

## AUDITORS' REPORT

### TO THE UNITHOLDERS OF FORT CHICAGO ENERGY PARTNERS L.P.

We have audited the Consolidated Statement of Financial Position of Fort Chicago Energy Partners L.P. (the "Partnership") as at December 31, 2006 and 2005 and the Consolidated Statements of Income and Cumulative Income and Cash Flows for the years then ended. These financial statements are the responsibility of the management of the Partnership's general partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



**PricewaterhouseCoopers LLP**

Chartered Accountants

Calgary, Canada

March 7, 2007

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$ Thousands)	December 31, 2006	December 31, 2005
<b>ASSETS</b>		
Current assets		
Cash and short-term investments (note 5)	44,718	21,373
Transportation security deposits and revenue adjustments (notes 6 and 11)	9,510	15,558
Receivables	41,738	75,123
Inventory	698	17,539
Prepaid expenses	4,190	6,844
	<b>100,854</b>	<b>136,437</b>
Long-term receivables (note 6)	217,523	175,439
Pipeline, plant and other capital assets (note 7)	2,384,360	2,465,444
Other assets (note 8)	16,185	17,714
	<b>2,718,922</b>	<b>2,795,034</b>
<b>LIABILITIES</b>		
Current liabilities		
Payables	65,216	86,512
Transportation security deposits (note 11)	6,298	7,678
Distribution payable	10,049	10,309
Deferred revenue	821	2,986
Current portion of long-term senior debt and capital leases (note 9)	64,398	72,542
	<b>146,782</b>	<b>180,027</b>
Long-term senior debt and capital leases (note 9)	1,484,582	1,531,321
Subordinated convertible debentures (note 10)	52,922	61,713
Future taxes (note 15)	172,268	157,675
Other long-term liabilities (note 12)	43,872	39,201
	<b>1,900,426</b>	<b>1,969,937</b>
<b>PARTNERS' EQUITY</b>		
Partners' capital account (note 13)	985,595	972,425
Cumulative translation adjustment	(70,892)	(91,571)
Cumulative net income	398,487	317,533
Cumulative distributions	(494,694)	(373,290)
	<b>818,496</b>	<b>825,097</b>
Commitments and contingencies (note 16)	2,718,922	2,795,034

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board of Directors of Fort Chicago Energy Management Ltd. as the General Partner of Fort Chicago Energy Partners L.P.



By: David J. Drybrough  
Director



By: Stephen W.C. Mulherin  
Director

## CONSOLIDATED STATEMENT OF INCOME AND CUMULATIVE INCOME

Year ended December 31 (\$ Thousands, except per unit amounts)	2006	2005
<b>REVENUES</b>		
Transportation (note 6)	<b>389,148</b>	401,137
Natural gas liquids (note 4)	<b>169,658</b>	475,757
Interest and other	<b>4,302</b>	2,815
	<b>563,108</b>	879,709
<b>EXPENSES</b>		
Natural gas, natural gas liquids and transportation (note 4)	<b>75,653</b>	436,439
Operations and maintenance	<b>83,378</b>	61,421
Depreciation and amortization	<b>116,098</b>	119,640
Interest and other finance (notes 9 and 10)	<b>110,948</b>	122,237
General, administrative and project development costs	<b>60,600</b>	40,316
Foreign exchange loss and other	<b>20,660</b>	12,630
	<b>467,337</b>	792,683
Net income before taxes	<b>95,771</b>	87,026
Current taxes (note 15)	<b>1,144</b>	3,606
Future taxes (note 15)	<b>13,673</b>	12,219
Net income	<b>80,954</b>	71,201
Cumulative net income at the beginning of the year	<b>317,533</b>	246,332
Cumulative net income at the end of the year	<b>398,487</b>	317,533
<b>Net income per Unit</b>		
Basic and diluted	<b>0.62</b>	0.59

See accompanying Notes to the Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (\$ Thousands)	2006	2005
<b>OPERATING</b>		
Net income	<b>80,954</b>	71,201
Less: Non-cash transportation revenue (note 6)	<b>(30,970)</b>	(20,882)
Add: Depreciation, amortization and other non-cash items	<b>120,545</b>	121,946
Unrealized foreign exchange losses	<b>20,357</b>	12,045
Future taxes	<b>13,673</b>	12,219
Changes in non-cash working capital	<b>23,904</b>	(12,080)
	<b>228,463</b>	184,449
<b>FINANCING</b>		
Class A Units, net of issue costs	-	152,515
Long-term debt, net of issue costs	<b>14,029</b>	132,163
Long-term debt repaid	<b>(67,449)</b>	(356,273)
Distributions paid	<b>(117,123)</b>	(112,112)
Other	<b>986</b>	-
	<b>(169,557)</b>	(183,707)
<b>INVESTING</b>		
Pipeline, plant and other capital assets	<b>(42,121)</b>	(10,620)
Investment in Alberta Ethane Gathering System	-	(576)
Other assets	<b>(1,497)</b>	(3,000)
Changes in non-cash investing working capital	<b>7,497</b>	(499)
	<b>(36,121)</b>	(14,695)
Increase in cash and short-term investments before the effect of foreign exchange rate changes on cash and short-term investments	<b>22,785</b>	(13,953)
Effect of foreign exchange rate changes on cash and short-term investments	<b>560</b>	344
Cash and short-term investments at the beginning of the year	<b>21,373</b>	34,982
Cash and short-term investments at the end of the year	<b>44,718</b>	21,373
Cash and short-term investments	<b>32,595</b>	4,675
Cash and short-term investments in trust	<b>12,123</b>	16,698
	<b>44,718</b>	21,373
Supplemental disclosure of cash flow information		
Interest paid	<b>109,832</b>	116,838
Taxes paid, net of refunds received	<b>782</b>	4,580

See accompanying Notes to the Consolidated Financial Statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2006 and December 31, 2005  
(\$ Thousands, except where stated)

### 1. BUSINESS AND STRUCTURE OF THE PARTNERSHIP

Fort Chicago Energy Partners L.P. (the "Partnership") is a publicly traded limited partnership, which was originally created under the laws of the Province of Alberta on October 9, 1997. Fort Chicago Energy Management Ltd. (the "General Partner") is responsible for overseeing the management of the Partnership, including the determination of the amount of distributions to the holders of limited partnership units of the Partnership, and is reimbursed for its costs and expenses. The principal activities of the Partnership include investing in and managing, directly or indirectly, businesses that generate, transport, store, market, process or produce energy, minerals or chemicals with a view to providing its limited partners with stable and growing cash distributions in both the short and long term.

Currently, the Partnership's principal investments are in the pipeline and natural gas liquid ("NGL") businesses. The pipeline business is comprised of a 50 percent ownership interest in Alliance Pipeline Limited Partnership ("Alliance Canada") and Alliance Pipeline L.P. ("Alliance U.S." and, together with Alliance Canada, and each of their managing general partners, collectively referred to as "Alliance" or "Alliance Pipeline") and a 100 percent ownership interest in Alberta Ethane Gathering System L.P. (together with its general partner, collectively referred to as "AEGS") (Alliance and AEGS are collectively referred to as the "Pipeline Business"). The NGL business is comprised of a 42.7 percent ownership interest in Aux Sable Canada L.P. ("Aux Sable Canada"), Aux Sable Liquid Products L.P. ("Aux Sable U.S.") and Alliance Canada Marketing L.P. ("Alliance Canada Marketing" and, together with Aux Sable Canada, Aux Sable U.S., and each of their managing General Partners, collectively referred to as "Aux Sable" or the "NGL Business").

Alliance owns and manages a mainline natural gas pipeline with various connecting lateral pipelines extending from northeastern British Columbia to points near Chicago, Illinois. Aux Sable owns and manages an NGL extraction and fractionation facility near the terminus of the Alliance pipeline as well as storage, downstream pipelines and loading facilities, and long-term natural gas transportation capacity on the Alliance pipeline. AEGS owns and manages a 1,324-kilometre pipeline that transports pure ethane from various Alberta ethane extraction plants to Alberta's major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta.

### 2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared by the General Partner in accordance with accounting principles generally accepted in Canada.

These consolidated financial statements include the accounts of the Partnership and its intermediary subsidiary partnerships and corporations (collectively "Fort Chicago"), AEGS and the Partnership's proportionate interests in Alliance and Aux Sable, which are jointly controlled businesses and are therefore proportionately consolidated. Investments in entities in which Fort Chicago does not have control or joint control, but does have significant influence, are accounted for using the equity method.

Alliance Pipeline is regulated by the National Energy Board ("NEB") in Canada and by the Federal Energy Regulatory Commission ("FERC") in the United States. In order to achieve a proper matching of revenues and expenses, accounting and reporting requirements applicable to rate-regulated entities have been adopted in connection with Alliance, which provide for certain revenues and expenses being

recognized differently than otherwise expected under generally accepted accounting principles applicable to non-regulated businesses. AEGS and Aux Sable are not rate-regulated entities.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent assets and liabilities, revenues and expenses. Actual amounts could differ from these estimates. Significant estimates used in the preparation of these consolidated financial statements relate to the determination as to whether there has been an impairment in the carried value of Fort Chicago's receivables, pipeline, plant and other capital assets, the estimated useful lives over which certain assets are depreciated, and the measurement of asset retirement obligations.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF THE PARTNERSHIP

#### CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments comprise cash and highly liquid investments with original maturities of 90 days or less and carrying values which approximate market value. A portion of these short-term investments are held in trust accounts, the majority of which are permitted to be used for operating and working capital purposes.

#### INVENTORY

NGL inventory is valued at the lower of average cost or net realizable value. In each case, market value is based on market prices at December 31, 2006 and December 31, 2005, as applicable.

#### PIPELINE, PLANT AND OTHER CAPITAL ASSETS

Pipeline assets are recorded at cost and are being depreciated on a four percent per annum straight-line basis commencing from the in-service date with respect to Alliance and from December 22, 2004, the date of acquisition, with respect to AEGS. Plant assets, consisting of the extraction and fractionation plant, field offices and ancillary equipment, are recorded at cost and are being depreciated on a straight-line basis over the life of the asset with rates ranging from three percent to 33 percent per annum. Assets under capital lease are amortized on a straight-line basis over the life of the asset. Administrative assets, which include head office furniture and equipment, information systems and leasehold improvements are recorded at cost and depreciated on a straight-line basis over the life of the asset or the term of the lease with rates ranging from 10 percent to 33 percent per annum. Capital spares are valued at the lower of average cost or net realizable value and are not depreciated. Ethane transportation agreements ("ETAs") are being amortized on a straight-line basis over the term of the agreements.

Pipeline, plant and other capital assets include an allowance for funds used during construction ("AFUDC"), which represents the cost of debt financing and equity financing incurred during construction of the Alliance pipeline that is expected to be recovered in future. Accordingly, these costs were capitalized and are being amortized to earnings on a basis consistent with the underlying assets.

#### IMPAIRMENT OF PIPELINE, PLANT AND OTHER CAPITAL ASSETS

The Partnership evaluates the pipeline, plant and other capital assets for impairment when events or changes in circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. When such a determination is made, management's estimate of the undiscounted future cash flows attributable to the assets is compared to the carrying value of

the assets to determine whether the recoverability of the carrying value has been impaired. If an impairment of the carrying value has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value.

Judgements and assumptions are inherent in management's estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset's fair value used to calculate the amount of any impairment. As at December 31, 2006, there has not been an impairment of Fort Chicago's pipeline, plant and other capital assets.

#### ASSET RETIREMENT OBLIGATIONS

Canadian accounting standards require the estimated fair value of asset retirement obligations associated with tangible long-lived assets be recognized in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The asset retirement obligation is capitalized as part of the cost of the related long-lived assets and is amortized over the remaining life of the assets. This amortization is included in depreciation and amortization in the Consolidated Statement of Income and Cumulative Income. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion expense in the Consolidated Statement of Income and Cumulative Income, over the estimated time period until settlement of the obligation. Actual expenditures incurred are charged against the accumulated asset retirement obligation.

A provision for asset retirement obligations has been recognized in these consolidated financial statements with respect to the AEGS pipeline. No provision for asset retirement obligations has been recognized in these consolidated financial statements with respect to Alliance Pipeline or Aux Sable, as it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the respective asset retirements. Management believes it is reasonable to assume that all asset retirement obligations associated with the pipelines will be recoverable through future tolls.

#### INTANGIBLE ASSETS - ETHANE TRANSPORTATION AGREEMENTS

Intangible assets represent the cost allocated to the AEGS ETAs, which are being amortized on a straight-line basis over the term of the agreements. The carrying value of the ETAs is tested for impairment by reviewing the financial reports and other public information of its counterparties to determine their financial ability to continue paying the committed amounts.

#### DEFERRED CHARGES

All costs directly associated with the issuance of debt are capitalized as deferred financing charges and amortized over the life of the related debt using either the straight-line or the effective interest rate method. Acquisition costs are capitalized and amortized over the life of the acquired assets.

#### REVENUE RECOGNITION

Alliance Pipeline transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including operating and maintenance and administrative costs, allowances for depreciation, allowances for taxes, costs of indebtedness, and an allowed return on equity of approximately 11.25 percent in Canada and 10.85 percent in the United States. The portion of such costs expected to be recovered each year under the existing

transportation contracts is equal to the percentage of the firm transportation capacity held under such contracts. Shippers have the right, during the primary term, to extend the term of the transportation contracts for further periods of a minimum of one year with written notice of at least five years.

The period in which Alliance Pipeline transportation costs are recovered from toll receipts may differ from the period that these costs are expensed in the consolidated financial statements. Transportation revenues include amounts related to accrued expenses that are expected to be recovered from shippers in future tolls. Similarly, no transportation revenue is recognized in a given period for tolls received that do not relate to current period expenses accrued in these consolidated financial statements. Differences between the recorded transportation revenue and actual toll receipts give rise to receivable or payable balances, which are settled through future tolls.

If rate-regulated accounting were not used in respect of Alliance, the long-term receivable, the long-term liability and the transportation revenue adjustments in notes 6 and 11 would not be recognized in these consolidated financial statements.

AEGS transportation revenue is based on toll charges and operating cost recoveries, including maintenance capital, as provided for under the ETAs, which expire on December 31, 2018. Revenue is recognized at each receipt point and is subject to minimum take-or-pay arrangements. Under the ETAs, the shippers are committed to pay a minimum firm toll based on 90 percent of the shippers total committed volume.

Effective December 31, 2005 Aux Sable entered an agreement with BP Products North America, Inc. and affiliates thereof ("BP") whereby Aux Sable agreed to sell all production from its Channahon, Illinois facilities ("NGL Facility") to BP ("NGL Sales Agreement"). The NGL Sales Agreement, which has a fixed and variable component, is accounted for as an operating lease and, accordingly, amounts earned under this agreement are recorded as operating lease revenues in NGL revenues (notes 4 and 16). The variable, margin-based component of lease revenues, which under the NGL Sales Agreement is determined on an annual basis, is estimated and recognized quarterly to the extent its realization is certain.

#### PROJECT DEVELOPMENT COSTS

The Partnership expenses project development costs as incurred. Project development costs are only capitalized when, in management's judgement, certain commercial and regulatory criteria have been met, which make it probable that such costs will be recoverable from a project's future revenues. Capitalized project development costs are amortized on a systematic basis over the applicable project's useful life.

#### SHIPPER IMBALANCES

Physical imbalances between the volume of gas received from shippers and the volume of gas delivered to downstream interconnects may be experienced on the pipeline, which affects the volume of pipeline linepack, the cost of which for Alliance is included in pipeline, plant and other capital assets. Shippers are obligated to rectify these imbalances using all reasonable efforts by arranging for the necessary physical delivery of natural gas or ethane at the pipeline receipt points or at the downstream interconnects. Accordingly, no receivables or payables balances related to shipper imbalances are recognized in these consolidated financial statements.

## FOREIGN CURRENCY TRANSLATION

The functional currency of the Partnership and its Canadian subsidiaries is the Canadian dollar. Foreign denominated monetary assets and liabilities are translated at the exchange rate prevailing at the year-end; non-monetary assets and liabilities are translated at exchange rates in effect on the date the assets were acquired or liabilities assumed, and revenues and expenses at average rates of exchange during the year.

The accounts of foreign subsidiaries are translated using the current rate method whereby all assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the balance sheet date, and all revenues and expenses are translated into Canadian dollars at average exchange rates during the year. The resulting net cumulative translation gain or loss is not included in the consolidated statement of income but is deferred and reported as a separate component of partners' equity. A portion of such deferred translation gain or loss is recognized in net income when there has been an ownership interest reduction in or distribution from such foreign subsidiaries.

## DERIVATIVE FINANCIAL INSTRUMENTS

Prior to entering into the NGL Sales Agreement, in order to mitigate exposure to commodity price fluctuations, Aux Sable adopted a hedging policy which permitted, within established parameters, entering into hedging transactions utilizing derivative instruments. These hedge transactions were designated as effective cash flow hedges and were settled on a monthly basis.

## LONG-TERM INCENTIVE COMPENSATION

Unit appreciation rights ("UARs") issued by the Partnership are recorded by measuring, on an ongoing basis, the excess of the market price over the exercise price. The obligation, which results from the variation in market price of the Units, is recognized in income on a straight-line basis over the vesting period and a corresponding amount is accrued as a current liability. When the UARs have vested and until either the UARs are exercised or they expire, the change in the obligation attributable to variations in the Unit price is recognized by increasing or decreasing the compensation expense for the period in which the variations occur.

The Partnership has a long-term employee incentive plan ("LTIP"), which grants notional units to each eligible employee and are payable in cash at the date of vesting. The expense related to the LTIP is accounted for on an accrual basis. Under the LTIP, notional units vest when certain conditions are met, including the employee's continued employment during a specified period and the Partnership's achievement of specified performance targets.

## INCOME TAXES

Pursuant to the *Income Tax Act* (Canada) as presently enacted, the Partnership and its subsidiary partnerships are not taxable entities in Canada. All income earned by the Partnership for tax purposes is allocated to its Unitholders with the result that no Canadian income taxes in respect of these entities are reflected in these consolidated financial statements. Certain U.S. subsidiary partnerships, which are deemed corporations for U.S. tax purposes, and certain subsidiary corporations, are taxable and the applicable income and capital taxes associated with these entities have been reflected in these consolidated financial statements.

The taxes payable method of accounting for income taxes is used for the Canadian rate-regulated pipeline operations of Alliance. Under the taxes payable method, it is not necessary to provide for future taxes as these taxes are recoverable from future tolls. The liability method of accounting for income taxes is used for the Partnership's other operations. Under this method, current income taxes are recognized for the estimated income taxes payable in respect of the current year. Future tax assets and liabilities are recognized for temporary differences between the tax and accounting asset and liability bases using tax rates and laws that are expected to apply when the liabilities are settled and the assets realized. Future tax assets are recognized in circumstances where it is considered more likely than not that the related income tax benefits will be realized.

The Government of Canada recently introduced draft legislative proposals relating to the taxation of the Partnership and other specified investment flow-through entities. Should these proposals be enacted into law as currently drafted, a portion of the Partnership's future taxable income that otherwise would have flowed through to Unitholders will be subject to federal and provincial income taxes beginning in 2011 provided it complies with the "normal growth" guidelines that form part of the proposed legislation.

## NEW ACCOUNTING PRONOUNCEMENTS

### **(a) Financial Instruments**

In April 2005 the Canadian Accounting Standards Board issued new Handbook Sections 1530 "Comprehensive Income", 3855 "Financial Instruments – Recognition and Measurement", and 3865 "Hedges". Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives.

Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exceptions of gains and losses arising from:

- financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- certain financial instruments that qualify for hedge accounting.

Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income. Unrealized gains and losses on qualifying hedge instruments, translation of self-sustaining foreign operations, and unrealized gains or losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standards.

These new standards are effective for fiscal years beginning on or after October 1, 2006 and early adoption is permitted. These new standards will be adopted by the Partnership as of January 1, 2007 on a prospective basis.

Under the new standards, deferred financing charges will be netted against long-term debt and will no longer be included as a part of other assets on the balance sheet, and cumulative translation adjustment will be classified as a component of accumulated other comprehensive income.

## (b) Accounting Changes

In July 2006, the Canadian Accounting Standards Board issued a revised Section 1506, "Accounting Changes". Under this statement:

- voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information;
- changes in accounting policy are applied retrospectively unless doing so is impracticable;
- prior period errors are corrected retrospectively; and
- new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The revised Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007, although earlier adoption is permitted. The Partnership intends to adopt the provisions of this statement on January 1, 2007. Adoption of this statement will affect the Partnership's consolidated financial statements for any changes in accounting policy made in the future, and for the adoption of new pronouncements that do not provide transition provisions.

## 4. NGL SALES AGREEMENT WITH BP PRODUCTS NORTH AMERICA, INC.

Under the terms of the NGL Sales Agreement, Aux Sable agreed to sell all production from its NGL Facility to BP. In return, BP pays Aux Sable a fixed annual fee and a percentage share of net margins in excess of the fixed fee that varies depending upon specified thresholds being reached. In addition, BP compensates Aux Sable for all operating, maintenance, and capitalized maintenance costs associated with its NGL Facility, subject to certain limits in the case of capitalized costs. The agreement extends for a term of 20 years, and will be extended by additional 10-year terms on an evergreen basis unless either party elects to terminate. BP has the option in certain limited circumstances to terminate the agreement if cumulative losses from the business exceed a specified amount.

The NGL Sales Agreement is accounted for as an operating lease. Revenues earned in connection with the NGL Sales Agreement reflect fixed and margin-based fees and the recovery of all associated operating costs with the exception of natural gas make-up costs, which have been assumed by BP, and the costs under certain capital leases, which are deemed to have been subleased to BP and have been accounted for as a capital lease. The margin-based lease revenues are recognized to the extent that such revenues are determinable and certain. For the year ended December 31, 2006 NGL revenues include \$89.3 million (2005 – \$475.8 million) of NGL sales and \$80.4 million (2005 – nil) of lease revenue.

## 5. CASH AND SHORT-TERM INVESTMENTS

	2006	2005
Cash in trust accounts		
Operations and working capital	6,539	8,588
Capital funding, debt repayment and/or return of equity	–	7,576
Debt service and debt service reserve	699	534
Restricted cash	4,885	–
	12,123	16,698
Cash in non-trust accounts	32,595	4,675
	44,718	21,373

Under the terms of Alliance's finance agreements, all funds received from shippers in settlement of transportation tolls, as well as interest earned on trust account balances, are segregated in trust accounts and first applied to meet debt service and operating requirements before distributions can be made. At the completion of each fiscal quarter, a determination is made as to the amount of cash and cash equivalents necessary to satisfy these requirements. Excess funds, if any, are transferred to non-trust accounts, which, following lender confirmation, can be distributed.

Alliance's debt service accounts must be sufficiently funded to meet principal and interest payments for a period of six months beyond the current month-end. At December 31, 2006 and 2005 this requirement was satisfied by letters of credit as discussed in note 9.

In June 2006, Alliance made amendments to its security trust agreement. Previously, the agreement stipulated that certain funds related to the construction and commissioning of the pipeline were required to be segregated in separate trust accounts, classified above as funds for "capital funding, debt repayment and/or return of equity". Under the amended agreement, these separate trust accounts are no longer required. As a result, the construction accounts have been reclassified to "cash in non-trust accounts". In 2007, approximately 70 percent of the construction-related funds will be utilized to repay debt, and the balance will be used for general corporate purposes.

#### RESTRICTED CASH

On December 20, 2005 Calpine Energy Services Canada Partnership ("CESCA"), an Alliance shipper accounting for 1.5 percent (0.02 bcf/d) of firm capacity, was included in certain proceedings under the *Companies' Creditors Arrangement Act*. The Initial Order issued thereunder granted relief to the affected parties, including a stay of proceedings against CESCA. CESCA had temporarily assigned its capacity to an investment grade replacement shipper until March 31, 2006. On March 31, 2006 CESCA notified Alliance that it intended to repudiate its firm transportation service agreement with Alliance. This capacity was immediately recontracted on a short-term basis and is presently recontracted to March 2007. Negotiations for future recontracting are ongoing.

Alliance has drawn on CESCA's letter of credit and received funds equal to 12 months of demand charges in respect of CESCA's former transportation capacity. These funds, which have been classified as restricted cash, have been deposited into an account held in trust with Alliance's Security Trustee and can be used, subject to the prior approval of the Security Trustee, to fund any shortfall on tolls relating to CESCA's former capacity. As a consequence, the 2006 transportation revenue of Alliance has been unaffected by the CESCA development due to the re-marketing of the transportation capacity and utilization of the funds received as security.

#### 6. EFFECTS OF RATE REGULATION

The NEB and the FERC previously granted Alliance certificates of public convenience and necessity to construct and operate high-pressure natural gas facilities and approved a negotiated toll methodology established between Alliance and its contracted shippers.

Alliance advised the NEB and the FERC that the toll adjustments would normally be filed on an annual basis, and that such filings would likely be for amended tolls effective January 1st of each year. Alliance also noted that shippers had agreed to an arrangement whereby variances between estimated costs and actual costs would be monitored and carried forward.

## TRANSPORTATION REVENUE

Transportation revenue is adjusted to reflect differences between the period in which costs are recovered from Alliance toll receipts and the period in which these costs are expensed in these consolidated financial statements as follows:

	2006	2005
Tolls invoiced	<b>358,180</b>	380,255
Increase (decrease) related to:		
Accounting depreciation rate	<b>31,047</b>	19,992
Property tax accruals	<b>(746)</b>	729
Differences from current period cost-of-service estimates	<b>(3,442)</b>	161
Prior year's over recovery	<b>4,109</b>	–
	<b>30,968</b>	20,882
Transportation revenue	<b>389,148</b>	401,137

## DEPRECIATION

The long-term receivable at December 31, 2006 includes a regulatory asset of \$207.2 million (2005 – \$175.4 million) related to the cumulative excess of depreciation expense charged for accounting purposes over depreciation expense recovered as revenue under Alliance's transportation contracts. This amount is expected to be recovered over a number of years when depreciation rates, as prescribed in the transportation contracts, are expected to exceed the depreciation rates used for accounting purposes.

Alliance complies with the NEB and the FERC "Gas Pipeline Uniform Accounting Regulations" which rely on practices of mass property accounting, which requires property to be identified, unified and recorded in plant-in-service accounts. Gains or losses are not recognized when such assets are disposed or retired. The net book value of these assets remain in pipeline, plant and other capital assets until fully depreciated and recovered in the tolls.

In the absence of rate regulation, the net book value of any assets disposed or retired would be removed from the accounts and the corresponding gain or loss recognized in income.

## COST-OF-SERVICE TOLL ESTIMATE

Alliance tolls reflect the projected cost of providing transportation service to shippers in accordance with the transportation contracts and applicable NEB and FERC regulations. The tolls are submitted to shippers and filed with the NEB and the FERC, as applicable. Alliance tolls therefore include amounts relating to differences between the estimated and actual costs of providing transportation service in a prior year.

At December 31, 2006 current assets include a transportation revenue adjustment of \$7.7 million (2005 – \$7.9 million). These adjustments relate to differences between Alliance's expenses included in these consolidated financial statements and expenses included in the transportation tolls. These differences will be collected from or returned to shippers through an adjustment to tolls in future years.

## INCOME TAXES

The Canadian rate-regulated operations of Alliance recover tax expense using the taxes payable method, as prescribed by its regulator for ratemaking purposes. Therefore, rates do not include the recovery of future income taxes related to temporary differences. Consequently, no future income taxes are provided for in respect of Alliance's Canadian rate-regulated activities as Fort Chicago expects that all such future income taxes will be recovered in rates when they become payable (note 15).

## ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

Alliance's transportation contracts permit AFUDC to be included in the investment base. AFUDC is included in the cost of pipeline, plant and other capital assets for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset since depreciation expense, including the AFUDC, is permitted under the transportation contracts. The AFUDC calculation for rate-regulated entities includes both an interest component and equity component, while non-rate-regulated entities are permitted an interest component only. The recognition of the equity component as a capitalized asset and the resulting revenue and depreciation of the asset would not be permitted in the absence of rate regulation. To date, an equity component of \$118.4 million (2005 – \$122.1 million) is included as a capitalized asset, net of related depreciation.

## 7. PIPELINE, PLANT AND OTHER CAPITAL ASSETS

	Cost	Accumulated depreciation	2006 Net book value	2005 Net book value
Pipeline	2,805,000	602,140	2,202,860	2,288,820
Plant	188,134	47,804	140,330	141,605
Administrative	23,849	22,510	1,339	1,871
Capital spares	10,339	242	10,097	14,623
Intangible assets – ETAs	15,572	2,253	13,319	14,430
Land	4,253	–	4,253	2,635
Power facilities	12,165	3	12,162	1,460
	<b>3,059,312</b>	<b>674,952</b>	<b>2,384,360</b>	<b>2,465,444</b>

During the year ended December 31, 2005 a \$5.2 million settlement of a claim relating to the original construction of the Alliance U.S. pipeline was received. The settlement has been credited against the cost of the pipeline. In accordance with Alliance's transportation contracts, the amount accrued for the equity portion of the AFUDC is subject to a cumulative adjustment based on the final actual capital cost to construct the pipeline. Subsequent to the receipt of the settlement, the final actual construction cost of the pipeline was re-evaluated and the allowed U.S. after-tax return-on-equity increased to 10.85 percent from 10.79 percent, resulting in a cumulative adjustment of \$0.5 million to the equity portion of the AFUDC.

## 8. OTHER ASSETS

	2006	2005
Financing expenses – long-term debt	11,499	13,022
Construction period unit appreciation rights	1,223	1,527
Investment in Pristine Power Inc.	2,759	2,016
Other	704	1,149
	<b>16,185</b>	<b>17,714</b>

## 9. LONG-TERM SENIOR DEBT AND CAPITAL LEASES

	2006	2005
<b>FORT CHICAGO</b>		
Bank credit facility	7,200	2,000
7.71% Senior Notes due 2011 (2006 – US \$59,250; 2005 – US \$62,250)	69,044	72,397
	<b>76,244</b>	74,397
Less: current portion	(3,496)	(3,489)
	<b>72,748</b>	70,908
<b>AEGS</b>		
5.565% Senior Notes due 2020	106,794	108,961
Less: current portion	(2,289)	(2,167)
	<b>104,505</b>	106,794
<b>ALLIANCE <sup>(1)</sup></b>		
<b>Canada</b>		
Bank credit facility	25,400	24,050
Senior notes:		
7.230% due 2015	121,388	126,461
7.181% due 2023	180,760	186,772
5.546% due 2023	113,625	120,375
7.217% due 2025	144,517	149,193
6.765% due 2025	173,500	178,844
Fair value adjustment	8,173	8,789
	<b>767,363</b>	794,484
Less: current portion	(26,100)	(27,855)
	<b>741,263</b>	766,629
<b>U.S.</b>		
Bank credit facility (2006 – US \$6,000; 2005 – US \$7,650)	6,992	8,897
Senior notes:		
7.770% due 2015 (2006 – US \$122,316; 2005 – US \$128,778)	142,535	149,768
6.996% due 2019 (2006 – US \$119,485; 2005 – US \$131,847)	139,236	153,336
7.877% due 2025 (2006 – US \$100,000; 2005 – US \$100,000)	116,530	116,300
4.591% due 2025 (2006 – US \$127,711; 2005 – US \$134,454)	148,822	156,370
Fair value adjustment (2006 – US \$15,777; 2005 – US \$17,230)	24,199	25,709
	<b>578,314</b>	610,380
Less: current portion (2006 – US \$27,678; 2005 – US \$33,216)	(32,253)	(38,630)
	<b>546,061</b>	571,750
<b>AUX SABLE <sup>(1)</sup></b>		
Bank credit facility (2006 – US \$12,254; 2005 – US \$8,412)	14,280	9,965
Capital leases (2006 – US \$5,136; 2005 – US \$4,881)	5,985	5,676
	<b>20,265</b>	15,641
Less: current portion (2006 – US \$223; 2005 – US \$189)	(260)	(401)
	<b>20,005</b>	15,240
	<b>1,484,582</b>	1,531,321

(1) The amounts set forth in the above table reflect Fort Chicago's proportionate share of the corresponding amounts contained in the financial statements of Alliance and Aux Sable and the fair value adjustments recorded in connection with its purchases of additional interests in these entities.

## **FORT CHICAGO DEBT**

### **Revolving Credit Facility**

In March 2007 the Partnership extended the term of its unsecured committed revolving credit agreement with three Canadian chartered banks (the "Revolving Credit Facility") to April 1, 2010. Such termination date may, from time to time, be extended for further one-year periods, subject to lender consent. The maximum principal amount available under this facility is \$300 million, which can be used for general purposes, including acquisitions and distributions. Outstanding advances bear interest based on various quoted floating rates, plus a margin. A standby fee applies to any undrawn amounts. The terms and conditions of the Revolving Credit Facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

As at December 31, 2006 the Partnership had \$3.4 million (2005 – nil) of letters of credit outstanding and \$289.4 million (2005 – \$298.0 million) in undrawn credit available under this facility.

### **7.71 Percent Senior Notes**

On August 15, 2001 two subsidiaries of the Partnership issued senior unsecured notes to institutional investors in the United States. Two series of senior notes, Series A and Series B, of equal amount, were issued in the aggregate principal amount of US \$75.0 million bearing interest at the rate of 7.71 percent per annum, with interest and principal due quarterly. The total principal for both series is repaid US \$0.75 million per quarter with a final payment of US \$45.75 million due on the maturity date of July 31, 2011.

These senior notes are direct unsecured obligations of the relevant subsidiary and rank *pari passu* with all other unsecured and unsubordinated indebtedness of that issuer. Each subsidiary has provided covenants customary for note issuances that include, among other things, meeting specified financial covenants on an ongoing basis.

Each subsidiary may redeem all or any of its notes, subject to a minimum of 10 percent of the aggregate principal amount outstanding, at any time prior to maturity at par plus a make-whole payment and any accrued and unpaid interest on the redeemed amount.

## **AEGS DEBT**

### **5.565 Percent Senior Notes**

On May 4, 2005 AEGS completed a 15-year unsecured debt placement in the aggregate principal amount of \$110 million, bearing interest of 5.565 percent. Blended payments of principal and interest in the aggregate amount of \$4.1 million are payable semi-annually on each of May 4 and November 4 commencing on November 4, 2005 with a final principal payment of \$64.6 million on May 4, 2020. The proceeds from the debt offering were used to repay a portion of the Revolving Credit Facility which was used to fund the acquisition of AEGS.

These senior notes are direct unsecured obligations of AEGS and rank *pari passu* with all other unsecured and unsubordinated indebtedness of AEGS. Under the terms of the note purchase agreement, AEGS has provided covenants customary for such note issuances that include, among other things, meeting specified financial covenants on an ongoing basis.

## ALLIANCE AND AUX SABLE DEBT

Unless otherwise stated, the amounts referred to in this section represent Fort Chicago's proportionate share of the amounts contained in the financial statements of Alliance and Aux Sable.

### Alliance Security and Covenants

Under the terms of the Alliance Common Agreement, certain assets and material contracts are pledged as collateral to Alliance's lenders including transportation service agreements, permits issued by the NEB and by the FERC, trust accounts, real property and tangible personal property. Alliance is also required to meet specified financial conditions and adhere to specified covenants on an ongoing basis. The senior debt of Alliance contains cross-default provisions, whereby an event of default by one entity constitutes an event of default by the other.

### Alliance Bank Credit Facilities

On June 28, 2006 Alliance finalized new Canadian and U.S. committed extendible revolving credit facility arrangements in the amounts of \$100 million and US \$62.5 million, respectively, with expansion provisions to facilitate timely increases of the facilities to \$150 million and US \$100 million if required. Both facilities have initial terms of five years and each contain provisions for extensions of one additional year on each anniversary of the closing date.

Interest on the Canadian credit facility is based on Bankers' Acceptance rates, plus applicable margins. At December 31, 2006 \$50 million (2005 – \$50 million) of letters of credit were outstanding under the Canadian credit facility, leaving \$24.6 million (2005 – \$21.0 million) available under this facility. Interest on the U.S. credit facility is based on the U.S. dollar London Interbank Offered Rate, plus applicable margins. At December 31, 2006 US \$35 million (2005 – US \$35 million) of letters of credit were outstanding under the U.S. credit facility, leaving US \$21.5 million (2005 – US \$19.9 million) available under this facility. A standby fee applies to any undrawn amounts under these facilities.

### Alliance Senior Notes

Interest and principal repayments on the senior notes are payable semi-annually each June 30 and December 31, with the exception of the 7.877 percent senior notes for which principal repayments do not commence until June 2019. Principal repayments are closely tied to the recovery rates for depreciation and U.S. future income taxes contained in the transportation contracts.

### Aux Sable Bank Credit Facilities

On August 16, 2005 Aux Sable entered into a second Amended and Restated Credit Agreement (the "U.S. Facility"), comprised of a US \$17.1 million revolving facility and a US \$14.9 million term facility. The U.S. Facility was further amended in January 2007 to decrease the revolving credit facility to US \$6.4 million and increase the term loan facility to US \$25.6 million. The revolving facility is used for working capital requirements including letters of credit and has a final maturity date of August 16, 2009. The term facility is used for financing capital projects and requires annual principal repayments equal to 20 percent of the aggregate committed amount under this facility, commencing on the third anniversary of the facility, with the final maturity date being August 16, 2010. The terms and conditions of the U.S. Facility include covenants customary to bank credit facilities of this nature including meeting specified financial covenants on an ongoing basis and establishing and maintaining a debt service reserve account. The cash in the debt service reserve account has been classified as cash held in trust. Aux Sable's fractionation, processing, storage, and support facilities have been pledged as collateral. Interest is based on various U.S. floating interest rates, plus applicable margins. A standby fee applies to any undrawn amounts under these facilities.

At December 31, 2006 US \$0.3 million (2005 – US \$11.4 million) was drawn under the revolving facility, all of which (2005 – US \$7.1 million) related to letters of credit. Under the term facility, US \$12.3 million (2005 – US \$4.1 million) was drawn. At December 31, 2006 an aggregate US \$19.4 million (2005 – US \$16.5 million) was available under the U.S. Facility.

Aux Sable also utilizes a revolving demand facility of \$3 million to finance its Canadian working capital requirements. Certain Canadian cash deposits, receivables and inventory have been pledged as collateral. Interest is based on floating interest rates, plus applicable margins. At December 31, 2006 no amounts were outstanding under this facility (2005 – \$0.6 million, including issued letters of credit of \$0.4 million).

#### COMPLIANCE WITH DEBT COVENANTS

Each of Fort Chicago, Alliance, AEGS and Aux Sable were in compliance with their respective debt covenants as at December 31, 2006 and 2005.

#### OBLIGATIONS UNDER CAPITAL LEASES

The obligations under capital leases bear interest at 12 percent and mature between 2016 and 2021.

#### SCHEDULED PRINCIPAL REPAYMENTS OF LONG-TERM SENIOR DEBT AND CAPITAL LEASES

Scheduled principal repayments of long-term senior debt and capital leases, including the current portion thereof, and excluding the fair value adjustment of \$32,372, which is being amortized over the life of the related debt, are as follows:

For the years ending December 31	
2007	64,137
2008	77,867
2009	77,739
2010	85,836
2011	161,538
Thereafter	1,043,505
Obligations under capital leases <i>(note 16)</i>	5,986
	<b>1,516,608</b>

#### 10. SUBORDINATED CONVERTIBLE DEBENTURES

	2006	2005
Series A convertible debentures due 2008	<b>28,698</b>	35,984
Series B convertible debentures due 2010	<b>24,224</b>	25,729
	<b>52,922</b>	61,713

The Partnership's 7.5 percent Convertible Unsecured Subordinated Debentures, Series A, are due on June 30, 2008. The Series A convertible debentures are convertible, at the holder's option, into Units at a conversion price of \$9.00 per Unit. During the year ended December 31, 2006, \$7.2 million (2005 – \$34.1 million) of Series A convertible debentures, before issue costs, were converted into Units.

The Partnership's 6.75 percent Convertible Unsecured Subordinated Debentures, Series B, are due on December 31, 2010. The Series B convertible debentures are convertible, at the holder's option, into Units at a conversion price of \$10.70 per Unit. During the year ended December 31, 2006 \$1.5 million (2005 – \$36.8 million) of Series B convertible debentures, before issue costs, were converted into Units.

These Series A and Series B convertible debentures (the "Convertible Debentures") rank equally with all other unsecured and subordinated indebtedness of the Partnership. The Convertible Debentures are qualified investments under the *Income Tax Act* (Canada) for deferred profit sharing plans, registered retirement savings plans, registered retirement income funds, registered education savings plans and certain other tax exempt arrangements.

### 11. TRANSPORTATION SECURITY DEPOSITS

In accordance with Alliance's transportation contracts, shippers who fail to maintain specified credit ratings or a suitable financial position are required to provide acceptable security equal to one year of shipping charges. Transportation security may consist of cash, deposits or letters of credit, and/or other security acceptable to Alliance or its lenders. Cash deposits include funds drawn by Alliance from CESCO's letter of credit (note 5).

At the balance sheet date, transportation security deposit obligations include the following:

	2006	2005
Cash deposits	<b>6,298</b>	7,678
Letters of credit	<b>74,981</b>	55,958
	<b>81,279</b>	63,636

### 12. OTHER LONG-TERM LIABILITIES

	2006	2005
Transportation contracts	<b>21,572</b>	24,014
Asset retirement obligation	<b>13,615</b>	12,837
Other	<b>11,127</b>	5,157
	<b>46,314</b>	42,008
Less: current portion	<b>(2,442)</b>	(2,807)
	<b>43,872</b>	39,201

The obligation under the transportation contracts relates to proceeds received by Fort Chicago in connection with its acquisitions of additional interests in Alliance Canada Marketing and its assumption of the associated liability arising from the firm transportation contracts. This liability is being amortized on a straight-line basis over the remaining term of the transportation contracts.

In 2005, the Partnership estimated its legal obligations associated with abandoning and reclaiming the land on which AEGS currently operates. The total estimated future and present value amounts required to settle the asset retirement obligation were estimated to be \$99.1 million and \$12.6 million, respectively. These amounts were calculated based on an inflation rate of 2.25 percent, a credit-adjusted

risk-free rate of 6.06 percent and the expectation that such obligations will not be settled before 2040. No assets have been legally restricted for settlement of the liability. At December 31, 2006 management is of the view that there have been no changes in circumstances that would cause a significant revision to the estimated asset retirement obligation.

The following table presents the reconciliation between the beginning and ending carrying amount of the obligation associated with the retirement of the AEGS pipeline.

Asset retirement obligation, December 31, 2004	–
Change in estimate	12,645
Accretion expense	192
Asset retirement obligation, December 31, 2005	12,837
Accretion expense	778
Asset retirement obligation, December 31, 2006	13,615

Other long-term liabilities include accruals for long-term employee incentive programs of \$3.1 million (2005 – \$ 0.9 million) and \$2.2 million (2005 – \$2.3 million) for Alliance property taxes not payable within one year.

### 13. PARTNERS' EQUITY

#### (A) PARTNERS' CAPITAL ACCOUNT

##### (i) Authorized

The Partnership is authorized to issue an unlimited number of Class A Units (“Units”) and an unlimited number of Class B Units, issuable in series.

##### (ii) Issued

Units	2006		2005	
	Number	Value	Number	Value
January 1	129,669,868	972,425	109,786,540	750,473
Units issued under Distribution				
Reinvestment Plan (“DRIP”) <sup>(1)</sup>	410,245	4,541	55,624	600
Convertible Debentures converted into Units, net of \$164 (2005 – \$2,055) of issue costs	950,182	8,629	7,227,704	68,837
Units issued pursuant to June 9, 2005 public offering, net of \$7,505 of issue costs	–	–	12,600,000	152,515
December 31	131,030,295	985,595	129,669,868	972,425

(1) Includes Units issued to satisfy a portion of the Partnership’s distributions as well as any Units issued under the optional unit purchase component of the DRIP.

On June 9, 2005 the Partnership completed a public offering of 12,600,000 Units at \$12.70 per Unit raising total proceeds, before issue costs, of \$160.0 million. The net proceeds of approximately \$152.5 million from this offering were used to repay the remaining outstanding borrowings under the Partnership’s Revolving Credit Facility that were incurred in connection with its December 2004 acquisition of AEGS.

The weighted average number of Units outstanding used to determine net income per Unit on a basic and diluted basis for the year ended December 31, 2006 was 130,454,477 (2005 – 120,960,187) and 133,966,656 (2005 – 130,545,937), respectively.

## (B) DISTRIBUTIONS

The Partnership declared and paid the following distributions to holders of Units in respect of 2006 and 2005:

Record date	Payment date	Distribution per Unit	Distribution paid/payable in cash	Distribution paid in Units under DRIP	Total distribution paid/payable
<b>2006</b>					
January 31, 2006	February 23, 2006	0.0775	9,542	519	10,061
February 28, 2006	March 23, 2006	0.0775	9,540	537	10,077
March 31, 2006	April 21, 2006	0.0775	9,392	698	10,090
April 28, 2006	May 23, 2006	0.0775	9,453	645	10,098
May 31, 2006	June 23, 2006	0.0775	9,440	670	10,110
June 30, 2006	July 21, 2006	0.0775	9,565	550	10,115
July 31, 2006	August 23, 2006	0.0775	9,782	344	10,126
August 31, 2006	September 22, 2006	0.0775	9,781	350	10,131
September 29, 2006	October 23, 2006	0.0775	10,023	116	10,139
October 31, 2006	November 23, 2006	0.0775	10,037	112	10,149
November 30, 2006	December 22, 2006	0.0775	10,154	–	10,154
December 29, 2006	January 23, 2007	0.0775	10,154	–	10,154
		<b>0.9300</b>	<b>116,863</b>	<b>4,541</b>	<b>121,404</b>

Record date	Payment date	Distribution per Unit	Distribution paid/payable in cash	Distribution paid in Units under DRIP	Total distribution paid/payable
<b>2005</b>					
January 31, 2005	February 23, 2005	0.0750	8,320	–	8,320
February 28, 2005	March 23, 2005	0.0750	8,363	–	8,363
March 31, 2005	April 22, 2005	0.0775	8,668	–	8,668
April 29, 2005	May 20, 2005	0.0775	8,681	–	8,681
May 31, 2005	June 23, 2005	0.0800	9,002	–	9,002
June 30, 2005	July 22, 2005	0.0800	10,034	–	10,034
July 29, 2005	August 23, 2005	0.0800	10,298	–	10,298
August 31, 2005	September 23, 2005	0.0800	10,303	–	10,303
September 30, 2005	October 21, 2005	0.0800	10,354	–	10,354
October 31, 2005	November 23, 2005	0.0800	10,364	–	10,364
November 30, 2005	December 23, 2005	0.0800	10,365	–	10,365
December 30, 2005	January 23, 2006	0.0800	10,373	–	10,373
		<b>0.9450</b>	<b>115,125</b>	<b>–</b>	<b>115,125</b>

#### (C) OWNERSHIP RESTRICTIONS APPLICABLE TO UNITS

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997, March 7, 2001, May 13, 2003, and May 25, 2005 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units or Class B Units may be held by a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership", each for purposes of the *Income Tax Act* (Canada).

#### (D) UNITHOLDERS RIGHTS PLAN

The Partnership has a unitholders rights plan (the "Rights Plan"). Under the Rights Plan, one right is issued with each Unit issued. The rights remain attached to the Units and are not exercisable or separable unless one or more certain specified events occur. If a person or group acting in concert acquires 20 percent or more of the outstanding Units (subject to certain exceptions), the rights will entitle the holders thereof (other than the acquiring person or group) to purchase Units at a 50 percent discount from the then current market price. The rights provided under the Rights Plan are not triggered by any person making a "Permitted Bid", as defined in the Rights Plan. The Partnership can amend the Rights Plan without the approval of holders of rights issued thereunder to take into account the issuance of any other classes or series of limited partnership units issued by the Partnership.

#### (E) PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE PLAN

The Partnership has a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "DRIP"), which was amended in January 2004 to reflect the Partnership's adoption of a monthly distribution policy. The DRIP allows eligible holders of Units to, among other things, elect to reinvest the eligible portion of the distribution declared by the Partnership in additional Units at a five percent discount to the average market price or to receive the distribution in cash plus a two percent premium cash payment based on the eligible portion of the distribution. The DRIP also allows participants to purchase additional Units from treasury for cash based on the average market price, subject to minimum purchases of \$1,000 up to an annual limit of \$100,000 for each Unitholder and an overall limit of two percent of all outstanding Units. The Partnership reserves the right to determine, for each distribution, how much new equity will be issued under the DRIP. At December 31, 2006, an aggregate of 182,507 (2005 – 592,752) Units are reserved and available for issuance pursuant to the terms of the DRIP.

#### 14. UNIT APPRECIATION RIGHTS

The Partnership adopted a Unit Appreciation Rights Plan effective December 3, 1997 pursuant to which UARs may be granted to directors, officers, employees and consultants acting on behalf of the Partnership as an additional component of compensation. Each UAR entitles the holder to receive from the Partnership a cash amount equal to the positive difference, if any, obtained by subtracting the market-based exercise price established at the time the UAR was granted from the closing price of the Units on the Toronto Stock Exchange on the date of exercise. The following table sets out the accrued liabilities relating to the outstanding unexpired UARs at December 31, 2006 and 2005.

Year of grant	Number of UARs	Weighted average exercise price per Unit	Expiry dates	Units vested	Accrued value
<b>AS AT DECEMBER 31, 2006</b>					
2002	125,000	8.24	December 12, 2007	125,000	404
2003	67,500	8.99	May 1, 2008 to July 14, 2008	67,500	168
2004	155,000	10.43	March 9, 2009 to June 7, 2009	155,000	161
2005	117,500	11.60	March 16, 2010	98,330	–
	465,000	9.93		445,830	733

<b>AS AT DECEMBER 31, 2005</b>					
2001	105,000	9.29	March 7, 2006	105,000	284
2002	125,000	8.24	December 12, 2007	125,000	469
2003	67,500	8.99	May 1, 2008 to July 14, 2008	67,500	203
2004	155,000	10.43	March 9, 2009 to June 7, 2009	123,334	222
2005	117,500	11.60	March 16, 2010	79,165	33
	570,000	9.81		499,999	1,211

In 2006 the cost of the Partnership's UARs was \$0.3 million (2005 – \$0.6 million). During 2006, 105,000 (2005 – 195,000) UARs were exercised at an average market price of \$11.95 (2005 – \$12.76).

The vesting provision for the UARs issued to officers is as follows: 33 1/3 percent on the date of grant; 33 1/3 percent on the first anniversary of the date of grant; and 33 1/3 percent on the second anniversary of the date of grant. Subsequent to 2003, UARs issued to directors vest 100 percent on the date of grant. As of December 31, 2006 100 percent of the UARs issued in 2002, 2003 and 2004 had vested and 89.4 percent of the UARs issued in 2005 had vested.

In 2006 the Board of Directors of the General Partner determined that it did not intend to issue further UARs under the Unit Appreciation Rights Plan beyond those already granted. On March 7, 2006 the Board of Directors adopted a new long-term incentive compensation plan for officers, directors and employees of the Partnership.

## 15. TAXES

The provision for taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial statutory income tax rate to earnings before taxes. The difference results from a number of factors summarized in the following reconciliation:

### INCOME TAX RECONCILIATION

	2006	2005
Net income before taxes	<b>95,771</b>	87,026
Combined statutory income tax rate	<b>33.09%</b>	34.23%
Income taxes at statutory rate	<b>31,691</b>	29,789
Increase (decrease) resulting from:		
Tax benefits attributable directly to Unitholders	<b>12,237</b>	10,221
Future taxes related to Canadian rate-regulated operations	<b>(3,230)</b>	(4,997)
Large corporations and capital taxes	<b>424</b>	3,606
Benefit of intergroup charges	<b>(18,442)</b>	(18,435)
Higher income tax rates in other jurisdictions	<b>4,975</b>	3,355
Change in valuation allowance	<b>(4,320)</b>	(6,507)
Tax rate reduction and other	<b>(8,518)</b>	(1,207)
Total taxes	<b>14,817</b>	15,825
Effective tax rate	<b>15.5%</b>	18.1%

### COMPONENTS OF FUTURE TAXES

	2006	2005
Future tax liabilities (assets)		
Differences in the accounting and tax bases of:		
Pipeline, plant and other capital assets	<b>184,224</b>	178,600
Deferred revenue and costs	<b>71,904</b>	66,766
Non-capital losses	<b>(83,860)</b>	(92,011)
	<b>172,268</b>	153,335
Valuation allowance	<b>-</b>	4,320
	<b>172,268</b>	157,675

Accumulated future taxes of \$86.9 million (2005 – \$97.5 million) have not been recorded in these consolidated financial statements as they relate to the Partnership's Canadian rate-regulated pipeline operation and will be recovered against future toll revenues. Had the liability method been prescribed for ratemaking purposes, such amounts would have been recorded and recovered from revenues.

Fort Chicago has Canadian and U.S. non-capital losses of \$5.9 million (2005 – \$5.9 million) and \$207.6 million (US \$178.1 million) (2005 – \$227.8 million; US \$195.5 million) available to reduce future Canadian and U.S. taxable income, respectively. The majority of the Canadian losses expire in 2007.

## 16. COMMITMENTS AND CONTINGENCIES

Fort Chicago, Alliance and Aux Sable have operating leases for office premises, vehicles and railcars, and capital leases for field offices and truck rack facilities. Expected future minimum lease payments under capital and operating leases are as follows:

For the years ending December 31	Capital lease	Operating lease
2007	973	3,448
2008	973	3,278
2009	973	3,043
2010	973	1,725
2011	973	932
Thereafter	6,470	4,461
Total minimum lease payments	11,335	16,887
Lease imputed interest	(5,349)	–
Capital lease liability	5,986	16,887

Aux Sable is committed to deliver specified minimum quantities of ethane and propane to counterparties at market prices. Failure to meet the specified minimum volumes may trigger penalties payable to these counterparties. Under the terms of the NGL Sales Agreement, the benefits and obligations of substantially all of these contracts will be assumed by BP.

Pursuant to its long-term ETAs, AEGS is committed to transport specified minimum volumes of ethane in respect of four shippers who are committed to pay a minimum firm toll regardless of whether or not they transport ethane on the AEGS pipeline. The shippers are relieved of this obligation to the extent that AEGS is unable, for any reason related solely to its ability, to transport volumes of ethane up to the shipper's contracted capacity. A shipper also has the right to terminate an ETA in certain limited circumstances where the shipper is unable to transport ethane on the AEGS pipeline for a period of 180 days or more.

Alliance Pipeline has firm-service transportation contracts with a group of over 30 shippers having a primary term that expires in November 2015. The transportation contracts obligate shippers to pay monthly demand charges based on contracted volume, regardless of volumes actually transported on the pipeline. These charges are subject to limited rights for each shipper to receive demand charge credits to the extent Alliance is unable, for any reason related solely to the physical capability of the pipeline, to transport volumes of natural gas up to the shipper's contracted capacity that were properly scheduled for delivery. If incurred, demand charge credits would decrease Alliance's revenue and net income. During the year ended December 31, 2006 no demand charge credits were incurred (2005 – nil).

NRGreen Power Limited Partnership (together with its general partner, collectively referred to as "NRGreen"), a non-rate-regulated entity in which the Partnership holds a 50 percent ownership interest, has entered into supply and construction contracts related to the construction of several waste heat electrical generation facilities situated at Alliance's Saskatchewan-based compressor stations. At December 31, 2006, NRGreen has capital expenditure commitments pursuant to these contracts of approximately \$18.2 million prior to December 2007 and an additional \$5.2 million prior to August 2008.

East Windsor Cogeneration LP (together with its general partner, collectively referred to as “EWC”), a limited partnership in which the Partnership and Pristine Power Inc. (“Pristine”) each hold a 50 percent ownership interest (the Partnership also holds a 20 percent ownership interest in Pristine), was awarded a Combined Heat and Power (“CHP”) contract under a Request for Proposal process conducted by the Ontario Power Authority (“OPA”). Under the CHP, EWC is committed to construct an 84-megawatt cogeneration plant located in Windsor, Ontario, which will provide power for a 20-year period upon the commencement of commercial operations. Each of Fort Chicago and Pristine has committed to provide \$17.5 million of equity capital to EWC. Fort Chicago has committed to the OPA to provide, in certain circumstances, up to 90 percent of the total equity capital required by EWC.

Fort Chicago, Alliance, AEGS and Aux Sable are, or may be named as, parties to various legal claims associated with their normal course of business. As at the date of these consolidated financial statements, the resolution of these claims is not expected to have a material adverse impact on Fort Chicago’s consolidated financial position or consolidated results of operations.

## 17. FINANCIAL INSTRUMENTS

Borrowings under the bank credit facilities are based on short-term market interest rates and as a result their carrying value approximates fair value. The aggregate fair value of the senior notes as at December 31, 2006, based on quoted market prices for similar issues, is \$1.6 billion (2005 – \$1.7 billion) compared with the aggregate carrying value of \$1.5 billion (2005 – \$1.5 billion).

Cash and short-term investments consist of amounts held in cash deposit accounts with chartered banks, as well as short-term investments in deposit instruments and/or commercial paper, which meet certain minimum criteria. Due to the short-term, floating-rate nature of cash and short-term investments, the carrying values do not differ materially from the fair values.

Other financial instruments, including certain receivables and payables are short term in nature, thus, their fair values approximate their carrying values.

The Partnership is exposed to credit risk since its businesses are concentrated in the natural gas transportation, ethane transportation and NGL industries and its revenue is dependent upon the ability of its customers to pay their invoices. This exposure is particularly relevant in the Pipeline Business where a majority of shippers operate in the oil and gas exploration and development or energy marketing/transportation industries and may be exposed to long-term downturns in energy commodity prices, including the price for natural gas, or other credit events impacting these industries. Should these shippers be unable to fulfill their obligations under the transportation contracts and if suitable replacement shippers are not available, the Partnership may not be able to recover its operating and financing costs or make distributions to its owners. In the case of Alliance, this exposure is reduced, in part, by requiring shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or a suitable financial position (note 11).

The earnings and cash flows of the NGL Business are sensitive to changes in the price of natural gas and NGL. As a result of the NGL Sales Agreement (notes 4 and 16), this exposure has been significantly reduced. Prior to this agreement, Aux Sable entered into derivative financial instruments referenced to industry standard indices in order to hedge its price exposure to natural gas and NGL.

In 2006 Aux Sable did not enter into any derivative financial instruments. At December 31, 2006 Aux Sable had no foreign exchange contracts outstanding in respect of Canadian dollar denominated gas purchases (2005 – US \$25.0 million).

## 18. SEGMENTED INFORMATION

	Pipeline Businesses									
	Alliance		AEGS		NGL Business		Corporate <sup>(1)</sup>		Total <sup>(2)</sup>	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenues <sup>(3)</sup>	<b>365,911</b>	383,372	<b>41,890</b>	37,627	<b>170,800</b>	476,108	<b>853</b>	264	<b>563,108</b>	879,709
Natural gas, NGL and transportation <sup>(3)</sup>	-	-	-	-	<b>91,999</b>	454,101	-	-	<b>75,653</b>	436,439
Operations and maintenance	<b>44,191</b>	48,388	<b>15,085</b>	11,898	<b>24,102</b>	1,135	-	-	<b>83,378</b>	61,421
Depreciation and amortization	<b>97,120</b>	100,614	<b>12,615</b>	11,854	<b>2,376</b>	2,863	<b>3,987</b>	4,309	<b>116,098</b>	119,640
Interest and other finance	<b>93,312</b>	99,780	<b>6,015</b>	4,016	<b>1,116</b>	1,500	<b>10,505</b>	16,941	<b>110,948</b>	122,237
General, administrative and project development	<b>26,320</b>	22,979	<b>1,620</b>	1,128	<b>11,679</b>	5,629	<b>20,981</b>	10,580	<b>60,600</b>	40,316
Foreign exchange loss and other	-	-	-	-	<b>203</b>	276	<b>20,457</b>	12,354	<b>20,660</b>	12,630
Net income (loss) before taxes	<b>104,968</b>	111,611	<b>6,555</b>	8,731	<b>39,325</b>	10,604	<b>(55,077)</b>	(43,920)	<b>95,771</b>	87,026
Total assets	<b>2,234,448</b>	2,277,456	<b>300,042</b>	311,467	<b>173,875</b>	197,091	<b>10,557</b>	9,020	<b>2,718,922</b>	2,795,034
Capital expenditures	<b>29,245</b>	5,780	-	74	<b>12,104</b>	4,429	<b>772</b>	337	<b>42,121</b>	10,620

(1) Reflects unallocated amounts applicable to Fort Chicago's head office activities. For the year ended December 31, 2006, Corporate project development costs amounted to \$14.8 million (2005 – \$3.2 million).

(2) After giving effect to intersegment eliminations and allocations to businesses.

(3) For the year ended December 31, 2006, Alliance Pipeline transportation revenues include \$16.3 million (2005 – \$17.7 million) of transportation revenue from the NGL Business that eliminates upon consolidation. The natural gas, NGL and transportation costs of the NGL Business include the corresponding cost amount.

The following table reflects Fort Chicago's revenues and pipeline, plant and other capital assets based on the geographic location of each entity:

2006

	Canada	U.S.	Total
Revenues <sup>(1)</sup>	<b>274,531</b>	<b>288,577</b>	<b>563,108</b>
Pipeline, plant and other capital assets	<b>1,448,715</b>	<b>935,645</b>	<b>2,384,360</b>

2005

	Canada	U.S.	Total
Revenues <sup>(1)</sup>	313,347	566,362	879,709
Pipeline, plant and other capital assets	1,490,110	975,334	2,465,444

(1) After giving effect to intersegment eliminations and allocations to businesses.

## 19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2006.

## 20. SUBSEQUENT EVENTS

The Partnership declared distributions of \$0.0775 per Unit for each of January and February 2007.