	66	—	1,223
Operating and administrative	(293)	—	(17)	(1)	(311)
Environmental costs, net of recoveries	2	—	—	—	2
	866	—	49	(1)	914
Income/(loss) from equity investments	—	49	(1)	—	48
Other income/(loss)	24	2	1	(11)	16
Earnings before interest and income taxes and depreciation and amortization	890	51	49	(12)	978
Depreciation and amortization					(167)
Interest expense					(107)
Income tax expense					(139)
Special interest rights distributions					(78)
Earnings attributable to general and limited partners					487
Capital expenditures	251	—	2	—	253
<b>Nine months ended September 30, 2018</b>					
<i>(millions of Canadian dollars)</i>					
Revenues	2,860	—	241	—	3,101
Operating and administrative	(931)	—	(37)	—	(968)
Environmental costs, net of recoveries	10	—	—	—	10
Asset impairment	(108)	—	—	—	(108)
	1,831	—	204	—	2,035
Income/(loss) from equity investments	—	172	(20)	—	152
Other income/(loss)	17	(1)	1	47	64
Earnings before interest and income taxes and depreciation and amortization	1,848	171	185	47	2,251
Depreciation and amortization					(535)
Interest expense					(341)
Income tax recovery					84
Special interest rights distributions					(400)
Earnings attributable to general and limited partners					1,059
Capital expenditures	966	—	4	—	970

Nine months ended September 30, 2017	Liquids Pipelines	Gas Pipelines	Green Power	Eliminations and Other	Consolidated
<i>(millions of Canadian dollars)</i>					
Revenues	3,114	—	234	—	3,348
Operating and administrative	(854)	—	(47)	(5)	(906)
Environmental costs, net of recoveries	6	—	—	—	6
	2,266	—	187	(5)	2,448
Income from equity investments	—	152	—	—	152
Other income/(expense)	55	4	1	(12)	48
Earnings/(loss) before interest and income taxes and depreciation and amortization	2,321	156	188	(17)	2,648
Depreciation and amortization					(490)
Interest expense					(308)
Income tax expense					(335)
Special interest rights distributions					(234)
Earnings attributable to general and limited partners					1,281
Capital expenditures	993	—	5	—	998

## TOTAL ASSETS

	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
Liquids Pipelines	25,800	25,061
Gas Pipelines	364	386
Green Power	2,072	2,156
Eliminations and Other	947	728
	29,183	28,331

## 5. ASSET HELD FOR SALE

In the first quarter of 2018, EIPLP satisfied the condition as set out in the agreement for the sale of its Line 10 crude oil pipeline (Line 10), which is a component of the Canadian Mainline included within its Liquids Pipelines segment. Line 10 originates near Hamilton, Ontario and terminates near Buffalo, New York. EIPLP owns the Canadian portion of Line 10, while Enbridge Energy Partners, L.P., a subsidiary of Enbridge, owns the United States portion.

EIPLP expects to close the sale of Line 10 within one year, subject to regulatory approval and certain closing conditions. As such, EIPLP classified Line 10 as an asset held for sale and measured it at the lower of carrying value or fair value less costs to sell, which resulted in a loss of \$108 million included within Asset impairment on the Consolidated Statements of Earnings for the nine months ended September 30, 2018.

## 6. DISPOSITION

On August 1, 2018, EIPLP sold a 49% interest in wind and solar facilities included within its Green Power segment (the Renewable Assets) to the Canada Pension Plan Investment Board (CPPIB) for cash consideration of approximately \$1,050 million and retained a 51% interest.

To facilitate the sale, on August 1, 2018, EIPLP's wholly-owned subsidiaries transferred the Renewable Assets to the newly formed partnership, Enbridge Canadian Renewable LP (ECRLP). Subsequently, a 49% interest in ECRLP and the newly formed general partner, Enbridge Canadian Renewable GP (ECRGP), was sold to CPPIB. During the nine months ended September 30, 2018, a deferred income tax recovery of \$267 million was recorded as a result of the sale (Note 14).



Following the Renewable Assets transaction, EIPLP maintains a controlling interest and therefore consolidates ECRLP and recognizes a noncontrolling interest to reflect the interest not held by EIPLP. As control was maintained, the gain of \$62 million was recorded directly to Limited partners' capital within the Consolidated Statements of Partners' Capital.

## 7. LONG-TERM INVESTMENTS

During the nine months ended September 30, 2018, NRGreen Power Limited Partnership (NRGreen) recorded a pre-tax asset impairment charge related to the Chickadee Creek Waste Heat Recovery Facility (Chickadee Creek) located in Alberta of \$43 million (\$22 million attributable to EIPLP). Chickadee Creek generates waste heat from the Alliance Pipeline and sells the power generated to the Alberta power grid at market rates. EIPLP holds a 50% investment in NRGreen, which is included within the Green Power segment. The impairment charge is recorded within EIPLP's Income from equity investments within the Consolidated Statements of Earnings.

## 8. VARIABLE INTEREST ENTITY

### Enbridge Canadian Renewable LP

ECRLP is a subsidiary owned 46.18% by Enbridge Pipelines Inc. (EPI), 4.81% by Enbridge Income Partners Holdings Inc. (EIPHI), 49% by CPPIB and 0.01% by ECRGP. ECRLP operates 14 renewable assets; 11 wind and three solar facilities. The majority of this renewable asset portfolio is underpinned by unit contingent and fixed profile power purchase agreements. Enbridge manages, operates and provides administrative services for the renewable assets. ECRLP is considered a variable interest entity (VIE) as its limited partners lack substantive kick-out rights and participating rights. EIPLP consolidates the VIE because it holds a controlling financial interest in EPI, the primary beneficiary of the VIE.

As at September 30, 2018, the carrying amounts of total assets and total liabilities of ECRLP on EIPLP's Consolidated Statements of Financial Position were \$2,058 million and \$84 million, respectively. The creditors of ECRLP do not have recourse to EIPLP's general credit, other than through nominal assets of the holding company with the general partnership interest. EIPLP did not provide any additional financial support to ECRLP during the nine months ended September 30, 2018.

## 9. DEBT

### CREDIT FACILITY

	Maturity	September 30, 2018	
		Total Facility	Draws <sup>1</sup> Available
<i>(millions of Canadian dollars)</i> Enbridge Pipelines Inc.	2020	3,000	1,214 1,786

<sup>1</sup> Includes facility draws and commercial paper issuances that are back-stopped by the credit facility.

The credit facility serves as a back-stop to the commercial paper program and EIPLP's subsidiary, EPI, has the option to extend the facility, which is currently set to mature in 2020.

As at September 30, 2018, commercial paper and credit facility draws of \$1,214 million (December 31, 2017 - \$1,438 million) were supported by the availability of a long-term committed credit facility and therefore have been classified as long-term debt.

### DEBT COVENANTS

EPI was in compliance with all terms and conditions of its committed credit facility agreement and Trust Indenture as at September 30, 2018.

## 10. PARTNERS' CAPITAL

### EXCHANGEABLE UNITS

#### Class C Units

	2018		2017	
	Number of Units	Amount	Number of Units	Amount
Nine months ended September 30, <i>(millions of Canadian dollars; number of units in millions)</i>				
Balance at beginning of period	443	12,947	443	15,104
Earnings allocation	—	521	—	649
Class C unit distribution	—	(851)	—	(714)
	443	12,617	443	15,039
Fair market value adjustment	—	928	—	(1,087)
Balance at end of period	443	13,545	443	13,952

#### Class D Units

	2018		2017	
	Number of Units	Amount	Number of Units	Amount
Nine months ended September 30, <i>(millions of Canadian dollars; number of units in millions)</i>				
Balance at beginning of period	19	557	10	341
Class D units issued <sup>1</sup>	10	339	6	219
Earnings allocation	—	36	—	24
Class D unit distribution	2	(49)	1	(22)
	31	883	17	562
Fair market value adjustment	—	51	—	(40)
Balance at end of period	31	934	17	522

<sup>1</sup> Class D units issued on payment of Temporary Performance Distribution Right distributions.

## 11. NONCONTROLLING INTERESTS

On August 1, 2018, EIPLP sold a 49% interest in its Renewable Assets to CPPIB for cash consideration of approximately \$1,050 million. EIPLP maintains a controlling interest and therefore consolidates the Renewable Assets and recognizes a noncontrolling interest to reflect the interest that EIPLP does not hold. For the three months ended September 30, 2018, CPPIB's distributions and allocation of earnings were not proportionate to its ownership.

## 12. COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in Accumulated other comprehensive loss (AOCI) for the nine months ended September 30, 2018 and 2017 are as follows:

	Cash Flow Hedges	Cumulative Translation Adjustment	Other	Total
<i>(millions of Canadian dollars)</i>				
Balance at January 1, 2018	(230)	33	—	(197)
Other comprehensive income retained in AOCI	58	18	(11)	65
Other comprehensive (income)/loss reclassified to earnings				
Interest rate contracts <sup>1</sup>	15	—	—	15
Commodity contracts <sup>2</sup>	(1)	—	—	(1)
Foreign exchange contracts <sup>3</sup>	(1)	—	—	(1)
	71	18	(11)	78
Tax impact				
Income tax on amounts retained in AOCI	(14)	—	—	(14)
Income tax on amounts reclassified to earnings	(5)	—	—	(5)
	(19)	—	—	(19)
Balance at September 30, 2018	(178)	51	(11)	(138)

	Cash Flow Hedges	Cumulative Translation Adjustment	Total	
<i>(millions of Canadian dollars)</i>				
Balance at January 1, 2017		(269)	73	(196)
Other comprehensive income/(loss) retained in AOCI		56	(42)	14
Other comprehensive (income)/loss reclassified to earnings				
Interest rate contracts <sup>1</sup>		15	—	15
Commodity contracts <sup>2</sup>		(6)	—	(6)
		65	(42)	23
Tax impact				
Income tax on amounts retained in AOCI		(16)	—	(16)
Income tax on amounts reclassified to earnings		(3)	—	(3)
		(19)	—	(19)
Balance at September 30, 2017		(223)	31	(192)

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

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

<sup>3</sup> Reported within Other income/(expense) in the Consolidated Statements of Earnings.

## 13. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### MARKET RISK

EIPLP's earnings, cash flows and other comprehensive income (OCI) are subject to movements in foreign exchange rates, interest 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 EIPLP is exposed and the risk management instruments used to mitigate them. EIPLP uses a combination of qualifying and non-qualifying derivative instruments to manage the risks noted below.

### Foreign Exchange Risk

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

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

#### **Interest Rate Risk**

EIPLP'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 commercial paper. Pay fixed-receive floating interest rate swaps are used to hedge against the effect of future interest rate movements. EIPLP has implemented a program to significantly mitigate the volatility of short-term interest rates on interest expense via execution of floating to fixed rate interest rate swaps with an average swap rate of 2.9%.

EIPLP'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 are used to hedge against the effect of future interest rate movements. EIPLP has implemented a program to significantly mitigate its exposure to long-term interest rate variability on select forecast term debt issuances via execution of floating to fixed rate interest rate swaps with an average swap rate of 3.0%.

EIPLP's portfolio mix of fixed and variable rate debt instruments is managed by the Fund Group.

#### **Commodity Price Risk**

EIPLP's earnings, cash flows and OCI are exposed to changes in commodity prices as a result of its ownership interest in certain assets and investments. These commodities primarily consist of crude oil and power. EIPLP employs financial derivative instruments to fix a portion of the variable price exposures that arise from physical transactions involving these commodities. EIPLP may use a combination of qualifying and non-qualifying derivative instruments to manage commodity price risk.

#### **TOTAL DERIVATIVE INSTRUMENTS**

The following table summarizes the Consolidated Statements of Financial Position location and carrying value of EIPLP's derivative instruments. EIPLP did not have any fair value or net investment hedges outstanding as at September 30, 2018 or December 31, 2017.

EIPLP generally has a policy of entering into individual International Swaps and Derivatives Association, Inc. agreements, or other similar derivative agreements, with the majority of its financial 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 EIPLP's credit risk exposure on financial 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.

<b>September 30, 2018</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>					
Accounts receivable and other					
Foreign exchange contracts	—	25	25	(19)	6
Interest rate contracts	4	—	4	(4)	—
Commodity contracts	1	—	1	(1)	—
	5	25	30 <sup>1</sup>	(24)	6
Deferred amounts and other assets					
Foreign exchange contracts	—	10	10	—	10
Interest rate contracts	10	—	10	(1)	9
Commodity contracts	19	—	19	(19)	—
	29	10	39	(20)	19
Accounts payable and other					
Foreign exchange contracts	—	(193)	(193)	19	(174)
Interest rate contracts	(48)	—	(48)	4	(44)
Commodity contracts	—	(39)	(39)	1	(38)
	(48)	(232)	(280) <sup>2</sup>	24	(256)
Other long-term liabilities					
Foreign exchange contracts	—	(1,108)	(1,108)	—	(1,108)
Interest rate contracts	(6)	—	(6)	1	(5)
Commodity contracts	—	(105)	(105)	19	(86)
	(6)	(1,213)	(1,219)	20	(1,199)
Total net derivative asset/(liability)					
Foreign exchange contracts	—	(1,266)	(1,266)	—	(1,266)
Interest rate contracts	(40)	—	(40)	—	(40)
Commodity contracts	20	(144)	(124)	—	(124)
	(20)	(1,410)	(1,430)	—	(1,430)

December 31, 2017	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>					
Accounts receivable and other					
Foreign exchange contracts	—	77	77	(69)	8
Interest rate contracts	6	—	6	(6)	—
Commodity contracts	2	—	2	(2)	—
	8	77	85 <sup>1</sup>	(77)	8
Deferred amounts and other assets					
Foreign exchange contracts	1	18	19	—	19
Interest rate contracts	1	—	1	—	1
Commodity contracts	17	—	17	(16)	1
	19	18	37	(16)	21
Accounts payable and other					
Foreign exchange contracts	—	(143)	(143)	69	(74)
Interest rate contracts	(90)	—	(90)	6	(84)
Commodity contracts	—	(29)	(29)	2	(27)
	(90)	(172)	(262) <sup>2</sup>	77	(185)
Other long-term liabilities					
Foreign exchange contracts	—	(868)	(868)	—	(868)
Interest rate contracts	(14)	—	(14)	—	(14)
Commodity contracts	—	(126)	(126)	16	(110)
	(14)	(994)	(1,008)	16	(992)
Total net derivative asset/(liability)					
Foreign exchange contracts	1	(916)	(915)	—	(915)
Interest rate contracts	(97)	—	(97)	—	(97)
Commodity contracts	19	(155)	(136)	—	(136)
	(77)	(1,071)	(1,148)	—	(1,148)

<sup>1</sup> Reported within Accounts receivable and other (2018 - \$6 million; December 31, 2017 - \$7 million) and Accounts receivable from affiliates (2018 - \$24 million; December 31, 2017 - \$78 million) on the Consolidated Statements of Financial Position.

<sup>2</sup> Reported within Accounts payable and other (2018 - \$38 million; December 31, 2017 - \$41 million) and Accounts payable to affiliates (2018 - \$242 million; December 31, 2017 - \$221 million) on the Consolidated Statements of Financial Position.

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

September 30, 2018	2018	2019	2020	2021	2022	Thereafter
Interest rate contracts - short-term borrowings ( <i>millions of Canadian dollars</i> )	318	561	334	38	25	166
Interest rate contracts - long-term debt ( <i>millions of Canadian dollars</i> )	1,170	400	125	—	—	—
Foreign exchange contracts - United States dollar forwards - sell ( <i>millions of United States dollars</i> )	856	1,807	2,060	1,687	1,675	3,489
Foreign exchange contracts - United States dollar forwards - purchase ( <i>millions of United States dollars</i> )	372	2	1	—	—	—
Commodity contracts - crude oil ( <i>millions of barrels</i> )	—	(1)	—	—	—	—
Commodity contracts - power ( <i>megawatt hours (MW/H)</i> ) <sup>1</sup>	25	31	35	(3)	(43)	(43)

December 31, 2017	2018	2019	2020	2021	2022	Thereafter
Interest rate contracts - short-term borrowings ( <i>millions of Canadian dollars</i> )	1,227	81	25	25	25	166
Interest rate contracts - long-term debt ( <i>millions of Canadian dollars</i> )	1,170	400	125	—	—	—
Foreign exchange contracts - United States dollar forwards - sell ( <i>millions of United States dollars</i> )	2,107	1,807	2,060	1,687	1,675	1,820
Foreign exchange contracts - United States dollar forwards - purchase ( <i>millions of United States dollars</i> )	414	2	2	—	—	—
Commodity contracts - power ( <i>MW/H</i> ) <sup>1</sup>	30	31	35	(3)	(43)	(43)

<sup>1</sup> Thereafter includes an average of (43) MW/H for 2023 through 2025.

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

The following table presents the effect of cash flow hedges on EIPLP's consolidated earnings and consolidated comprehensive income, before the effect of income taxes:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Amount of unrealized gain/(loss) recognized in OCI				
Cash flow hedges				
Foreign exchange contracts	—	(1)	(1)	(1)
Interest rate contracts	46	36	58	39
Commodity contracts	4	4	1	16
	50	39	58	54
Amount of (gain)/loss reclassified from AOCI to earnings				
<i>(effective portion)</i>				
Interest rate contracts <sup>1</sup>	5	7	16	19
Commodity contracts <sup>2</sup>	—	(2)	(1)	(6)
	5	5	15	13
Amount of gain reclassified from AOCI to earnings				
<i>(ineffective portion and amount excluded from effectiveness testing)</i>				
Interest rate contracts <sup>1</sup>	(2)	(2)	(2)	(2)
	(2)	(2)	(2)	(2)

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

<sup>2</sup> Reported within Transportation and other services revenues, Electricity sales revenues, and Other income/(expense) in the Consolidated Statements of Earnings.

EIPLP estimates that nil of AOCI related to cash flow hedges will be reclassified to earnings in the next 12 months. Actual amounts reclassified to earnings depend on the foreign exchange rates, interest rates and commodity prices in effect when derivative contracts that are currently outstanding mature. For all forecasted transactions, the maximum term over which EIPLP is hedging exposures to the variability of cash flows is 27 months at September 30, 2018.

## Non-Qualifying Derivatives

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
<i>(millions of Canadian dollars)</i>				
Foreign exchange contracts <sup>1</sup>	219	357	(350)	771
Commodity contracts <sup>2</sup>	(3)	4	11	27
Total unrealized derivative fair value gain/(loss)	216	361	(339)	798

<sup>1</sup> For the respective nine months ended period, reported within Transportation and other services revenues (2018 - \$349 million loss; 2017 - \$725 million gain) and Other income/(expense) (2018 - \$1 million loss; 2017 - \$46 million gain) in the Consolidated Statements of Earnings.

<sup>2</sup> For the respective nine months ended period, reported within Transportation and other services revenues (2018 - \$9 million loss; 2017 - \$1 million gain), Electricity sales revenues (2018 - \$5 million gain; 2017 - \$4 million gain) and Operating and administrative expense (2018 - \$15 million gain; 2017 - \$22 million gain) in the Consolidated Statements of Earnings.

## LIQUIDITY RISK

Liquidity risk is the risk EIPLP will not be able to meet its financial obligations, including commitments and guarantees, as they become due. In order to manage this risk, EIPLP forecasts cash requirements over the near and long term to determine whether sufficient funds will be available when required. EIPLP generates cash from operations, commercial paper issuances and credit facility draws, through the

periodic issuance of public term debt and issuance of units to its partners. Additionally, to ensure ongoing liquidity and to mitigate the risk of market disruption, EIPLP maintains a committed bank credit facility. EIPLP actively manages its bank funding sources to optimize pricing and other terms. Additional liquidity, if necessary, is expected to be available through intercompany transactions with Enbridge or other related entities.

## CREDIT RISK

Entering into derivative instruments may result in exposure to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations. In order to mitigate this risk, EIPLP enters into risk management transactions primarily 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.

EIPLP has credit concentrations and credit exposure, with respect to derivative instruments, in the following counterparty segments:

	September 30, 2018	December 31, 2017
<i>(millions of Canadian dollars)</i>		
Canadian financial institutions	5	8
United States financial institutions	8	—
European financial institutions	10	17
Other <sup>1</sup>	5	9
	<b>28</b>	<b>34</b>

<sup>1</sup> Other is comprised of primarily Enbridge and its affiliates.

Derivative assets are adjusted for non-performance risk of EIPLP's counterparties using their credit default swap spread rates, and are reflected in the fair value. For derivative liabilities, EIPLP's non-performance risk is considered in the valuation.

Credit risk also arises from trade and other long-term receivables, and is mitigated through credit exposure limits, contractual requirements, assessment of credit ratings and netting arrangements. Generally, EIPLP classifies and provides for receivables older than 30 days as past due. The maximum exposure to credit risk related to non-derivative financial assets is their carrying value.

## FAIR VALUE MEASUREMENTS

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

## FAIR VALUE OF FINANCIAL INSTRUMENTS

EIPLP categorizes its derivative instruments 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 derivatives measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date. An active market for a derivative is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. EIPLP does not have any financial instruments valued using Level 1 inputs.



**Level 2**

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

EIPLP has also categorized the fair value of its Investment in affiliated company and Long-term debt as Level 2. The fair value is based on quoted market prices for instruments of similar yield, credit risk and tenor.

**Level 3**

Level 3 includes derivative valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the derivatives' fair value. Generally, Level 3 derivatives 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. EIPLP has developed methodologies, benchmarked against industry standards, to determine fair value for these derivatives based on extrapolation of observable future prices and rates. Derivatives valued using Level 3 inputs include long-dated derivative power contracts, basis swaps, commodity swaps, power and energy swaps and options.

EIPLP uses the most observable inputs available to estimate the fair value of its derivatives. When possible, EIPLP estimates the fair value of its derivatives based on quoted market prices. If quoted market prices are not available, EIPLP uses estimates from third party brokers. For non-exchange traded derivatives classified in Levels 2 and 3, EIPLP uses standard valuation techniques to calculate the estimated fair value. These methods include discounted cash flows for forwards and swaps and Black-Scholes-Merton pricing models for options. Depending on the type of derivative and nature of the underlying risk, EIPLP uses observable market prices and volatility as primary inputs to these valuation techniques. Finally, EIPLP 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.

## Fair Value of Derivatives

EIPLP has categorized its derivative assets and liabilities measured at fair value as follows:

<b>September 30, 2018</b>	Level 1	Level 2	Level 3	Total Gross Derivative Instruments
<i>(millions of Canadian dollars)</i>				
<b>Financial assets</b>				
Current derivative assets				
Foreign exchange contracts	—	25	—	25
Interest rate contracts	—	4	—	4
Commodity contracts	—	—	1	1
	—	29	1	30
Long-term derivative assets				
Foreign exchange contracts	—	10	—	10
Interest rate contracts	—	10	—	10
Commodity contracts	—	—	19	19
	—	20	19	39
<b>Financial liabilities</b>				
Current derivative liabilities				
Foreign exchange contracts	—	(193)	—	(193)
Interest rate contracts	—	(48)	—	(48)
Commodity contracts	—	(12)	(27)	(39)
	—	(253)	(27)	(280)
Long-term derivative liabilities				
Foreign exchange contracts	—	(1,108)	—	(1,108)
Interest rate contracts	—	(6)	—	(6)
Commodity contracts	—	(3)	(102)	(105)
	—	(1,117)	(102)	(1,219)
<b>Total net financial liability</b>				
Foreign exchange contracts	—	(1,266)	—	(1,266)
Interest rate contracts	—	(40)	—	(40)
Commodity contracts	—	(15)	(109)	(124)
	—	(1,321)	(109)	(1,430)

December 31, 2017 (millions of Canadian dollars)	Level 1	Level 2	Level 3	Total Gross Derivative Instruments
<b>Financial assets</b>				
Current derivative assets				
Foreign exchange contracts	—	77	—	77
Interest rate contracts	—	6	—	6
Commodity contracts	—	—	2	2
	—	83	2	85
Long-term derivative assets				
Foreign exchange contracts	—	19	—	19
Interest rate contracts	—	1	—	1
Commodity contracts	—	—	17	17
	—	20	17	37
<b>Financial liabilities</b>				
Current derivative liabilities				
Foreign exchange contracts	—	(143)	—	(143)
Interest rate contracts	—	(90)	—	(90)
Commodity contracts	—	(5)	(24)	(29)
	—	(238)	(24)	(262)
Long-term derivative liabilities				
Foreign exchange contracts	—	(868)	—	(868)
Interest rate contracts	—	(14)	—	(14)
Commodity contracts	—	(1)	(125)	(126)
	—	(883)	(125)	(1,008)
<b>Total net financial liability</b>				
Foreign exchange contracts	—	(915)	—	(915)
Interest rate contracts	—	(97)	—	(97)
Commodity contracts	—	(6)	(130)	(136)
	—	(1,018)	(130)	(1,148)

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

<b>September 30, 2018</b>	Fair Value	Unobservable Input	Minimum Price	Maximum Price	Weighted Average Price	Unit of Measurement
<i>(fair value in millions of Canadian dollars)</i>						
Commodity contracts - financial <sup>1</sup>						
Power	(109)	Forward power price	36.39	64.00	50.37	\$/MWH

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

If adjusted, the significant unobservable inputs disclosed in the table above would have a direct impact on the fair value of EIPLP's Level 3 derivative instruments. The significant unobservable inputs used in the fair value measurement of Level 3 derivative instruments include forward commodity prices and for option contracts, price volatility. Changes in forward commodity prices could result in significantly different fair values for EIPLP's Level 3 derivatives. Changes in price volatility would change the value of the option contracts. Generally, a change in the estimate of forward commodity prices is unrelated to a change in the estimate of price volatility.

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

	Nine months ended September 30,	
	2018	2017
<i>(millions of Canadian dollars)</i>		
Level 3 net derivative liability at beginning of period	(130)	(181)
Total gain/(loss), unrealized		
Included in earnings <sup>1</sup>	21	26
Included in OCI	—	10
<b>Level 3 net derivative liability at end of period</b>	<b>(109)</b>	<b>(145)</b>

<sup>1</sup> Reported within Transportation and other services revenues, and Operating and administrative expense in the Consolidated Statements of Earnings.

EIPLP's policy is to recognize transfers as at the last day of the reporting period. There were no transfers between levels as at September 30, 2018 or 2017.

#### **Fair Value of Other Financial Instruments**

EIPLP had Restricted long-term investments held in trust totaling \$177 million as at September 30, 2018 (December 31, 2017 - \$135 million) which are recognized at fair value.

At September 30, 2018, EIPLP's long-term debt had a carrying value of \$6,236 million (December 31, 2017 - \$6,476 million) before debt issuance costs and a fair value of \$6,486 million (December 31, 2017 - \$6,942 million).

At September 30, 2018, EPI, a subsidiary of EIPLP, had an investment of \$514 million (December 31, 2017 - \$514 million) in non-voting, redeemable Series A Preferred Shares in Enbridge Employee Services Canada Inc. EIPLP has classified this investment in affiliated company as available-for-sale debt security and carries it at fair value, with changes in fair value recorded in OCI. As at September 30, 2018, the fair value of this investment approximates its cost and redemption value.

EIPLP holds Class A units of certain Enbridge subsidiaries which provide defined, scheduled and fixed distributions that represent the equity cash flows derived from the core rate base of the United States portion of Southern Lights Pipeline until June 30, 2040. At September 30, 2018, EIPLP's investment had a carrying value of \$738 million (December 31, 2017 - \$729 million) included in Long-term receivable from affiliate on the Consolidated Statements of Financial Position and a fair value of \$668 million (December 31, 2017 - \$658 million).

The fair value of other financial assets and liabilities, other than those disclosed above, approximates its cost due to the short period to maturity.

## **14. INCOME TAXES**

The effective income tax rates for the three and nine months ended September 30, 2018 were an expense of 17.1% and a recovery of 6.1%, respectively (2017 - expense of 19.7% and 18.1%, respectively). The period-over-period decrease in the effective income tax rate for the three months ended September 30, 2018 is primarily due to the effects of rate-regulated accounting for income taxes and other permanent items relative to the increase in earnings. The period-over-period decrease in the effective income tax rate for the nine months ended September 30, 2018 is substantially related to a recovery related to a change in assertion for the investment in renewable energy generation assets due to the sale which resulted in the recognition of previously unrecognized tax basis (Note 6).

## 15. RELATED PARTY TRANSACTIONS

### LOANS TO AFFILIATES

The following loans to affiliates are evidenced by formal loan agreements:

	Maturity	September 30, 2018		December 31, 2017	
		Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount
<i>(in millions of Canadian dollars)</i>					
ECT	Current	2.9%	209	—	—
Affiliate	Current	6.0%	3	6.0%	3
			<b>212</b>		<b>3</b>

### LOANS FROM AFFILIATES

The following loans from affiliates are evidenced by formal loan agreements:

	Maturity	September 30, 2018		December 31, 2017	
		Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount
<i>(in millions of Canadian dollars)</i>					
Enbridge	2020-2064	4.5%	4,191	4.5%	4,191
Enbridge	2025	4.0%	124	4.0%	124
Enbridge	Current	—	58	—	57
ENF	Current	4.3%	141	4.3%	72
ECT	Current	—	—	2.4%	426
ECT	2020	7.1%	100	7.1%	100
Enbridge	2045	4.0%	734	4.0%	734
Enbridge	2045	4.0%	652	4.0%	652
			<b>6,000</b>		<b>6,356</b>
Current portion of loans from affiliates			<b>(199)</b>		<b>(555)</b>
			<b>5,801</b>		<b>5,801</b>

## 16. CONTINGENCIES

### LITIGATION

EIPLP and its subsidiaries are subject to various legal and regulatory actions and proceedings which arise in the normal course of business, including interventions in regulatory proceedings and challenges to regulatory approvals and permits by special interest groups. While the final outcome of such actions and proceedings cannot be predicted with certainty, the Manager, Enbridge Management Services Inc., believes that the resolution of such actions and proceedings will not have a material impact on EIPLP's consolidated financial position or results of operations.