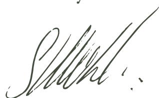
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ THOUSANDS)	DECEMBER 31, 2004	DECEMBER 31, 2003
		(Restated – Note 4)
Assets		
Current assets		
Cash & short-term investments (Note 5)	**34,982**	56,503
Transportation security deposits & revenue adjustments (Notes 6 and 13)	**16,574**	11,763
Receivables	**57,169**	51,522
Inventory	**6,153**	6,298
Prepaid expenses	**6,142**	4,212
	121,020	130,298
Long-term receivables (Note 6)	**160,747**	142,025
Pipeline, plant & other capital assets (Note 9)	**2,594,831**	2,467,218
Other assets (Note 10)	**19,403**	26,407
	2,896,001	2,765,948
Liabilities		
Current liabilities		
Payables	**71,400**	61,181
Transportation security deposits (Note 13)	**9,248**	5,645
Distribution payable (Note 15(b))	**7,360**	14,654
Bank debt	**–**	135
Deferred revenue	**–**	496
Current portion of long-term debt & capital leases (Note 11)	**73,493**	71,466
	161,501	153,577
Long-term liabilities (Note 14)	**28,917**	31,981
Senior long-term debt and capital leases (Note 11)	**1,780,104**	1,649,226
Subordinated convertible debentures (Note 12)	**132,605**	203,280
Future taxes (Note 17)	**145,882**	120,349
	2,249,009	2,158,413
Partners' Equity		
Partners' capital account (Note 15)	**751,073**	679,442
Cumulative translation adjustment	**(92,247)**	(70,321)
Cumulative net income	**246,332**	168,709
Cumulative distributions	**(258,166)**	(170,295)
	646,992	607,535
Commitments & contingencies (Note 18)		
	2,896,001	2,765,948

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: *Stephen H. White*
Director

By: *David J. Drybrough*
Director

CONSOLIDATED STATEMENT OF INCOME AND CUMULATIVE INCOME

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS)	YEAR ENDED DECEMBER 31 2004	2003
		(Restated – Note 4)
Revenues		
Transportation (Note 6)	**381,230**	297,462
Natural gas liquids	**397,549**	187,372
Interest	**1,902**	3,553
Foreign exchange gain (loss) & other	**(4,510)**	18,312
	776,171	506,699
Expenses		
Natural gas, natural gas liquids & transportation	**357,541**	178,244
Operations & maintenance	**54,277**	38,056
Depreciation & amortization	**112,429**	88,850
Interest & other finance (Notes 11 and 12)	**129,064**	109,527
General & administrative	**37,842**	26,904
	691,153	441,581
Net income before taxes & equity income	**85,018**	65,118
Current taxes	**4,098**	4,203
Future taxes (Note 17)	**3,297**	21,471
Net income after taxes & before equity income	**77,623**	39,444
Equity income	**–**	13,928
Net income	**77,623**	53,372
Cumulative net income at the beginning of the period	**168,709**	115,337
Cumulative net income at the end of the period	**246,332**	168,709
Net income per Class A Unit		
Basic	**0.74**	0.62
Diluted	**0.73**	0.62

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

($ THOUSANDS)	YEAR ENDED DECEMBER 31 2004	2003
		(Restated – Note 4)
Operating		
Net income	**77,623**	53,372
Less: Equity income	**–**	(13,928)
Non-cash transportation revenue (Note 6)	**(33,488)**	(43,655)
Unrealized foreign exchange (gains) losses	**4,315**	(7,886)
Add: Depreciation & amortization	**114,897**	90,033
Future taxes	**3,297**	21,471
Changes in non-cash working capital	**5,398**	(33,292)
Distributions received	**–**	21,786
	172,042	87,901
Financing		
Convertible debentures	**–**	212,500
Class A Units	**15**	222,440
Equity and convertible debentures issue costs	**–**	(11,960)
Short-term debt	**–**	(66,171)
Debt issue costs	**(282)**	(15,203)
Long-term debt issued	**275,500**	548,364
Long-term debt repaid	**(86,211)**	(839,586)
Distributions paid	**(92,326)**	(47,760)
	96,696	2,624
Investing		
Investment in Alliance and Aux Sable (Note 8)	**–**	(202,624)
Investment in Alberta Ethane Gathering System (Note 7)	**(273,283)**	–
Sales tax refund	**–**	6,763
Additions to pipeline, plant and other capital assets	**(16,161)**	(17,196)
	(289,444)	(213,057)
Decrease in cash and short-term investments	**(20,706)**	(122,532)
Cash & short-term investments at the beginning of the period	**56,503**	11
Alliance & Aux Sable cash & short-term investments acquired	**–**	186,820
Effect of foreign exchange rate changes on cash & short-term investments	**(815)**	(7,796)
Cash & short-term investments at the end of the period	**34,982**	56,503
Cash & short-term investments	**16,072**	13,013
Cash & short-term investments in trust	**18,910**	43,490
	34,982	56,503
Supplemental disclosure of cash flow information		
Interest paid	**127,082**	133,854
Taxes paid	**3,768**	3,318

See accompanying Notes to the Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2004 and December 31, 2003
($ thousands, except where stated)

1/ DISTRIBUTABLE CASH OF THE PARTNERSHIP[1]

	YEAR ENDED DECEMBER 31	
	2004	2003
Cash inflows		
Alliance distributions, prior to withholding for capital expenditures	**119,069**	113,836
Aux Sable distributions (support payments), net	**6,957**	(12,778)
AEGS earnings before taxes, depreciation & amortization, net of non-recoverable capital	**652**	–
Interest income	**423**	429
	127,101	101,487
Cash outflows		
General & administrative	**(6,068)**	(4,881)
Realized foreign exchange gains	**80**	9,840
Interest & other finance	**(20,381)**	(24,734)
Taxes	**(4,084)**	(4,203)
Principal repayments on Senior Notes	**(3,913)**	(4,235)
Distributable cash	**92,735**	73,274
Distributions payable/paid	**87,871**	67,111
Distributions payable/paid per Class A Unit[2]	**0.836**	0.750

(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 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 and should be used to supplement other performance measures prepared in accordance with generally accepted accounting principles in Canada. See Note 22 for reconciliation of distributable cash to cash flows from operations.

(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 year ended December 31, 2004, the average number of Class A Units outstanding for this calculation was 105,033,934 (2003 – 89,135,565). On a diluted basis, the weighted average number of Class A Units outstanding would increase by 13,630,566 Class A Units, which reflects the number of Class A Units issued upon the conversion of the outstanding Convertible Debentures as at December 31, 2004.

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 to hold, through subsidiary partnerships and corporations, a 26 percent interest in the Alliance Pipeline and the Aux Sable natural gas liquids ("NGL") extraction and fractionation facility, each of which were under development at the time. In December 2000, the pipeline and NGL facility commenced operations.

Following several acquisitions in 2002 and 2003, Fort Chicago increased its ownership in Alliance and Aux Sable to 50 percent and 42.7 percent, respectively. 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.

In December 2004, the Partnership acquired 100 percent of the Alberta Ethane Gathering System ("AEGS"), 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. Pursuant to a Contract Operating Agreement, NOVA Chemicals Corporation is responsible for the physical operatorship of AEGS, while Fort Chicago is responsible for the commercial operatorship.

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 term.

Currently, the Partnership's principal investments are in the pipeline and 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" or "AEGS Pipeline"). 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").

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. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

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 proportionate interest in Alliance and Aux Sable, which as a consequence of the purchase described in Note 8 became jointly controlled businesses and have therefore been proportionately consolidated effective April 1, 2003. For the three-month period ended March 31, 2003, Alliance and Aux Sable were accounted for using the equity method.

Alliance Pipeline is regulated by the National Energy Board ("NEB") in Canada and by the Federal Energy Regulatory Commission ("FERC") in the United States. In order to achieve a proper matching of revenues and expenses, accounting and reporting requirements applicable to 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.

In management's opinion, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant policies summarized below:

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, and is valued at the lower of average cost or market as determined by market prices at December 31, 2004. 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.

The allowance for funds used during construction ("AFUDC") represents the cost of debt and equity financing incurred during construction of the Alliance Pipeline that is expected to be recovered in future rates. 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those 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 long-term receivables, and its pipeline, plant and other capital assets.

Impairment of Pipeline, Plant and Other Capital Assets

The Partnership evaluates the pipeline, plant and other capital assets for impairment when events or changes in circumstances indicate, in management's judgment, 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.

Judgments 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, 2004, there has not been an impairment of Fort Chicago's pipeline, plant and other capital assets.

Asset Retirement Obligations

Effective January 1, 2004, the Partnership adopted the new Canadian accounting standard relating to asset retirement obligations. This new standard requires the recognition of obligations associated with the retirement and reclamation of tangible long-lived assets when a reasonable estimate of fair value can be made. The recording of such obligations results in a corresponding increase to the carrying amount of the related assets, which is amortized to earnings on a basis consistent with the underlying assets. Subsequent changes in the estimated obligations are capitalized and amortized over the remaining useful life of the underlying asset. A provision for asset retirement obligations has not been recognized in these financial statements, either because there is no legal obligation, the estimated obligation is not material, or it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of any such retirement and reclamation.

Intangible Assets – Ethane Transportation Agreements

Intangible assets represent the cost allocated to the AEGS ethane transportation agreements ("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 arranging financing 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 and allowances for depreciation, deemed taxes, costs of indebtedness, and an allowed return on equity of approximately 11 percent. 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. For years ended 2004 and 2003, 100 percent of the firm capacity was contracted under firm-service transportation service agreements ending in 2015.

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 collected in future tolls.

If rate regulated accounting were not used, the long-term receivable, the long-term liability and the transportation revenue adjustments in Notes 6 and 14 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. Revenue is recognized at each receipt point and is subject to minimum take-or-pay arrangements.

NGL 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

Slight 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 is included in pipeline, plant and other capital assets. Shippers are obligated to rectify these imbalances in short order 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 19.

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 Class A 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 income 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 income 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 income tax assets are recognized in circumstances where it is considered more likely than not that the related income tax benefits will be realized.

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 Class A 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.

To reflect the reclassification of the Convertible Debentures as a liability, certain line items of the Consolidated Statement of Financial Position and Statement of Income and Cumulative Income for the year ended December 31, 2003, have been restated as follows:

	DECEMBER 31, 2003 AS PREVIOUSLY REPORTED	ADJUSTMENT TO REFLECT CONVERTIBLE DEBENTURES AS A LIABILITY	DECEMBER 31, 2003 AS CURRENTLY REPORTED
Consolidated Statement of Financial Position			
Other assets	18,548	7,859	26,407
Subordinated convertible debentures	–	203,280	203,280
Partners' capital account	679,792	(350)	679,442
Partners' equity – convertible debentures	203,280	(203,280)	–
Consolidated Statement of Income and Cumulative Income			
Depreciation & amortization	87,594	1,256	88,850
Interest & other finance	97,998	11,529	109,527
Net income	66,157	(12,785)	53,372
Interest on convertible debentures – classified as equity	11,529	(11,529)	–
Convertible debentures issue costs – classified as equity	9,465	(9,465)	–
Cumulative net income at the end of the period	160,500	8,209	168,709
Net income per Class A Unit	0.64	(0.02)	0.62

Similarly, the December 31, 2004 Consolidated Statement of Financial Position and Consolidated Statement of Income and Cumulative Income have been impacted as follows:

	DECEMBER 31, 2004 BEFORE ADJUSTMENT	ADJUSTMENT TO REFLECT CONVERTIBLE DEBENTURES AS A LIABILITY	DECEMBER 31, 2004 AS REPORTED
Consolidated Statement of Financial Position			
Other assets	15,045	4,358	19,403
Subordinated convertible debentures	–	132,605	132,605
Partners' capital account	753,321	(2,248)	751,073
Partners' equity – convertible debentures	132,605	(132,605)	–
Consolidated Statement of Income and Cumulative Income			
Depreciation & amortization	110,827	1,602	112,429
Interest & other finance	116,121	12,943	129,064
Net income	92,168	(14,545)	77,623
Interest on convertible debentures – classified as equity	12,943	(12,943)	–
Cumulative net income at the end of the period	239,725	6,607	246,332
Net income per Class A Unit	0.76	(0.02)	0.74

5/ CASH AND SHORT-TERM INVESTMENTS

	2004	2003
Cash in trust accounts		
Operations & working capital	12,516	36,717
Capital funding, debt repayment and/or return of equity	6,035	6,350
Debt service & debt service reserve	359	423
	18,910	43,490
Cash in non-trust accounts	16,072	13,013
	34,982	56,503

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, 2004 and 2003, this requirement was satisfied by letters of credit as discussed in Note 11.

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.

6/ 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:

	2004	2003
Tolls invoiced	**347,751**	253,807
Increase (decrease) related to:		
Accounting depreciation rate	**28,753**	28,297
Property tax accruals	**2,909**	3,617
Differences from current period cost-of-service estimates	**(766)**	(2,733)
Prior year's over recovery	**2,583**	14,474
	33,479	43,655
Transportation revenue	**381,230**	297,462

Accounting Depreciation Rate

The long-term receivable at December 31, 2004 includes a regulatory asset of $160.7 million (2003 – $142.0 million) related to the cumulative difference between depreciation expense charged for accounting purposes and depreciation expense included in Alliance's transportation tolls. This difference is expected to be recovered over a number of years when depreciation rates, as prescribed in the transportation agreements, are expected to exceed the depreciation rates used for accounting purposes.

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, 2004, current assets include a transportation revenue adjustment of $7.3 million (2003 – $6.1 million). No adjustment is included in long-term liabilities (2003 – $2.6 million), (see Note 14). 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.

7/ INVESTMENT IN AEGS

On December 22, 2004, Fort Chicago acquired a 100 percent interest in AEGS for an aggregate purchase price of approximately $273.3 million. This purchase was accounted for by using the purchase method, as set out below, and the results of operation have been consolidated since the date of acquisition:

Purchase price payable in cash	273,283
Liabilities assumed	
Future income taxes	33,025
	306,308
Allocation of purchase price	
Non-cash working capital	1,162
Pipeline & other capital assets	
Pipeline	289,273
Intangible assets – ethane transportation agreements	15,572
Capital spares & other	301
	306,308

The ETAs

AEGS has long-term ETAs, which expire on December 31, 2018, under which it has agreed to provide certain transportation services to shippers at specified firm (ship or pay) and interruptible (volume-based) toll rates. The ETAs provide for the full pass-through of all operating costs, including maintenance capital. Under the ETAs, the shippers are committed to pay a minimum firm toll based on 90 percent of the shippers' total committed volume.

8/ INVESTMENT IN ALLIANCE AND AUX SABLE

On March 24, 2003, Fort Chicago purchased an approximate 1.1 percent interest in Alliance for cash consideration of approximately $18.2 million.

On April 1, 2003, Fort Chicago completed the purchase of an approximate 11.8 percent interest in Alliance Canada and Aux Sable and an approximate 10.7 percent interest in Alliance U.S. As a result of this purchase, Fort Chicago's ownership interest in Alliance Canada and Alliance U.S. was increased to 50 percent and 48.9 percent, respectively, and Fort Chicago's ownership interest in Aux Sable was increased to 42.7 percent. The aggregate purchase price paid by Fort Chicago was approximately $173.9 million. This purchase was accounted for by using the purchase method, as follows:

Purchase price payable in cash	173,868
Equity investment previously recorded	754,703
Distribution receivable	21,986
Liabilities assumed	
Long-term liabilities	37,976
Long-term debt	1,781,382
Capital leases	9,287
Future taxes	109,373
	2,888,575
Allocation of purchase price	
Cash & short-term investments acquired[1]	185,608
Non-cash working capital	(105,969)
Long-term receivables	127,148
Pipeline, plant & other capital assets	2,681,788
	2,888,575

(1) Together with $1.2 million of cash and short-term investments acquired in connection with other purchases, total cash and short-term investments acquired in 2003 was $186.8 million.

On October 30, 2003, Fort Chicago purchased an additional approximate 1.1 percent interest in Alliance U.S. for cash consideration of approximately $7.2 million, increasing its ownership interest to 50 percent.

The March 24, 2003 and April 1, 2003 purchases were financed initially using the Second Bridge Credit Facility and the remaining amount available under the First Bridge Credit Facility (see Note 11). The First Bridge Credit Facility and the Second Bridge Credit Facility were repaid using the proceeds from the public offerings described in Note 15.

9/ PIPELINE, PLANT AND OTHER CAPITAL ASSETS

	COST	ACCUMULATED DEPRECIATION	2004 NET BOOK VALUE	2003 NET BOOK VALUE
Pipeline	2,805,993	392,341	2,413,652	2,288,333
Plant	180,146	34,207	145,939	160,045
Administrative	20,893	18,603	2,290	3,910
Capital spares	14,712	–	14,712	12,184
Intangible assets – ETAs	15,572	30	15,542	–
Land	2,696	–	2,696	2,746
	3,040,012	445,181	2,594,831	2,467,218

10/ OTHER ASSETS

	2004	2003
		(Restated – Note 4)
Financing expenses – long-term debt[1]	17,062	22,971
Construction period unit appreciation rights[2]	1,834	2,140
Other	507	1,296
	19,403	26,407

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

11/ SENIOR LONG-TERM DEBT AND CAPITAL LEASES

	2004	2003
Fort Chicago		
Bank credit facility	275,500	–
7.71 percent Senior Notes due 2011 (2004 – US $65,250 / 2003 – US $68,250)	78,534	88,208
Less: current portion	(3,610)	(3,878)
	350,424	84,330
Alliance Canada[1]		
Bank credit facility	17,750	17,600
Senior Notes:		
7.230 percent due 2015	132,397	137,927
7.181 percent due 2023	195,978	204,577
7.217 percent due 2025	156,355	163,043
6.765 percent due 2025	187,028	194,672
5.546 percent due 2023	131,376	142,875
Fair value adjustment	9,401	10,015
	830,285	870,709
Less: current portion	(41,489)	(39,962)
	788,796	830,747
Alliance U.S.[1]		
Bank credit facility (2004 – US $8,850 / 2003 – US $16,400)	10,652	21,195
Senior Notes:		
7.770 percent due 2015 (2004 – US $134,670 / 2003 – US $139,980)	162,088	180,910
6.996 percent due 2019 (2004 – US $143,176 / 2003 – US $153,451)	172,326	198,320
7.877 percent due 2025 (2004 – US $100,000 / 2003 – US $100,000)	120,360	129,240
4.591 percent due 2025 (2004 – US $140,634 / 2003 – US $146,238)	169,267	188,998
Obligations under capital leases (2004 – US $665 / 2003 – US $1,328)	800	1,716
Fair value adjustment (2004 – US $18,679 / 2003 – US $20,132)	27,709	29,714
	663,202	750,093
Less: current portion	(28,193)	(27,435)
	635,009	722,658
Aux Sable[1]		
Bank credit facility (2003 – US $3,843)	–	4,966
Capital leases (2004 – US $5,048 / 2003 – US $5,197)	6,076	6,716
Less: current portion	(201)	(191)
	5,875	11,491
	1,780,104	1,649,226

(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

Bank Credit Facilities. On October 28, 2002 and March 28, 2003, the Partnership entered into a $250 million non-revolving committed acquisition bridge credit facility (the "First Bridge Credit Facility") and a $160 million non-revolving committed acquisition bridge credit facility (the "Second Bridge Credit Facility"), respectively, with three Canadian chartered banks. These facilities were utilized by Fort Chicago to purchase additional interests in Alliance and Aux Sable and were subsequently repaid from proceeds of the public offerings described in Note 15.

On October 4, 2004, Fort Chicago Energy Partners entered into a revolving credit agreement with three Canadian chartered banks (the "Banks") which provided for a committed revolving credit facility in the maximum principal amount of $300 million (the "Revolving Credit Facility") to be used by us for general purposes, including for acquisitions and distributions. The Revolving Credit Facility was used to finance the acquisition of AEGS on December 22, 2004.

The Revolving Credit Facility is unsecured and terminates on October 4, 2007, but such a termination date may, from time to time, be extended for further one-year periods subject to lender consent. Outstanding advances under the Revolving Credit Facility bear interest based on various floating-rate borrowing options. A standby fee applies to undrawn amounts under the Revolving Credit Facility.

The terms and conditions of the Revolving Credit Facility include covenants customary to bank credit facilities of this nature including, among other things: (i) the maintenance of debt to total capitalization (excluding the debt and capitalization of Alliance, Aux Sable and certain subsidiaries) of no greater than 40 percent provided that, following consummation of a material acquisition, such as the acquisition of AEGS, this limit increases to 60 percent for the first fiscal quarter following such acquisition and to 50 percent for the second fiscal quarter following such an acquisition, and (ii) net income plus interest, taxes, depreciation and amortization ("EBITDA") to be not less than three times interest expense (excluding the EBITDA and interest expense of Alliance, Aux Sable and certain subsidiaries).

As at December 31, 2004, the Partnership had $275.5 million borrowed under its Revolving Credit Facility (2003 – nil).

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, the following: (i) each issuer will not, at any time, permit its consolidated indebtedness to be more than 50 percent of its consolidated capitalization, in each case excluding the indebtedness and capitalization of Alliance, (ii) each issuer will not permit the ratio of operating cash flow to interest expense, calculated excluding the cash flow and interest expense of Alliance, to be less than 3.0 to 1.0 at the end of each fiscal quarter of such issuer, and (iii) each issuer will not encumber any of its assets except for permitted encumbrances and in the event it sells any portion of its interest in Alliance prior to maturity of the Senior Notes, it will redeem such notes at that time to the extent of the proceeds of such sale plus a make-whole amount and any unpaid and accrued interest thereon.

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.

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 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. In May 2003, new Canadian and U.S. credit facilities (the "Canadian Credit Facility" and the "U.S. Credit Facility") were established consisting of a $187.5 million committed extendible revolving credit facility and a US $62.5 million revolving credit facility, respectively, of which up to $50 million and US $35 million, respectively, are available by way of letters of credit to support debt service reserve requirements. In addition, a $57.5 million non-revolving Canadian term facility was established. These new credit facilities were established to replace the initial, incremental and revolving credit facilities, which were repaid in full and cancelled on May 30, 2003. Concurrent with the initial cash draw under the new credit facilities, $50 million and US $35 million, respectively, of letters of credit were issued to support debt service reserve requirements.

In June 2003, the net proceeds from the issuance of 5.546 percent Senior Notes, together with available cash balances, were used to repay and cancel $57.5 million outstanding under the non-revolving Canadian term facility and to repay $96.3 million outstanding under the Canadian Credit Facility. Concurrent with the repayment, the Canadian Credit Facility was permanently reduced to $95.0 million.

The Canadian Credit Facility contains an initial 364-day revolving term, commencing May 30, 2004, 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, 2004, the average interest rate applicable to the outstanding borrowings was 3.22 percent (2003 – 2.8 percent). 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, leaving $27.2 million (2003 – $27.4 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 lnterbank Offered Rate, plus applicable margins. At December 31, 2004, the average interest rate applicable to the outstanding borrowings was 3.17 percent (2003 – 1.94 percent). At December 31, 2004, 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, leaving US $18.6 million (2003 – US $11.1 million) available under this facility.

Alliance Senior Notes. During 2003, there were three issuances of Senior Notes as follows:

(i) On January 16, 2003, $200 million was raised through Alliance Canada's issuance of 6.765 percent Senior Notes under a base shelf prospectus which expired on March 31, 2003;

(ii) On June 26, 2003, $150 million was raised through Alliance Canada's issuance of 5.546 percent Senior Notes under a base shelf prospectus filed on June 12, 2003 with Canadian securities commissions providing for the public issuance of a maximum of $500 million of Senior Notes, which can be issued during the succeeding 25-month period; and

(iii) On May 23, 2003, US $150 million was raised through Alliance U.S.'s issuance of 4.591 percent Senior Notes, due 2025.

The Alliance Canada Senior Notes are collateralized on the same basis as the Canadian Credit Facility, and rank equally in right of payment. The Alliance Canada Senior Notes may be redeemed in whole, but not in part, at any time at a price equal to the greater of: (i) the applicable Government of Canada yield price plus a premium; and (ii) par, together with accrued interest. The Alliance U.S. Senior Notes are collateralized on the same basis as the U.S. Credit Facility and rank equally in right of payment. The Alliance U.S. dollar denominated Senior Notes may be redeemed in whole, but not in part, at a price equal to the outstanding principal amount of such Senior Notes plus accrued but unpaid interest, plus a make-whole premium. Alliance may be required to redeem the Senior Notes in whole or in part, from proceeds received under insurance claims or other claims for damages, if the proceeds are not applied to repair or rebuild the Alliance Pipeline.

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 agreements.

Aux Sable Bank Credit Facilities. On August 29, 2003, a U.S. committed revolving facility was established in the amount of US $19.2 million, which matures on December 31, 2005. Availability is based on eligible receivables, inventory and cash deposits. This new credit facility replaced a prior US $25.6 million credit facility, except for an approximate US $2.7 million outstanding under a construction loan, which was repaid and retired on September 27, 2003. The Aux Sable credit facility contains events of

default and covenants which are customary in loan agreements of this type, including a financial covenant which requires Aux Sable to establish and maintain a debt service reserve account balance of US $0.3 million at all times. In addition, the NGL facilities have been pledged as collateral. Interest is based on floating U.S. interest rates, plus applicable margins. The average interest rate applicable to borrowings under this facility during the year was 6.1 percent (2003 – 3.3 percent). As at December 31, 2004, US $4.5 million (2003 – US $7.7 million) was drawn on this facility and related to outstanding letters of credit (2003 – US $3.85 million letters of credit and $3.85 million in cash).

Aux Sable also utilizes a revolving demand loan of $3.0 million to finance its Canadian working capital requirements. Interest is based on floating interest rates, plus applicable margins. At December 31, 2004, while there were no cash advances outstanding (2003 – $0.1 million), there were issued letters of credit of $1.6 million (2003 – $1.6 million).

Obligations Under Capital Leases

The obligations under capital leases bear interest at varying rates up to 12 percent and mature between 2015 and 2020.

Scheduled Principal Repayments of Senior Debt and Capital Leases

Scheduled principal repayments of senior debt and capital leases, excluding the fair value adjustment of $37,110, which is being amortized over the life of the related debt, are as follows:

FOR THE YEARS ENDING DECEMBER 31	
2005	73,266
2006	72,889
2007	356,273
2008	65,953
2009	73,042
Thereafter	1,168,188
Obligations under capital leases (see Note 18)	6,876
	1,816,487

12/ SUBORDINATED CONVERTIBLE DEBENTURES

	2004	2003
Series A Convertible Debentures	**70,105**	140,780
Series B Convertible Debentures	**62,500**	62,500
	132,605	203,280

In January 2003, the Partnership issued $150 million of 7.5 percent Convertible Unsecured Subordinated Debentures, Series A, due June 30, 2008. The Series A Convertible Debentures are convertible, at the holder's option, into Class A Units at a conversion price of $9.00 per Class A Unit. During the year ended December 31, 2004, $70.7 million (2003 – $9.2 million) of Series A Convertible Debentures, before issue costs, were converted into Class A Units.

In October 2003, the Partnership issued $62.5 million of 6.75 percent Convertible Unsecured Subordinated Debentures, Series B, due December 31, 2010. The Series B Convertible Debentures are convertible, at the holder's option, into Class A Units at a conversion price of $10.70 per Class A Unit. No Series B Convertible Debentures had been converted into Class A Units as at December 31, 2004.

These Convertible Debentures (the "Convertible Debentures") rank equally with all other unsecured and subordinated indebtedness of the Partnership. The Convertible Debentures are currently not qualified investments for tax exempt investors under the *Income Tax Act* (Canada), including, without limiting the foregoing, trusts governed by registered retirement savings plans. Consequently, purchases of these debentures by tax exempt investors are restricted.

13/ TRANSPORTATION SECURITY DEPOSITS

In accordance with Alliance's transportation agreements, 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. At the balance sheet date, transportation security deposits include the following:

	2004	2003
Cash deposits	**9,248**	5,645
Letters of credit	**55,590**	71,098
	64,838	76,743

14/ LONG-TERM LIABILITIES

	2004	2003
Transportation contracts	**26,456**	28,898
Transportation revenue adjustment accrued	**5,232**	6,309
Other	**5,631**	3,564
	37,319	38,771
Less: current portion	**(8,402)**	(6,790)
Total long-term liabilities	**28,917**	31,981

The obligation under the transportation contracts relates to proceeds received by the Partnership in 2002 and 2003 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.

Alliance estimates the tolls necessary to recover the projected cost of providing transportation service to its shippers in accordance with its transportation contracts and regulations. The tolls are submitted to shippers and filed with the NEB and the FERC. Alliance tolls include transportation revenue adjustments relating to differences between estimated and actual costs of providing transportation service in a prior year. The Partnership's toll for 2005, filed prior to the end of the 2004 toll period, included $5.2 million relating to differences arising in the 2004 and 2003 toll periods. The Partnership's toll for 2004, filed prior to the end of the 2003 toll period, included an estimate of $3.7 million relating to differences arising in the 2003 and 2002 toll periods and an additional $2.6 million to reflect the actual 2003 difference, which will be adjusted in the Partnership's 2005 toll.

Other long-term liabilities include $2.3 million (2003 – $2.0 million) for the portion of accrued property taxes that are not required to be remitted within one year.

15/ PARTNERS' EQUITY

(a) Partners' Capital Account

(i) Authorized. In May 2003, Unitholders approved the creation of Class B limited partnership units ("Class B Units"). The Partnership is now authorized to issue an unlimited number of Class A limited partnership units ("Class A Units" or "Units") and an unlimited number of Class B Units, issuable in series.

(ii) Issued.

	CLASS A UNITS	
	NUMBER	VALUE
December 31, 2002	74,372,673	442,002
Units issued under DRIP[1] (Note 15(e))	1,430,180	12,514
Units issued pursuant to June 12, 2003 public offering, net of $7,347 of issue costs	15,250,000	127,616
Convertible Debentures converted into Units, net of $350 of issue costs (Note 12)	1,024,437	8,870
Units issued pursuant to October 15, 2003 public offering, net of $4,613 of issue costs	9,065,000	82,864
December 31, 2003	101,142,290	673,866
Units issued under DRIP[1, 2] (Note 15(e))	791,502	7,830
Convertible Debentures converted into Units, net of $1,898 of issue costs (Note 12)	7,852,748	68,777
December 31, 2004	109,786,540	750,473
Units to be issued under DRIP[1] (Note 15(e))	55,624	600
	109,842,164	751,073

(1) Includes Class A Units issued to satisfy a portion of the Partnership's distributions as well as Class A Units issued under the optional unit purchase component of the DRIP.
(2) Includes 573,558 Class A Units valued at $5,576 that were issued in 2004 in respect of the fourth-quarter distribution for 2003.

The weighted average number of Class A Units outstanding for the year ended December 31, 2004 was 104,535,234 (2003 – 85,531,788) and 123,281,392 (2003 – 102,570,610) for determining earnings per Class A Unit on a basic and diluted basis, respectively. The weighted average number of Class A Units outstanding on a diluted basis includes 13,630,566 Class A Units that would be issued if the outstanding Convertible Debentures as at December 31, 2004, were converted.

(b) Distributions

The Partnership has declared and paid the following distributions to holders of Class A Units in respect of 2004 and 2003:

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER CLASS A 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**

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER CLASS A UNIT	DISTRIBUTION PAID/PAYABLE IN CASH	DISTRIBUTION PAID IN UNITS UNDER DRIP	TOTAL DISTRIBUTION PAID/PAYABLE
2003					
March 31, 2003	April 30, 2003	0.18000	12,162	1,250	13,412
June 30, 2003	July 31, 2003	0.18000	11,284	4,900	16,184
September 30, 2003	October 31, 2003	0.19000	11,992	5,295	17,287
December 31, 2003	January 30, 2004	0.20000	14,654	5,574	20,228
		0.75000	50,092	17,019	67,111

(c) Ownership Restrictions Applicable to Class A 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 (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 Class A Unit issued. The rights remain attached to the Class A 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 Class A Units (subject to certain exceptions), the rights will entitle the holders thereof (other than the acquiring person or group) to purchase Class A 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

In June 2002, the Partnership adopted a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan, which was subsequently amended in January 2004 to reflect the Partnership's adoption of a monthly distribution policy (the "DRIP"). The DRIP allows eligible holders of Class A Units to, among other things, elect to reinvest the eligible portion of the distribution declared by the Partnership in additional Class A 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, 2004, an aggregate of 648,376 Class A Units are reserved and available for issuance pursuant to the terms of the DRIP.

16/ UNIT APPRECIATION RIGHTS

The Partnership adopted a Unit Appreciation Rights Plan effective December 3, 1997 pursuant to which unit appreciation rights ("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 Class A 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, 2004 and 2003.

YEAR OF GRANT	NUMBER OF UARS	WEIGHTED AVERAGE EXERCISE PRICES ($)	EXPIRY DATES	UNITS VESTED	VALUE
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	64,167	254
2004	180,000	10.27	March 9, 2009 to June 7, 2009	60,000	132
	647,500	9.32		474,167	1,256
As at December 31, 2003					
2001	500,000	9.29	March 7, 2006	500,000	455
2002	125,000	8.24	December 12, 2007	83,333	245
2003	160,000	9.00	May 1, 2008 to July 14, 2008	53,333	192
	785,000	9.06		636,666	892

In 2004, the cost of the Partnership's UARs was $1.1 million (2003 – $0.9 million). During 2004, 317,500 UARs were exercised at an average market price of $11.41.

The vesting provision for the UARs 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. As of December 31, 2004, 100 percent of the UARs issued in 2001 and 2002 had vested, 66-2/3 percent of the UARs issued in 2003 had vested and 33-1/3 percent of the UARs issued in 2004 had vested.

17/ INCOME TAXES

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

INCOME TAX RECONCILIATION

	2004	2003
		(Restated – Note 4)
Net income before income taxes and equity income	85,018	65,118
Combined statutory income tax rate	34.52%	36.7%
Income taxes at statutory rate	29,348	23,898
Increase/(decrease) resulting from:		
Tax benefits attributable directly to Unitholders	43	190
Future income taxes related to Canadian rate-regulated operations	(13,419)	(11,020)
Large corporations & capital taxes	4,098	4,203
Benefit of intergroup charges	(7,030)	(4,187)
Higher income tax rates in other jurisdictions	3,233	1,441
Unrecognized benefit of current tax losses	4,249	17,080
Recognized benefit of loss carry-forwards	(6,199)	(6,253)
Prior-year tax adjustments	(4,418)	–
Rate reduction	(2,905)	–
Other	395	322
Income taxes	7,395	25,674
Effective income tax rate	8.7%	39.4%

COMPONENTS OF FUTURE TAXES

	2004	2003
Future income tax liabilities (assets)		
Differences in the accounting and tax bases of:		
Pipeline, plant and other capital assets	157,150	134,610
Deferred revenue and costs	60,632	49,016
Non-capital losses	(92,502)	(87,335)
	125,280	96,291
Valuation allowance	20,602	24,058
Future tax liability	145,882	120,349

Accumulated future income taxes of $88,632 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 ratemaking purposes, such amounts would have been recorded and recovered from revenues.

Fort Chicago has Canadian and U.S. non-capital losses of $17,974 and $228,965 (US $190,170) 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 2024.

18/ COMMITMENTS AND CONTINGENCIES

The Partnership has operating leases for office premises, vehicles, railcars, and computer equipment 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
2004	1,031	2,963
2005	1,044	2,511
2006	1,044	2,165
2007	1,044	1,777
2008	1,044	1,541
Thereafter	8,625	3,234
Total minimum lease payments	13,831	14,192
Lease imputed interest	(6,956)	–
Capital lease liability	6,876	14,192

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.

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 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.

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

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 the Partnership's consolidated financial position or consolidated results of operations.

19/ 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, 2004, based on quoted market prices, is $1.7 billion (2003 – $1.8 billion) compared with the aggregate carrying value of $1.5 billion (2003 – $1.7 billion).

Cash and short-term investments consist of amounts held in cash deposit accounts with a Canadian chartered bank, as well as investments in deposit instruments and/or commercial paper. Deposit instruments are restricted to government securities or deposits issued by reputable financial institutions maintaining specified minimum credit ratings and meeting certain capitalization tests. Holdings of deposit instruments and commercial paper issued by any one non-governmental issuer are also restricted. All investments have a maximum term to maturity of three months. 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 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 the Partnership's 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 13).

The earnings and cash flows of the NGL business are sensitive to changes in the price of natural gas and NGL. To reduce this exposure, beginning in August 2003, Aux Sable entered into derivative financial instruments referenced to industry standard indices in order to hedge its price exposure to natural gas and NGL.

The Partnership's proportionate share of these contracts at December 31, 2003 and 2004, is as follows:

COMMODITY	MATURITY DATE	NOTIONAL VOLUME	INDEX	STRIKE PRICE	FAIR VALUE 2004	FAIR VALUE 2003
Purchases		(mmbtu/d)		($US/mmbtu)	**($000s)**	($000s)
Collar	March 31, 2005	427	NGI	6.35 – 7.75	**(17)**	–
Call option	March 31, 2005	2,562	NGI	8.77 – 10.00	**2**	–
Natural gas swap	Jan. – Sept., 2005	24,865	Chicago NGI	6.25 – 8.37	**(3,622)**	–
Natural gas swap	April – June, 2005	1,643	Chicago Daily	6.76	**(114)**	–
Natural gas basis swap	Jan. – March, 2005	21,349	AECO – CCG	0.92 – 1.06	**27**	–
Fixed for floating swap	March 31, 2004	1,281	NYMEX	5.74	–	56
Basis swap	March 31, 2004	1,281	NYMEX – AECO	0.70	–	18
Put option	March 31, 2004	2,562	NYMEX	4.90	–	(20)
Natural gas swap	Jan. 31, 2004	4,107	NGI	6.07	–	29
Natural gas swap	March 31, 2004	8,668	AECO	4.32	–	1,125
Natural gas collar	March 31, 2004	17,079	AECO	5.85 – 4.78	–	1,121
Natural gas basis swap	March 31, 2004	17,079	NYMEX – AECO	0.50	–	(158)
Net unrealized gain (loss) on natural gas hedges					**(3,724)**	2,171
Sales		(bbls/d)		($US/bbl)		
Ethane	Jan. – Sept., 2005	5,978	OPIS	20.48 – 25.83	**2,610**	–
Propane	Jan. – Sept., 2005	1,281	OPIS	32.39 – 33.39	**602**	–
Iso-butane	April – Sept., 2005	640	OPIS	38.54	**321**	–
Ethane	March 31, 2004	6,085	OPIS	18.06 – 18.17	–	(801)
Propane	Jan. – March, 2004	2,135	OPIS	23.63 – 25.88	–	(1,035)
Butane	March 31, 2004	640	OPIS	27.20	–	(622)
Iso-butane	March 31, 2004	427	OPIS	27.20	–	(326)
Net unrealized gain (loss) on NGL hedges					**3,533**	(2,784)
Unrealized reduction to future revenues					**(191)**	(613)

20/ SUBSEQUENT EVENTS

The Partnership declared a distribution of $0.075 per Class A Unit for each of January and February 2005.

21/ SEGMENTED INFORMATION

2004	PIPELINE BUSINESSES ALLIANCE PIPELINE[4]	AEGS[2]	NATURAL GAS LIQUIDS[4]	PARTNERSHIP	TOTAL[1]
Revenues[3]	397,427	1,062	397,646	(3,825)	776,171
Natural gas, NGL & transportation[3]	–	–	373,680	–	357,541
Operations & maintenance	52,964	366	947	–	54,277
Depreciation & amortization	106,204	348	3,390	2,487	112,429
Interest & other finance	107,271	–	1,412	20,381	129,064
General & administrative	26,195	44	5,534	6,069	37,842
Net income (loss) before taxes	104,793	304	12,683	(32,762)	85,018
Total assets	2,388,599	308,488	189,175	9,739	2,896,001
Capital expenditures	14,290	–	1,790	81	16,161

2003 (RESTATED – NOTE 4)	ALLIANCE PIPELINE[4]	NATURAL GAS LIQUIDS[4]	PARTNERSHIP	TOTAL[1]
Revenues[3]	312,167	187,221	17,991	506,699
Natural gas, NGL & transportation[3]	–	188,924	–	178,244
Operations & maintenance	37,580	476	–	38,056
Depreciation & amortization	80,261	3,025	5,564	88,850
Interest & other finance	83,378	1,415	24,734	109,527
General & administrative	18,320	3,644	4,940	26,904
Net income (loss) before taxes & equity income	92,628	(10,263)	(17,247)	65,118
Equity income – first quarter	16,777	(3,033)	184	13,928
Net income (loss) before taxes	109,405	(13,296)	(17,063)	79,046
Total assets	2,555,014	191,600	19,334	2,765,948
Capital expenditures	15,827	1,138	231	17,196

(1) After giving effect to intersegment eliminations and allocations to businesses.
(2) Represents the results of AEGS from December 22, 2004, being the date of acquisition.
(3) The Alliance Pipeline transportation revenues include $16.1 million (2003 – $10.7 million) of transportation revenue from the NGL business that eliminates upon consolidation. The natural gas, NGL and transportation costs of the NGL business include the corresponding cost amount.
(4) Represents Fort Chicago's proportionate share of Alliance's and Aux Sable's results from April 1, 2003, being the date Fort Chicago commenced proportionately consolidating its results.

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

2004	CANADA	U.S.	TOTAL
Revenues[1, 2]	230,483	545,688	776,171
Pipeline, plant & other capital assets	1,550,597	1,044,234	2,594,831

2003	CANADA	U.S.	TOTAL
Revenues[1, 3]	192,844	313,855	506,699
Pipeline, plant & other capital assets	1,329,893	1,137,325	2,467,218

(1) After giving effect to intersegment eliminations and allocations to businesses.
(2) Includes the results of AEGS from December 22, 2004, being the date of acquisition.
(3) Includes Fort Chicago's proportionate share of Alliance's and Aux Sable's results from April 1, 2003, being the date Fort Chicago commenced proportionately consolidating its results.

22/ RECONCILIATION OF DISTRIBUTABLE CASH TO CASH FLOW FROM OPERATING ACTIVITIES

	2004	2003
Consolidated operating cash flow	**172,042**	87,901
Operating cash flow applicable to Alliance and Aux Sable	**(82,273)**	(17,316)
Operating cash flow of the Partnership[(1)]	**89,769**	70,585
Add/deduct:		
Principal repayments on Senior Notes	**(3,913)**	(4,235)
Change in Partnership non-cash working capital	**737**	171
Distributions earned for period in excess of distributions received in period	**6,142**	6,753
Distributable cash	**92,735**	73,274

(1) Net of support payments made by the Partnership to the NGL business of $2.9 million (2003 – $12.8 million) for the year ended December 31, 2004.

23/ COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2004.