management's discussion and analysis

Year ended December 31, 2005

This Management's Discussion and Analysis ("MD&A") dated March 7, 2006 provides a review of the significant events and transactions that impacted Fort Chicago's performance during 2005 relative to 2004. Certain forward-looking statements and information are provided. Forward-looking statements and information, by their nature, involve risk and uncertainty, which may cause actual results to differ materially from those expressed or implied herein. This MD&A should be read in conjunction with the consolidated financial statements of Fort Chicago as at and for the years ended December 31, 2005 and 2004. Capitalized terms used herein and not otherwise defined have the same meanings attributed to them in the December 31, 2005 consolidated financial statements. All financial information is in Canadian dollars unless otherwise noted and has been extracted from its annual audited or quarterly unaudited consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"). Financial information pertaining to Alliance and Aux Sable reflects Fort Chicago's proportionate share unless otherwise noted. Additional information concerning the Partnership is available on SEDAR at www.sedar.com or on the Partnership's website at www.fortchicago.com.

OVERVIEW

Businesses Fort Chicago is a limited partnership with two principal business segments, a pipeline transportation segment comprised of a 50 percent ownership interest in the Alliance Pipeline and a 100 percent ownership interest in AEGS, and an NGL extraction segment, comprised of a 42.7 percent ownership interest in Aux Sable. Each of these businesses owns and operates high-quality, long-life assets that are uniquely positioned to provide Unitholders with relatively stable cash distributions and potential growth in the future.

The Pipeline business represents approximately 92 percent of Fort Chicago's total assets. Each of Alliance and AEGS are stable cash flow generators that are supported by long-term, take-or-pay transportation agreements. Alliance owns and manages an integrated, high-pressure natural gas pipeline that stretches approximately 3,000 kilometres across North America. With an extensive gathering system, Alliance delivers natural gas from the gas rich regions of northeastern British Columbia and northwestern Alberta to delivery points near Chicago, Illinois, a major natural gas market hub. The system is capable of transporting 1.325 billion cubic feet per day of liquids-rich natural gas on a firm-service basis. AEGS, which was acquired by Fort Chicago on December 22, 2004 for $274.9 million, is a key component of Alberta's energy infrastructure and of particular importance to Alberta's world-scale NGL extraction and petrochemical industries. AEGS is an integrated 1,324 kilometre pipeline that transports pure ethane from various Alberta ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta and has interconnections with an underground storage site and an export pipeline system.

The NGL business, which represents approximately eight percent of Fort Chicago's assets, is owned and managed by Aux Sable and is comprised of: (i) a world-scale NGL extraction and fractionation facility near the terminus of the Alliance Pipeline, capable of recovering up to 100,000 bbls/d of ethane, propane, normal butane, iso-butane and natural gasoline; (ii) storage, downstream NGL pipelines and loading facilities; (iii) NGL injection facilities in Alberta and British Columbia; and (iv) long-term firm natural gas transportation capacity on the Alliance Pipeline. Cash flows generated by this business have historically been quite cyclical, but with the recently announced long-term sales agreement with BP (discussed later in this MD&A), are expected to be more predictable and stable in future years.

Strategy Strategically, Fort Chicago is committed to actively managing and growing its existing businesses and to making targeted accretive investments in long-life infrastructure assets that provide additional diversity and contribute toward stable and growing distributions to Unitholders.

FINANCIAL AND OPERATING HIGHLIGHTS

($ Thousands, except where noted)	2005	2004 (1)	2003 (1)
Operating Highlights			
Average daily volumes (100%)			
Pipeline volumes			
Alliance – billion cubic feet per day (bcf/d)	**1.597**	1.581	1.588
AEGS – thousand barrels per day (mbbls/d) (2)	**308.3**	296.7	287.0
Aux Sable (mbbls/d)	**66.7**	70.6	50.4
Financial Results			
Revenues	**879,709**	780,681	506,699
Net income	**71,201**	77,623	53,372
Net income per Unit ($)			
Basic	**0.59**	0.74	0.62
Diluted	**0.59**	0.73	0.62
Distributions			
Distributable cash (3)	**131,706**	92,735	73,274
Per Unit ($) (3)	**1.083**	0.883	0.822
Distributions paid or payable	**115,125**	87,871	67,117
Per Unit ($)	**0.945**	0.836	0.750
Distribution account (3)	**15,691**	2,354	(2,510)
Payout ratio (%) (3)	**87**	95	92
Capital expenditures			
Growth (3) (4)	**15,315**	15,434	16,164
Maintenance and sustaining (3)	**957**	727	1,032
Taxable income (losses) allocated to Unitholders per Unit ($) (3) (5)	**0.801**	0.334	(0.019)
Taxable portion of distributions paid (%) (3)	**85**	40	–

FINANCIAL AND OPERATING HIGHLIGHTS (CONTINUED)

($ Thousands, except where noted)	2005	2004 (1)	2003 (1)
Financial Position			
Cash and short-term investments	**21,373**	34,982	56,503
Total assets	**2,795,034**	2,896,001	2,765,948
Long-term senior debt and capital leases	**1,531,321**	1,780,104	1,649,226
Subordinated convertible debentures	**61,713**	132,605	203,280
Partners' equity	**825,097**	646,992	607,535
Total enterprise value (3)	**3,575,353**	3,592,495	3,218,157
Units			
Units outstanding – as at year-end	**129,669,868**	109,786,540	101,142,290
Average daily volume (Units)	**257,598**	209,337	173,236
Price per Unit – close ($)	**11.99**	11.40	10.20
Market capitalization (3)	**1,554,742**	1,251,567	1,031,651

(1) *Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2005.*

(2) *AEGS was acquired on December 22, 2004. Prior period information has been provided for comparison purposes only and is based on information provided by the previous owners. Average daily volumes in respect of AEGS are based on toll volumes.*

(3) *This item is not a standard measure under GAAP in Canada and may not be comparable to similar measures presented by other entities. See section entitled "Non-GAAP Financial Measures" contained in this MD&A below.*

(4) *Excludes construction settlement credit of $5.2 million received by Alliance in the third quarter of 2005.*

(5) *Based on Units being held throughout 2005.*

OVERALL PERFORMANCE

Changes in distributable cash and net income for the three and 12 months ended December 31, 2005, by business segment, are highlighted in the table below. The factors contributing to these changes are discussed more fully in the section entitled "Results of Operations – By Business Segment."

		Period-over-period increase (decrease)				
($ Thousands)	2004	Alliance	AEGS	Aux Sable	Fort Chicago	2005
Three months ended December 31						
Distributable cash	24,796	455	3,713	(4,100)	3,355	**28,219**
Net income	39,257	3,283	1,081	(8,996)	(16,345)	**18,280**
Year ended December 31						
Distributable cash	92,735	5,797	18,829	11,421	2,924	**131,706**
Net income	77,623	5,337	8,427	(2,025)	(18,161)	**71,201**

Distributable cash for the three and twelve months ended December 31, 2005 was $28.2 million or $0.218 per Unit (2004 – $24.8 million or $0.229 per Unit) and $131.7 million or $1.083 per Unit (2004 – $92.7 million or $0.883 per Unit), respectively. A full year contribution from AEGS, increased contributions from Aux Sable during the first half of the year, increased contributions from Alliance, reflecting the distribution of the remaining return-on-equity adjustment and the recovery of current income taxes in the Canadian toll, and the accretive refinancing of AEGS during the second quarter, collectively supported the strong 2005 results achieved by

Fort Chicago. Partially offsetting these increases were a stronger Canadian dollar, higher acquisition due diligence expenses, higher corporate office personnel and advisory costs, and the dilution associated with the conversion of the Partnership's convertible debentures.

Net income for the three and 12 months ended December 31, 2005 was $18.3 million or $0.14 per Unit (2004 – $39.3 million or $0.37 per Unit) and $71.2 million or $0.59 per Unit (2004 – $77.6 million or $0.74 per Unit), respectively. The factors contributing to these results are substantially the same as those noted above in connection with distributable cash with the exception of future taxes, which in 2004 were significantly lower as a result of a fourth quarter 2004 future tax reversal relating to the utilization, for Canadian toll setting purposes, of loss carry-forwards that were allocated to Alliance's previous owners, partially offset by an increase in foreign exchange losses that were previously deferred and recorded as a cumulative translation adjustment in partners' equity.

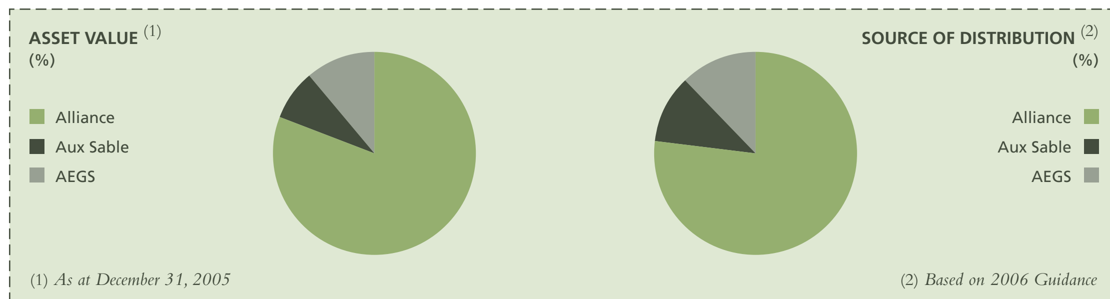
RESULTS OF OPERATIONS – BY BUSINESS SEGMENT

Pipeline Business

Alliance Pipeline – 50 Percent Proportionate Share

FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended December 31		Year ended December 31	
($ Thousands, except where noted)	2005	2004	2005	2004
Revenues	**96,824**	96,484	**383,372**	397,427
Operations and maintenance	**13,863**	12,454	**48,388**	52,964
General and administrative	**6,093**	7,941	**22,979**	26,195
Earnings before interest, taxes, depreciation and amortization "EBITDA" (1)	**76,868**	76,089	**312,005**	318,268
Depreciation and amortization	**24,742**	25,807	**102,081**	106,204
Interest and other finance	**24,421**	25,840	**99,780**	107,271
Net income before taxes	**27,705**	24,442	**110,144**	104,793
Distributions, prior to withholding for capital expenditures and net of debt service	**29,504**	29,049	**124,866**	119,069
Total volume (bcf/d)	**1.593**	1.580	**1.597**	1.581

(1) *This item is not a standard measure under GAAP in Canada and may not be comparable to similar measures presented by other entities. See section entitled "Non-GAAP Financial Measures" contained in this MD&A.*



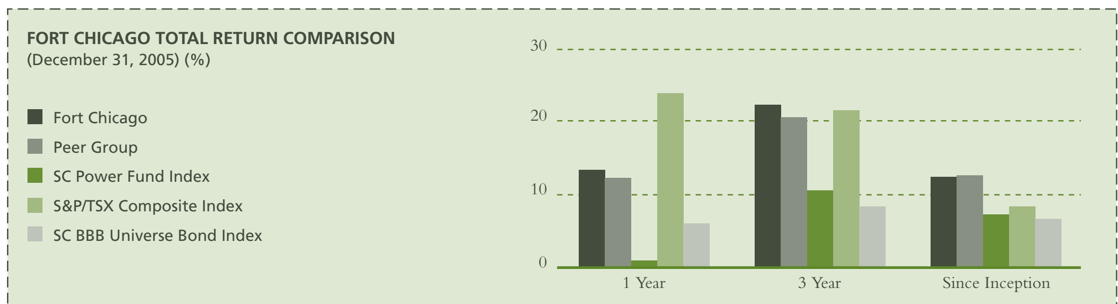
(1) *As at December 31, 2005*

(2) *Based on 2006 Guidance*

Alliance has firm service transportation services contracts with initial terms ending in 2015 with a group of more than 30 shippers. The transportation service contracts obligate each shipper to pay monthly demand charges based on their contracted firm volume, regardless of volumes actually transported. These transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including depreciation, debt financing costs, and an allowed return on equity of 11.25 percent in Canada and 10.85 percent in the United States. The portion of such costs recovered each year is based on the percentage of the firm transportation capacity contracted. For the years ended 2005 and 2004, 100 percent of the firm capacity was contracted.

Alliance continued to perform reliably in 2005, fully meeting its contracted 1.325 bcf/d firm-service shipping capacity. Transportation deliveries, including utilized AOS, averaged 1.597 bcf/d (20.6 percent in excess of firm capacity) for the year ended December 31, 2005 compared with 1.581 bcf/d (19.3 percent in excess of firm capacity) in 2004. For the three months ended December 31, 2005, actual transportation deliveries averaged 1.593 bcf/d (20.2 percent in excess of firm capacity) in comparison to average deliveries of 1.580 bcf/d (19.3 percent in excess of firm capacity) for the same period of 2004. Consistently managing pipeline availability accounts for the increase in AOS for the year ended December 31, 2005. The increase in AOS for the three months ended December 31, 2005 was due to less maintenance activity in 2005 compared to 2004. Volumes in excess of firm capacity have no impact on Alliance's financial results of operations but serve to reduce the per-unit transportation cost for shippers. As a consequence, changes in Alliance's cost of service and AOS have no impact on Alliance's net income or distributions, each of which are based solely on the availability of firm capacity on the pipeline.

Transportation revenues, which reflect the cost-of-service recovery, decreased $14.1 million for the year ended December 31, 2005 compared with 2004. The decrease in revenues is due to the stronger Canadian dollar, lower administrative and operating costs, lower financing costs and a reduced equity return. The reduction in financing costs and return on equity stem from Alliance's amortizing debt and depreciating rate base, respectively. These decreases were partially offset by the increase in the allowance for current income taxes as a result of Alliance becoming notionally taxable in Canada for toll purposes. For the three months ended December 31, 2005, revenues increased by $0.3 million over the same period of 2004 reflecting the increase in the allowance for income tax by Alliance Canada, partially offset by lower financing costs, the effect of a stronger Canadian dollar and the lower equity return.



Operations and maintenance costs for the three and 12 months ended December 31, 2005 increased by $1.4 million and decreased by $4.6 million, respectively. The increase in the quarter is due to additional maintenance costs incurred in respect of the compressors. Lower personnel costs as well as reduced costs related to land restoration, in-line inspection and pipeline maintenance accounted for the decrease on a year-over-year basis.

General and administrative costs decreased by $1.8 million and $3.2 million for the three and 12 months ended December 31, 2005, respectively, due to decreased insurance, personnel and information system costs.

Net income before taxes increased $3.3 million and $5.4 million for the three and 12 months ended December 31, 2005, respectively, reflecting the recovery of current income tax in the Canadian toll, which commenced in 2005. This increase was partially offset by a reduction in the equity return due to the depreciating investment base and the effect of a stronger Canadian dollar.

Additions to pipeline, plant and other capital assets for the three and 12 months ended December 31, 2005 were $3.4 million (2004 – $5.0 million) and $5.8 million (2004 – $14.3 million), respectively, after a $5.2 million settlement in respect of a 2005 construction claim was received in the third quarter of 2005. The construction settlement relates to a claim on the original construction of the pipeline and has been credited against the cost of the pipeline. Additions in 2005 reflect sustaining capital expenditure programs and the Windfall cooler enhancement project. The decrease in expenditures from 2004 is mainly due to reduced major compressor overhauls in 2005.

Alliance is also managing, on behalf of its owners, a non-regulated project to construct a waste heat recovery and electrical power generation system at its Kerrobert compressor site, which is expected to be placed into commercial service in the second quarter of 2007. The total cost for this project is expected to be approximately $8.5 million (100 percent – $17.1 million), representing Fort Chicago's proportionate share of the project. Approximately $1.4 million was spent in 2005.

Aggregate distributions received/receivable from Alliance for the year ended December 31, 2005 were $124.9 million, before deducting capital expenditure holdbacks of $2.7 million, compared with $119.1 million, before deducting capital expenditure holdbacks of $2.2 million, for the comparable period in 2004. For the three months ended December 31, 2005, distributions from Alliance were $29.5 million, before deducting capital expenditure holdbacks of $0.6 million, compared with $29.0 million, before deducting capital expenditure holdbacks of $0.7 million, for the comparable period in 2004. The increase in distributions is due largely to the first quarter distribution of the remaining return-on-equity adjustment and the earlier than expected recovery of notional current income taxes in the Canadian toll, which were partially offset by the impact of a stronger Canadian dollar.

AEGS – 100 Percent

FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended December 31			Year ended December 31		
($ Thousands, except where noted)	2005	2004 (1)	2004 (2)	2005	2004 (1)	2004 (2)
Revenues	**10,561**	1,062	9,048	**37,627**	1,062	34,077
Operations, maintenance and administration	**4,261**	410	2,944	**13,026**	410	10,696
EBITDA	**6,300**	652	6,104	**24,601**	652	23,381
Depreciation and amortization	**3,391**	348	N/A	**11,854**	348	N/A
Interest	**1,524**	–	N/A	**4,016**	–	N/A
Net income before taxes	**1,385**	304	N/A	**8,731**	304	N/A
Distributable cash, after non-recoverable capital expenditures and debt service	**4,365**	652	N/A	**19,481**	652	N/A
Toll volume (mbbls/d)	**311.2**	297.7	310.1	**308.3**	297.7	296.7

(1) *Reflects the results of AEGS reported by Fort Chicago commencing on December 22, 2004, the date of acquisition.*

(2) *Reflects the results of AEGS for the full year based on information provided by the previous owners. This information has been provided for comparison purposes only.*

On December 22, 2004, Fort Chicago acquired a 100 percent interest in AEGS for an aggregate purchase price of approximately $274.9 million. Revenues and earnings are based on long-term, take-or-pay ethane transportation agreements ("ETAs"), which extend to December 31, 2018, and provide for a minimum revenue stream based on specified committed volumes, the recovery of all operating costs, and the right for each shipper to transport ethane on the AEGS pipeline up to their committed volumes. As a consequence, AEGS is expected to generate a stable stream of revenues and earnings.

During 2004, Fort Chicago's financial results included only nine days of operations from AEGS, making a comparison with AEGS's 2005 results not meaningful. As a consequence, the discussion below compares, where applicable, AEGS's 2005 operating results with its results for the full year of 2004.

Results for 2005 were in line with expectations. Revenues for the three and 12 months ended December 31, 2005 increased 16.7 percent and 10.4 percent to $10.6 million and $37.6 million, respectively, due to higher toll volumes and higher operating cost recoveries. Toll volumes for the fourth quarter of 2005 were relatively unchanged from 2004 due to a spike in the cost of ethane that occurred in the month of December, which reduced ethane receipts onto AEGS. Toll volumes for the year ended December 31, 2005 increased 3.9 percent from 296.7 mbbls/d in 2004 to 308.3 mbbls/d due to increased extraction capabilities of AEGS-connected plants and increased demand for ethane deliveries from AEGS.

Operations, maintenance and administration costs rose for the three and 12 months ended December 31, 2005 to $4.3 million (2004 – $2.9 million) and $13.0 million (2004 – $10.7 million), respectively. These increases were the result of higher charges for storage, insurance and an extensive in-line inspection program conducted in 2005 that was not undertaken in 2004.

EBITDA for the three months and 12 months ended December 31, 2005 increased by 3.2 percent and 5.2 percent to $6.3 million (2004 – $6.1 million) and $24.6 million (2004 – $23.4 million), respectively, in line with reported toll volumes.

Depreciation and amortization expense for the three and 12 months ending December 31, 2005 was $3.4 million and $11.9 million, respectively, and relates primarily to the depreciation and amortization of the pipeline and ETAs over the estimated life and contract term, respectively.

Interest expense was $1.5 million and $4.0 million for the three and 12 months ended December 31, 2005, respectively, and relates to the senior notes issued on May 4, 2005.

Net income for the three months and year ended December 31, 2005 was $1.4 million and $8.7 million, respectively.

For the quarter and year ended December 31, 2005, AEGS generated distributable cash of $4.4 million and $19.5 million, respectively, which in each case is net of non-recoverable capital expenditures and debt service costs.

NGL Business

Aux Sable – 42.7 Percent Proportionate Share

FINANCIAL AND OPERATIONAL HIGHLIGHTS	Three months ended December 31		Year ended December 31	
($ Thousands, except where noted)	2005	2004	2005	2004 (1)
Revenues	**128,645**	125,811	**476,108**	397,908
Natural gas, NGL and transportation	**125,751**	113,256	**454,101**	373,680
Operations and maintenance	**212**	114	**1,135**	947
General and administrative	**1,961**	1,574	**5,629**	5,534
Foreign exchange (gain) loss and other	**(466)**	398	**276**	262
EBITDA	**1,187**	10,469	**14,967**	17,485
Depreciation and amortization	**526**	851	**2,863**	3,390
Interest and other finance	**425**	329	**1,500**	1,412
Net income before taxes	**236**	9,289	**10,604**	12,683
Distributions, net of debt service and maintenance capital	**37**	4,137	**18,378**	6,957
Average daily NGL sales volumes (100%) (mbbls/d)				
Ethane – indigenous	**21.2**	33.7	**29.3**	33.1
Propane plus (2)	**29.5**	38.3	**27.9**	29.3
NGL injections	**5.5**	9.4	**9.5**	8.2
	56.2	81.4	**66.7**	70.6

(1) *Certain comparative figures have been reclassified to conform to 2005 presentation.*

(2) *Includes indigenous and fee-for-service sales volumes.*

Overall, results for the three months ended December 31, 2005 were down versus the exceptional three months ended December 31, 2004. This was primarily due to the impact of the U.S. Gulf Coast ("USGC") hurricanes (Katrina/Rita) in the third quarter, which curtailed a significant volume of offshore gas production and caused significantly higher natural gas prices. This set the stage for further natural gas price increases in the fourth quarter as the market responded quickly to any fear of supply shortages resulting from cold weather. Results for 2005, although solid, were also down versus 2004 due largely to very high margins experienced in the second half of 2004. In addition, fourth quarter 2005 margins were adversely impacted by the USGC hurricanes.

Revenues for the three and 12 months ended December 31, 2005 increased by $2.8 million and $78.2 million, respectively. Crude oil prices, which influence NGL prices, increased 24 percent during the quarter, averaging US $60.08 per barrel, up from US $48.43 per barrel in the fourth quarter of 2004. Average crude oil prices increased by 36 percent, from US $41.43 per barrel in 2004 to US $56.45 per barrel in 2005. Offsetting increased NGL prices is decreased NGL volume for the three and 12 months ended December 31, 2005. In periods where product margins were negative, as in the fourth quarter, NGL volumes were bypassed resulting in a decrease in NGL volume of 31 percent from 81.4 mbbls/d in 2004 to 56.2 mbbls/d in 2005, and for the year by six percent from 70.6 mbbls/d in 2004 to 66.7 mbbls/d in 2005. In 2005, Aux Sable continued to optimize its NGL injections and grow its fee-for-service business, which increased earnings and reduced volatility. NGL injections for the fourth quarter of 2005 decreased by 41 percent to 5.5 mbbls/d from 9.4 mbbls/d during the fourth quarter of 2004 as a result of narrower Mont Belvieu to Edmonton margins, while 2005 volumes increased by 16 percent from 8.2 mbbls/d in 2004 to 9.5 mbbls/d. Partially offsetting these increases in revenue was the impact of a stronger Canadian dollar.

Natural gas, NGL and transportation costs increased by $12.5 million and $80.4 million for the three and 12 months ended December 31, 2005, respectively, compared to the corresponding periods in 2004, primarily due to higher natural gas prices. During the fourth quarter, natural gas prices averaged US $11.25 per mmbtu in 2005 compared to US $6.23 per mmbtu in 2004, an increase of 81 percent. Average natural gas prices increased 44 percent from US $5.85 per mmbtu in 2004 to US $8.43 per mmbtu in 2005. A stronger Canadian dollar partially offset these increases.

For the three and 12 months ended December 31, 2005, Aux Sable reported net income before taxes of $0.2 million (2004 – $9.3 million) and $10.6 million (2004 – $12.7 million), respectively. Similarly, EBITDA for the three and 12 months ended December 31, 2005 was $1.2 million and $15.0 million, respectively, compared to $10.5 million and $17.5 million, respectively, over comparable periods in 2004. These results reflect less favourable 2005 USGC margins compared to 2004. In addition, 2005 NGL production and sales volumes were lower as significant NGLs were bypassed in the fourth quarter when NGL fractionation margins were negative. Due to changes implemented in 2004, Aux Sable was able to operate in 2005 without having to produce NGLs at a loss to meet its heat content management obligations.

During the third quarter of 2005, Aux Sable's U.S. credit facility was amended to provide for the funding of its isomerization project approved in the second quarter. The facility now provides for a five-year amortizing term loan of up to US $14.9 million to fund identified capital projects and a revolving three-year loan of up to US $17.1 million to fund working capital, and other security or letter of credit requirements.

Capital expenditures for the three and 12 months ended December 31, 2005 were $2.2 million and $4.9 million, respectively, compared with $1.2 million and $1.8 million during the same periods in 2004. These increases can be attributed to the commencement of constructing the isomerization unit, which, following commercial start-up

in August 2006, will increase aggregate butane and iso-butane processing capacity and allow Aux Sable to capture premium iso-butane pricing over normal butane, mainly during the summer months. During 2005, capital expenditures included sustaining capital expenditures of $0.2 million (2004 – $0.1 million).

For the three and 12 months ended December 31, 2005, Aux Sable paid distributions of $0.04 million and $18.4 million, respectively, compared with $4.1 million and $7.0 million during the same periods in 2004. Fourth quarter 2005 Aux Sable U.S. distributions were temporarily suspended given the uncertainty created by the USGC hurricanes and will be restored in 2006. For the year, distributions increased primarily due to the second quarter payment of a special distribution of $6.0 million related to prior year earnings.

Commodity price hedging activity is conducted under a hedging policy established in August 2003. All hedging decisions are made by a Risk Management Committee comprised of representatives from the board of directors of Aux Sable. For the three and 12 months ended December 31, 2005, Aux Sable hedged approximately 31 percent (2004 – 35 percent) and 33 percent (2004 – 46 percent), respectively, of indigenous production. For the three and 12 months ended December 31, 2005, these hedges increased earnings by $0.1 million and reduced earnings by $6.4 million, respectively, compared with reduced earnings of $6.4 million and $16.9 million during the same periods in 2004. With the establishment of the BP agreement, Aux Sable's hedging policy is under review and hedging has been substantially curtailed. As of December 31, 2005, Aux Sable does not have any fractionation margin hedges and only has a fuel cost hedge to protect against price spikes in the first quarter 2006.

Over the last five years, Aux Sable has been successful in pursing initiatives to add fee-for-service and less volatile cash flow streams to its business, primarily through NGL injections in British Columbia and Alberta. In spite of its reduced exposure to downside risks, Aux Sable's base cash flow remained dependent on NGL fractionation margins as illustrated by Aux Sable's fourth quarter 2005 results. This dependency has been reduced significantly as a result of the December 31, 2005 binding Memorandum of Agreement ("MOA") between Aux Sable and BP Products North America, Inc. ("BP"). Going forward, Aux Sable will sell all NGL production from its Channahon facility to BP on a cost plus basis, which provides Aux Sable with a minimum fixed fee and a share of margins above certain thresholds.

The MOA creates a solid foundation for growth by converting Aux Sable into a fee-for-service NGL processor, eliminating the downside risk of low NGL fractionation margins while retaining meaningful upside when fractionation margins are strong. This MOA will provide Aux Sable with an assured base level of cash flow that can be used as a platform for growth of the business. Aux Sable is now in a stronger position to pursue a broader range of growth opportunities in the gas processing and NGL midstream industry through acquisitions and/or new projects. See section entitled "Contractual Obligations and Commitments" for further details of this agreement.

Fort Chicago – Corporate

FINANCIAL HIGHLIGHTS [1]	Three months ended December 31		Year ended December 31	
($ Thousands)	2005	2004	2005	2004
Revenues	**87**	99	**264**	423
Depreciation and amortization	**622**	847	**2,842**	2,487
Interest and other finance	**2,831**	4,723	**16,941**	20,381
Operating and administrative	**1,548**	2,245	**7,336**	6,069
Project development costs	**1,397**	–	**3,244**	–
Foreign exchange loss	**2,872**	677	**12,354**	4,248
Net loss before taxes	**9,183**	8,393	**42,453**	32,762
Current taxes	**442**	1,135	**3,452**	4,084
Future taxes	**1,331**	(14,917)	**11,989**	2,887
Net loss (income)	**10,956**	(5,389)	**57,894**	39,733
Distributable cash outflows	**5,687**	9,042	**31,019**	33,943

(1) *Reflects unallocated amounts applicable to Fort Chicago's head office activities.*

Revenues include interest income earned on temporary surplus cash positions.

Depreciation and amortization relates primarily to deferred financing costs and corporate office assets that are being amortized over the life of the debt and the useful lives of the assets, respectively.

Interest and other finance costs decreased by $1.9 million and $3.4 million for the three and 12 months ended December 31, 2005, respectively, due largely to a reduction in Convertible Debenture interest. This decline is attributable to a decrease in the number of outstanding Convertible Debentures resulting from holders exercising their right to convert these securities into Units. For the year, this was partially offset by additional interest related to the initial funding of AEGS using the Partnership's Revolving Credit Facility, which was repaid in the second quarter of 2005, using the proceeds from AEGS's $110 million senior note issuance and the Partnership's $160 million public offering of Units.

Operating and administrative costs increased by $1.3 million for the year ended December 31, 2005 due mainly to higher acquisition due diligence expenses and higher personnel and advisory costs. For the three months ended December 31, 2005, operating and administrative costs decreased by $0.7 million from the similar period in 2004 due largely to the reduction in costs relating to the Partnership's unit appreciation plan, which was partially offset by an increase in personnel and advisory costs.

Project development costs relate primarily to the proposed Jordan Cove liquefied natural gas ("LNG") terminal in Coos County, Oregon and are being funded from the Partnership's distribution account. Project development costs for 2006 are expected to be in the range of $5 to $8 million, relating to the recently announced proposed Pacific Connector pipeline, a 250-mile natural gas transmission line and the proposed Jordan Cove LNG

terminal, which are designed to bring new, diverse worldwide natural gas supply to natural gas markets in the western United States. No funding is expected in 2006 to support the operating requirements of the Partnership's 20 percent interest in Pristine Power Inc., an independent power development company.

Foreign exchange losses increased by $2.2 million and $8.1 million for the three and 12 months ended December 31, 2005, respectively, due mainly to the recognition of foreign exchange losses previously deferred and recorded as a cumulative translation adjustment in partners' equity, which increased in 2005 as a result of higher distributions received from the Partnership's U.S. businesses.

Current taxes are comprised principally of capital taxes and are down from 2004 due to a reduction in the tax rate combined with the reduction in the taxable capital allocated to Saskatchewan due to the AEGS acquisition.

Future taxes increased by approximately $16.2 million and $9.1 million for the three and 12 months ended December 31, 2005, respectively, due primarily to the reduction, in 2005, of future tax reversals relating to the utilization, for Canadian toll-setting purposes, of loss carry-forwards that were allocated to Alliance's previous owners.

QUARTERLY FINANCIAL HIGHLIGHTS

	Three months ended 2005			
($ Thousands, except where noted)	March 31 (1)	June 30	Sept. 30	Dec. 31
Revenues	**207,920**	**212,281**	**227,849**	**231,659**
Net income	**19,483**	**16,830**	**16,607**	**18,281**
Net income per Unit ($)				
Basic	**0.18**	**0.15**	**0.13**	**0.14**
Diluted	**0.18**	**0.15**	**0.13**	**0.14**
Distributable cash	**42,857**	**29,855**	**30,775**	**28,219**
Distributable cash per Unit ($)	**0.385**	**0.256**	**0.239**	**0.218**

	Three months ended 2004			
($ Thousands, except where noted)	March 31 (2)	June 30 (2)	Sept. 30 (2)	Dec. 31
Revenues	186,639	181,749	192,657	219,636
Net income	12,111	7,737	18,517	39,258
Net income per Unit ($)				
Basic	0.12	0.07	0.18	0.37
Diluted	0.12	0.07	0.18	0.34
Distributable cash	20,756	22,316	24,867	24,796
Distributable cash per Unit ($)	0.202	0.214	0.238	0.229

(1) *Certain comparative figures have been reclassified to conform to presentation adopted in 2005.*

(2) *Restated – See note 4 to the consolidated financial statements.*

LIQUIDITY AND CAPITAL RESOURCES

($ Thousands, except where noted)	Year ended December 31 2005		2004	
Cash flows				
Operating activities	**184,447**		172,042	
Financing activities	**(183,705)**		96,696	
Investing activities	**(14,695)**		(289,444)	
Cash and short-term investments	**21,373**		34,982	
Capitalization				
Senior debt and capital leases (1)	**1,594,784**	**63%**	1,853,597	70%
Subordinated convertible debentures	**61,713**	**2%**	132,605	5%
Other long-term liabilities	**39,201**	**2%**	28,917	1%
Partners' equity	**825,097**	**33%**	646,992	24%
	2,520,795	**100%**	2,662,111	100%

(1) *Includes current portion.*

Cash Flows Cash generated from operating activities during the year ended December 31, 2005 was $184.4 million (2004 – $172.0 million), net of interest payments of $116.8 million (2004 – $127.1 million). The increase in cash from operating activities from 2004 is largely attributable to having a full year of cash flow from operations from AEGS, partially offset by the decrease in cash flow from operations from Aux Sable.

Financing activities for 2005 included: (i) net proceeds, after issue costs, of $109.2 million from the $110 million private placement of senior notes by AEGS; (ii) net proceeds of $152.5 million from the $160 million public offering of Units; (iii) $112.1 million of cash distributions paid by the Partnership compared with $92.3 million in 2004, reflecting both the increase in the distribution as well as an increase in the number of outstanding Units; (iv) repayment of the Partnership's Revolving Credit Facility used to initially finance the AEGS acquisition; and (v) scheduled principal repayments on senior debt.

Investing activities for the year ended December 31, 2005 reflect capital expenditures of $11.1 million, net of a construction settlement of $5.2 million. The capital expenditures relate primarily to Alliance and Aux Sable and were comparable to 2004. Over time, the Partnership's share of the equity required to fund Alliance's capital expenditures is funded through the Partnership's DRIP program as these investments are added to Alliance's investment base and incorporated into the negotiated toll. The construction settlement relates to a claim in respect of the original construction of the pipeline and has been credited against the cost of the pipeline.

Cash and Short-term Investments At year-end, cash and short-term investments totalled $21.4 million (2004 – $35.0 million), of which $16.7 million (2004 – $18.9 million) represents funds held in trust accounts pursuant to security and financing agreements applicable to Alliance. The majority of these trust funds are used by Alliance for current operating and working capital purposes. Cash and short-term investments consist of amounts held in cash deposit accounts with Canadian chartered banks, as well as highly liquid short-term investments. These cash balances, together with the Partnership's cash flows and undrawn credit facilities are, in management's view, adequate to meet the ongoing liquidity and capital requirements of Fort Chicago and its businesses.

Capitalization Overall, Fort Chicago's capital structure was strengthened during the year with the refinancing of the AEGS acquisition and the continued conversion of the Partnership's Convertible Debentures. Virtually all of Fort Chicago's consolidated debt is long-term and, with the exception of its Convertible Debentures and minor borrowings under revolving credit facilities, contain terms to maturity and amortization periods that are designed to approximate the applicable depreciation associated with the underlying assets. Furthermore, substantially all of this long-term debt is fixed-rate debt, insulating Fort Chicago and its businesses from potentially higher future interest rates.

Partnership During 2005, the Partnership extended, for a period of one year, its three-year $300-million committed Revolving Credit Facility such that it now expires on October 4, 2008. This facility was established for general corporate purposes in 2004 to replace a $60-million extendible 364-day revolving credit facility and provides Fort Chicago with greater financial flexibility, including funding of acquisitions and distributions. On December 22, 2004, this facility was utilized to finance the acquisition of AEGS. As at December 31, 2005, the Partnership had outstanding borrowings of $2.0 million (2004 – $275.5 million) under this facility.

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 outstanding borrowings under the revolving credit facility that were incurred in connection with the Partnership's acquisition of AEGS.

The Partnership has two series of Convertible Debentures outstanding, the Series A and Series B debentures. The Series A and Series B debentures are convertible, at the holder's option, into Units at a conversion price of $9.00 per Unit and $10.70 per Unit, respectively. During the year ended December 31, 2005, $34.1 million (2004 – $70.7 million) of Series A debentures and $36.8 million (2004 – nil) of Series B debentures were converted into Units. As at December 31, 2005, there were $35.9 million (2004 – $70.1 million) of Series A debentures and $25.7 million (2004 – $62.5 million) of Series B debentures outstanding. Effective December 2004, the Partnership early adopted the amended recommendations of the CICA regarding the presentation and disclosure of Convertible Debentures. This amendment, which is required to be implemented retroactively, results in the Partnership's Convertible Debentures being classified as a liability on the Consolidated Statement of Financial Position and the associated interest expense correspondingly being classified with interest and other finance costs on the Consolidated Statement of Income and Cumulative Income. In addition, the associated issuance costs are to be deferred and amortized over the life of the debt. This reclassification did not impact any of the financial covenants under the Partnership's credit facility or the Partnership's credit or stability ratings.

On October 7, 2005, the Partnership filed a short form base shelf prospectus, which allows the Partnership to offer for sale, from time to time, over a 25-month period, up to $1.5 billion of Units and/or Class B Units, subordinated unsecured debt securities, and subscription receipts. Proceeds therefrom are expected to be used for general partnership purposes, including funding future investments. These securities may be offered for sale separately or together. The specific terms of any offering under this prospectus will be set forth in a prospectus supplement or supplements.

Alliance At December 31, 2005, Alliance's credit facilities consisted of a $95 million Canadian credit facility and a US $62.5 million U.S. credit facility. The Canadian credit facility contains an initial 364-day revolving term commencing on May 27, 2005, which, if not extended, can be converted into a subsequent two-year non-revolving loan. The U.S. credit facility is a three-year term facility, which expires May 30, 2006. At December 31, 2005, $50 million (2004 – $50 million) of letters of credit and $24.0 million (2004 – $17.8 million) of borrowings were outstanding under the Canadian facility, while US $35 million (2004 – US $35 million) of letters of credit and US $7.6 million (2004 – US $8.9 million) of borrowings were outstanding under the U.S. facility. The letters of credit are used to satisfy debt service reserve requirements required under Alliance's financing agreements.

AEGS On May 4, 2005, AEGS completed a 5.565 percent, 15-year placement of senior notes in the aggregate principal amount of $110 million, representing approximately 40 percent of Fort Chicago's acquisition cost of AEGS. These notes are direct unsecured obligations of AEGS and rank equally with its other unsecured and unsubordinated indebtedness. Blended payments of principal and interest in the aggregate amount of $4.1 million are payable semi-annually on May 4 and November 4 in each year commencing on November 4, 2005 with a final principal payment of $64.6 million on May 4, 2020. Net proceeds from this debt offering were used to reduce outstanding borrowings under the Partnership's Revolving Credit Facility.

Aux Sable On January 31, 2005, Aux Sable's US $19.2 million credit facility was amended to, among other things, replace a covenant that restricted distribution payments to 50 percent of EBITDA. This amendment permitted Aux Sable to declare and pay a distribution of US $5.0 million in respect of undistributed prior year earnings. On August 16, 2005, Aux Sable's U.S. credit facility was further amended to provide for, among other things, the funding of its recently announced isomerization project. The facility now provides for an aggregate amount of up to US $32 million (100 percent – US $75 million) to fund identified capital projects, working capital, and any security or letter of credit requirements. As at December 31, 2005, US $15.5 million (2004 – US $4.5 million) was drawn on this facility, of which $7.1 million related to outstanding letters of credit. Aux Sable also utilizes a revolving demand loan of $3.0 million to finance its Canadian working capital requirements. At December 31, 2005, $0.6 million was outstanding under this facility (2004 – nil), of which $0.4 million related to letters of credit. Historically, Aux Sable's operations have been substantially equity-financed given the volatility of its earnings. With the recently announced MOA, Aux Sable will seek to recapitalize its balance sheet utilizing a prudent level of long-term amortizing debt. Proceeds from any such debt offering may be used to reduce Aux Sable's credit facility, fund new growth initiatives and/or to pay a return of capital to its owners.

CREDIT AND STABILITY RATINGS

Maintaining strong and stable ratings is a key aspect of the Partnership's financing strategy, which provides for long-term ready access to the capital markets on attractive terms and conditions. The current ratings applicable to Fort Chicago and Alliance are set out below.

	DBRS	S&P	Moody's
Fort Chicago			
Stability ratings	STA-2 (low)	SR-2	N/A
Senior debt ratings	N/A	BBB	N/A
Alliance			
Senior debt ratings	A (low)	BBB+	A3

These ratings have remained unchanged during 2005. The stability ratings reflect a high level of distributable cash flow generation stability relative to other Canadian "income funds." The credit ratings represent long-term investment grade credit ratings in respect of Fort Chicago's senior unsecured debt and Alliance's senior notes.

DISTRIBUTIONS

Policy Distributions are paid on a monthly basis to Unitholders of record as at the last business day of each month on the 23rd day of the month following such record date, or if not a business day, then on the preceding business day.

The Partnership's general policy is to pay out 100 percent of its available distributable cash, over time, as reflected by the Distribution Account. The monthly distribution is set based on management's estimate of distributable cash earned and available for distribution, as reflected in the Distribution Account.

Determination of Distributable Cash The amount of distributable cash earned by the Partnership will vary depending on: (i) distributions received/receivable from Alliance, Aux Sable and AEGS, which, in each case, are after providing for scheduled amortization of any long-term debt and any capital expenditures that are not growth-oriented or recoverable; (ii) any operating support payments required by any of the Partnership's businesses; (iii) all financing costs of the Partnership, including scheduled principal repayments on long-term debt; (iv) the operating and administrative costs of the Partnership; and (v) any cash held in reserve by the Partnership.

The calculation of the Partnership's distributable cash for the three-month periods and years ended December 31, 2005 and 2004 is set out below. During 2005, the Partnership's distributable cash increased by $39.0 million to $131.7 million.

The table below summarizes how distributable cash of the Partnership is calculated for the three months and years ended December 31, 2005 and 2004.

	Three months ended December 31		Year ended December 31	
($ Thousands, except where noted)	2005	2004	2005	2004
Cash inflows				
Alliance distributions, prior to withholding for capital expenditures	**29,504**	29,049	**124,866**	119,069
Aux Sable distributions	**37**	4,137	**18,378**	6,957
AEGS distributable cash	**4,365**	652	**19,481**	652
Interest income	**55**	99	**264**	423
	33,961	33,937	**162,989**	127,101
Cash outflows				
Operating and administrative	**(1,548)**	(2,245)	**(7,336)**	(6,068)
Realized foreign exchange gains (losses)	**(38)**	(122)	**80**	80
Interest and other finance	**(1,806)**	(1,969)	**(10,254)**	(7,438)
Interest on convertible debentures	**(1,025)**	(2,754)	**(6,687)**	(12,943)
Taxes	**(442)**	(1,135)	**(3,452)**	(4,084)
Principal repayments on senior debt	**(883)**	(916)	**(3,634)**	(3,913)
Distributable cash	**28,219**	24,796	**131,706**	92,735
Distributions payable/paid	**31,104**	23,556	**115,125**	87,871
Distributions payable/paid per Unit ($) (1)	**0.240**	0.218	**0.945**	0.836

(1) *The number of Units used to calculate distributions payable/paid per Unit is based on the average number of Units outstanding at each record date. For the three months ended December 31, 2005, the average number of Units outstanding for this calculation was 129,596,130 (2004 – 108,303,041) and 136,072,730 (2004 – 123,364,677) on a basic and diluted basis, respectively. For the 12 months ended December 31, 2005, the average number of Units outstanding for this calculation was 121,643,206 (2004 – 105,033,934) and 130,821,313 (2004 – 123,305,542) on a basic and diluted basis, respectively. The number of Units outstanding would increase by 6,402,802 (2004 – 13,630,566) Units if the outstanding Convertible Debentures as at December 31, 2005 were converted into Units.*

Distributions Paid During 2005, the Partnership increased its monthly distribution three times by $0.0025 per Unit from $0.0725 per Unit to $0.08 per Unit. These increases were initiated in the first half of the year based on the stable cash flows generated by Alliance and AEGS and significantly improved performance from Aux Sable. For the year ended December 31, 2005, the Partnership declared and paid distributions of $0.945 per Unit representing a 13 percent increase over the distribution of $0.83625 per Unit in 2004. For 2005, the Partnership's payout ratio was 87 percent.

In January, 2006, the Partnership announced that it was trimming its monthly distribution by $0.0025 per Unit (or three percent), reflecting its policy to maintain a monthly distribution at a level considered sustainable over a three-year time horizon. This decision was driven by several factors – the continued strengthening of the Canadian dollar, the accelerated conversion of the Partnership's Convertible Debentures, reduced distributions from Aux Sable as a result of the reduced earnings caused by the USGC hurricanes during the second half of

2005, and project development costs related to the proposed Jordan Cove LNG terminal and Pacific Connector pipeline. Collectively, these factors had the effect of reducing the Partnership's forecast annual distributable cash as well as its forecast distribution account balance. For 2006, Fort Chicago's payout ratio is expected to be between 95 percent and 105 percent.

The table below summarizes the distributions that were declared and paid by the Partnership to holders of Units in respect of 2005 and 2004.

($ Thousands, except where noted)

Record date	Payment date	Distribution per Unit ($)	Distribution paid/payable in cash	Distribution paid in Units under DRIP	Total distribution paid/payable
2005					
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**
		0.9450	**115,125**	**–**	**115,125**
2004					
January 30, 2004	February 23, 2004	0.06875	6,673	347	7,020
February 27, 2004	March 23, 2004	0.06875	6,707	380	7,087
March 31, 2004	April 23, 2004	0.06875	6,735	400	7,135
April 30, 2004	May 21, 2004	0.06875	7,169	–	7,169
May 31, 2004	June 23, 2004	0.06875	7,169	–	7,169
June 30, 2004	July 23, 2004	0.06875	7,169	–	7,169
July 30, 2004	August 23, 2004	0.06875	7,170	–	7,170
August 31, 2004	September 23, 2004	0.06875	7,190	–	7,190
September 30, 2004	October 22, 2004	0.06875	7,206	–	7,206
October 29, 2004	November 23, 2004	0.07250	7,076	565	7,641
November 30, 2004	December 23, 2004	0.07250	7,408	548	7,956
December 31, 2004	January 21, 2005	0.07250	7,360	599	7,959
		0.83625	85,032	2,839	87,871

Distribution Account During 2005, the Partnership's distribution account increased by $13.3 million to $15.7 million. This increase was largely attributable to Aux Sable, Alliance and the contribution from AEGS.

	Three months ended December 31		Year ended December 31	
($ Thousands)	2005	2004	2005	2004
Beginning balance	**19,973**	1,114	**2,354**	(2,510)
Distributions under (over) distributable cash	**(2,885)**	1,240	**16,581**	4,864
Project development costs (1)	**(1,397)**	–	**(3,244)**	–
Ending balance (2)	**15,691**	2,354	**15,691**	2,354

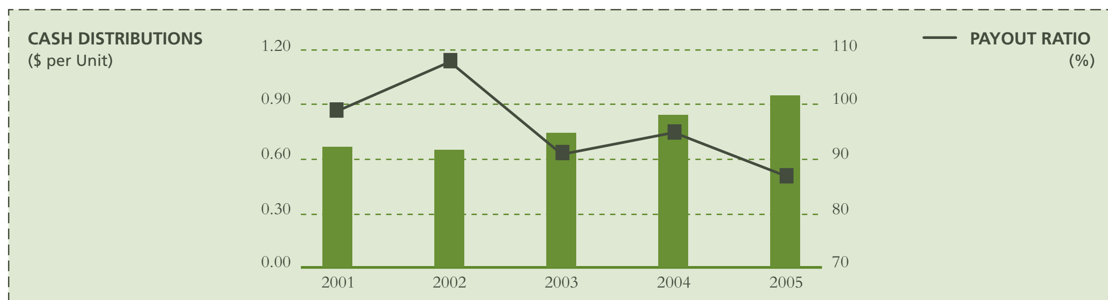
(1) *Project development costs relate primarily to Jordan Cove.*
(2) *These funds form part of Fort Chicago's cash flows and were used to reduce short-term borrowings.*

Restriction on Distributions The ability of the Partnership to make cash distributions to holders of Units is dependent on the terms of certain financing and security agreements applicable to the Partnership, certain subsidiaries, Alliance and Aux Sable. As at December 31, 2005, no "Default" or "Event of Default" under any of these arrangements had occurred or was continuing that would restrict distributions being paid.

The Partnership's Revolving Credit Facility restricts the Partnership from making a cash distribution to holders of Units when a "Default" or an "Event of Default" has occurred or is continuing.

The Partnership's investment in Alliance, Aux Sable and AEGS has been made through debt and equity investments in subsidiary partnerships and corporations. In general, there are no legal or practical restrictions on such subsidiary partnerships or corporations from transferring funds received from Alliance, Aux Sable and AEGS to the Partnership except that the subsidiary corporations must meet liquidity and solvency tests under applicable corporate law. Two subsidiaries of the Partnership, which hold direct investments in Alliance, are issuers of the Series A and Series B Senior Notes. The ability of each such issuer to make distributions to its parent is, at the time of each payment, dependent upon there not being any "Event of Default," as defined in the note agreements, or any event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an "Event of Default."

The ability of Alliance to make distributions to its limited partners is subject to the terms of a Common Agreement, which sets out the common provisions applicable to Alliance's senior debt financing. Under this



agreement, quarterly distributions are permitted provided certain conditions are met including, among other things: (i) no "Event of Default" or event, which, with the giving of notice or passage of time or both, could become an "Event of Default," shall have occurred and be continuing; (ii) certain debt service accounts and debt service reserve accounts are fully funded; and (iii) certain debt service coverage ratios and projected debt service coverage ratios are met.

The ability of AEGS to make distributions to its parent is subject to the terms of a note purchase agreement relating to the AEGS Notes issued in May 2005. Under this agreement, AEGS is permitted to make distributions provided certain conditions are met including, among other things: (i) no "Default" or "Event of Default" has occurred and is continuing and no "Default" or "Event of Default" will occur as a result of such distribution; and (ii) the senior debt expense ratio for the most recently completed fiscal quarter is greater than or equal to 1.50.

The ability of Aux Sable to make distributions to its owners, including Fort Chicago, is subject to the terms of its U.S. credit facility. Under the terms of this facility, as amended on August 16, 2005, Aux Sable is permitted to make distributions from available cash flow subject to certain restrictions, which include, among other things: (i) no "Event of Default" has occurred and is continuing or would result from the making of a distribution; (ii) no circumstance or event that could reasonably be expect to have a "Material Adverse Effect" shall have occurred and be continuing; (iii) a certain debt service reserve account is fully funded; and (iv) certain debt and debt service ratios are being met.

A more detailed description of the restrictions on distributions can be found in Fort Chicago's Short Form Base Shelf Prospectus dated October 7, 2005 in the section entitled "Restrictions on Distributions" contained on pages 14 – 17.

CREDIT, CURRENCY AND COMMODITY EXPOSURES

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. In the case of AEGS, this exposure is reduced, in part, by the fact that Alberta's multi-billion dollar petrochemical industry is dependent on AEGS for its ethane feedstock.

With approximately 42 percent of Fort Chicago's assets situated in the U.S., Fort Chicago is exposed to fluctuations in the foreign exchange rate between Canadian and U.S. dollars. A significant portion of this exposure has been hedged through the issuance of U.S. dollar denominated debt. However, Fort Chicago's net U.S. investment in Alliance U.S. and Aux Sable U.S. and the net U.S. denominated earnings and cash flows generated by these businesses remains unhedged.

Through Fort Chicago's ownership interest in Aux Sable, Fort Chicago has also had a direct exposure to fluctuations in the prices of NGLs and natural gas. Historically, in order to mitigate this exposure, Aux Sable adopted a hedging policy, which permitted entering into cash flow hedges utilizing derivative instruments. As a result of the recently announced agreement between BP and Aux Sable (described herein), this exposure has been significantly reduced. With the establishment of this agreement, Aux Sable's hedging has been curtailed pending a review of its hedging policy.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Alliance Pipeline has firm service transportation services contracts with a group of more than 30 shippers that 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 Alliance 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. No demand charge credits were incurred during the three-year period ended December 31, 2005.

Pursuant to 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 toll regardless of whether or not they transport ethane on AEGS. 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 contractual capacity. A shipper also has the right to terminate an ETA in certain limited circumstances where the shipper is unable to transport ethane on AEGS for a period of 180 days or more.

Under the recently announced agreement between BP and Aux Sable, BP has agreed to purchase all of the NGL produced by Aux Sable at its facilities located near Chicago, Illinois and in return BP will: (i) cover all operating, maintenance and capital costs associated with the Chicago facilities, subject to certain limits in the case of capital costs; (ii) pay Aux Sable a fixed annual fee; and (iii) pay Aux Sable a percentage share of any net margin generated in excess of specified thresholds. BP has agreed to also supply, at its cost, all natural gas make-up and fuel requirements to Aux Sable's facilities and assume responsibility for the capacity on the Alliance Pipeline held by Alliance Canada Marketing, an affiliate of Aux Sable, and pay market rates to use this capacity. The MOA will be for an initial term of 20 years commencing December 31, 2005, and may be extended by mutual agreement for 10-year terms on an evergreen basis. BP will have the option in certain limited circumstances to terminate the MOA if cumulative losses from the business exceed a specified amount, however Aux Sable retains the right to reduce such losses and thereby avoid termination. Each of BP and Aux Sable may terminate the MOA on or before March 31, 2006 by electing to pay the other party US $20 million.

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 results in penalties payable to the counterparties by Aux Sable. These commitments are expected to be assigned to BP.

Aux Sable has entered into cash flow hedges using derivative financial instruments referenced to industry standard indices. A detailed listing of Fort Chicago's proportionate share of Aux Sable's hedge contracts outstanding at December 31, 2005 can be found in the notes to its consolidated financial statements.

Payments due for contractual obligations in each of the next five years and thereafter are as follows:

		Payments due by period			
($ Thousands)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long-term senior debt	1,554,610	63,244	167,013	152,615	1,171,738
Subordinated convertible debentures	61,713	–	35,984	25,729	–
Capital leases	11,160	899	1,798	1,798	6,665
Operating leases	15,552	2,994	5,282	3,655	3,621
Other long-term obligations	42,008	2,807	9,676	4,884	24,641
	1,685,043	69,944	219,753	188,681	1,206,665

CRITICAL ACCOUNTING POLICIES

Alliance Pipeline is subject to rate regulation in Canada and the United States. The consolidated financial statements of the Partnership are prepared in accordance with GAAP, which include specific provisions applicable to rate-regulated businesses such as Alliance. As a consequence, the principles may differ from those used by non rate-regulated entities. In order to achieve a proper matching of revenues and expenses, certain revenues and expenses are recognized differently than otherwise expected under generally accepted accounting principles applicable to non-regulated businesses.

Alliance transportation contracts are designed to provide toll revenues sufficient to recover all prudently incurred costs, including an 11.25 percent return on equity in Canada and 10.85 percent return on equity in the United States. The period in which costs are recovered from toll receipts may differ from the period that these costs are expensed under GAAP. Differences between the recorded toll revenue and actual toll receipts give rise to receivable or payable balances. Most significantly, for purposes of calculating tolls, depreciation of the Alliance Pipeline is based on negotiated rates contained in the transportation contracts, while depreciation expense under generally accepted accounting principles is recorded on a straight-line basis at a rate of four percent per annum commencing on the in-service date. The negotiated depreciation rates are generally less than the straight-line rate in earlier years resulting in accrued revenues and receivables in those years. These receivables are expected to be recovered from shippers in subsequent years when the negotiated depreciation in the toll exceeds the depreciation recorded for financial statement purposes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Fort Chicago's consolidated financial statements requires management to make judgements, estimates and assumptions about future events when applying GAAP that affect the recorded amounts of certain assets, liabilities, revenues and expenses. These judgements, estimates and assumptions are subject to change as the events occur or new information becomes available. Readers should also refer to note 3 of the consolidated financial statements for a list of the significant accounting policies.

Impairment of Long-Lived Assets In management's view, the most significant accounting estimate relates to the determination as to whether there has been impairment in the carried value of Fort Chicago's long-term receivables and its pipeline, plant and other capital assets. Fort Chicago evaluates its long-term receivables and 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. If management

determines that the recoverability of the asset's carrying value has been impaired, the amount of the impairment 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 the determination of the recoverability of such assets and the estimate of their fair value. In management's view, at December 31, 2005, there has not been an impairment of these assets.

Asset Retirement Obligation The estimated fair value of legal obligations associated with the retirement of tangible long-lived assets is to be recognized in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The asset retirement cost, deemed to be the fair value of 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 these assets. This amortization is included in depreciation, amortization and accretion in the consolidated statement of income and undistributed 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 undistributed 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 Fort Chicago's consolidated financial statements with respect to AEGS. No provision for asset retirement obligations has been recognized with respect to the Alliance Pipeline 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 retirement for pipeline assets. No provision for asset retirement obligations has been recognized with respect to Aux Sable as the expected legal obligations are not material. Management believes it is reasonable to assume that all asset retirement obligations associated with the pipelines will be recoverable through future tolls.

Depreciation The Partnership's pipeline, plant and other capital assets are depreciated based on their estimated useful lives. A change in the estimated useful lives could have a material impact on the consolidated financial statements, including Fort Chicago's proportionate share of Alliance's revenue and receivables.

Regulatory Asset Fort Chicago has recorded a long-term receivable for the cumulative difference between depreciation expense included in the consolidated financial statements and depreciation expense included in Alliance's transportation tolls. The carrying value of this asset reflects management's assessment as to the ultimate recoverability of this receivable.

NEW ACCOUNTING STANDARDS

Financial Instruments New accounting standards will be in effect for fiscal years beginning on or after October 31, 2006 for hedge accounting, recognition and measurement of financial instruments and disclosure of comprehensive income. This standard will not impact reported net income. However, the standard will result in unrealized changes in the fair value of all designated and effective hedges being deferred and recorded in other comprehensive income, and subsequently recognized in earnings when the hedged transactions settle.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A are not measures recognized under GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP

financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP. Investors are further cautioned not to place undue reliance on any one financial measure.

The following non-GAAP financial measures are provided to assist investors with their evaluation of the Partnership, including their assessment of its ability to generate distributable cash to fund monthly distributions. Management considers these non-GAAP financial measures together with other financial measures calculated in accordance with GAAP to be important factors that assist investors in assessing performance.

Distributable Cash – represents the cash available to the Partnership for distribution to holders of Units and after providing for debt service obligations and any capital expenditures that are not growth-oriented or recoverable and does not include distribution reserves, if any, available in Alliance and Aux Sable. Distributable cash is an important measure used by the investment community to assess the source and sustainability of the Partnership's cash distributions. See notes to the financial statements for a reconciliation of distributable cash to cash flow from operating activities.

Distributable Cash Per Unit – reflects the per-unit amount of distributable cash calculated based on the weighted average number of Units outstanding on each record date.

Distributions Paid/Payable – represents the distributions declared by the Board of Directors of the General Partner in respect of a period and which have been paid or are payable. Commencing in January 2004, distributions have been declared and paid on a monthly basis. This measure is used by the investment community to calculate the annualized yield of the Units, determined by dividing distributions paid/payable per Unit (annualized) by the current quoted per-unit market price of the Units.

Distributions Paid/Payable Per Unit – reflects the per-unit amount of distributions paid/payable calculated based on the average of the number of Units outstanding on each record date.

Distribution Account – is calculated on a cumulative basis, since inception, and represents distributable cash earned by the Partnership in excess of: (i) distributions paid/payable; and (ii) amounts incurred to fund project development costs, the recovery of which has yet to be established. This measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

EBITDA – refers to earnings before interest, taxes, depreciation and amortization. EBITDA is reconciled to net income before tax by deducting interest, depreciation, and amortization. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions.

Enterprise Value – represents the aggregate market value of the Partnership's assets, on the applicable date, and is calculated based on the total assets reported in the consolidated financial statements adjusted to reflect any differences between the market value and book value in respect of the Partnership's consolidated debt and Units. This measure, together with other measures, is used by the investment community to assess the overall market value of a business.

Growth Capital Expenditures – are generally defined as capital expenditures that expand existing capacity and/or increase revenues. This measure is used by the investment community to assess the extent of discretionary capital spending.

Maintenance and Sustaining Capital Expenditures – are generally defined as expenditures that involve an enhancement to existing assets without any associated increase in revenues, or new assets that provide support to operations without any associated increase in revenue. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

Market Capitalization – is determined, on the applicable date, by multiplying the closing price per Unit by the total number of Units outstanding. This measure, together with other measures, is used by the investment community to assess the market value of the Units.

Payout Ratio – represents distributions paid/payable as a percent of distributable cash earned for any given period. This measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

Total Unitholder Return – represents the percentage total return on investment earned by a Unitholder over a specified period. This return is calculated based on an investment in Units being made at the closing price reported by the TSX on the trading day immediately preceding to the first day of the relevant period, the reinvestment of all distributions paid by the Partnership during such period, based on the relevant closing price reported by the TSX on the date the distribution is paid, and the closing price reported by the TSX on the last trading day of such period. This measure, together with other measures, is used by the investment community to assess relative performance.

Taxable Income (Losses) Allocated To Unitholders Per Unit – represents the amount of taxable income or losses allocated to a Unitholder for a given year, assuming that the Unitholder held the Unit throughout the year. This measure, together with other measures, is used by the investment community to assess the relative tax efficiency and after-tax returns.

Taxable Portion of Distribution – represents taxable income allocated to a Unitholder on a per-unit basis as a percent of distributions paid/payable, for a given period, to a Unitholder during such period. This measure, together with other measures, is used by the investment community to assess the relative tax efficiency and after-tax returns.

BUSINESS RISKS

Fort Chicago's Alliance and AEGS businesses are subject to normal risks associated with the pipeline industry. Aux Sable is subject to normal risks associated with the NGL extraction industry. Some risks are common to all of Fort Chicago's businesses and others are unique to either the pipeline businesses or the NGL business.

In management's view, the more significant business risks affecting both Fort Chicago's profitability and the amount of distributions that can be paid to Unitholders are identified below. The Annual Information Form for the year ended December 31, 2005 (the "AIF") contains a more detailed description of these and other risk factors that are associated with the businesses. The AIF should be read in conjunction herewith and is incorporated by reference.

Risks Specific to Fort Chicago

Distributions by the Partnership

The amount of distributions paid by the Partnership to holders of Units is dependent on the distributions made available from Alliance, Aux Sable and AEGS, each of which in turn may be restricted by the provisions contained in their respective credit obligations. The amount of distributions paid by the Partnership is also

dependent on Fort Chicago's operating and administrative costs, debt service costs, taxes, capital expenditures, project development costs, reserves established by Fort Chicago and possible restrictions associated with its credit obligations. See also section entitled "Distributions – Restriction on Distributions" contained herein.

Possible Failure to Realize Anticipated Benefits of Investments

Fort Chicago has completed a number of acquisitions and made investments in greenfield projects and, as part of its business plan, anticipates making additional acquisitions and investments in the future. Achieving the benefits of completed and future acquisitions and investments in greenfield projects depends in part on a wide variety of risks associated with such acquisitions and investments. Such acquisitions and investments require the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters. Acquisitions and investments in greenfield projects may expose Fort Chicago to additional risks including entry into markets or businesses in which Fort Chicago has little or no direct prior experience, the incurrence of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

Nature of Units

Securities such as Units are often associated with investments which provide for returns arising from a distribution of distributable cash and the pass-through of income tax deferrals associated with partnership activities. Currently outstanding Units, and any other Units that may be issued by the Partnership, do not have a guaranteed rate of return. The market price of Units may be influenced by the level of prevailing interest rates relative to the yield achieved by holders of Units, based on annual distributions thereon. An increase in market interest rates may lead purchasers of Units to desire a higher effective yield, which could adversely affect the market price of Units. In addition, the market price for Units may be affected by changes in general market conditions, fluctuations in the markets for equity and debt securities, interest rates and numerous other factors beyond Fort Chicago's control. As Fort Chicago is a limited partnership, holders of Units will not have the statutory rights normally associated with the ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions and statutory rights of "dissent" available pursuant to corporate statutes. In addition, the benefits of certain statutes applicable to corporations, such as the *Companies' Creditors Arrangement Act* (Canada), may not be applicable to the Partnership.

Income Tax Matters

There can be no assurance that Canadian or United States federal income tax laws or the judicial interpretation thereof or the administrative and/or assessing practices of either or both of the Canada Revenue Agency or the United States Internal Revenue Service will be the same, or will not change in a manner which adversely affects the Partnership and/or the holders of Units, Series A Debentures and Series B Debentures. Fort Chicago utilizes inter-company debt structures, including a cross-border debt structure, each of which generate interest expense that is deducted in computing taxable income. There can be no assurance that Canadian or U.S. taxation authorities will not challenge the amount of interest expense deducted. The inability to deduct interest, in whole or in part, could materially increase Fort Chicago's taxable income and reduce its after-tax cash flow available for distribution. Furthermore, any re-characterization of any cross-border debt by U.S. taxation authorities could also affect the amount of U.S. withholding tax applicable to payments of principal and/or interest in respect of such debt, both in terms of the rate of any such U.S. withholding tax and the amount on which this rate is applied, thus also reducing the amount of the after-tax cash flow to holders of Units.

The assets held directly or indirectly by Fort Chicago generally have a cost base for applicable income tax purposes that is significantly below the estimated fair market value of such assets and may be significantly below the fair market value of such assets at the time of any disposition thereof in the future. As a result, any disposition of such assets by Fort Chicago or a partnership in which Fort Chicago is itself a partner may, depending on the particular circumstances at the time of such disposition, result in the recapture of previously deducted capital cost allowance and the realization of capital gains by Fort Chicago, which amounts would be allocated among the holders of Units for tax purposes. Income or loss for tax purposes, which includes recapture, is allocated to holders of Units based on the proportion of cash distributions received by the holders of Units in the fiscal year.

The after-tax return from an investment in Units to a holder of Units subject to Canadian income tax can be made up of both a return on capital and a return of capital. That composition may change over time, thus affecting the after-tax return of a holder of Units. The Partnership's income (or loss) for tax purposes is allocated to holders of Units. Any such income (or loss) allocated to holders of Units may be considered a return on capital and will generally be taxed as ordinary income in the hands of a holder of Units and will increase (or decrease) the holder's adjusted cost base in the Units for tax purposes. Distributions by the Partnership may be considered to be a return of capital and will generally be tax-deferred and will reduce the holder's adjusted cost base in the Units for tax purposes. Any such distributions may be more or less than the actual income or loss allocated to holders of Units for income tax purposes. Further information on this matter can be found in The Partnership Agreement under the section entitled "Allocation of Income or Loss for Income Tax Purposes."

Risks Common to Each of the Businesses

Exchange Rate Fluctuations between Canada and the United States

A significant portion of Fort Chicago's assets, net earnings and cash flows are denominated in U.S. dollars. To reduce this risk, a significant portion of its U.S. assets are funded with U.S. dollar denominated debt, which serves as a natural hedge against movements in the U.S./Canadian dollar exchange rate. To date, Fort Chicago has not entered into any foreign currency hedges to protect its net U.S. dollar investments and cash flows. As at December 31, 2005, a Cdn $0.01 change in the Canadian dollar relative to the U.S. dollar is expected to impact Fort Chicago's 2006 net income and its 2006 distributable cash by approximately $0.001 per Unit and $0.003 per Unit, respectively.

Adequacy of Insurance, Guarantees and Warranties

Fort Chicago and its businesses maintain customary insurance with limits that are consistent with applicable prudent business practices. There can be no assurance that such insurance coverage will continue to be available in the future on commercially reasonable terms or that such current or future coverage will be sufficient to recover all losses incurred or protect the cash flow of the businesses. The insurance coverage in place is subject to limits and exclusions or limitations on coverage that are considered to be reasonable, given the cost of procuring insurance and current operating conditions. Each of the businesses is subject to various environmental regulations and a breach of such laws may result in the imposition of fines or the issuance of clean-up orders, which may not be insurable.

Environmental Matters

The businesses are subject to laws and regulations relating to the protection of the environment. Although the Partnership believes that the operations of the businesses are in compliance with applicable environmental and safety laws and regulations, risks of substantial costs and liabilities, including those from leaks and explosions, are

inherent in such operations. There can be no assurance that significant costs and liabilities will not be incurred in the future, including costs relating to claims for damages to property and persons resulting from such operations, and increased costs of compliance resulting from changes in laws and regulations, including those related to the reduction of carbon dioxide emissions. Also, Fort Chicago is unable to predict the effect that any future changes in environmental laws and regulations, including ratification of the Kyoto Protocol by the Government of Canada, will have on its future earnings.

Terrorist Risk

Energy industry operators have been working with government agencies to ensure the security of energy pipelines. The government agencies have worked with the operators of Fort Chicago's businesses to voluntarily improve security practices based on industry guidelines. It is possible that new security regulations will be developed and implemented. All measures to enhance pipeline security have the potential for increasing the cost of operation of the businesses. Although exposure to a terrorist attack, or the effect of any new regulation, is not any greater than the exposure for any of Fort Chicago's competitors, there is no assurance that Fort Chicago's businesses will not become the subject of a terrorist attack regardless of the steps taken to increase security or that any resulting losses will be insured.

Risks Specific to the Pipeline Businesses

Exposure to Shippers

Fort Chicago's pipeline businesses are highly dependent upon the shippers for revenues from contracted transportation capacity. The failure of any shippers to perform their contractual obligations under the transportation contracts or the failure to replace such shippers on the same terms could have an adverse effect on the cash flows and financial condition of the pipeline businesses and their ability to make distributions. A prolonged economic downturn in the energy industry, among other things, could impact the ability of some or all of the shippers of the respective pipeline businesses to fulfill their obligations under the transportation contracts.

Transportation Contracts

Each of the pipeline businesses has transportation contracts that obligate the respective shippers to pay demand charges or to pay firm tolls regardless of whether or not they utilize the transportation service. These charges are subject to limited rights in favour of a shipper to be relieved of the obligation to pay demand charges or firm tolls to the extent that the pipeline is unable to provide transportation service, which would decrease the actual revenue received by the pipeline. As a result, the profitability of the pipeline businesses is dependent upon maintaining the aggregate physical capability at or above the contracted capacity.

Renewal of Transportation Contracts

The revenues generated by the pipeline businesses are derived from negotiated transportation contracts. In the case of Alliance, the contracts had an initial term of 15 years, which expire in November 2015. AEGS transportation contracts had an initial term of 20 years, which expire in December 2018. The decision by shippers to renew will depend on numerous factors, including the level of demand for natural gas and ethane in the geographic areas served by the pipelines, the ability and willingness of shippers to meet such demand, and the competitiveness of the pipelines' respective toll structures. Incentives exist for shippers on the Alliance system to extend their contracts beyond the initial term, but there can be no assurance that they will do so.

If any one or more of the shippers on the affected pipelines do not renew their transportation contracts, the affected pipeline businesses may be forced to lower rates to retain or replace such shippers. As a result, the pipeline businesses are exposed to economic risk associated with the recovery of capital beyond the primary term of the transportation contracts. Fort Chicago cannot predict the impact of future economic conditions or the ability to replace any shippers that choose not to extend or renew their contracts.

Dependence on WCSB Reserves

Fort Chicago expects that all or substantially all of the natural gas shipped on Alliance and all of the natural gas streams used to produce ethane for transportation on AEGS will, for the foreseeable future, be produced from the Western Canadian Sedimentary Basin ("WCSB"). Continued sales of WCSB natural gas by way of Alliance into the Midwestern and northeastern United States, and the sale of WCSB ethane into the Alberta market, will be dependent on a number of factors over which neither the Partnership nor either of the individual pipeline businesses have any control, including: (i) the level of exploration, drilling, reserves and production of WCSB natural gas and the price of such natural gas; (ii) the accessibility of WCSB natural gas; (iii) the price and quality of natural gas available from alternative sources; and (iv) regulations in effect in Canada and the United States, including those permitting the export of natural gas from Canada to the United States.

Competition

Alliance faces competition in pipeline transportation to Chicago area delivery points from both existing and proposed projects and there are several proposals to expand existing pipelines serving such areas and markets. AEGS has more limited existing competition, but could face future competition in ethane transportation from existing or proposed projects.

With respect to each of the pipeline businesses, any new or upgraded natural gas pipelines, ethane or petrochemical feedstock transportation systems and/or ethane extraction facilities could either: (i) allow shippers and competing pipelines to have greater access to markets served by the pipeline businesses; or (ii) offer natural gas or ethane transportation services that are more desirable to shippers than those provided by the respective pipelines because of location, facilities or other factors. In addition, these new or upgraded pipelines could charge rates or provide service to locations that result in greater net profit for shippers. This may have the effect of forcing either or both of the pipeline businesses to lower their transportation rates, for commercial reasons, effective on the expiry of the initial 15-year term of the Alliance transportation contracts or on the expiry of the initial 20-year term of the AEGS transportation contracts, to avoid losing shippers, thereby reducing the cash flows generated from the impacted pipeline businesses' transportation contracts.

Pipeline Operating Risks

As with any comprehensive pipeline system, the operation of Fort Chicago's pipeline businesses involves many risks, including the breakdown or failure of equipment, information systems or processes, the performance of equipment at levels below or beyond those originally intended, failure to keep on hand adequate supplies of spare parts, operator error, labour disputes, disputes with interconnected facilities and carriers and catastrophic events, many of which are beyond its control. The occurrence or continuance of any of these events could increase the cost of operating the pipelines and/or reduce transportation capacity, thereby potentially impacting the cash flows from either or both of the pipeline businesses.

Each of the pipeline businesses operates through interconnections with numerous other facilities. Typical of the pipeline and energy industry on the whole, the regulated terms of service or the prevailing business and operating principles, necessarily differ between and amongst these various facilities. Conflicts can arise from these differing requirements in various circumstances. Given the lack of control over the requirements adopted by operators of other facilities, no assurance can be given that these differing requirements will not result in operational problems or the potential materiality or duration thereof.

In the specific case of Alliance, if the Aux Sable extraction and fractionation facility does not provide heat content management services for any reason, the absence of these services may give rise to operational problems for Alliance and the shippers and, in certain circumstances, could result in an interruption or curtailment of transportation service on the Alliance Pipeline until such time as such operational problems are rectified or alternative operational procedures are implemented. If the operations of Aux Sable were suspended or closed, Alliance could be required to provide alternative heat content management arrangements, which could reduce the amount of distributions by Alliance. It is not possible to predict the extent or duration of these operational problems or their precise effect on Alliance, although recent amendments to heat content requirements downstream of the Aux Sable facility have reduced this exposure.

Impact of Regulation and Legislation

Alliance is subject to Canadian and United States federal regulation by the National Energy Board ("NEB") and the Federal Energy Regulatory Commission ("FERC"), respectively. Either on application by a third party or on their own initiative, the NEB and the FERC may require revisions to the tariffs applicable to the Alliance Canada Pipeline and Alliance U.S. Pipeline, respectively, including potentially material changes in the applicable transportation rates charged or other terms and conditions observed by Alliance. Changes in industry regulations or the regulation of Alliance Pipeline could adversely affect Alliance, including its ability to make distributions.

AEGS is subject to Canadian provincial regulation by the Alberta Energy and Utilities Board (the "EUB"). Such regulation may relate to, among other things, required permits and approvals and other complaint-based issues that may be raised by existing or potential shippers, and access to AEGS by new shippers. Changes in the regulation of AEGS, including decisions by regulators on the applicable tariff structure or changes in interpretations of existing regulations by courts or regulators, could adversely affect the results of operations of AEGS.

Abandonment Charges

Each of the pipeline businesses will be responsible for compliance with all laws and regulations concerning the abandonment of their pipeline and related facilities at the end of their respective economic life.

The costs of abandonment will be a function of then current regulatory requirements, which cannot be accurately predicted. In future, it may be necessary to establish and fund a reserve to address anticipated costs of abandonment of each of the pipelines. Although such costs are expected to be recoverable under the transportation contracts, the decision to fund any such reserve may reduce the funds available to discharge other obligations and could affect the ability to make distributions.

Alliance's Dependence on Other Owners

The affairs of Alliance are governed by partnership and shareholder agreements entered into by the owners of such entities. Pursuant to such agreements, certain decisions regarding these entities require resolutions passed by the affirmative vote of a simple majority, 66 2/3 percent, 75 percent, 80 percent or 100 percent of the owners. All decisions requiring owner approval, in effect, require the agreement of both Fort Chicago and Enbridge Income Fund, in the case of Alliance Canada, and Enbridge Inc., in the case of Alliance U.S.

Dependence on Third-party Operator for AEGS

Fort Chicago has entered into an operating agreement with NOVA Chemicals Corporation ("NOVA Chemicals") whereby NOVA Chemicals physically operates AEGS. In the event the operating agreement is terminated, or NOVA Chemicals otherwise becomes unable to fulfill its obligations under the operating agreement, Fort Chicago may be required to secure a replacement operator for AEGS or Fort Chicago may be required to assume the operation of AEGS, which may increase the costs of operation and reduce earnings.

Structural Integrity of Storage Facilities Related to AEGS

AEGS has entered into a long-term storage agreement to permit shippers on AEGS to store ethane in underground salt caverns located at Fort Saskatchewan, Alberta. The use of the facility is subject to risks related to the nature of the salt caverns that are used to store ethane. Deterioration in the integrity of the caverns could cause disruptions to the operations of the caverns and reduce the available storage capacity for an extended period of time. This could have a negative effect on the quantity of ethane transported on AEGS and the revenues of Fort Chicago.

AEGS Reliance on Ethane Customers

The two primary customers of the ethane shipped on AEGS are NOVA Chemicals and Dow Chemical Canada Inc. ("Dow Chemical"). If for any reason either NOVA Chemicals or Dow Chemical reduced or eliminated the quantities of ethane purchased by them that is transported on AEGS, this could have a negative effect on the quantity of ethane transported on AEGS and the revenues of Fort Chicago and, in the long term, could impair Fort Chicago's ability to secure replacements for the transportation contracts.

Risks Specific to the NGL Business

NGL Extraction Margins

Variations in NGL extraction margins continue to represent the single largest potential variability in the cash available for distribution to Unitholders. This margin depends, in part, on the relationship between the price of natural gas and the prices of ethane, propane, butane and condensate since the cost of shrinkage make-up gas is the largest cost component of producing NGLs. The cost of this natural gas is not tied to the prices received by Aux Sable for its products and thus the profit margin from the production and sale of NGLs has the potential to vary significantly as the pricing relationship between natural gas and NGL changes.

Aux Sable's exposure to this variability has been significantly reduced with the MOA between Aux Sable and BP. Under this agreement, BP will purchase all of the NGLs produced by Aux Sable at its facilities near Chicago and in return BP will: (i) cover all operating, maintenance and capital costs associated with the Chicago facilities, subject to certain limits in the case of capital costs; (ii) pay Aux Sable a fixed annual fee; and (iii) pay Aux Sable a percentage share of any net margin generated in excess of specified thresholds. BP will also supply, at its cost, all make-up and natural gas fuel for the Aux Sable facilities, and will assume responsibility for the capacity on the Alliance Pipeline

held by Alliance Canada Marketing, an affiliate of Aux Sable, and pay market rates to use this capacity. The agreement will be for an initial term of 20 years commencing December 31, 2005, and may be extended by mutual agreement for 10-year terms on an evergreen basis. BP will have the option in certain limited circumstances to terminate the agreement if cumulative losses from the business exceed a specified amount, however Aux Sable retains the right to reduce such losses and thereby avoid termination. Each of BP and Aux Sable may terminate this agreement on or before March 31, 2006 by electing to pay the other party US $20 million.

Availability and Composition of Natural Gas

The production of NGL by Aux Sable is dependent upon the volumes transported on the Alliance Pipeline and the composition of the natural gas stream at the inlet to the extraction facility. This volume and composition has the potential to vary over time and in turn could adversely impact Aux Sable's production and revenues.

NGL Operating Risks

Aux Sable processes large volumes of natural gas at high pressure in equipment with fine tolerances. Equipment failures could result in damage to the extraction and fractionation facilities and liability to third parties against which Aux Sable may not be able to fully insure or may elect not to insure because of high premium costs or for other reasons.

Chicago/AECO Natural Gas Price Differential

Alliance Canada Marketing holds long-term contracts for 76.2 mmcf/d of transportation capacity on the Alliance Pipeline. The amount of cash available to distribute to its owners or the amount of support payments required from its owners will depend on the relationship between the price of natural gas sold in Chicago and the price of natural gas purchased in Alberta, the cost of transporting the natural gas on the Alliance Pipeline and associated administration costs. Since commencement, this margin has not been sufficient to cover the costs associated with the long-term contracts. There can be no assurance as to when or if this margin will improve.

Dependence on Other Owners

The affairs of Aux Sable are governed by partnership and shareholder agreements entered into by the owners of such entities. Pursuant to such agreements, certain decisions regarding these entities require resolutions passed by the affirmative vote of a simple majority, 66 2/3 percent, 75 percent, 80 percent, or 100 percent of the owners. While most decisions can be made with the agreement of both Fort Chicago and Enbridge, some decisions could depend on the views of Aux Sable's minority owner.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

Fort Chicago has evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision of its CEO and CFO. Based on this evaluation, Fort Chicago concluded that the disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers Annual and Interim Filings*, were effective as of the end of the period covered by this report.