consolidated financial statements

Consolidated Statement of Financial Position

($ Thousands)	December 31, 2005	December 31, 2004
Assets		
Current assets		
Cash and short-term investments *note 5*	**21,373**	34,982
Transportation security deposits and revenue adjustments *notes 6 and 12*	**15,558**	16,574
Receivables	**75,123**	57,169
Inventory	**18,852**	6,153
Prepaid expenses	**6,844**	6,142
	137,750	121,020
Long-term receivables *note 6*	**175,439**	160,747
Pipeline, plant and other capital assets *note 8*	**2,464,131**	2,594,831
Other assets *note 9*	**17,714**	19,403
	2,795,034	2,896,001
Liabilities		
Current liabilities		
Payables	**86,512**	71,172
Transportation security deposits *note 12*	**7,678**	9,248
Distribution payable	**10,309**	7,360
Credit facilities	**9,079**	–
Deferred revenue	**2,986**	228
Current portion of long-term senior debt and capital leases *note 10*	**63,463**	73,493
	180,027	161,501
Long-term senior debt and capital leases *note 10*	**1,531,321**	1,780,104
Subordinated convertible debentures *note 11*	**61,713**	132,605
Future taxes *note 16*	**157,675**	145,882
Other long-term liabilities *note 13*	**39,201**	28,917
	1,969,937	2,249,009
Partners' Equity		
Partners' capital account *note 14*	**972,425**	751,073
Cumulative translation adjustment	**(91,571)**	(92,247)
Cumulative net income	**317,533**	246,332
Cumulative distributions	**(373,290)**	(258,166)
	825,097	646,992
Commitments and contingencies *note 17*		
	2,795,034	2,896,001

See accompanying Notes to the Consolidated Financial Statements

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

By: David J. Drybrough
Director

By: Stephen W.C. Mulherin
Director

Consolidated Statement of Income and Cumulative Income

Year ended December 31 ($ Thousands, except per unit amounts)	2005	2004
Revenues		
Transportation *note 6*	**401,137**	381,230
Natural gas liquids	**475,757**	397,549
Interest	**2,815**	1,902
	879,709	780,681
Expenses		
Natural gas, natural gas liquids and transportation	**436,439**	357,541
Operations and maintenance	**61,421**	54,277
Depreciation and amortization	**119,640**	112,429
Interest and other finance *notes 10 and 11*	**122,237**	129,064
General and administrative	**40,316**	37,842
Foreign exchange loss and other	**12,630**	4,510
	792,683	695,663
Net income before taxes	**87,026**	85,018
Current taxes	**3,606**	4,098
Future taxes *note 16*	**12,219**	3,297
Net income	**71,201**	77,623
Cumulative net income at the beginning of the year	**246,332**	168,709
Cumulative net income at the end of the year	**317,533**	246,332
Net income per Unit		
Basic	**0.59**	0.74
Diluted	**0.59**	0.73

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

Year ended December 31 ($ Thousands)	2005	2004
Operating		
Net income	**71,201**	77,623
Less: Non-cash transportation revenue *note 6*	**(20,882)**	(33,479)
Add: Depreciation, amortization and other non-cash expenses	**121,946**	114,897
Unrealized foreign exchange losses	**12,045**	4,306
Future taxes	**12,219**	3,297
Changes in non-cash working capital	**(12,080)**	5,398
	184,449	172,042
Financing		
Class A Units, net of issue costs	**152,515**	15
Long-term debt, net of issue costs	**132,163**	275,218
Long-term debt repaid	**(356,273)**	(86,211)
Distributions paid	**(112,112)**	(92,326)
	(183,707)	96,696
Investing		
Investment in Alberta Ethane Gathering System *note 7*	**(576)**	(273,283)
Pipeline, plant and other capital assets	**(11,119)**	(16,161)
Other assets	**(3,000)**	–
	(14,695)	(289,444)
Decrease in cash and short-term investments before the effect of foreign exchange rate changes on cash and short-term investments	**(13,953)**	(20,706)
Effect of foreign exchange rate changes on cash and short-term investments	**344**	(815)
Cash and short-term investments at the beginning of the year	**34,982**	56,503
Cash and short-term investments at the end of the year	**21,373**	34,982
Cash and short-term investments	**4,675**	16,072
Cash and short-term investments in trust	**16,698**	18,910
	21,373	34,982
Supplemental disclosure of cash flow information		
Interest paid	**116,838**	127,082
Taxes paid	**4,580**	3,768

See accompanying Notes to the Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2005 and December 31, 2004

($ Thousands, except where stated)

Note 1 – Distributable Cash (1)

	2005	2004
Cash inflows		
Alliance distributions, prior to withholding for capital expenditures	**124,866**	119,069
Aux Sable distributions	**18,378**	6,957
AEGS distributable cash	**19,481**	652
Interest income	**264**	423
	162,989	127,101
Cash outflows		
Operating and administrative	**(7,336)**	(6,068)
Realized foreign exchange gains	**80**	80
Interest and other finance – senior debt	**(10,254)**	(7,438)
Interest – subordinated convertible debentures	**(6,687)**	(12,943)
Taxes	**(3,452)**	(4,084)
Principal repayments on senior debt	**(3,634)**	(3,913)
Distributable cash	**131,706**	92,735
Distributions payable/paid	**115,125**	87,871
Distributions payable/paid per Unit (2)	**0.945**	0.836

(1) *Distributable cash is not a standard measure under generally accepted accounting principles in Canada and may not be comparable to similar measures presented by other entities. Distributable cash represents the cash available to Fort Chicago for distribution to holders of Units 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 Fort Chicago's cash distributions and should be used to supplement other performance measures prepared in accordance with generally accepted accounting principles in Canada. See note 20 for reconciliation of distributable cash to cash flow from operating activities.*

(2) *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 year 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 Units (2004 – 13,630,566 Units), if the outstanding Convertible Debentures as at December 31, 2005 were converted to Units.*

Note 2 – Business and Structure of the Partnership

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

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

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

Note 3 – Summary of Significant Accounting Policies of the Partnership

BASIS OF PRESENTATION

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

These consolidated financial statements include the accounts of the Partnership and its subsidiary partnerships and corporations (collectively "Fort Chicago"), as well as the Partnership's indirectly held proportionate interest in Alliance and Aux Sable. Investments in entities in which Fort Chicago does not have control or joint control, but does have significant influence, are accounted for using the equity method.

Alliance Pipeline is regulated by the National Energy Board (the "NEB") in Canada and by the Federal Energy Regulatory Commission (the "FERC") in the United States. In order to achieve a proper matching of revenues and expenses, accounting and reporting requirements applicable to rate-regulated entities have been adopted in connection with Alliance, which provide for certain revenues and expenses being recognized differently than otherwise expected under generally accepted accounting principles applicable to non-regulated businesses. AEGS and Aux Sable are not rate-regulated entities.

CASH AND SHORT-TERM INVESTMENTS

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

INVENTORY

Inventory consists of NGL inventory stored at Aux Sable's plant and at third-party storage locations. NGL inventory is valued at the lower of average cost or net realizable value. In each case, market value is based on market prices at December 31, 2005 and December 31, 2004, as applicable. Inventory of plant spare parts is recorded at the lower of cost and replacement cost.

PIPELINE, PLANT AND OTHER CAPITAL ASSETS

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

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

USE OF ESTIMATES

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

IMPAIRMENT OF PIPELINE, PLANT AND OTHER CAPITAL ASSETS

The Partnership evaluates the pipeline, plant and other capital assets for impairment when events or changes in circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. When such a determination is made, management's estimate of the undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets to determine whether the recoverability of the carrying value has been impaired. If an impairment of the carrying value has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value.

Judgements and assumptions are inherent in management's estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset's fair value used to calculate the amount of any impairment. As at December 31, 2005, there has not been an impairment of Fort Chicago's pipeline, plant and other capital assets.

ASSET RETIREMENT OBLIGATIONS

The Canadian accounting standard outlined in the CICA Handbook section 3110, "Asset Retirement Obligations," requires the estimated fair value of legal obligations associated with tangible long-lived assets be recognized in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The asset retirement 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 and amortization in the consolidated statement of income and cumulative income. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion expense in the consolidated statement of income and cumulative income, over the estimated time period until settlement of the obligation. Actual expenditures incurred are charged against the accumulated asset retirement obligation.

A provision for asset retirement obligations has been recognized in these financial statements with respect to the AEGS pipeline. No provision for asset retirement obligations has been recognized in these financial statements 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. No provision for asset retirement obligations has been recognized in these financial statements with respect to Aux Sable as it is not material. Management believes it is reasonable to assume that all asset retirement obligations associated with the pipelines will be recoverable through future tolls.

INTANGIBLE ASSETS – ETHANE TRANSPORTATION AGREEMENTS

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

DEFERRED CHARGES

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

REVENUE RECOGNITION

Alliance Pipeline transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including operating and maintenance and administrative costs, allowances for depreciation, allowances for taxes, costs of indebtedness, and an allowed return on equity of approximately 11.25 percent in Canada and 10.85 percent in the United States. The portion of such costs expected to be recovered each year under the existing transportation contracts is equal to the percentage of the firm transportation capacity held under such contracts. Shippers have the right to extend the term of the transportation contracts beyond the primary term for further periods of a minimum of one year with not less than a five-year written notice, prior to expiry of the primary term.

The period in which Alliance Pipeline transportation costs are recovered from toll receipts may differ from the period that these costs are expensed in the consolidated financial statements. Transportation revenues include amounts related to accrued expenses that are expected to be recovered from shippers in future tolls. Similarly, no

transportation revenue is recognized in a given period for tolls received that do not relate to current period expenses accrued in these financial statements. Differences between the recorded transportation revenue and actual toll receipts give rise to receivable or payable balances, which are settled through future tolls.

If rate-regulated accounting were not used in respect of Alliance, the long-term receivable, the long-term liability and the transportation revenue adjustments in notes 6 and 12 would not be recognized in these consolidated financial statements.

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

NGL and natural gas revenue is recognized at the time of delivery. Revenue on exchanged products is deferred and not recognized until the date the exchanged product is delivered. Prior to this date, exchanged products are recorded as inventory.

SHIPPER IMBALANCES

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

FOREIGN CURRENCY TRANSLATION

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

In order to mitigate exposure to commodity price fluctuations, Aux Sable adopted a hedging policy which permits, within established parameters, entering into hedging transactions utilizing derivative instruments. These hedge transactions are designated as effective cash flow hedges and are settled on a monthly basis. The unrealized change in the fair value of these instruments is disclosed in note 18.

UNIT APPRECIATION RIGHTS PLAN

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

INCOME TAXES

As the Partnership is not a taxable entity, all income for tax purposes is allocated to its Unitholders with the result that no income taxes in respect of the Partnership are reflected in these consolidated financial statements. Certain U.S. subsidiary partnerships, which are deemed corporations for U.S. tax purposes, and a Canadian subsidiary corporation, are taxable and applicable income and capital taxes have been reflected in these consolidated financial statements.

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

Note 4 – Change in Accounting Policy

Effective December 2004, the Partnership early adopted the amended Canadian accounting standard for the presentation and disclosure of financial instruments, specifically concerning the classification of obligations that an issuer can settle with its own equity instruments. These amended recommendations are required to be adopted retroactively and result in the Partnership's Convertible Debentures, excluding the value attributable to the conversion option, being classified as a liability on the Consolidated Statement of Financial Position while the associated interest expense is classified with interest and other finance on the Consolidated Statement of Income and Cumulative Income. To the extent that a portion of the Convertible Debentures is classified as equity, the carrying value of the Convertible Debentures will be less than their face value. This discount is amortized over the term of the Convertible Debentures, utilizing the effective interest rate method. The conversion option is recorded as a component of partners' equity. At the time of any conversion into Units, the applicable amount of the conversion option is reclassified to partners' equity. In addition, the associated issuance costs are to be deferred and amortized over the life of the debt. No recognition has been given to the conversion options on the Convertible Debentures as the attributable value is not significant.

Note 5 – Cash and Short-term Investments

	2005	2004
Cash in trust accounts		
Operations and working capital	**8,588**	12,516
Capital funding, debt repayment and/or return of equity	**7,576**	6,035
Debt service and debt service reserve	**533**	359
	16,697	18,910
Cash in non-trust accounts	**4,676**	16,072
	21,373	34,982

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

In addition, the debt service accounts must be sufficiently funded to meet principal and interest payments for a period of six months beyond the current month-end. At December 31, 2005 and 2004, this requirement was satisfied by letters of credit as discussed in note 10.

Pursuant to a security trust agreement, Alliance was also required to set aside in a separate trust account an amount estimated to be sufficient to pay all the remaining costs associated with constructing and commissioning the pipeline. Any remaining balance can be used to repay long-term debt or can be distributed.

Note 6 – Effects of Rate Regulation

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

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

TRANSPORTATION REVENUE

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

	2005	2004
Tolls invoiced	**380,255**	347,751
Increase (decrease) related to:		
Accounting depreciation rate	**19,992**	28,753
Property tax accruals	**729**	2,909
Differences from current period cost-of-service estimates	**161**	(766)
Prior year's over recovery	**–**	2,583
	20,882	33,479
Transportation revenue	**401,137**	381,230

DEPRECIATION

The long-term receivable at December 31, 2005 includes a regulatory asset of $175.4 million (2004 – $160.7 million) related to the cumulative excess of depreciation expense charged for accounting purposes over depreciation expense recovered as revenue under Alliance's transportation contracts. This amount is expected to be recovered over a number of years when depreciation rates, as prescribed in the transportation contracts, are expected to exceed the depreciation rates used for accounting purposes.

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

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

COST-OF-SERVICE TOLL ESTIMATE

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

At December 31, 2005, current assets include a transportation revenue adjustment of $7.9 million (2004 – $7.3 million). These adjustments relate to differences between Alliance's expenses included in these consolidated financial statements and expenses included in the transportation tolls. These differences will be collected from or returned to shippers through an adjustment to tolls in future years.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

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

Note 7 – Investment in AEGS

On December 22, 2004, Fort Chicago acquired a 100 percent interest in AEGS for an aggregate purchase price of approximately $274.9 million. This purchase was accounted for by using the purchase method, as set out below, and the results of operations have been consolidated since the date of acquisition:

	As at December 22, 2004
Purchase price payable in cash (1)	273,283
Liabilities assumed	
Future income taxes	33,025
	306,308
Allocation of purchase price	
Non-cash working capital	1,162
Pipeline and other capital assets	
Pipeline	289,273
Intangible asset – ETAs	15,572
Other	301
	306,308

(1) *Excludes $1.6 million of additional costs that were incurred subsequent to the date of acquisition, $1.0 million of which related to working capital.*

Note 8 – Pipeline, Plant and Other Capital Assets

	Cost	Accumulated depreciation	2005 Net book value	2004 Net book value
Pipeline	**2,782,464**	**493,644**	**2,288,820**	2,413,652
Plant	**181,183**	**40,891**	**140,292**	145,939
Administrative	**22,763**	**20,892**	**1,871**	2,290
Capital spares	**14,865**	**242**	**14,623**	14,712
Intangible assets – ETAs	**15,572**	**1,142**	**14,430**	15,542
Land	**2,635**	**–**	**2,635**	2,696
Power facilities	**1,460**	**–**	**1,460**	–
	3,020,942	**556,811**	**2,464,131**	2,594,831

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

Note 9 – Other Assets

	2005	2004
Financing expenses – long-term debt (1)	**13,022**	17,062
Construction period unit appreciation rights (2)	**1,527**	1,834
Other	**3,165**	507
	17,714	19,403

(1) *Amortized over the life of the related debt.*
(2) *Amortized over 10 years commencing January 1, 2001.*

Note 10 – Long-term Senior Debt and Capital Leases

	2005	2004
Fort Chicago		
Bank credit facility	**2,000**	275,500
7.71% senior notes due 2011 (2005 – US $62,250; 2004 – US $65,250)	**72,397**	78,534
5.565% senior notes due 2020	**108,961**	–
	183,358	354,034
Less: current portion	**(5,656)**	(3,610)
	177,702	350,424
Alliance Canada (1)		
Bank credit facility	**24,050**	17,750
Senior notes:		
7.230% due 2015	**126,461**	132,397
7.181% due 2023	**186,772**	195,978
5.546% due 2023	**120,375**	131,376
7.217% due 2025	**149,193**	156,355
6.765% due 2025	**178,844**	187,028
Fair value adjustment	**8,789**	9,401
	794,484	830,285
Less: current portion	**(27,855)**	(41,489)
	766,629	788,796

	2005	2004
Alliance U.S. (1)		
Bank credit facility (2004 – US $8,850)	**–**	10,652
Senior notes:		
7.770% due 2015 (2005 – US $128,778; 2004 – US $134,670)	**149,768**	162,088
6.996% due 2019 (2005 – US $131,847; 2004 – US $143,176)	**153,336**	172,326
7.877% due 2025 (2005 – US $100,000; 2004 – US $100,000)	**116,300**	120,360
4.591% due 2025 (2005 – US $134,454; 2004 – US $140,634)	**156,370**	169,267
Obligations under capital leases (2004 – US $665)	**–**	800
Fair value adjustment (2005 – US $17,230; 2004 – US $18,679)	**25,709**	27,709
	601,483	663,202
Less: current portion (2005 – US $25,566; 2004 – US $23,424)	**(29,733)**	(28,193)
	571,750	635,009
Aux Sable (1)		
Bank credit facility (2005 – US $8,412)	**9,783**	–
Capital leases (2005 – US $4,881; 2004 – US $5,048)	**5,676**	6,076
	15,459	6,076
Less: current portion (2005 – US $189; 2004 – US $167)	**(219)**	(201)
	15,240	5,875
	1,531,321	1,780,104

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

FORT CHICAGO DEBT

Revolving Credit Facility The Partnership has an unsecured, three-year, committed revolving credit agreement with three Canadian chartered banks (the "Revolving Credit Facility"). The maximum principal amount available under this facility is $300 million, which can be used for general purposes, including acquisitions and distributions. The Revolving Credit Facility currently terminates on October 4, 2008, but such termination date may, from time to time, be extended for further one-year periods subject to lender consent. Outstanding advances bear interest based on various quoted floating rates, plus a margin. A standby fee applies to any undrawn amounts. The terms and conditions of the Revolving Credit Facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

As at December 31, 2005, the Partnership had $2.0 million (2004 – $275.5 million) outstanding under its Revolving Credit Facility. The Revolving Credit Facility was used to initially finance the acquisition of AEGS on December 22, 2004.

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

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

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

5.565 Percent Senior Notes On May 4, 2005, AEGS, a subsidiary partnership, completed a 15-year unsecured debt placement in the aggregate principal amount of $110 million, bearing interest of 5.565 percent. Blended payments of principal and interest in the aggregate amount of $4.1 million are payable semi-annually on each of May 4 and November 4 commencing on November 4, 2005 with a final principal payment of $66.3 million on May 4, 2020. The proceeds from the debt offering were used to repay a portion of the Revolving Credit Facility.

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

ALLIANCE AND AUX SABLE DEBT

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

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

Alliance Bank Credit Facilities The Canadian credit facility consists of a $95 million committed extendible revolving credit facility, of which up to $50 million is available by way of letters of credit to support debt service reserve requirements. The U.S. credit facility consists of a $62.5 million committed revolving credit facility, of which up to $35 million is available by way of letters of credit to support debt service reserve requirements.

The Canadian credit facility contains an initial 364-day revolving term, commencing May 27, 2005, which can be extended from time to time with lender consent for additional 364-day periods and which, if not extended, would result in any outstanding borrowing being converted into a subsequent two-year non-revolving loan. Interest is based on Bankers' Acceptance rates, plus applicable margins. 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, leaving $21.0 million (2004 – $27.2 million) available under this facility. The U.S. credit facility is a three-year term facility, which expires May 30, 2006. Interest is based on floating interest rates determined by the U.S. dollar London Interbank Offered Rate, plus applicable margins. At December 31, 2005, 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, leaving US $19.9 million (2004 – US $18.6 million) available under this facility. A standby fee applies to any undrawn amounts under these facilities.

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

Aux Sable Bank Credit Facilities On August 16, 2005, Aux Sable entered into a second Amended and Restated Credit Agreement (the "U.S. Facility") that replaced the prior US $19.2 million committed revolving credit facility. The U.S. Facility is comprised of two components, a US $17.1 million revolving facility and a US $14.9 million term facility. The revolving facility is used for working capital requirements including letters of credit and has a final maturity date of August 16, 2008. The term facility is used for financing capital projects and requires annual principal repayments equal to 20 percent of the aggregate committed amount under this facility, commencing on the third anniversary of the facility, with the final maturity date being August 16, 2010. The terms and conditions of the U.S. Facility include covenants customary to bank credit facilities of this nature, including meeting specified financial covenants on an ongoing basis, including establishing and maintaining a debt service reserve account. The cash in the debt service reserve account has been classified as cash held in trust. Aux Sable's fractionation, processing, storage, and support facilities have been pledged as collateral. Interest is based on various U.S. floating interest rates, plus applicable margins. A standby fee applies to any undrawn amounts under these facilities.

At December 31, 2005, US $11.4 million was drawn under the revolving facility, of which US $7.1 million related to letters of credit (2004 – US $4.5 million was drawn under the prior revolving credit facility). Under the term facility, US $4.1 million was drawn.

Aux Sable also utilizes a revolving demand loan of $3.0 million to finance its Canadian working capital requirements. Certain Canadian cash deposits, receivables and inventory have been pledged as collateral. Interest is based on floating interest rates, plus applicable margins. At December 31, 2005, $0.6 million was outstanding under this facility (2004 – nil) including issued letters of credit of $0.4 million (2004 – $1.6 million).

OBLIGATIONS UNDER CAPITAL LEASES

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

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

Scheduled principal repayments of long-term senior debt and capital leases, including the current portion thereof and excluding the fair value adjustment of $34,498, which is being amortized over the life of the related debt, are as follows:

For the years ending December 31	
2006	63,244
2007	73,850
2008	93,163
2009	74,176
2010	78,439
Thereafter	1,171,738
Obligations under capital leases *(see note 17)*	5,676
	1,560,286

Note 11 – Subordinated Convertible Debentures

	2005	2004
Series A convertible debentures	**35,984**	70,105
Series B convertible debentures	**25,729**	62,500
	61,713	132,605

The Partnership's 7.5 percent Convertible Unsecured Subordinated Debentures, Series A, are due on June 30, 2008. The Series A convertible debentures are convertible, at the holder's option, into Units at a conversion price of $9.00 per Unit. During the year ended December 31, 2005, $34.1 million (2004 – $70.7 million) of Series A convertible debentures, before issue costs, were converted into Units.

The Partnership's 6.75 percent Convertible Unsecured Subordinated Debentures, Series B, are due on December 31, 2010. The Series B convertible debentures are convertible, at the holder's option, into Units at a conversion price of $10.70 per Unit. During the year ended December 31, 2005, $36.8 million (2004 – nil) of Series B convertible debentures, before issue costs, were converted into Units.

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

Note 12 – Transportation Security Deposits

In accordance with Alliance's transportation contracts, shippers who fail to maintain specified credit ratings or a suitable financial position are required to provide acceptable security equal to one year of shipping charges. Transportation security may consist of cash, deposits or letters of credit, and/or other security acceptable to Alliance or its lenders.

A Canadian shipper on the Alliance system, accounting for 1.5 percent of firm capacity, is operating under the *Companies' Creditors Arrangement Act* (Canada). The shipper continues to carry on business in a commercially reasonable manner and is in compliance with the terms of its transportation contract, including posting acceptable security.

At the balance sheet date, transportation security deposits include the following:

	2005	2004
Cash deposits	**7,678**	9,248
Letters of credit	**55,958**	55,590
	63,636	64,838

Note 13 – Other Long-term Liabilities

	2005	2004
Transportation contracts	**24,014**	26,456
Transportation revenue adjustment	**–**	5,232
Asset retirement obligation	**12,837**	–
Other	**5,157**	5,631
	42,008	37,319
Less: current portion	**(2,807)**	(8,402)
	39,201	28,917

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

In 2005, the Partnership engaged an independent advisor to estimate its legal obligations associated with abandoning and reclaiming the land on which AEGS currently operates. Based on the report issued by this advisor, the total estimated future and present value amount required to settle the asset retirement obligation is estimated to be $99.1 million and $12.6 million, respectively. These amounts are calculated based on an inflation rate of 2.25 percent, a credit-adjusted risk-free rate of 6.06 percent and the expectation that such obligations will not be settled before 2040. No assets have been legally restricted for settlement of the liability.

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

Asset retirement obligation, January 1, 2005	–
Change in estimate	12,645
Accretion expense	192
Asset retirement obligation, December 31, 2005	12,837

Other long-term liabilities include accruals for long-term employee incentive programs as well as $2.3 million (2004 – $3.2 million) for Alliance property taxes not payable within one year.

Note 14 – Partners' Equity

(A) PARTNERS' CAPITAL ACCOUNT

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

(ii) Issued

	2005		2004	
Units	Number	Value	Number	Value
January 1 opening balance	**109,786,540**	**750,473**	101,142,290	673,866
Units issued under Distribution Reinvestment Plan ("DRIP") (1)	**55,624**	**600**	791,502	7,830
Convertible Debentures converted into Units, net of $2,055 (2004 – $1,898) of issue costs	**7,227,704**	**68,837**	7,852,748	68,777
Units issued pursuant to June 9, 2005 public offering, net of $7,505 of issue costs	**12,600,000**	**152,515**	–	–
December 31	**129,669,868**	**972,425**	109,786,540	750,473
Units to be issued under DRIP (1)	**–**	**–**	55,624	600
	129,669,868	**972,425**	109,842,164	751,073

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

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

The weighted average number of Units outstanding used to determine net income per Unit on a basic and diluted basis for the year ended December 31, 2005 was 120,960,187 (2004 – 104,535,234) and 130,545,937 (2004 – 123,281,392).

(B) DISTRIBUTIONS

The Partnership declared and paid the following distributions to holders of Units in respect of 2005 and 2004:

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**

Record date	Payment date	Distribution per Unit ($)	Distribution paid/payable in cash	Distribution paid in Units under DRIP	Total distribution paid/payable
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

(C) OWNERSHIP RESTRICTIONS APPLICABLE TO UNITS

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

(D) UNITHOLDERS RIGHTS PLAN

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

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

The Partnership has a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (the "DRIP"), which was amended in January 2004 to reflect the Partnership's adoption of a monthly distribution policy. The DRIP allows eligible holders of Units to, among other things, elect to reinvest the eligible portion of the distribution declared by the Partnership in additional Units at a five percent discount to the average market price or to receive the distribution in cash plus a two percent premium cash payment based on the eligible portion of the distribution. The DRIP also allows participants to purchase additional Units from treasury for cash based on the average market price, subject to minimum purchases of $1,000 up to an annual limit of $100,000 for each Unitholder and an overall limit of two percent of all outstanding Units. The Partnership reserves the right to determine, for each distribution, how much new equity will be issued under the DRIP. At December 31, 2005, an aggregate of 592,752 (2004 – 648,376) Units are reserved and available for issuance pursuant to the terms of the DRIP.

Note 15 – Unit Appreciation Rights

The Partnership adopted a Unit Appreciation Rights Plan effective December 3, 1997 pursuant to which UARs may be granted to directors, officers, employees and consultants acting on behalf of the Partnership as an additional component of compensation. Each UAR entitles the holder to receive from the Partnership a cash amount equal to the positive difference, if any, obtained by subtracting the market-based exercise price established at the time the UAR was granted from the closing price of the Units on the Toronto Stock Exchange on the date of exercise. The following table sets out the accrued liabilities relating to the outstanding unexpired UARs at December 31, 2005 and 2004.

Year of grant	Number of UARs	Weighted average exercise price per Unit	Expiry dates	Units vested	Accrued value
As at December 31, 2005					
2001	105,000	9.29	March 7, 2006	105,000	284
2002	125,000	8.24	December 12, 2007	125,000	469
2003	67,500	8.99	May 1, 2008 to July 14, 2008	67,500	203
2004	155,000	10.43	March 9, 2009 to June 7, 2009	123,334	222
2005	117,500	11.60	March 16, 2010	79,165	33
	570,000	9.81		499,999	1,211
As at December 31, 2004					
2001	225,000	9.29	March 7, 2006	225,000	475
2002	125,000	8.24	December 12, 2007	125,000	395
2003	117,500	9.05	May 1, 2008 to July 14, 2008	67,500	254
2004	180,000	10.27	March 9, 2009 to June 7, 2009	99,996	132
	647,500	9.32		517,496	1,256

In 2005, the cost of the Partnership's UARs was $0.6 million (2004 – $1.1 million). During 2005, 195,000 UARs were exercised at an average market price of $12.76.

The vesting provision for the UARs issued to officers is as follows: 33 1/3 percent on the date of grant; 33 1/3 percent on the first anniversary of the date of grant; and 33 1/3 percent on the second anniversary of the date of grant. Subsequent to 2003, UARs issued to directors vest 100 percent on the date of grant. As of December 31, 2005, 100 percent of the UARs issued in 2001, 2002 and 2003 had vested, 66 2/3 percent of the UARs issued in 2004 had vested and 33 1/3 percent of the UARs issued in 2005 had vested.

Note 16 – Taxes

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

INCOME TAX RECONCILIATION	2005	2004
Net income before taxes	**87,026**	85,018
Combined statutory income tax rate	**34.23%**	34.52%
Income taxes at statutory rate	**29,789**	29,348
Increase (decrease) resulting from:		
Tax benefits attributable directly to Unitholders	**10,221**	8,831
Future taxes related to Canadian rate-regulated operations	**(4,997)**	(13,419)
Large corporations and capital taxes	**3,606**	4,098
Benefit of intergroup charges	**(18,435)**	(7,030)
Higher income tax rates in other jurisdictions	**3,355**	3,233
Benefit of tax losses	**(6,507)**	(10,738)
Prior-year tax adjustments	**(999)**	(4,418)
Rate reduction	**(568)**	(2,905)
Other	**360**	395
Total taxes	**15,825**	7,395
Effective tax rate	**18.1%**	8.7%

COMPONENTS OF FUTURE TAXES	2005	2004
Future tax liabilities (assets)		
Differences in the accounting and tax bases of:		
Pipeline, plant and other capital assets	**178,600**	157,150
Deferred revenue and costs	**66,766**	60,632
Non-capital losses	**(92,011)**	(92,502)
	153,335	125,280
Valuation allowance	**4,320**	20,602
	157,675	145,882

Accumulated future taxes of $97,516 have not been recorded in these consolidated financial statements as they relate to the Partnership's Canadian pipeline operation and will be recovered against future toll revenues. Had the liability method been prescribed for rate-making purposes, such amounts would have been recorded and recovered from revenues.

Fort Chicago has Canadian and U.S. non-capital losses of $5,828 and $227,750 (US $195,466) available to reduce future Canadian and U.S. taxable income, respectively. The Canadian losses expire in 2007 while the U.S. losses will expire in varying amounts from 2020 to 2025.

Note 17 – Commitments and Contingencies

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

For the years ending December 31	Capital lease	Operating lease
2006	899	2,994
2007	899	2,770
2008	899	2,512
2009	899	2,158
2010	899	1,497
Thereafter	6,665	3,621
Total minimum lease payments	11,160	15,552
Lease imputed interest	(5,484)	–
Capital lease liability	5,676	15,552

On December 31, 2005, Aux Sable entered into a binding Memorandum of Agreement with BP Products North America, Inc., and affiliates thereof ("BP"). Under the agreement, Aux Sable is committed to sell to BP all of the NGLs produced at Aux Sable's existing facilities near Chicago and in return BP shall pay Aux Sable a fixed annual fee and a percentage share of any net margin generated from the business in excess of specified thresholds. In addition, BP will compensate Aux Sable for all operating, maintenance and capital costs associated with the Chicago facilities, subject to certain limits in the case of capital costs.

Existing NGL contracts held by Aux Sable will be assigned to BP. The agreement will be for an initial term of 20 years, 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. Each of BP and Aux Sable may terminate the binding memorandum of agreement 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 may trigger penalties payable to these counterparties. These contracts are expected to be assigned to BP pursuant to the long-term sales agreement noted above.

Pursuant to AEGS long-term ETAs, the Partnership is committed to transport specified minimum volumes of ethane in respect of four shippers who are committed to pay a minimum firm toll regardless of whether or not they transport ethane on the AEGS pipeline. The shippers are relieved of this obligation to the extent 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 the AEGS pipeline for a period of 180 days or more.

The Alliance Pipeline has firm service transportation contracts with a group of over 30 shippers having a primary term that expires in November 2015. The transportation contracts obligate shippers to pay monthly demand charges based on contracted volume, regardless of volumes actually transported on the pipeline. These charges are subject to limited rights for each shipper to receive demand charge credits to the extent Alliance is unable, for any reason related solely to the physical capability of the 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.

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

Note 18 – Financial Instruments

Borrowings under the bank credit facilities are based on short-term market interest rates and as a result their carrying value approximates fair value. The aggregate fair value of the senior notes as at December 31, 2005, based on quoted market prices for similar issues, is $1.7 billion (2004 – $1.7 billion) compared with the aggregate carrying value of $1.5 billion (2004 – $1.5 billion).

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

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

The Partnership is exposed to credit risk since its businesses are concentrated in the natural gas transportation, ethane transportation and NGL industries and its revenue is dependent upon the ability of its customers to pay their invoices. This exposure is particularly relevant in the Pipeline Business where a majority of shippers operate in the oil and gas exploration and development or energy marketing/transportation industries and may be exposed to long-term downturns in energy commodity prices, including the price for natural gas, or other credit

events impacting these industries. Should these shippers be unable to fulfill their obligations under the transportation contracts and if suitable replacement shippers are not available, the Partnership may not be able to recover its operating and financing costs or make distributions to its owners. In the case of Alliance, this exposure is reduced, in part, by requiring shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or a suitable financial position (see note 12).

The earnings and cash flows of the NGL Business are sensitive to changes in the price of natural gas and NGLs. To reduce this exposure, Aux Sable enters into derivative financial instruments referenced to industry standard indices in order to hedge its price exposure to natural gas and NGLs.

The Partnership's proportionate share of these contracts at December 31, 2005 is as follows:

Commodity	Maturity date	Notional volume	Index	Strike price	Fair value
Natural Gas Purchases (Sales)		(mmbtu/d)		($US/mmbtu)	
Natural gas swap	Jan – Mar '06	21,349	AECO Daily	7.70 – 10.72	444
Natural gas swap	Jan – Mar '06	(21,349)	Chicago Daily	8.76 – 11.97	(1,359)
Natural gas swing swap	Jan – Mar '06	8,540	AECO Daily/Monthly	0.00	531
Natural gas swing swap	Jan – Mar '06	(8,540)	Chicago Daily/Monthly	0.025	(149)
Peaking option (1)	Jan – Mar '06	2,989	Chicago Daily	12.85	–
Net unrealized loss on natural gas hedges					(533)
Sales		(bbls/d)		($US/bbl)	
Propane	Jan – Feb '06	600	OPIS	38.90 – 47.88	(41)
Butane	Jan – Feb '06	239	OPIS	49.14 – 54.71	(45)
Iso-butane	Jan – Feb '06	123	OPIS	49.56 – 55.13	(19)
Net unrealized loss on NGL hedges					(105)
Unrealized reduction to future earnings					(638)

(1) *Permits, on up to 20 days, settlement to be based on the difference between the strike price and the Chicago Gas Daily posting.*

At December 31, 2005, Aux Sable had US $25.0 million of foreign exchange contracts outstanding in respect of Canadian dollar denominated gas purchases. These contracts mature over the next two months.

Note 19 – Segmented Information

	Pipeline businesses									
	Alliance		AEGS (1)		NGL Business		Corporate (2)		Total (3)	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenues (4)	**383,372**	397,427	**37,627**	1,062	**476,108**	397,908	**264**	423	**879,709**	780,681
Natural gas, NGL and transportation (4)	**–**	–	**–**	–	**454,101**	373,680	**–**	–	**436,439**	357,541
Operations and maintenance	**48,388**	52,964	**11,898**	366	**1,135**	947	**–**	–	**61,421**	54,277
Depreciation and amortization	**102,081**	106,204	**11,854**	348	**2,863**	3,390	**2,842**	2,487	**119,640**	112,429
Interest and other finance	**99,780**	107,271	**4,016**	–	**1,500**	1,412	**16,941**	20,381	**122,237**	129,064
General and administrative	**22,979**	26,195	**1,128**	44	**5,629**	5,534	**10,580**	6,069	**40,316**	37,842
Foreign exchange loss and other	**–**	–	**–**	–	**276**	262	**12,354**	4,248	**12,630**	4,510
Net income (loss) before taxes	**110,144**	104,793	**8,731**	304	**10,604**	12,683	**(42,453)**	(32,762)	**87,026**	85,018
Total assets	**2,277,456**	2,388,599	**311,467**	308,488	**197,091**	189,175	**9,020**	9,739	**2,795,034**	2,896,001
Capital expenditures	**5,780**	14,290	**74**	–	**4,928**	1,790	**337**	81	**11,119**	16,161

(1) *Acquired AEGS on December 22, 2004.*

(2) *Reflects unallocated amounts applicable to Fort Chicago's head office activities. Corporate office general and administrative costs include project development costs of $3.2 million (2004 – nil).*

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

(4) *For the 12 months ended December 31, 2005, the Alliance Pipeline transportation revenues include $17.7 million (2004 – $16.2 million) of transportation revenue from the NGL Business that eliminates upon consolidation. The natural gas, NGL and transportation costs of the NGL Business include the corresponding cost amount.*

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

2005	Canada	U.S.	Total
Revenues (1)	**313,347**	**566,362**	**879,709**
Pipeline, plant and other capital assets	**1,490,110**	**974,021**	**2,464,131**

2004	Canada	U.S.	Total
Revenues (1) (2)	226,901	553,780	780,681
Pipeline, plant and other capital assets	1,550,597	1,044,234	2,594,831

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

(2) *Include the results of AEGS from December 22, 2004, being the date of acquisition.*

Note 20 – Reconciliation of Distributable Cash to Cash Flow from Operating Activities

	2005	2004
Consolidated cash flow from operating activities	**184,449**	172,042
Cash flow from operating activities applicable to Alliance and Aux Sable	**(42,487)**	(82,273)
Cash flow from operating activities of Fort Chicago (1)	**141,962**	89,769
Add (deduct):		
Project development costs	**3,244**	–
Principal repayments on senior notes	**(4,674)**	(3,913)
Change in Fort Chicago's non-cash working capital	**(1,770)**	737
Distributions earned greater (less) than distributions received	**(7,056)**	6,142
Distributable cash	**131,706**	92,735

(1) *Net of support payments made to Aux Sable of $1.5 million (2004 – $2.9 million).*

Note 21 – Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2005.

Note 22 – Subsequent Events

The Partnership declared a distribution of $0.0775 per Unit for each of January and February 2006.