

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") dated February 25, 2005 provides a review of the significant events and transactions that impacted Fort Chicago's performance during 2004, relative to 2003. 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 for the years ended December 31, 2004 and 2003, as well as the profiles of Alliance, Aux Sable and AEGS, each of which is included in the 2004 Annual Report. Capitalized terms used herein and not otherwise defined have the same meanings attributed to them in the December 31, 2004 consolidated financial statements. All financial information is in Canadian dollars unless otherwise noted and, as it relates to Fort Chicago's financial results, 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. Fort Chicago's 2004 results are not readily comparable to its 2003 results due to the acquisition of additional interests in Alliance and Aux Sable that resulted in their being proportionately consolidated effective April 1, 2003. Prior to this date, they were accounted for using the equity method. Additional information concerning the Partnership is available from SEDAR at www.sedar.com or on the Partnership's website at www.fortchicago.com.

OVERVIEW

Businesses

Fort Chicago is an energy focused limited partnership with two principal business segments – a pipeline transportation segment and an NGL extraction segment – which own and operate high quality, long-life assets that are uniquely positioned to provide Unitholders with relatively stable cash distributions and potential growth in future.

Pipeline businesses represent approximately 93 percent of Fort Chicago's total assets and are comprised of a 50 percent interest in Alliance and a 100 percent interest in AEGS. 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 British Columbia and 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 \$273.3 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 aggregate design capacity of AEGS is 322,000 bbls/d.

The NGL business, which represents approximately seven percent of Fort Chicago's assets, is comprised of a 42.7 percent interest in Aux Sable, which owns and manages: (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 are more cyclical, but can be significant, as was the case during the second half of 2004.

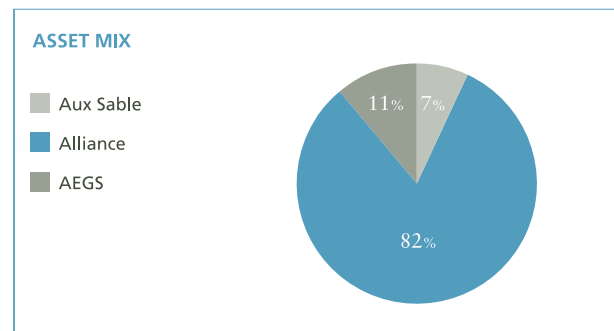
Strategy

Strategically, Fort Chicago is firmly committed to actively managing and growing its existing businesses and to making targeted accretive investments in long-life, energy related infrastructure assets, such as AEGS, that will provide additional diversity and contribute toward delivering Unitholders stable and growing distributions.

Key Achievements

2004 was a rewarding year for Fort Chicago and its Unitholders who earned a total return of 21 percent based on an investment made at the closing price on December 31, 2003. While lower interest rates contributed toward this performance, there are a number of noteworthy achievements that also contributed to this result. These include:

- Record reported distributable cash and earnings;
- Continued growth in distributions, which were increased twice during the year from an annualized rate of \$0.80 to \$0.87 per Class A Unit;



- Improved fundamentals in its NGL business:
 - Record NGL production levels and margins
 - Continued growth of NGL injection business
 - Established new NGL fee-for-service arrangements
 - Initiated paying regular distributions to its owners;
- Stable performance from Alliance:
 - Exceeded operational reliability and throughput targets
 - Delivered expected earnings and cash distributions
 - Completed additional lateral supply expansions
- Proceeded with a five-megawatt electrical generation project utilizing waste heat from the Kerrobert compressor station
- Secured a new downstream interconnection agreement that relaxes previous downstream heat content specifications and largely eliminates Aux Sable's exposure to negative extraction margins;
- Acquisition of AEGS on December 22, 2004; and
- Established new \$300 million, three-year committed revolving credit facility on attractive terms to support operating requirements, including acquisitions.

FINANCIAL AND OPERATING HIGHLIGHTS

(\$ THOUSANDS, EXCEPT WHERE NOTED)

2004 2003⁽¹⁾ 2002⁽¹⁾

Operating Highlights

Average daily volumes

Pipeline volumes (100%)

Alliance – billion cubic feet per day (bcf/d)	1,581	1,588	1,481
AEGS – thousand barrels per day (mbbls/d) ⁽²⁾	297.7	–	–
NGL (mbbls/d)	70.2	50.4	48.8

Financial Results

Revenues ⁽³⁾	776,171	506,699	220
Net income	77,623	53,372	25,734
Net income per Class A Unit			
Basic	0.74	0.62	0.35
Diluted	0.73	0.62	0.35
Distributions ⁽⁴⁾			
Distributable cash ⁽⁴⁾	92,735	73,274	44,889
Per Class A Unit ⁽⁴⁾	0.883	0.822	0.608
Distributions paid or payable ⁽⁴⁾	87,871	67,117	48,748
Per Class A Unit ⁽⁴⁾	0.836	0.750	0.660
Distributable cash reserve ⁽⁴⁾	2,354	(2,510)	(8,667)
Capital expenditures			
Growth ⁽⁴⁾	15,434	16,164	–
Maintenance & sustaining ⁽⁴⁾	727	1,032	7
Taxable income (losses) allocated to Unitholders per Class A Unit ^(4, 5)	0.334	(0.019)	(0.343)

Financial Position

Cash & short-term investments	34,982	56,503	11
Total assets	2,896,001	2,765,948	801,946
Senior long-term debt & capital leases	1,780,104	1,649,226	251,208
Subordinated convertible debt	132,605	203,280	–
Partners' equity	646,992	607,535	469,720
Total enterprise value ⁽⁴⁾	3,592,495	3,218,157	986,454

Class A Units

Units outstanding at year-end	109,786,540	101,142,290	74,372,673
Average daily volume (Units)	209,337	173,236	107,784
Price per Unit – close	11.40	10.20	8.25
Market capitalization ⁽⁴⁾	1,251,567	1,031,651	613,575

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.

(2) Financial results for AEGS are for the period commencing December 22, 2004. Operating results for AEGS are unaudited and are for the year ended December 31, 2004.

(3) Includes foreign exchange gains and losses.

(4) 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 below.

(5) Based on Units being held throughout 2004.

RESULTS OF OPERATIONS

Overall

In 2002 and 2003, Fort Chicago successfully completed several accretive transactions involving the acquisition of additional interests in Alliance and Aux Sable and the related financings undertaken to repay the bridge acquisition facilities, which had a significant impact on its reported earnings and distributable cash. These acquisitions also resulted in Alliance and

Aux Sable being proportionately consolidated, rather than equity accounted, effective April 1, 2003. As a consequence, a comparison of Fort Chicago's 2004 financial results to those of 2003 is significantly impacted by these transactions and the associated change in accounting. In most cases, it accounts for substantially all of the change. The table below summarizes each business segment's contribution to the year-over-year change in Fort Chicago's reported results. Explanations regarding the changes in each segment's reported results are contained within the review of each segment's results below.

SELECTED FINANCIAL HIGHLIGHTS

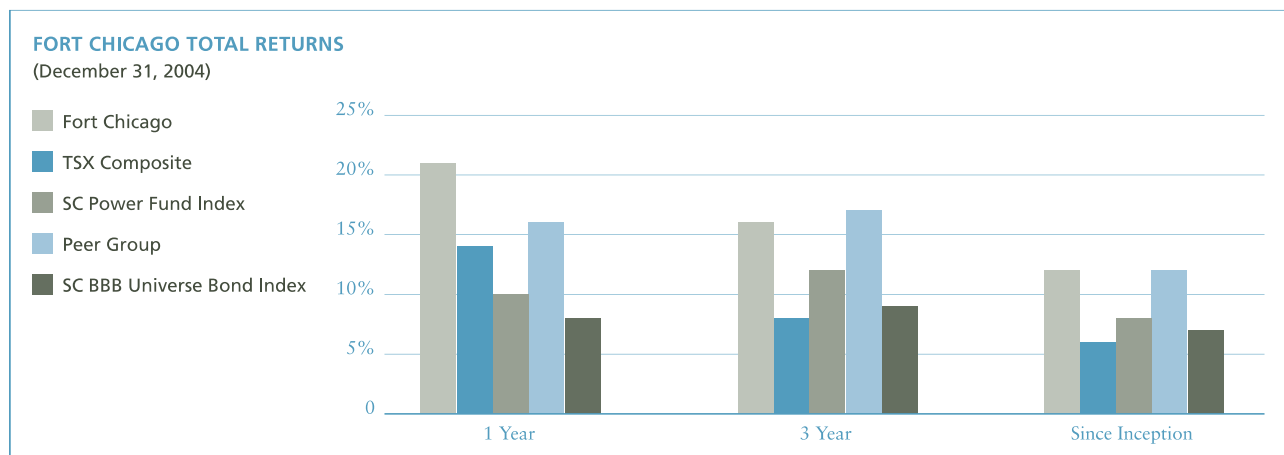
(\$ THOUSANDS)	2003 ⁽¹⁾	YEAR-OVER-YEAR INCREASE (DECREASE)				2004
		PIPELINE BUSINESS ALLIANCE	BUSINESS AEGS	NATURAL GAS LIQUIDS	PARTNERSHIP	
Revenues ⁽²⁾	506,699	85,260	1,062	210,425	(21,816)	776,171
Natural gas, NGL & transportation ⁽²⁾	178,244	—	—	184,756	—	357,541
Operations & maintenance	38,056	15,384	366	471	—	54,277
Depreciation & amortization	88,850	25,943	348	365	(3,077)	112,429
Interest & other finance	109,527	23,893	—	(3)	(4,353)	129,064
General & administrative	26,904	7,875	44	1,890	1,129	37,842
Net income before taxes & equity income	65,118	12,165	304	22,946	(15,515)	85,018
Equity income – first quarter	13,928	(16,777)	—	3,033	(184)	—
Net income before taxes	79,046	(4,612)	304	25,979	(15,699)	85,018
Taxes	25,674					7,395
Net income	53,372					77,623
Distributable cash	73,274	5,233	652	19,735	(6,159)	92,735

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.

(2) Net of \$5.4 million of inter-company Alliance revenue and Aux Sable transportation costs that eliminate on consolidation.

The Partnership generated distributable cash of \$92.7 million or \$0.883 per Class A Unit for the year ended December 31, 2004 compared with \$73.3 million or \$0.822 per Class A Unit for the year ended December 31, 2003. This seven percent per Unit increase is primarily attributable to the following: (i) a \$5.2 million increase in distributions from Alliance due largely to the return-on-equity adjustment reported in 2003 and collected and distributed in 2004; (ii) a \$19.7 million improvement from

Aux Sable attributable to improved performance and a higher ownership interest that collectively contributed \$7.0 million compared with support payments of \$12.8 million in 2003; (iii) \$0.7 million from the December 22, 2004 acquisition of AEGS; and (iv) a \$4.4 million decline in Partnership interest costs resulting from the 2003 refinancing of its acquisition bridge credit facility. These increases in distributable cash were partially offset by: (i) a \$9.8 million reduction in non-recurring realized



foreign exchange gains attributable to the Partnership's U.S. denominated bridge acquisition credit facility that was repaid in 2003; (ii) a \$1.1 million increase in Partnership administration costs; and (iii) a higher weighted average number of Class A Units outstanding in 2004 due primarily to the conversion of \$79.9 million of Series A Convertible Debentures and the issuance of \$210.5 million of Class A Units in 2003 to refinance bridge acquisition debt.

Net income for the year ended December 31, 2004 was \$77.6 million or \$0.74 per Class A Unit in comparison to \$53.4 million or \$0.62 per Class A Unit for the year ended December 31, 2003. This increase in net income reflects the following: (i) a \$26.0 million improvement in the NGL business; and (ii) a \$18.3 million reduction in taxes due primarily

to a future income tax liability reversal (relating to the utilization for Canadian toll setting purposes of certain loss carry-forwards that were allocated to Alliance's previous owners). These positive factors were offset, in part, by: (i) a \$15.7 million decrease in Partnership earnings resulting from a \$21.8 million decrease in non-recurring foreign exchange gains largely attributable to the Partnership's U.S. denominated bridge acquisition financing debt that was repaid in 2003; (ii) a \$4.6 million decline in net income from Alliance; and (iii) a higher weighted average number of Class A Units outstanding in 2004 due primarily to the conversion of \$79.9 million of Series A Convertible Debentures and the issuance of \$210.5 million of Class A Units in 2003 to refinance bridge acquisition debt.

Fort Chicago – Corporate

FINANCIAL HIGHLIGHTS – CORPORATE

(\$ THOUSANDS)	2003 ⁽¹⁾	2004
Revenues	17,991	(3,825)
Depreciation & amortization	5,564	2,487
Interest & other finance	24,734	20,381
General & administrative	4,940	6,069
Net income before taxes & equity income	(17,247)	(32,762)
Equity income – first quarter	184	–
Net income before taxes	(17,063)	(32,762)

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.

For the year ended December 31, 2004, revenues decreased by \$21.8 million, relating primarily to non-recurring foreign exchange gains associated with the 2003 U.S. denominated bridge acquisition financing that was repaid in 2003.

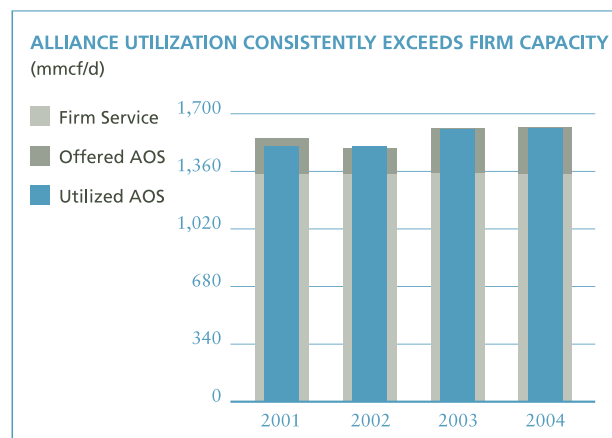
Depreciation and amortization decreased by \$3.1 million as a result of fully amortizing the Partnership's senior debt refinancing costs in 2003.

Interest and other finance charges decreased by \$4.4 million due to the 2003 refinancing of its acquisition bridge credit facility, together with the appreciation in the Canadian dollar.

General and administrative costs increased by \$1.1 million to \$6.1 million in 2004. This increase primarily relates to the absence of a US \$1.0 million one-time termination fee received in 2003 in respect of Portland Natural Gas Transmission System, and \$0.9 million attributable to increased staffing, performance-based compensation costs, and advisory costs. These increases were partially offset by a reduction in acquisition due diligence costs of \$1.1 million.

Pipeline Businesses

Alliance Pipeline. The table on the next page highlights Fort Chicago's proportionate share of Alliance's results for the years ended December 31, 2004 and 2003, as well as the impact associated with the 2003 acquisitions of additional interests in Alliance, and the resulting change in accounting. The balance of the year-over-year change, labelled as "Other," is reviewed below.



FINANCIAL HIGHLIGHTS – ALLIANCE

(\$ THOUSANDS)	YEAR-OVER-YEAR INCREASE (DECREASE)			2004
	2003	PROPORTIONATE CONSOLIDATION AND CHANGE IN OWNERSHIP	OTHER	
Revenues ⁽¹⁾	312,167	105,009	(19,749)	397,427
Operations & maintenance	37,580	12,459	2,925	52,964
Depreciation & amortization	80,261	27,697	(1,754)	106,204
Interest & other finance	83,378	28,516	(4,623)	107,271
General & administrative	18,320	6,324	1,551	26,195
Net income before taxes & equity income	92,628	30,013	(17,848)	104,793
Equity income – first quarter	16,777	(16,777)	–	–
Net income before taxes	109,405	13,236	(17,848)	104,793
Distributions, prior to withholding for capital expenditures	113,836	7,727	(2,494)	119,069

(1) Revenues include \$16.1 million (2003 – \$10.7 million) of transportation revenue from the NGL business that eliminates on consolidation.

Alliance has firm service transportation services contracts, with initial terms ending in 2015, with a group of 33 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 and debt financing costs, and an allowed return on equity of approximately 11 percent. The portion of such costs recovered each year is based on the percentage of the firm transportation capacity contracted. For years ended 2004 and 2003, 100 percent of the firm capacity was contracted.

In 2004, Alliance continued to perform in a reliable manner. Transportation deliveries, including utilized AOS, exceeded its firm service shipping capacity of 1.325 bcf/d, averaging 1.581 bcf/d (19.3 percent in excess of firm capacity) compared with 1.588 bcf/d (20 percent in excess of firm capacity) in 2003. Additional planned maintenance outages account for the slight drop in AOS. 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.

Outside of the impact associated with the acquisition of additional interests, the significant other factors impacting Alliance’s year-over-year results relate to: (i) the stronger Canadian dollar; (ii) the 2003 adjustment resulting from the cumulative effects of an increase in the allowed U.S. after-tax, rate of return on equity from 10.69 percent to 10.79 percent and a re-determination of the investment base, each of which affected reported revenues and net income; and (iii) a reduction in future income taxes, the majority of which relates to a future income tax liability reversal resulting from the utilization, for Canadian toll setting purposes, of certain loss carry-forwards

that were allocated to Alliance’s previous owners.

Overall, Alliance’s net income before taxes decreased by \$4.6 million compared with 2003, reflecting appreciation in the Canadian dollar (\$4.6 million) and the cumulative adjustment to the rate base reported in the fourth quarter of 2003 (\$11.4 million), partially offset by the benefit associated with an increased ownership (\$13.2 million).

Distributions from Alliance, before capital expenditure hold-backs, in respect of the year ended December 31, 2004 totalled \$119.1 million, up \$5.2 million over 2003 distributions. The increase in distributions received by Fort Chicago relates to its increased ownership of Alliance and an underlying increase in distributions from Alliance due mainly to the distribution of the return-on-equity adjustment reported in 2003 and collected in 2004, partially offset by the appreciation in the Canadian dollar.

Alliance’s capital expenditures in 2004 were \$14.3 million versus \$15.8 million in 2003. This decrease reflects a more modest capital program undertaken during 2004, compared with 2003, which in 2003 included expenditures related to the construction of the North Kaybob lateral system and the acquisition of spare compressor jets.

Following consultation with shippers, on October 29, 2004, Alliance filed its 2005 tolls with the National Energy Board in Canada and on November 30, 2004, it filed its rates with the Federal Energy Regulatory Commission in the United States. Alliance Canada’s 2005 toll will increase four percent to \$0.83/mcf effective January 1, 2005, primarily reflecting the fact that Alliance Canada will commence recovering current income taxes in 2005. Alliance U.S.’s 2005 rates will increase two percent to US \$0.54/mcf effective January 1, 2005, reflecting a scheduled increase in depreciation.

For additional discussion of Alliance’s results, on a 100 percent basis, see the Alliance Profile contained in a separate section of this Annual Report.

AEGS

FINANCIAL HIGHLIGHTS – AEGS⁽¹⁾

(\$ THOUSANDS)	2004
Revenues	1,062
Operations & maintenance	366
Depreciation & amortization	348
General & administrative	44
Net income before taxes	<u>304</u>

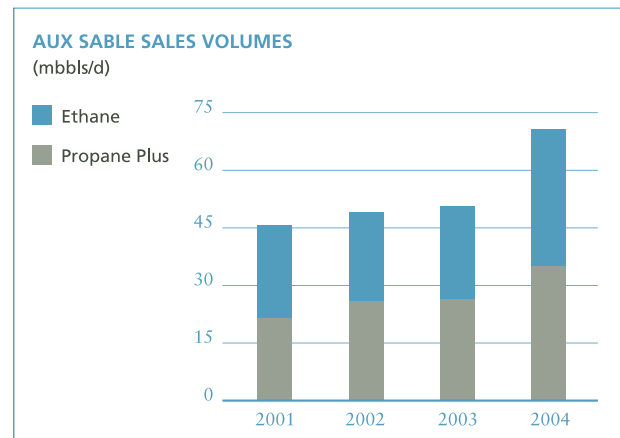
(1) Results from December 22, 2004.

On December 22, 2004, Fort Chicago acquired a 100 percent interest in AEGS for an aggregate purchase price of approximately \$273.3 million. AEGS is a 1,324-kilometre pipeline that transports pure ethane within Alberta from various ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta. AEGS is an integrated system that has interconnections with an underground storage site and an export pipeline system, although virtually all of the ethane transported is consumed in Alberta. AEGS is made up of three legs (east and west legs and a bi-directional north leg) that have an aggregate design capacity of 322,000 bbls/d. Revenues and earnings are based on long-term, take-or-pay ethane transportation agreements (“ETA”), 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 AEGS up to their committed volumes. As a consequence, AEGS is expected to generate a stable stream of annual revenues and earnings.

For additional discussion of AEGS’ results, see the AEGS Profile contained in a separate section of this Annual Report.

NGL Business

The table below highlights Fort Chicago’s proportionate share of Aux Sable’s results for the years ended December 31, 2004 and 2003, as well as the impact associated with the 2003 acquisition of additional interest in Aux Sable and the resulting change in accounting. The balance of the year-over-year change, labelled as “Other,” is reviewed below.



FINANCIAL HIGHLIGHTS – AUX SABLE

(\$ THOUSANDS)	YEAR-OVER-YEAR INCREASE (DECREASE)			
	2003 ⁽¹⁾	PROPORTIONATE CONSOLIDATION AND CHANGE IN OWNERSHIP	OTHER	2004
Revenues	187,221	75,884	134,541	397,646
Natural gas, NGL & transportation	188,924	74,363	110,393	373,680
Operations & maintenance	476	108	363	947
Depreciation & amortization	3,025	2,569	(2,204)	3,390
Interest & other finance	1,415	527	(530)	1,412
General & administrative	3,644	1,211	679	5,534
Net income (loss) before taxes & equity income	(10,263)	(2,894)	25,840	12,683
Equity income – first quarter	(3,033)	3,033	–	–
Net income before taxes	(13,296)	139	25,840	12,683
Distributions (support payments), net	(12,778)	(177)	19,912	6,957

(1) Certain comparative figures have been reclassified to conform to presentation adopted in 2004.

2004 represented a key turning point for Aux Sable as market conditions became favourable and contributed to record operational and financial results. Aux Sable continued to make improvements to its business, which also contributed to this performance, and again delivered excellent safety and outstanding environmental performance. During the year, the plant continued to operate reliably with little unplanned downtime.

For the year ended December 31, 2004, Aux Sable's revenues were up \$134.5 million over 2003, due to improved market conditions that supported higher NGL production and sales volumes. Aux Sable's average gas price for 2004 increased by five percent to US \$5.83 per mmbtu from US \$5.56 per mmbtu in 2003, while average WTI spot crude prices, which strongly influence NGL prices, increased by 33 percent from US \$31.16 to US \$41.40 over the same period. NGL sales volumes increased 39 percent to 70.2 mbbbls/d in 2004, from 50.4 mbbbls/d in 2003. Favourable market conditions resulted in no curtailments of NGL production in 2004. Partially offsetting this increase was the appreciation in the Canadian dollar.

Natural gas, NGL and transportation costs increased by \$110.4 million in conjunction with the \$134.5 million increase in revenues, which reflects higher volumes and natural gas prices. Improved market conditions resulted in better NGL extraction margins, particularly in the second half of 2004.

Depreciation and amortization costs decreased by \$2.2 million due to the favourable impact from the strengthening of the Canadian dollar.

Interest and other finance costs decreased by \$0.5 million

due to the stronger results for 2004 that reduced Aux Sable's borrowing requirements, and a stronger Canadian dollar.

General and administrative costs increased by \$0.7 million in 2004, due mainly to increased incentive compensation costs that were slightly offset by the favourable impact of the Canadian dollar.

For the year ended December 31, 2004, Aux Sable reported net income before taxes of \$12.7 million (2003 – net loss of \$13.3 million), after natural gas and NGL hedge losses of \$16.6 million (2003 – \$0.6 million), while earnings before taxes, depreciation and amortization were \$16.1 million, up \$26.4 million from 2003. Higher NGL production and sales volumes, as well as improvement in the NGL extraction margins, particularly in the second half of 2004, more than offset the negative impact of the appreciation in the Canadian dollar. Aux Sable also benefited from increased injection and fee-for-service volumes, which provide a stable source of earnings. A recent change in heat content requirements at one downstream interconnection has largely eliminated Aux Sable's exposure to negative extraction margins.

As a result of this favourable performance in 2004, Aux Sable initiated the payment of regular cash distributions to its owners. During the year ended December 31, 2004, aggregate distributions, net of marketing support payments, paid by Aux Sable were \$6.9 million compared to support payments of \$12.8 million in 2003.

For additional discussion of Aux Sable's results, on a 100 percent basis, see the Aux Sable Profile contained in a separate section of this Annual Report.

QUARTERLY FINANCIAL HIGHLIGHTS

(\$ THOUSANDS, EXCEPT WHERE NOTED)	THREE MONTHS ENDED 2004 ⁽¹⁾			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenues	184,533	179,258	193,820	218,560
Net income	12,111	7,738	18,517	39,257
Net income per Class A 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 Class A Unit	0.202	0.214	0.238	0.229
(\$ THOUSANDS, EXCEPT WHERE NOTED)	THREE MONTHS ENDED 2003 ⁽¹⁾			
	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenues	6,752	147,761	158,984	193,202
Net income	12,418	11,551	6,689	22,714
Net income per Class A Unit				
Basic	0.17	0.15	0.07	0.23
Diluted	0.17	0.15	0.07	0.22
Distributable cash	16,796	17,944	15,688	22,846
Distributable cash per Class A Unit	0.225	0.200	0.172	0.226

(1) Restated – See Note 4 to the consolidated financial statements

FOURTH QUARTER RESULTS

For the three months ended December 31, 2004, the Partnership generated distributable cash of \$24.8 million or \$0.229 per Class A Unit compared with \$22.8 million or \$0.226 per Class A Unit for the same period in 2003. This increase is primarily attributable to the following factors: (i) a \$5.6 million increase in net distributions received from the NGL business, reflecting improved market conditions and continued growth of Aux Sable's injection and fee-for-service businesses; (ii) a \$1.4 million increase in distributions from Alliance, reflecting the return-on-equity adjustment reported in 2003 and collected in 2004; (iii) the acquisition of AEGS, which contributed \$0.7 million to distributable cash; (iv) a \$1.2 million decline in Partnership interest costs resulting from the 2003 refinancing of its acquisition bridge credit facility and the conversion of Series A Debentures to Class A Units in 2004; and (v) a reduction in Partnership capital taxes of \$0.6 million, reflecting a higher fourth quarter adjustment in 2003. These increases were offset, in part, by: (i) a \$7.4 million reduction in non-recurring realized foreign exchange gains attributable to the Partnership's U.S. denominated acquisition bridge credit facility that was repaid in 2003; and (ii) the issuance of additional Class A Units.

Net income for the quarter ended December 31, 2004 was \$39.3 million or \$0.37 per Class A Unit, in comparison to \$22.7 million or \$0.23 per Class A Unit for the quarter ended December 31, 2003. This \$16.6 million increase in net income is primarily attributable to: (i) an \$8.0 million improvement in Aux Sable resulting from improved operating and market conditions, which supported higher sales volumes and NGL margins; (ii) a \$10.6 million improvement in earnings from Alliance after reflecting a \$23.9 million reduction in future taxes in the fourth quarter, relating primarily to the utilization for Canadian toll setting purposes of certain loss carry-forwards that were allocated to Alliance's previous owners, which more than offset a \$13.3 million decrease in net income due to the cumulative impact of a re-determination of the rate base and the return-on-equity adjustment reported in 2003; (iii) a \$1.2 million decrease in interest and finance related costs arising from the

2003 refinancing of its acquisition bridge credit facility and the subsequent conversion of more than half of the Series A Debentures; which were partially offset by: (i) a \$4.1 million decrease in Partnership foreign exchange gains; and (ii) the issuance of additional Class A Units.

During the three months ended December 31, 2004, revenues totalled \$218.6 million (\$193.2 million for the comparable period of 2003) due primarily to an increase in NGL revenues of \$43.8 million, which was partially offset by a \$14.7 million decrease in pipeline transportation revenues. A 24 percent increase in NGL sales volumes combined with a 40 percent increase in NGL prices accounted for the majority of the increased revenues in the NGL business. The decrease in pipeline revenues is attributable primarily to the cumulative effect of a re-determination of the investment base and the adjustment for the return on equity reported in the fourth quarter of 2003, and a stronger Canadian dollar, which reduced revenues by \$3.7 million.

Operations and maintenance costs increased by \$0.5 million for the quarter, due to increases from AEGS and Aux Sable, which were offset in part by the impact of the Canadian dollar.

Depreciation and amortization decreased by \$1.2 million for the three months ended December 31, 2004, compared to the same period in 2003, due to favourable impact of the strengthening Canadian dollar and the Partnership fully amortizing its acquisition related debt issue costs in 2003.

Interest and other finance charges were \$30.9 million for the quarter ended December 31, 2004, compared to \$34.0 million in the quarter ended December 31, 2003. The decrease is attributable to the Partnership's refinancing of its acquisition bridge credit facility with the issuance of Class A Units and Convertible Debentures in 2003, the subsequent conversion of more than half of the Series A Debentures, the scheduled principal repayments of long-term debt and the impact of a stronger Canadian dollar.

General and administrative expenses were \$11.8 million in the quarter ended December 31, 2004, up from \$10.8 million in the same period of 2003. This increase is largely due to retiring allowances paid by Alliance, as well as costs associated with incentive programs.

LIQUIDITY AND CAPITAL RESOURCES

YEARS ENDED DECEMBER 31

(\$ THOUSANDS, EXCEPT WHERE NOTED)	2004		2003 ⁽¹⁾	
Cash flows				
Operating activities	172,042		87,901	
Financing activities	96,696		2,624	
Investing activities	(289,444)		(213,057)	
Cash and short-term investments	34,982		56,503	
Capitalization				
Senior debt and capital leases ⁽²⁾	1,853,597	69%	1,720,827	67%
Subordinated convertible debentures	132,605	5%	203,280	8%
Other long-term liabilities ⁽²⁾	37,319	1%	38,771	1%
Partners' equity	646,992	25%	607,535	24%
	<u>2,670,513</u>	<u>100%</u>	<u>2,570,413</u>	<u>100%</u>

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.

(2) Includes current portion.

Cash Flows

For the year ended December 31, 2004, cash provided from operating activities was \$172.0 million compared with \$87.9 million in the preceding year, primarily reflecting improved operating results from Aux Sable and Fort Chicago's increased ownership interests in Alliance and Aux Sable, including the proportionate consolidation of these entities commencing on April 1, 2003. Cash flows generated by Alliance during 2004 of \$184.0 million are supported by long-term natural gas transportation contracts, which provide an approximate 11 percent return on equity over their term, and were in line with expectations. Cash flows from Fort Chicago's NGL business have historically been difficult to predict and have varied significantly since the cost of shrinkage make-up gas, the largest cost component of producing NGL, is not tied to the prices received for Aux Sable's NGL products. This volatility has been reduced through an active hedging program, relaxed heat content management requirements, and growth in Aux Sable's injection and fee-for-service business, which provide a predictable and meaningful contribution to earnings. During 2004, Aux Sable also benefited from improved market conditions and contributed \$19.5 million of cash flow from operating activities, a \$31.4 million increase over 2003.

Following a very active 2003 that included the successful refinancing by Alliance of its remaining initial project financing, with long-term Senior Notes, and Fort Chicago's refinancing of its bridge acquisition facilities, with \$212.5 million of Convertible Debentures and \$222.4 million of Class A Units, 2004 financing activities were substantially reduced. For 2004, financing activities were limited to the initial financing by Fort Chicago of its acquisition of AEGS on December 22, 2004; scheduled senior debt principal repayments, that largely match the depreciation of the underlying assets; and regular monthly cash distributions, which excluded \$7.8 million (2003 – \$12.5 million) of distributions satisfied through the issuance of Class A Units under the Partnership's DRIP.

Investing activities reflect Fort Chicago's acquisition of AEGS (2003 – additional investments in Alliance and Aux Sable) and \$16.2 million (2003 – \$17.2 million) of capital expenditures mainly attributable to the Alliance Pipeline.

Cash and Short-term Investments

At year-end, cash and short-term investments totaled \$35 million (2003 – \$56.5 million), of which \$18.9 million (2003 – \$43.5 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 a Canadian chartered bank, as well as highly liquid short-term investments. These cash balances are, together with strong cash flows and undrawn credit facilities, 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 as at December 31, 2004, remains strong and largely unchanged from 2003. Virtually all of Fort Chicago's consolidated debt is long-term and, with the exception of its subordinated Convertible Debentures and borrowings under revolving credit facilities, contains terms to maturity and amortization periods that are designed to approximate the applicable depreciation associated with the underlying assets. Furthermore, substantially all of this debt is fixed rate debt, insulating Fort Chicago and its businesses from potentially higher future interest rates.

Partnership. During 2004, the Partnership established a three-year, \$300 million committed revolving credit facility, replacing a \$60 million extendible 364-day revolving credit facility. This facility provides Fort Chicago with greater financial flexibility and can be used for general purposes, including funding acquisitions and distributions. On December 22, 2004, this facility was utilized to finance the acquisition of AEGS. As at December 31, 2004, the Partnership had outstanding borrowings of \$275.5 million (2003 – nil) under this facility.

During 2003 and 2002, the Partnership established non-revolving committed bridge acquisition credit facilities in an aggregate amount of \$410 million. These facilities were utilized by Fort Chicago to purchase additional interests in Alliance and Aux Sable, and were subsequently repaid from the net proceeds of several public offerings of Convertible Debentures and Class A Units.

The Partnership issued two classes of Convertible Debentures during 2003. The 7.5 percent Convertible Unsecured Subordinated Debentures, Series A, due June 30, 2008 (the "Series A Debentures"), were issued in January 2003, with an aggregate face value of \$150 million. The 6.75 percent Convertible Unsecured Subordinated Debentures, Series B, due December 31, 2010 (the "Series B Debentures"), were issued in October 2003, with an aggregate face value of \$62.5 million. The Series A and Series B Debentures are convertible, at the holder's option, into Class A Units at a conversion price of \$9.00 per Class A Unit and \$10.70 per Class A Unit, respectively. During the year ended December 31, 2004, \$70.7 million (2003 – \$9.2 million) of Series A Debentures were converted into Class A Units. No Series B

Debentures had been converted into Class A Units as at December 31, 2004. 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 Statements of Financial Position, and the associated interest expense correspondingly being classified with interest and other finance costs on the Consolidated Statements 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 does not impact any of the financial covenants under the Partnership's credit facility or the ratings issued by Standard & Poor's and Dominion Bond Rating Service.

Fort Chicago currently has a Canadian short form base shelf prospectus outstanding, which provides ready access to the capital markets. This prospectus was filed on August 15, 2003, and provided for the issuance of up to \$500 million of partnership Units over a 25-month period. As at December 31, 2004, up to an additional \$412.5 million could be issued under this prospectus.

Alliance. During 2003, Alliance completed several public offerings of Senior Notes and established new credit facilities, the proceeds of which were used to reduce and refinance existing bank debt, including the repayment and cancellation of its initial, incremental and revolving credit facilities. This completed Alliance's refinancing of the initial construction facilities and significantly reduced the refinancing risk and potential volatility of its transportation rates that previously existed. This new debt structure strengthens Alliance's overall financial position and flexibility going forward. At December 31, 2004, Alliance's debt was rated by each of Dominion Bond Rating Service Limited ("DBRS"), (A (low)), Moody's Investors Service (A3) and Standard & Poor's ("S&P"), (BBB+).

At December 31, 2004, 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 30, 2004, 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, 2004, \$50 million (2003 – \$50 million) of letters of credit and \$17.8 million (2003 – \$17.6 million) of borrowings were outstanding under the Canadian facility, while US \$35 million (2003 – US \$35 million) of letters of credit and US \$8.9 million (2003 – US \$16.4 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.

Aux Sable. In August 2003, Aux Sable established a new U.S. committed revolving facility in the amount of US \$19.2 million, which matures on December 31, 2005. This new credit facility, together with additional funding provided from its owners, including Fort Chicago, replaced a prior US \$25.6 million credit facility. As at December 31, 2004, US \$4.5 million (2003 – US \$7.7 million) was drawn on this facility relating to outstanding letters of credit. Aux Sable also utilizes a revolving demand loan of \$3.0 million to finance its Canadian working capital requirements. Aux Sable remains substantially equity financed given the historic volatility of its earnings. Prior to the strong turn in its business fundamentals in 2004, Aux Sable had been dependent upon the support of its owners.

CREDIT AND STABILITY RATINGS

Maintaining strong and stable ratings is a key overall objective of Fort Chicago's financing strategy, so as to provide for long-term ready access to the capital markets on attractive terms and conditions. Following the announced acquisition of AEGS in December, 2004, both S&P and DBRS placed Fort Chicago's ratings under review.

On December 10, 2004, S&P confirmed the BBB credit rating with a stable outlook applicable to Fort Chicago's senior unsecured debt. This investment grade rating applies both to the Senior Notes issued by the Partnership's subsidiaries and to any amounts outstanding under its credit facility. This long-term corporate credit rating does not apply to the Convertible Debentures issued by the Partnership. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer's debt securities. S&P rates debt instruments with ratings ranging from "AAA," which represents the highest quality of securities, to "D," which represents securities that are in payment default. An S&P rating may be further modified by the addition of a plus "(+)" or minus "(-)" to show relative standing within the major rating categories. Debt instruments that are rated in the BBB category by S&P are considered to exhibit adequate protection parameters to investors. However, adverse economic conditions or changing circumstances could weaken capacity of the issuer to meet its financial commitment on the obligation.

On February 18, 2005, DBRS reaffirmed Fort Chicago's stability rating of STA-2 (low). This rating is based on a scale developed by DBRS, which provides an indication of both the stability and sustainability of an issuer's cash distributions per-unit, being an indication of an issuer's ability to generate sufficient cash to pay out a stable level of distributions on a per-unit basis over the longer term. DBRS ratings range from STA-1 to STA-7, with STA-1 being the highest rating. In addition, DBRS further separates the ratings into "high," "middle" and

"low" to indicate an issuer's relative position within its assigned rating category. DBRS stability ratings take seven key factors into consideration: (i) operating characteristics; (ii) asset quality; (iii) financial profile; (iv) diversification; (v) size and market position; (vi) sponsorship/governance; and (vii) growth. In addition, consideration is given by DBRS to specific structural or contractual elements that may eliminate or mitigate specific risks or other potentially negative factors. Issuers rated STA-2 are considered by DBRS to have very good stability and sustainability of distributions per unit. Issuers rated STA-2 are generally ranked by DBRS as "superior" in all or the majority of the seven key factors considered when determining a stability rating.

DISTRIBUTIONS

Policy

Up to and including December 31, 2003, the Partnership's distribution policy was to make distributions to Unitholders on a quarterly basis. Payments were made on or before the 30th day after each quarterly record date. On January 14, 2004, the Partnership announced the adoption of a monthly cash distribution policy effective January 1, 2004, which replaced the previous quarterly cash distribution policy. Distributions have since been paid to Unitholders of record as at the last business day of each month on the 23rd day following such record date, or if not a business day, then on the preceding business day.

The Partnership's policy is to pay out 100 percent of its distributable cash, over time, to Unitholders.

Determination of Distribution

The amount of distributable cash available to the Partnership will vary depending on: (i) distributions received from Alliance, Aux Sable and AEGS, which in each case are after providing for the amortization of any long-term debt; (ii) any operating support payments required by any of the Partnership's businesses, including Aux Sable, which prior to 2004 required support from its owners; (iii) any cash held in reserve by the Partnership; (iv) the financing costs of the Partnership, including scheduled principal repayments of the Partnership and applicable subsidiaries; and (v) the operating expenses of the Partnership.

The calculation of the Partnership's distributable cash for the three-month periods and years ended December 31, 2004 and 2003, is set out below. During 2004, the Partnership's distributable cash increased by \$19.4 million to \$92.7 million. Distributions paid in respect of 2004 were \$87.9 million, up \$20.8 million from 2003. For the year ended December 31, 2004, the Partnership's distributable cash reserve increased by \$4.9 million (2003 – \$6.1 million), leaving a cumulative positive reserve, since inception, of \$2.4 million.

DISTRIBUTABLE CASH⁽¹⁾

(\$ THOUSANDS, EXCEPT WHERE NOTED)	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	2004	2003	2004	2003
Cash inflows				
Alliance distributions, prior to withholding for capital expenditures	29,049	27,688	119,069	113,836
NGL distributions (support payments), net	4,137	(1,436)	6,957	(12,778)
AEGS earnings before taxes, depreciation & amortization, net of non-recoverable capital	652	–	652	–
Interest income	99	247	423	429
	33,937	26,499	127,101	101,487
Cash outflows				
General & administrative	(2,245)	(2,277)	(6,068)	(4,881)
Realized foreign exchange gains (losses)	(122)	7,284	80	9,840
Interest & other finance	(4,723)	(5,967)	(20,381)	(24,734)
Taxes	(1,135)	(1,713)	(4,084)	(4,203)
Principal repayments on Senior Notes	(916)	(980)	(3,913)	(4,235)
Distributable cash	24,796	22,846	92,735	73,274
Per Class A Unit ⁽²⁾	0.229	0.226	0.883	0.822
Distributions payable/paid	23,556	20,228	87,871	67,111
Per Class A Unit ⁽²⁾	0.218	0.200	0.836	0.750

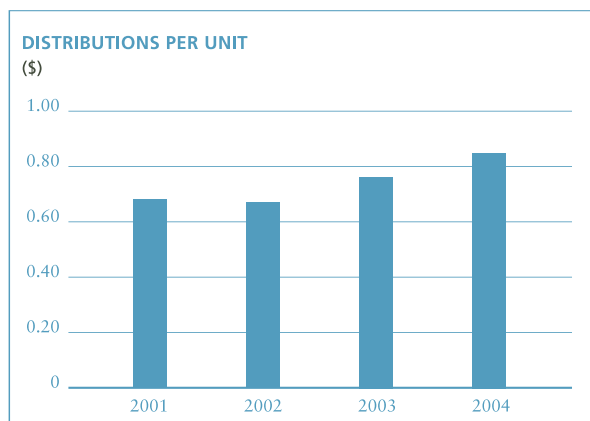
(1) Distributable cash is not a standard measure under GAAP and may not be comparable to similar measures presented by other entities. See Non-GAAP Financial Measures contained below.

(2) The number of Class A Units used to calculate distributions payable/paid per Class A Unit is based on the number of Class A Units outstanding at each record date. For the three months and year ended December 31, 2004, the average number of Class A Units outstanding for this calculation was 108,303,041 (2003 – 101,142,290) and 105,033,934 (2003 – 89,135,565), respectively.

Distributions Paid

The following table summarizes the distributions that were declared and paid by the Partnership to holders of Class A Units in respect of 2004 and 2003. On January 18, 2005, the Partnership announced it had increased its January 2005 distribution to \$0.075 per Class A Unit, which on an annualized basis

increased the distribution by \$0.03 per Class A Unit (or 3.45 percent) to \$0.90 per Class A Unit. This increase was based on the incremental distributable cash resulting from improved NGL margins and operational improvements at Aux Sable, and the acquisition of AEGS. On February 17, 2005, the Partnership declared its February distribution of \$0.075 per Class A Unit.



(5 THOUSANDS, EXCEPT WHERE NOTED)

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER CLASS A UNIT	DISTRIBUTION PAID/PAYABLE IN CASH	DISTRIBUTION PAID IN UNITS	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
2003					
March 31, 2003	April 30, 2003	0.1800	12,162	1,250	13,412
June 30, 2003	July 31, 2003	0.1800	11,284	4,900	16,184
September 30, 2003	October 31, 2003	0.1900	11,992	5,295	17,287
December 31, 2003	January 30, 2004	0.2000	14,654	5,574	20,228
		0.7500	50,092	17,019	67,111

2005 Guidance

For 2005, the Partnership is currently forecasting distributable cash in the range of \$0.92 to \$1.00 per Class A Unit. This estimate is based upon approximately: (i) \$1.01 to \$1.05 per Class A Unit of distributions from Alliance; (ii) \$0.00 to \$0.20 per Class A Unit of distributions, net of support payments, from Aux Sable; (iii) \$0.17 to \$0.19 per Class A Unit from AEGS; (iv) \$0.23 to \$0.27 per Class A Unit for financing and administration expenses; and (v) \$0.04 to \$0.06 per Class A Unit for taxes. These estimates have been prepared based on a U.S. dollar exchange rate in the range of Cdn \$1.15 to \$1.25 per US \$1.00 and assume that AEGS will be refinanced in 2005 using a combination of long-term debt and Class A Units. The Aux Sable estimate is highly sensitive to the NGL extraction margins. Prior to 2004, Aux Sable had not paid distributions to its owners and had relied upon their financial support. In 2004, Aux Sable's fundamentals improved significantly, resulting in regular distributions being paid to its owners, including Fort Chicago. For more detailed guidance, please go to the Investor Information section on Fort Chicago's website at www.fortchicago.com.

Restriction on Distributions

The ability of Fort Chicago to make cash distributions to holders of Class A Units is also dependent on the terms of certain financing and security agreements applicable to the Partnership, certain subsidiaries, Alliance and Aux Sable.

The Partnership's revolving credit facility restricts the Partnership from making a cash distribution to holders of Class A Units when a "Default" or an "Event of Default" has occurred or is continuing.

The Partnership's investment in Alliance and Aux Sable has been made via 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 and Aux Sable 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 Aux Sable U.S. to make distributions to its owners, including Fort Chicago, is subject to the terms of its U.S. credit facility, as amended on January 31, 2005. Under this facility, such distributions are subject to certain conditions being met, including: (i) no "Event of Default" or event, which, with the giving of notice or lapse of time or both, would constitute an "Event of Default" has occurred and is continuing, or would result from the making of such distribution; (ii) a certain debt service reserve account is fully funded; (iii) no advances under the facility are outstanding, or adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") is equal to or greater than \$5.0 million (where adjusted EBITDA is defined as being the sum of the following amounts from September 1, 2003: (a) EBITDA, plus (b) capital contributions made by its partners, minus (c) distributions made to the partners); and (iv) EBITDA shall be equal to or greater than zero for the immediate preceding quarter.

CREDIT, CURRENCY AND COMMODITY EXPOSURES

Fort Chicago 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 the shippers operate in the oil and gas exploration and development or energy marketing/transportation industries, and may be exposed to long-term downturns. 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, low-cost petrochemical industry is dependent on AEGS for its ethane feedstock.

With approximately 40 percent of Fort Chicago's assets being 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. earnings and cash flows generated by these businesses, remains largely unhedged.

Through Fort Chicago's ownership interest in Aux Sable, Fort Chicago also has a direct exposure to fluctuations in the

prices of NGL and natural gas. In order to mitigate this exposure, Aux Sable adopted a hedging policy which permits, within established parameters, entering into hedging transactions utilizing derivative instruments. The primary purpose of these hedges is to either manage the extraction margins, which are based on the relative price differential between NGL sales and offsetting natural gas purchases, or to hedge against changes in the price of natural gas used as fuel to operate Aux Sable's facilities. These hedge transactions are designated as effective cash flow hedges and are settled on a monthly basis. The unrealized fair value of these outstanding hedges is disclosed in Note 19 of Fort Chicago's consolidated financial statements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Alliance Pipeline has firm service transportation services contracts with a group of 33 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, 2004.

Pursuant to 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 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.

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 will result in penalties payable to the counterparties. The earnings and cash flows of the NGL business are sensitive. In order to reduce its exposure to changes in the price of natural gas and NGL, Aux Sable enters into derivative financial instruments referenced to industry standard indices. For a detailed listing of Fort Chicago's proportionate share of Aux Sable's hedge contracts outstanding at December 31, 2004 and 2003, see the notes to the consolidated financial statements.

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

CONTRACTUAL OBLIGATIONS

(\$ THOUSANDS)	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS
Senior long-term debt	1,809,611	73,266	429,162	138,995	1,168,188
Subordinated convertible debentures	132,605	–	70,105	62,500	–
Capital leases	13,831	1,031	2,088	2,088	8,624
Operating leases	14,192	2,963	4,677	3,318	3,234
Other long-term obligations	37,319	8,402	9,788	4,884	14,245
	2,007,558	85,662	515,820	211,785	1,194,291

CRITICAL ACCOUNTING POLICIES

Alliance Pipeline is subject to 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 regulated businesses such as Alliance. As a consequence, the principles may differ from those used by non-regulated entities. In general, the differences relate principally to revenue and expense recognition.

Alliance transportation contracts are designed to provide toll revenues sufficient to recover all prudently incurred costs, including an 11 percent return on equity. 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 earlier 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 judgments, estimates and assumptions are subject to change as 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 judgment, 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. Judgments 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, 2004, there has not been an impairment of these assets.

Asset Retirement Obligation

The Partnership adopted the new standard of the *CICA Handbook Section 3110*, Asset Retirement Obligations, effective January 1, 2004. This standard requires the recognition of legal obligations associated with the retirement of tangible long-lived assets. The fair value of the liability is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until the Partnership settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's useful life.

The Partnership's businesses consist primarily of underground pipelines and above-ground equipment and facilities associated with its pipeline and NGL businesses. No amount has been recorded for asset retirement obligations relating to these assets, either because there is no legal obligation, the estimated liability is immaterial, or it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements.

NEW ACCOUNTING STANDARDS

Generally Accepted Accounting Principles

In July 2003, the Canadian Institute of Chartered Accountants (“CICA”) issued *Handbook Section 1100*, Generally Accepted Accounting Principles, which establishes standards for financial reporting in accordance with GAAP. It defines primary sources of GAAP and requires that an entity apply every relevant primary source. Industry practice is not included as a primary source of GAAP and is also not included in the discussion of other sources of GAAP. This section became effective for the Partnership on January 1, 2004, and has not impacted its consolidated financial position or results of operations.

Financial Instruments

The Partnership adopted the new standard of the *CICA Handbook Section 3860*, Financial Instruments – Disclosure and Presentation, effective December 31, 2004. These revisions require certain obligations that must or could be settled with an entity’s own equity instruments to be presented as a liability. The effect of this change on Fort Chicago results in the reclassification of Convertible Debentures from equity to debt and the capitalization of issue costs, to be amortized over the term of the Convertible Debentures. As well, interest on the Convertible Debentures, which was previously charged directly against undistributed income, is required to be charged against earnings. The impact of this new standard has been outlined in Note 4 of the Consolidated Financial Statements.

Asset Retirement Obligations

The Partnership adopted the new standard of the *CICA Handbook Section 3110*, Asset Retirement Obligations, effective January 1, 2004. This standard requires the recognition of legal obligations associated with the retirement of tangible long-lived assets. To date, no amount has been recorded for asset retirement obligations. As the timing and scope of any legal obligations associated with retirements becomes determinable, the estimated fair value of the liability and the costs of retirement will be recorded.

Hedging Relationships

In late 2001, CICA issued Accounting Guideline 13, Hedging Relationships. This pronouncement, which Fort Chicago adopted January 1, 2004, establishes the criteria that must be met before an entity can apply hedge accounting on certain derivative financial instruments. The application of this standard does not have a material effect on the Partnership’s financial position or results of operations.

Variable Interest Entities

In June 2003, CICA issued Accounting Guideline 15, Consolidation of Variable Interest Entities, which requires

enterprises to consolidate those variable interest entities of which they are the primary beneficiary, effective January 1, 2005. This guideline has no impact on the Partnership’s Consolidated Financial Statements.

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.

The following non-GAAP financial measures are provided to assist investors in determining the ability of the Partnership to generate cash and fund the monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

Distributable Cash represents the cash available to the Partnership for distribution to holders of Class A Units and therefore does not include distributable cash, 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 Class A Unit is the per-unit amount of distributable cash calculated based on the weighted average number of Class A 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 are declared and paid on a monthly basis. This measure is used by the investment community to calculate the annualized yield of the Class A Units, determined by dividing distributions paid/payable per Class A Unit (annualized) by the current quoted per-unit market price of the Class A Units.

Distributions Paid/Payable Per Class A Unit is the per-unit amount of distributions paid/payable, calculated based on the weighted average number of Class A Units outstanding on each record date.

Distributable Cash Reserve is calculated on a cumulative basis, since inception, and represents distributable cash generated by the Partnership in excess of the distributions paid/payable. This

measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

EBTDA refers to earnings before taxes, depreciation and amortization. EBTDA is reconciled to net income before tax by deducting depreciation, amortization and future income taxes. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions from Aux Sable and AEGS.

Enterprise Value represents the aggregate market value of the Partnership's assets and is calculated based on the total assets reported in the Consolidated Financial Statements, adjusted to reflect the excess of market value over book value in respect of the Partnership's consolidated debt and Class A 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.

Market Capitalization is determined by multiplying the year-end closing price per Class A Unit by the total number of Class A Units outstanding. This measure, together with other measures, is used by the investment community to assess the market value of the Class A Units.

Maintenance and Sustaining Capital Expenditures is 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.

Payout Ratio represents distributions paid/payable as a percentage of distributable cash generated 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 Class A Units being made at the closing price reported by the TSX on the trading day immediately preceding 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 Class A Unit represents the amount of taxable income or losses allocated to a Unitholder for a given year, assuming that the Unitholder held the Class A 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.

BUSINESS RISKS

Fort Chicago's assets include Alliance and AEGS, which are subject to the normal risks associated with the pipeline industry, and Aux Sable, which 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 of the pipeline businesses or the NGL business.

In management's view, the more significant business risks affecting Fort Chicago's profitability and the amount of distributions that can be paid to Unitholders are identified below. The 2004 Annual Information Form ("AIF") contains a more detailed description of these and other risk factors associated with the businesses. The AIF should be read in conjunction herewith and is incorporated by reference.

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, 2004, a Cdn \$0.01 change in the Canadian dollar relative to the U.S. dollar will impact Fort Chicago's net income and distributable cash by approximately \$0.008 and \$0.004 per Class A 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 are 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 the 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 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 expires in December 2015. AEGS transportation contracts had an initial term of 20 years, which expires 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 Albertan 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 that 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 downstream heat content requirements have reduced this exposure.

Impact of Regulation and Legislation. Alliance is subject to Canadian and United States federal regulation by the NEB and the 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 "AEUB"). 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. The decision to fund such a 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 will physically operate 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.

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. NGL extraction margins represent the largest potential variability in the cash available for distribution to Unitholders. This margin will depend, 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 NGL. 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 NGL has the potential to vary significantly as the pricing relationship between natural gas and NGL changes. Accordingly, a significant portion of the cash available to distribute to the owners of Aux Sable is sensitive to changes in natural gas and NGL pricing.

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.