



 **FortChicago**

2008 FINANCIAL REPORT

PIPELINES. NGL. POWER.

MANAGEMENT'S REPORT

To the Unitholders of Fort Chicago Energy Partners L.P.

The consolidated financial statements of Fort Chicago Energy Partners L.P. ("Fort Chicago") and all information contained in this annual report are the responsibility of the management of Fort Chicago Energy Management Ltd. (the "General Partner"), the general partner of Fort Chicago.

The consolidated financial statements have been prepared by the management of the General Partner in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Actual results may differ from these estimates and judgements. Management has ensured that these consolidated financial statements are presented fairly in all material respects.

Management maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information contained in this annual report is, in all material respects, relevant, reliable and accurate, and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the General Partner is responsible for reviewing and approving Fort Chicago's annual consolidated financial statements and, primarily through its Audit Committee, for ensuring that management fulfills its responsibilities for financial reporting and internal control.

The Audit Committee is comprised of six independent and financially literate board members that meet regularly during the year with management and the external auditors to satisfy itself that management's responsibilities are being discharged; to review and approve the interim consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's interim reports prior to their release; and to review the annual consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's Annual Report, as well as its Annual Information Form prior to submitting them to the Board of Directors for approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders of Fort Chicago to express an opinion as to whether the consolidated financial statements of Fort Chicago present fairly, in all material respects, its financial position as at December 31, 2008 and 2007 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Stephen H. White
President and Chief Executive Officer
March 4, 2009



Theresa Jang
Vice President, Controller and Acting Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Fort Chicago Energy Partners L.P.

We have audited the consolidated statement of financial position of Fort Chicago Energy Partners L.P. (the "Partnership") as at December 31, 2008 and 2007 and the consolidated statements of income and cumulative income, of comprehensive income and cumulative other comprehensive income and of cash flows for each of the years in the two year period ended December 31, 2008. These consolidated financial statements are the responsibility of the management of the Partnership's general partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2008 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

March 4, 2009

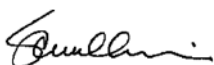
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(\$ Thousands)	December 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and short-term investments (note 6)	56,064	47,191
Restricted cash (note 7)	20,280	75,236
Transportation security deposits and revenue adjustments (notes 8 and 9)	7,989	5,991
Receivables	61,935	59,568
Inventory	3,913	2,623
Prepaid expenses and other	12,349	6,321
	162,530	196,930
Long-term receivables (note 9)	273,392	218,701
Pipeline, plant and other capital assets (note 10)	2,552,434	2,326,057
Intangible assets (note 11)	116,534	98,876
Goodwill (note 5)	-	19,104
Other assets (note 12)	22,789	11,696
	3,127,679	2,871,364
Liabilities		
Current liabilities		
Payables	112,623	69,943
Transportation security deposits (note 8)	5,581	5,275
Distribution payable	11,162	10,968
Current portion of long-term senior debt and capital leases (note 13)	89,176	65,292
Subordinated convertible debentures and exchangeable debentures (notes 5 and 14)	25,717	46,783
	244,259	198,261
Long-term senior debt and capital leases (note 13)	1,758,958	1,652,133
Subordinated convertible debentures (note 14)	23,909	23,783
Future taxes (note 17)	239,823	198,985
Other long-term liabilities (note 15)	60,143	42,749
	2,327,092	2,115,911
Partners' Equity		
Partners' capital account (note 16)	1,013,278	991,294
Cumulative other comprehensive loss	(7,306)	(102,092)
Cumulative net income	546,143	484,644
Cumulative distributions	(751,528)	(618,393)
	800,587	755,453
	3,127,679	2,871,364

Commitments and contingencies (note 18)

See the 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 Partners L.P.


David J. Drybrough
Director

Stephen W.C. Mulherin
Director

CONSOLIDATED STATEMENT OF INCOME AND CUMULATIVE INCOME

(\$ Thousands, except per unit amounts)	Year ended December 31	
	2008	2007
Revenues		
Operating revenues (note 9)	683,952	584,201
Interest and other	17,478	5,022
	701,430	589,223
Expenses		
Operations and maintenance	241,486	157,632
Depreciation and amortization	131,095	121,438
Interest and other finance (note 13)	108,577	109,346
General, administrative and project development	80,474	66,262
Foreign exchange and other	30,038	21,168
Asset impairment loss (notes 5 and 12)	21,105	-
	612,775	475,846
Net income before taxes	88,655	113,377
Current taxes (note 17)	24,378	1,536
Future taxes (note 17)	2,778	25,684
Net income	61,499	86,157
Cumulative net income at the beginning of the year	484,644	398,487
Cumulative net income at the end of the year	546,143	484,644
Net income per Unit		
Basic and diluted	0.46	0.66

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CUMULATIVE OTHER COMPREHENSIVE INCOME

(\$ Thousands)	Year ended December 31	
	2008	2007
Net income	61,499	86,157
Other comprehensive income (loss), net of taxes		
Cumulative translation adjustment		
Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations	94,140	(63,496)
Deemed realization of cumulative translation adjustment reclassified to net income	26,957	26,099
Gain (loss) on hedge of self-sustaining foreign operation	(24,190)	5,464
Other	(2,121)	733
	94,786	(31,200)
Comprehensive income	156,285	54,957
Cumulative other comprehensive loss at the beginning of the year	(102,092)	(70,892)
Other comprehensive income (loss), net of taxes	94,786	(31,200)
Cumulative other comprehensive loss at the end of the year	(7,306)	(102,092)

See the accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(\$ Thousands)	Year ended December 31	
	2008	2007
Operating		
Net income	61,499	86,157
Less: Non-cash transportation revenue (note 9)	(18,003)	(24,517)
Add: Depreciation, amortization and other non-cash items	127,457	121,648
Unrealized foreign exchange loss	33,769	19,038
Future taxes	2,778	25,684
Asset impairment loss (notes 5 and 12)	21,105	-
Changes in non-cash working capital	33,980	(23,158)
	262,612	204,852
Financing		
Long-term debt issued, net of issue costs	-	89,391
Long-term debt repaid	(68,354)	(82,779)
Net change in credit facilities, net of issue costs	49,961	261,984
Distributions paid	(132,942)	(122,886)
Other	15,608	-
	(135,727)	145,710
Investing		
Acquisition of Brush II Generation Facility, net of cash acquired	(33,969)	-
Acquisition of Countryside Power Income Fund, net of cash acquired	-	(167,737)
Pipeline, plant and other capital assets	(139,026)	(99,597)
Restricted cash (note 7)	55,296	(75,236)
Other	(12,007)	(6,741)
Changes in non-cash investing working capital	855	6,303
	(128,851)	(343,008)
Increase in cash and short-term investments before the effect of of foreign exchange rate changes on cash and short-term investments	(1,966)	7,554
Effect of foreign exchange rate changes on cash and short-term investments	10,839	(5,081)
Cash and short-term investments at the beginning of the year	47,191	44,718
Cash and short-term investments at the end of the year	56,064	47,191
Cash and short-term investments	31,727	38,610
Cash and short-term investments in trust	24,337	8,581
	56,064	47,191
Supplemental disclosure of cash flow information		
Interest paid	114,208	107,212
Taxes paid, net of refunds received	1,674	557

See accompanying Notes to the Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2008

1. Business and Structure of the Partnership

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

Currently, the Partnership's principal investments are in pipeline, natural gas liquids ("NGL") and power businesses. The pipeline business is comprised of a 50 percent ownership interest in Alliance Pipeline Limited Partnership ("Alliance Canada") and Alliance Pipeline L.P. ("Alliance U.S." and, together with Alliance Canada, and each of their managing general partners, collectively referred to as "Alliance" or "Alliance Pipeline") and a 100 percent ownership interest in Alberta Ethane Gathering System L.P. (together with its general partner, collectively referred to as "AEGS" and Alliance and AEGS being collectively referred to as the "Pipeline Business"). The NGL business is comprised of a 50 percent (2007 - 46.9 percent) ownership interest in Aux Sable Canada L.P. ("Aux Sable Canada") and Sable NGL Canada L.P. ("Sable Canada"), and a 42.7 percent ownership interest in 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, Sable Canada, Aux Sable U.S., and each of their managing general partners, collectively referred to as "Aux Sable" or the "NGL Business"). The power business is comprised of a 100 percent ownership interest in Fort Chicago Power Ltd. (together with its subsidiaries, including Brush II Generation Facility ("Brush II", note 4), acquired in September 2008, referred to as "Fort Chicago Power"), a 50 percent ownership interest in NRGreen Power Limited Partnership (together with its managing general partner, referred to as "NRGreen"), a 50 percent ownership interest in East Windsor Cogeneration LP (together with its managing general partner, referred to as "East Windsor Cogeneration"), a 50 percent ownership interest in Milton Clean Energy LP ("Milton"), a 10.9 percent ownership interest (2007 - 20.3 percent) in Pristine Power Inc. ("Pristine"), and less than one percent ownership interest in a private, independent power company, collectively referred to as the "Power Business".

Alliance owns and manages a mainline natural gas pipeline with various connecting lateral pipelines extending from northeastern British Columbia to points near Chicago, Illinois. AEGS owns and manages a 1,324-kilometre pipeline that transports pure ethane from various Alberta ethane extraction plants to Alberta's major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta. Aux Sable owns and manages an NGL extraction and fractionation facility near the terminus of the Alliance pipeline, storage, downstream pipelines and loading facilities, and long-term natural gas transportation capacity on the Alliance pipeline. Fort Chicago Power owns one gas-fired cogeneration facility and two district energy systems located in Canada, and three gas-fired cogeneration facilities located in the United States. NRGreen owns four waste heat power generation facilities located at Alliance's Saskatchewan compressor stations. East Windsor Cogeneration is constructing a cogeneration facility in Windsor, Ontario (the "East Windsor Cogeneration Facility").

2. Basis of Presentation

These consolidated financial statements have been prepared by the General Partner in accordance with accounting principles generally accepted in Canada ("GAAP") and include the accounts of the Partnership and its intermediary subsidiaries (collectively "Fort Chicago"), AEGS, Fort Chicago Power and the Partnership's proportionate interests in Alliance, Aux Sable, NRGreen, East Windsor Cogeneration, and Milton which are jointly controlled businesses and are, therefore, proportionately consolidated. Investments in which Fort Chicago does not have control or joint control, but does have significant influence, are accounted for using the equity method. Investments in which Fort Chicago does not have significant influence are accounted for using the cost 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. Accounting and reporting requirements applicable to rate-regulated entities have been adopted in connection with Alliance, which provide for certain revenues and expenses being recognized differently than otherwise expected under generally accepted accounting principles applicable to non-regulated businesses. None of Fort Chicago’s other businesses are rate-regulated entities.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent assets and liabilities, revenues and expenses. Actual amounts could differ from these estimates. Significant estimates used in the preparation of these consolidated financial statements relate to the determination as to whether there has been an impairment in the carried value of long-term assets, the estimated useful lives over which certain assets are depreciated or amortized, and the measurement of asset retirement obligations.

3. Summary of Significant Accounting Policies of the Partnership

Effective January 1, 2008, the Partnership adopted the new CICA Handbook Sections 1535 “Capital Disclosures”, 3862 “Financial Instruments – Presentation” and 3863 “Financial Instruments – Disclosures” (note 19). The adoption of these new standards requires additional disclosures in the following areas:

(a) Capital Disclosures

The new standard establishes qualitative and quantitative disclosures about the Partnership’s objectives, policies and processes for managing capital. It also requires disclosure of externally imposed capital requirements. Information related to comparative years has been provided in accordance with the transitional provisions of the new standard.

(b) Financial Instruments

The new standards replace Handbook Section 3861 “Financial Instruments – Disclosure and Presentation”, revising and enhancing disclosure requirements but carrying forward unchanged presentation requirements. The new requirements expand disclosure about the significance of financial instruments to the Partnership’s financial position and performance, the nature and extent of risks arising from financial instruments, and how the Partnership manages these risks. Information related to comparative years has been provided in accordance with the transitional provisions for the new standards.

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, capital expenditure and working capital purposes.

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. Plant assets relating to the Pipeline and NGL Businesses 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. Power plant assets are recorded at cost and are being depreciated on a straight-line basis over their respective useful lives with rates ranging from two percent to 14 percent per annum. Assets under capital lease are being amortized on a straight-line basis over the life of the asset. Administrative assets are recorded at cost and are being depreciated on a straight-line basis over the life of the asset or the term of the lease, where applicable, 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 being depreciated.

Pipeline, plant and other capital assets include an allowance for funds used during construction (“AFUDC”) of the Alliance pipeline which have been capitalized based on the rate of return on rate base approved by regulators and are expected to be recovered in future tolls. Accordingly, these costs are being amortized to earnings on a basis consistent with the underlying assets.

Expenditures that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred. Construction work in progress, which includes capitalized interest, will be reclassified to pipeline, plant and power facilities and depreciated over the estimated useful life upon commencement of operations.

Intangible assets

AEGS ethane transportation agreements (“ETAs”) are being amortized on a straight-line basis over the term of the agreements. Fort Chicago Power’s customer relationships and agreements are being amortized on a straight-line basis over periods ranging from 18 to 21 years.

Impairment of Pipeline, Plant and Other Capital Assets and Intangible Assets

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

Judgements and assumptions are inherent in management’s estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset’s fair value used to calculate the amount of any impairment.

Goodwill

Goodwill represents the amount by which the purchase price exceeds the fair value of the identifiable net assets acquired. Goodwill is not amortized, but is subject to an impairment test, which the Partnership evaluates at least annually, wherein any excess of the carrying value of goodwill over its fair value is recognized as an impairment loss.

Asset Retirement Obligations

The estimated fair value of asset retirement obligations associated with tangible long-lived assets are recognized in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The asset retirement obligation is capitalized as part of the cost of the related long-lived assets and is amortized over the remaining life of the assets.

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

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, maintenance and administrative costs, allowances for depreciation, allowances for taxes, costs of indebtedness, and an allowed return on equity of approximately 11.26 percent in Canada and 10.88 percent in the United States.

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

If rate-regulated accounting was not used in respect of Alliance, the long-term receivable and the transportation revenue adjustments in note 9 would not be recognized in these consolidated financial statements.

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

NGL revenues include revenues earned pursuant to the terms of a long-term agreement between Aux Sable and BP Products North America, Inc. and affiliates thereof ("BP") whereby Aux Sable agreed to sell all associated production from its Channahon, Illinois facilities ("Channahon Facility") to BP ("NGL Sales Agreement"). The NGL Sales Agreement is being accounted for as an operating lease. Revenues earned in connection with the NGL Sales Agreement reflect fixed and margin-based fees and the recovery of all associated operating costs with the exception of natural gas make-up costs, which have been assumed by BP, and the costs under certain capital leases, which are deemed to have been subleased to BP and have been accounted for as a capital lease. NGL sales and purchases with parties other than BP, including those which form part of the margin under the NGL Sales Agreement, are recorded on a gross basis. The margin-based component of lease revenues, which under the NGL Sales Agreement is determined on an annual basis, is estimated and recognized quarterly to the extent its realization is certain.

Power revenue derived from the sale of energy in the form of electricity, steam, hot water and chilled water is recognized on the accrual basis upon delivery at rates pursuant to the relevant agreements. In addition, Fort Chicago Power receives fixed capacity payments that are not dependent upon the amount of energy delivered to customers. This revenue is recognized as earned on a monthly basis.

Project Development Costs

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

Shipper Imbalances

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

Foreign Currency Translation

The functional currency of the Partnership and its Canadian subsidiaries is the Canadian dollar. The Partnership's foreign operations are self-sustaining and 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 deferred and reported as a separate component of other comprehensive income. A portion of such deferred translation gain or loss is recognized in net income when there has been an ownership interest reduction in or distribution from such foreign subsidiaries.

Long-term Incentive Compensation

Fort Chicago has a long-term employee incentive plan ("LTIP"), which grants notional units to each eligible employee and are payable in cash at the date of vesting. Under Fort Chicago's LTIP, notional units vest when certain conditions are met, including the employee's continued employment during a specified period and the achievement of specified performance targets. Other LTIPs have been established by Fort Chicago's operating businesses. Expenses related to the various LTIPs are accounted for on an accrual basis.

Income Taxes

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

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

On June 22, 2007, Bill C-52, an Act to implement certain tax legislation relating to the taxation of specified investment flow-through entities, became law. Consequently, a portion of the Partnership's taxable income will be subject to 29.5 percent tax, similar to that of a corporation, commencing in 2011, provided it complies with the related "normal growth" guidelines. Generally accepted accounting principles require the estimated future tax liability related to this legislation to be recorded commencing in the period such legislation is substantially enacted. As at December 31, 2008, there were no material temporary differences applicable to the Partnership.

New Accounting Pronouncements

(a) Accounting for the Effects of Rate Regulation

In August 2007, the Canadian Accounting Standards Board published its decision in respect of Rate Regulated Operations. Much of the existing accounting guidance related to rate-regulated operations have been retained, however, the exemption from the requirement to record future income taxes, as currently provided in CICA Handbook Section 3465, *Income Taxes*, and the exemption from CICA Handbook section 1100, *Generally Accepted Accounting Principles*, has been removed, effective January 1, 2009. The Partnership intends to adopt these changes effective January 1, 2009 and the principal effect will be the balance sheet recognition of future Canadian income tax liabilities associated with Alliance, equally offset by regulatory assets.

(b) Goodwill and Intangible Assets

Effective January 1, 2009, the Partnership adopted the new CICA Handbook Section 3064 *Goodwill and Intangible Assets*. The new standard replaces Handbook Section 3062 *Goodwill and Other Intangible Assets*, establishing standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Adoption of this new standard did not have a material impact on the Partnership.

(c) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to retrospectively adopt International Financial Reporting Standards (“IFRS”) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Fort Chicago is currently assessing the impact of the convergence of Canadian GAAP with IFRS on its results of operations, financial position and disclosures.

4. Acquisition of Brush II Generation Facility

On September 10, 2008, pursuant to its offer dated June 27, 2008 for all equity interest shares of Brush II, the Partnership acquired all of the outstanding shares of Brush II for cash consideration, including transaction costs, of approximately \$35.6 million. The acquisition was financed using excess cash balances on hand at the time of closing and Fort Chicago’s existing committed revolving credit facility.

The acquisition of Brush II was accounted for using the purchase method, as set out below, and its results of operations since the date of acquisition have been reported on a consolidated basis.

Working capital, including cash of \$1.7 million	6,293
Capital assets	22,366
Intangible assets (note 11)	6,984
	35,643

5. Acquisition of Countryside Power Income Fund

On August 10, 2007, pursuant to its offers dated July 5, 2007 for all of the outstanding trust units of Countryside Power Income Fund (“Countryside”) and all of the outstanding 6.25 percent exchangeable unsecured subordinated US dollar denominated debentures (the “Exchangeable Debentures”) of Countryside Canada Power Inc. (renamed Fort Chicago Power Ltd. and, together with its wholly-owned subsidiaries, collectively referred to as “Fort Chicago Power”), Fort Chicago acquired all of the outstanding trust units of Countryside and US \$18.1 million of Exchangeable Debentures for cash consideration, including transaction costs, of approximately \$204.2 million and US \$18.3 million, respectively, using excess cash balances on hand at the time of closing and Fort Chicago’s existing committed revolving credit facility. Countryside was subsequently wound up, resulting in all of its assets and liabilities being owned by Fort Chicago Power.

The acquisition was accounted for using the purchase method, as set out below, and its results of operations have been reported on a consolidated basis, which now, together with Brush II, NRGreen, East Windsor Cogeneration, Milton, and Pristine, form part of Fort Chicago’s Power segment.

Working capital, including cash of \$36.4 million	33,099
Capital assets	127,044
Intangible assets (note 11)	92,298
Goodwill	19,104
Exchangeable debentures (note 14)	(45,956)
Future taxes	(21,436)
	204,153

In accordance with the Partnership’s accounting policy, the goodwill which arose from this acquisition was tested for impairment by comparing Fort Chicago Power’s fair value, determined on a discounted cash flow basis, to its carrying value as at December 31, 2008. Consequently, an impairment loss of \$19.9 million has been recognized in 2008 net income and the goodwill balance has been written down to nil.

6. Cash and Short-term Investments

	2008	2007
Cash in trust accounts		
Operations and working capital	21,059	4,471
Debt service and debt service reserve	522	370
Other	2,756	3,740
	24,337	8,581
Cash in non-trust accounts	31,727	38,610
	56,064	47,191

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

Alliance must also maintain a six month debt service reserve sufficient to fund scheduled principal and interest payments for such period. At December 31, 2008 and 2007, this requirement was satisfied by letters of credit as discussed in note 13.

7. Restricted Cash

Under the terms of its finance agreement, East Windsor Cogeneration has established separate bank accounts under the control of the Bond Trustee. As at December 31, 2008, there was a balance in this account of \$20.3 million (2007 - \$75.2 million). East Windsor Cogeneration's use of this cash is restricted to certain construction expenditures in relation to the East Windsor Cogeneration Facility that have been approved by the Bond Trustee prior to payment. East Windsor Cogeneration's restricted cash is held in short-term investments, the carrying values of which do not materially differ from the fair values. Under the terms of the East Windsor Cogeneration long-term debt facility, restricted cash is precluded from being invested in non-bank asset backed commercial paper.

8. Transportation Security Deposits

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

At the balance sheet date, Alliance holds the following transportation security:

	2008	2007
Cash deposits and accrued interest	3,271	1,885
Letters of credit	36,906	38,846
	40,177	40,731

9. Effects of Rate Regulation

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

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

Transportation Revenue

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

	2008	2007
Tolls invoiced	397,223	367,144
Increase (decrease) related to:		
Accounting depreciation rate	17,986	27,203
Property tax accruals	(406)	(1,219)
Differences from current period cost-of-service estimates	(4,393)	(597)
Prior year's over (under) recovery	4,815	(870)
	18,003	24,517
Transportation revenue	415,226	391,661

Depreciation

The long-term receivable at December 31, 2008 includes a regulatory asset of \$262.3 million (2007 - \$209.3 million) related to the cumulative excess of depreciation expense charged for accounting purposes over depreciation expense recovered as revenue under Alliance's transportation contracts. This amount is expected to be recovered over a number of years when depreciation rates prescribed in the transportation contracts are expected to exceed depreciation rates used for accounting purposes.

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

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

Cost-of-Service Toll Estimate

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

At December 31, 2008, current assets include a transportation revenue adjustment of \$4.7 million (2007 - \$4.1 million). These adjustments relate to differences between Alliance's expenses included in these consolidated financial statements and expenses included in the transportation tolls. These differences will be collected from or returned to shippers through an adjustment to future tolls.

Income Taxes

The Canadian rate-regulated operations of Alliance recover tax expense using the taxes payable method, as prescribed by the NEB for ratemaking purposes. Therefore, rates do not include the recovery of future income taxes related to temporary differences. Consequently, no future income taxes are provided for in respect of Alliance's Canadian rate-regulated activities as Fort Chicago expects that all such future income taxes will be recovered in rates when they become payable (note 17).

Allowance for Funds Used During Construction ("AFUDC")

Alliance's transportation contracts permit AFUDC to be included in the investment base. AFUDC is included in the cost of pipeline, plant and other capital assets for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset since depreciation expense, including the AFUDC, is permitted under the transportation contracts. The AFUDC calculation for rate-regulated entities includes both an interest component and equity component. The recognition of the equity component as a capitalized asset and the resulting revenue and depreciation of the asset would not be permitted in the absence of rate regulation. To date, an equity component of \$104.1 million (2007 - \$88.4 million) is included as a capitalized asset, net of related depreciation.

10. Pipeline, Plant and Other Capital Assets

	Cost	Accumulated depreciation	2008 Net book value	2007 Net book value
Pipeline	2,875,826	833,672	2,042,154	1,995,178
Plant	216,428	76,357	140,071	111,622
Power facilities	238,945	11,851	227,094	119,077
Administrative	27,053	18,873	8,180	4,397
Capital spares	12,100	-	12,100	9,296
Land	15,434	-	15,434	8,377
Construction work in progress	107,401	-	107,401	78,110
	3,493,187	940,753	2,552,434	2,326,057

At December 31, 2008, pipeline, plant and other capital assets include \$6.0 million of capitalized interest (2007 - \$1.5 million).

As at December 31, 2008, in management's judgement, there has not been an impairment of Fort Chicago's pipeline, plant and other capital assets.

11. Intangible Assets

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Ethane transportation agreements	15,572	4,473	11,099	12,209
Power customer relationships and agreements	111,610	6,175	105,435	86,667
	127,182	10,648	116,534	98,876

ETAs represent value attributed to AEGS' intangible assets upon Fort Chicago's acquisition in December 2004. Under the ETAs, which expire on December 31, 2018 AEGS 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 recovery of all operating costs, including maintenance capital. Under the ETAs, each shipper is committed to pay a minimum firm toll based on 90 percent of its total committed volume.

Customer relationships and agreements represent the value attributed to intangible assets upon acquisition of Countryside and Brush II in August 2007 and September 2008, respectively. Each of Fort Chicago Power's U.S. cogeneration facilities has one or more long-term power purchase agreements ("PPAs") to supply electricity to their respective customers. The PPAs effectively require the respective customers to purchase energy as produced by each facility, either up to stipulated maximums or based on dispatching requests, and to make capacity payments. The London Cogeneration Facility's 20-year Combined Heat and Power ("CHP") contract provides for capacity payments and the sale of electricity to the Ontario markets as produced. The district energy systems have long-term contracts and relationships with customers which provide for the sale of thermal energy and/or cooling and which, in most cases, include capacity payments.

As at December 31, 2008, in management's judgement, there has not been an impairment of Fort Chicago's intangible assets.

12. Other Assets

	2008	2007
Asset-backed commercial paper	4,975	5,826
Investments	16,684	3,933
Other	1,130	1,937
	22,789	11,696

Asset-backed Commercial Paper

In July 2007, Alliance made an investment in asset-backed commercial paper ("ABCP") of approximately \$6.0 million (100 percent - \$12.0 million), issued by a structured investment trust ("Trust"). As a result of the liquidity issues arising in the ABCP market, the Trust was unable to redeem this investment on its initial maturity date of August 31, 2007.

In January 2009, the Pan-Canadian Investors Committee implemented a restructuring plan wherein the assets held by non-bank asset-backed conduits were pooled into new asset trust vehicles, which, in turn, issued medium term notes in exchange for investment holders' non-bank ABCP. As a result, Alliance received various classes of interest-bearing notes, the majority of which carry an 'A' rating from Dominion Bond Rating Services, in exchange for its investment in the ABCP. While legal maturity of these notes is July 2056, the actual expected note repayment date is January 2017.

Investments

On March 18, 2008, Pristine issued common shares through its initial public offering. Fort Chicago did not participate in the offering, resulting in a decrease of its ownership interest in Pristine from 20.3 percent to 10.9 percent and the recognition of a \$4.2 million dilution gain. At December 31, 2008 the fair value of this investment was \$6.6 million (2007 - \$3.9 million).

In March 2008, Fort Chicago made a US \$11 million investment in a private, solar development company. At December 31, 2008, an impairment loss of \$1.2 million was recognized in net income in respect of this investment, based on management's best estimate of recoverability.

As Fort Chicago owns less than 20 percent of each of these companies, it uses the cost method to account for these investments.

13. Long-Term Senior Debt and Capital Leases

	2008	2007
Fort Chicago		
Bank credit facility		
Canada	153,900	165,200
US (2008 - US \$100,000; 2007 - US \$80,000)	122,460	79,048
7.71% Senior notes due 2011 (2008 - US \$53,250; 2007 - US \$56,250)	65,210	55,581
	341,570	299,829
Less: current portion	(3,674)	(2,964)
Less: deferred financing charges	(313)	(357)
	337,583	296,508
AEGS		
5.565% Senior notes due 2020	102,086	104,505
Less: current portion	(2,555)	(2,418)
Less: deferred financing charges	(614)	(669)
	98,917	101,418
Fort Chicago Power		
Capital leases	144	-
Less: current portion	(55)	-
	89	-
Alliance ⁽¹⁾		
<u>Canada</u>		
Bank credit facility	57,500	43,000
Senior notes:		
7.230% due 2015	113,233	117,401
7.181% due 2023	168,253	174,810
5.546% due 2023	100,377	107,376
7.217% due 2025	134,791	139,890
6.765% due 2025	162,384	168,212
Fair value adjustment	6,947	7,563
	743,485	758,252
Less: current portion	(30,905)	(28,652)
Less: deferred financing charges	(3,640)	(4,165)
	708,940	725,435
<u>U.S.</u>		
Bank credit facility (2008 - US \$1,000; 2007 - US \$1,900)	1,225	1,876
Senior notes:		
7.770% due 2015 (2008 - US \$108,001; 2007 - US \$115,299)	132,258	113,927
6.996% due 2019 (2008 - US \$92,726; 2007 - US \$106,116)	113,553	104,854
7.877% due 2025 (2008 - US \$100,000; 2007 - US \$100,000)	122,460	98,810
4.591% due 2025 (2008 - US \$113,115; 2007 - US \$120,420)	138,521	118,987
Fair value adjustment (2008 - US \$12,873; 2007 - US \$14,325)	15,764	14,155
	523,781	452,609
Less: current portion (2008 - US \$32,010; 2007 - US \$27,992)	(39,199)	(27,659)
Less: deferred financing charges (2008 - US \$2,798; 2007 - US \$3,270)	(3,426)	(3,231)
	481,156	421,719

Aux Sable ⁽¹⁾

Bank credit facilities (2008 - US \$21,648; 2007 - US \$17,805)	26,510	17,792
Capital leases (2008 - US \$4,666; 2007 - US \$4,913)	5,714	4,855
	32,224	22,647
Less: current portion (2008 - US \$9,977; 2007 - US \$3,642)	(12,218)	(3,599)
Less: deferred financing charges (2008 - nil; 2007 - US \$77)	-	(76)
	20,006	18,972

East Windsor Cogeneration ⁽¹⁾

6.234% Senior bonds due 2029	89,500	89,500
Less: current portion	(570)	-
Less: deferred financing charges	(1,113)	(1,419)
	87,817	88,081

NRGreen ⁽¹⁾

Bank credit facility	24,550	-
Less: deferred financing charges	(100)	-
	24,450	-
	1,758,958	1,652,133

(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 the jointly held businesses and the fair value adjustments recorded in connection with its purchases of additional interests in these entities.

Fort Chicago*Revolving Credit Facility*

In February 2007, the Partnership extended the term of its unsecured committed revolving credit agreement with three Canadian chartered banks (the "Canadian Revolving Credit Facility") to April 1, 2010. Such term may, from time to time, be extended for further one-year periods, subject to lender consent. On July 17, 2008, the Partnership extended the term of the Canadian Revolving Credit Facility such that it now matures on April 1, 2011. The maximum principal amount available under this facility is \$300 million, which can be used for general purposes, including acquisitions and distributions. Outstanding advances bear interest based on various quoted floating rates, plus a margin. A standby fee applies to any undrawn amounts. The terms and conditions of the Canadian Revolving Credit Facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis. As at December 31, 2008, the Partnership had \$1.6 million (2007 - \$0.8 million) of letters of credit outstanding, leaving \$22.0 million (2007 - \$55.0 million) available under this facility. A standby fee applies to any undrawn amounts under these facilities.

On December 24, 2008, the Partnership entered into an additional revolving credit and letter of credit facility with a United States-based financial institution (the "U.S. Revolving Credit Facility"). The maximum principal amount available under this facility is \$25 million and can be used for general corporate purposes, including supporting working capital needs and the issuance of up to \$5 million of stand-by letters of credit. Outstanding Canadian dollar advances bear interest at the Canadian prime rate plus a margin, and outstanding U.S. dollar advances at the U.S. prime rate plus a margin. The Revolving Credit Agreement matures December 23, 2009 but contains extension provisions. The terms and conditions of the U.S. Revolving Credit Facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis. At December 31, 2008, there were no amounts outstanding on this facility.

7.71% Senior Notes

On August 15, 2001, two subsidiaries of the Partnership issued senior unsecured notes to institutional investors in the United States. Two series of senior notes, Series A and Series B, of equal amount, were issued in the aggregate principal amount of US \$75.0 million bearing interest at the rate of 7.71 percent per annum, with interest and principal due

quarterly. Total principal repayments for both series of US \$0.75 million are payable each quarter with a final payment of US \$45.75 million due on the maturity date of July 31, 2011.

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

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

AEGS

5.565% Senior Notes

On May 4, 2005, AEGS completed a 15-year unsecured debt placement in the aggregate principal amount of \$110 million, bearing interest of 5.565 percent. Blended payments of principal and interest in the aggregate amount of \$4.1 million are payable semi-annually on each of May 4 and November 4, with a final principal payment of \$64.6 million on May 4, 2020.

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

Jointly Held Businesses

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 the Partnership's jointly held businesses.

Alliance Security and Covenants

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

Alliance Bank Credit Facilities

Alliance's credit facilities comprise a Canadian and a U.S. committed extendible revolving credit facility, with an initial term of five years, in the amounts of \$100 million and US \$62.5 million, respectively, with expansion provisions to facilitate timely increases of the facilities to \$150 million and US \$100 million, if required. In June 2007, Alliance extended the terms of these facilities by one year such that they now mature on June 28, 2012.

Interest on the Canadian credit facility is based on Bankers' Acceptance rates, plus applicable margins. At December 31, 2008, \$40 million (2007 - \$40 million) of letters of credit were outstanding under the Canadian credit facility, leaving \$2.5 million (2007 - \$17.0 million) available under this facility. Interest on the U.S. credit facility is based on the U.S. dollar London Interbank Offered Rate, plus applicable margins. At December 31, 2008, US \$30 million (2007 - US \$30 million) of letters of credit were outstanding under the U.S. credit facility, leaving US \$31.5 million (2007 - US \$30.6 million) available under this facility. A standby fee applies to any undrawn amounts under these facilities.

Alliance Senior Notes

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

Alliance may redeem any series of senior notes at any time, in whole but not in part, at a price equal to the outstanding principal amount of such senior notes plus accrued but unpaid interest up to, but excluding the date of redemption plus a make whole premium.

Aux Sable Bank Credit Facilities

Aux Sable's Amended and Restated Credit Agreement (the "U.S. Facility") is comprised of a US \$14.9 million revolving facility and a US \$17.1 million term facility. The revolving facility is used for working capital requirements as well as financing capital projects and letters of credit. The term facility is used for financing capital projects and formerly required annual principal repayments equal to 20 percent of the aggregate committed amount under this facility, commencing on the third anniversary of the facility. On March 20, 2008, Aux Sable extended the term of this facility such that it now matures on August 16, 2010. In August 2008, the U.S. Facility was amended to eliminate the annual principal repayments and provide for a 20 percent reduction of the total term loan commitments on August 16, 2009 while the final maturity date remains unchanged. A further amendment to the U.S. Facility in December 2008 changed the 20 percent reduction of the total term loan on August 16, 2009 to a 30 percent reduction, which would reduce the amount of the term loan facility from US \$17.1 million to US \$12.0 million on August 16, 2009.

The terms and conditions of the U.S. Facility include covenants customary to bank credit facilities of this nature, including meeting specified financial covenants on an ongoing basis and establishing and maintaining a debt service reserve account. At December 31, 2008, Aux Sable was required to maintain US \$0.3 million (2007 - US \$0.3 million) in its debt service reserve account and this is classified with cash and short-term investments in trust. Aux Sable's fractionation, processing, storage, and support facilities have been pledged as collateral. Interest is based on various U.S. floating interest rates, plus applicable margins. A standby fee applies to any undrawn amounts under these facilities.

At December 31, 2008 US \$4.7 million (2007 - US \$0.8 million) was drawn under the revolving facility. Under the term facility, US \$17.0 million (2007 - US \$17.0 million) was drawn. At December 31, 2008, an aggregate US \$10.4 million (2007 - US \$14.2 million) was available under the U.S. Facility.

Aux Sable also utilizes a revolving demand facility of \$1.8 million (2007 - US \$1.6 million) to finance its Canadian working capital requirements. Certain Canadian cash deposits, receivables and inventory have been pledged as collateral. Interest is based on floating interest rates, plus applicable margins. At December 31, 2008, there were no amounts outstanding under this facility (2007 - \$0.2 million).

East Windsor Cogeneration 6.234% Senior Bonds

On November 2, 2007 East Windsor Cogeneration issued \$89.5 million Series 1 Senior Bonds ("Senior Bonds") bearing quarterly interest of 6.234 percent, maturing September 27, 2029. The principal amount is repayable quarterly commencing on December 27, 2009. The proceeds are being used to fund the construction of the 84 megawatt East Windsor Cogeneration Facility.

East Windsor Cogeneration has provided covenants that are customary for a project financing that include, among other things, a first ranking fixed and floating charge and security interest on all of its present and future assets and meeting specified financial conditions and covenants on an ongoing basis. Additionally, limited recourse guarantees were provided by each of East Windsor Cogeneration's limited partners, supported by a pledge of their respective interests in East Windsor Cogeneration, which, in the case of Fort Chicago, will be released upon construction being completed.

East Windsor Cogeneration has also entered into a Letter of Credit facility with a Canadian Chartered Bank, maturing April 1, 2010. The terms and conditions are consistent with that of the Senior Bonds, with the exception that Fort Chicago has provided the bank with an indemnity. At December 31, 2008, there was \$4.6 million in letters of credit outstanding (2007 - \$4.6 million).

NRGreen Credit Facility

In March 2008, NRGreen entered into credit facilities comprised of a \$26.2 million construction credit facility and a \$2.5 million operating facility (collectively the "NRGreen Credit Facility"). Upon the commercial completion of the Loreburn, Estlin, and Alameda waste heat facilities in November 2008, the construction facility converted to a two-year revolving credit facility. The operating facility is an extendible revolving facility which matures on August 31, 2011 subject to one-year extension requests on August 31 of each year.

As part of any request for the extension of the term of the operating facility, NRGreen may request that all or any part of the construction facility be converted into the operating facility by increasing the operating facility commitment and decreasing the construction facility commitment by the amount of each such conversion.

The facility is secured by a first ranking floating charge over all real property of NRGreen forming part of the NRGreen Credit Facility as well as an assignment of material contracts.

Interest is accrued and payable based on Bankers' Acceptance rates, plus applicable margins, for terms not exceeding twelve months. Upon maturity, the interest rates are reset at the then prevailing interest rates. Amounts outstanding under the credit facility at December 31, 2008, bear interest at 3.31 percent and will be reset January 30, 2009.

Compliance with Debt Covenants

Each of Fort Chicago, Alliance, AEGS, Aux Sable, East Windsor, and NRGreen were in compliance with their respective debt covenants as at December 31, 2008 and 2007, as applicable.

Obligations under Capital Leases

The obligations under capital leases bear interest between six and 12 percent and mature between 2010 and 2021 (note 18).

Scheduled Principal Repayments of Long-Term Senior Debt and Capital Leases

Scheduled principal repayments of long-term senior debt and capital leases, including the current portion thereof, and excluding the fair value adjustment of \$22,711 (2007 - \$21,718), which is being amortized over the life of the related debt, are as follows:

For the years ending December 31

2009	89,177
2010	98,114
2011	437,622
2012	84,346
2013	146,879
Thereafter	978,490
	<u>1,834,628</u>

14. Subordinated Convertible Debentures and Exchangeable Debentures

	2008	2007
Series A convertible debentures due 2008	-	22,962
Series B convertible debentures due 2010	24,199	24,219
Exchangeable debentures due 2012 (2008 - US \$21,000; 2007 - US \$22,758)	25,717	23,919
Less: deferred issue costs	(290)	(534)
	49,626	70,566
Less: current portion, net of deferred issue costs	(25,717)	(46,783)
	23,909	23,783

The Partnership's 7.5 percent Convertible Unsecured Subordinated Debentures, Series A, which were convertible, at the holder's option, into Units at a conversion price of \$9.00 per Unit, matured on June 30, 2008. During the period of January 1, 2008 to June 30, 2008, \$22.0 million (year ended December 31, 2007 - \$5.7 million) of Series A convertible debentures, before issue costs, were converted into Units. The remaining \$1.0 million of Series A convertible debentures not tendered for conversion by June 30, 2008 were extinguished with a cash payment.

The Partnership's 6.75 percent Convertible Unsecured Subordinated Debentures, Series B, are due on December 31, 2010. The Series B convertible debentures are convertible, at the holder's option, into Units at a conversion price of \$10.70 per Unit. During the year ended December 31, 2008, \$20 thousand (2007 - \$5 thousand) of Series B convertible debentures, before issue costs, were converted into Units.

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

Fort Chicago Power's 6.25 percent U.S. denominated Exchangeable Unsecured Subordinated Debentures (the "Exchangeable Debentures") are due on October 31, 2012. The payment of Exchangeable Debenture principal and interest is subordinated in right of payment to the prior payment of any senior indebtedness of Fort Chicago Power. Exchangeable Debenture holders are entitled to exchange each debenture for \$1,051 (whole Canadian dollars) up until the date of maturity. During the year ended December 31, 2008 US \$0.5 million (2007 - US \$2.7 million) of Exchangeable Debentures were exchanged into cash. On or after October 31, 2010 and prior to the maturity date, the Exchangeable Debentures may be redeemed by Fort Chicago Power, in whole or in part, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days and not less than 30 days prior written notice.

The Exchangeable Debentures are classified as "held for trading" and, accordingly, changes in fair value are included in net income (2008 - \$2.3 million loss; 2007 - nil).

15. Other Long-term Liabilities

	2008	2007
Transportation contracts	16,688	19,130
Asset retirement obligations	16,038	14,651
Due to BA Energy Inc.	16,424	-
Other	13,435	11,410
	62,585	45,191
Less: current portion	(2,442)	(2,442)
	60,143	42,749

Transportation Contracts

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

Asset Retirement Obligations

The Partnership's asset retirement obligation relating to AEGS represents management's estimate of the cost to abandon the ethane transportation pipeline and the timing of the costs to be incurred. Estimated cash flows have been discounted at the Partnership's weighted average credit-adjusted risk free rate of return of 6.28 percent and an inflation rate of 2.25 percent. The total undiscounted amount of future cash flows required to settle the asset retirement obligation is estimated to be \$110.9 million (2007 - \$99.1 million). While the estimated asset retirement costs do not reflect the full removal of the pipeline, they do reflect such activities as dismantling, demolition and disposal of a portion of the pipeline as well as remediation and restoration of the surface land. Payments to settle the asset retirement obligation are not expected to occur prior to 2040. No assets have been legally restricted for settlement of the liability.

In 2008, East Windsor Cogeneration estimated the future and present value amounts required to settle its asset retirement obligation to be \$0.8 million and \$0.2 million (2007 - \$0.8 and \$0.2), respectively.

The following table presents the reconciliation between the beginning and ending carrying amounts of the obligations associated with the retirement of the AEGS pipeline and the East Windsor Cogeneration Facility.

	2008	2007
Asset retirement obligation, January 1	14,651	13,615
Accretion expense	888	825
Changes in cash flow estimates	499	211
Asset retirement obligation, December 31	16,038	14,651

Due to BA Energy Inc.

In November 2008, Aux Sable Canada curtailed construction of its Heartland Off-gas facility as a result of BA Energy Inc. suspending the construction of its upgrader. All capital costs and commitments incurred by Aux Sable Canada in respect of this facility were reimbursed by BA Energy, and have been recorded as a long-term liability to BA Energy. While Aux Sable Canada retains its ownership in and control over the Heartland facility and has full discretion to optimize its future value, the ultimate use of the off-gas facility, as well as BA Energy's ability to provide off-gas, will determine the repayment conditions with respect to this amount.

Other

Other long-term liabilities include accruals for long-term employee incentive programs of \$6.5 million (2007 - \$5.0 million) and \$2.1 million (2007 - \$1.8 million) for Alliance property taxes not payable within one year.

16. Partners' Equity

(a) Partners' Capital Account

Authorized

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

Issued

Units	2008		2007	
	Number	Value	Number	Value
January 1	131,668,086	991,294	131,030,295	985,595
Convertible Debentures converted into Units, net of issue costs of \$5 (2007 - \$42)	2,442,791	21,984	637,791	5,699
December 31	134,110,877	1,013,278	131,668,086	991,294

The weighted average number of Units outstanding used to determine net income per Unit on a basic and diluted basis for the year ended December 31, 2008 was 133,032,094 (2007 - 131,325,891) and 136,372,498 (2007 - 136,483,012), respectively.

(b) Distributions

The Partnership declared and paid distributions to holders of Units in the amount of \$133.2 million or \$1.00 per Unit and \$123.7 million or \$0.9416 per Unit in respect of 2008 and 2007, respectively:

17. Taxes

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

Income Tax Reconciliation

	2008	2007
Net income before taxes	88,655	113,377
Combined statutory income tax rate	30.00%	32.55%
Income taxes at statutory rate	26,597	36,904
Increase (decrease) resulting from:		
Tax benefits attributable directly to Unitholders	13,432	14,906
Future taxes related to Canadian rate-regulated operations	354	(3,483)
Benefit of intergroup charges	(27,591)	(19,523)
Higher income tax rates in other jurisdictions	8,530	7,141
Asset impairment loss	5,970	-
Rate reduction and other	(136)	(8,725)
Income taxes	27,156	27,220
Effective tax rate	30.6%	24.0%

Components of Future Taxes

	2008	2007
Future tax liabilities (assets)		
Differences in the accounting and tax bases of:		
Pipeline, plant and other capital assets	219,951	186,509
Deferred revenue and costs	76,266	64,346
Non-capital losses	(56,394)	(51,870)
	239,823	198,985

Accumulated future taxes of \$79.1 million (2007 - \$78.9 million) have not been recorded in these consolidated financial statements as they relate to the Partnership's Canadian rate-regulated pipeline operation and will be recovered against future toll revenues. Had the liability method been prescribed for ratemaking purposes, such amounts would have been recorded and recovered from revenues.

Fort Chicago has Canadian and U.S. non-capital losses of \$20.7 million (2007 - \$2.9 million) and \$125.9 million (US \$102.8 million) (2007 - \$127.9 million; US \$129.5 million) available to reduce future Canadian and U.S. taxable income, respectively. Canadian losses expire beginning in 2026. U.S. losses will expire in varying amounts from 2021 to 2028.

18. Commitments and Contingencies

Fort Chicago and its operating businesses have operating leases for office premises, vehicles and railcars, and capital leases for field offices, truck rack facilities and various plant equipment. Expected future minimum lease payments under capital and operating leases are as follows:

For the years ending December 31	Capital lease	Operating lease
2009	1,086	6,382
2010	1,079	5,850
2011	1,044	4,957
2012	1,043	5,317
2013	1,023	4,944
Thereafter	4,751	35,958
Total minimum lease payments	10,026	63,408
Lease imputed interest	(4,168)	-
Capital lease liability	5,858	63,408

In 2006, East Windsor Cogeneration was awarded a CHP contract under a request for proposal process conducted by the Ontario Power Authority. Under this CHP, East Windsor Cogeneration is committed to construct an 84 megawatt cogeneration plant located in Windsor, Ontario. The cogeneration facility will provide power for a 20-year period upon the commencement of commercial operations. Guarantees have been pledged to the utility provider as security by Fort Chicago on this commitment. At December 31, 2008, \$4.5 million of contractual commitments exist in respect of East Windsor Cogeneration Facility construction costs.

In 2008, Fort Chicago Power and East Windsor both entered into agreements with natural gas suppliers to purchase specified minimum volumes of natural gas per day. Fort Chicago Power has entered into three contracts that are effective between two and fourteen years. East Windsor's agreement is effective for five years and security has been pledged by Fort Chicago as a guarantee to the supplier.

In 2008, Alliance and Aux Sable each entered into equipment maintenance agreements effective for seven years. At December 31, 2008, outstanding commitments in respect of these agreements amounted to \$74.8 million.

The California Public Utility Commission ("CPUC") is currently considering whether to retroactively modify the methodology used in calculating the Short Run Avoided Cost ("SRAC") for the period July 1, 2003 up through July 31, 2008. If this modification is adopted, Qualifying Facilities, including Fort Chicago Power's California cogeneration facilities, could be required to make refunds and/or accept reduced future payments under their respective PPAs.

The CPUC is also currently considering how to respond to a judicial remand of an order relating to the SRAC that was the basis for payments to Qualifying Facilities between December 2000 and March 2001. In order to resolve this matter, the CPUC is considering ordering Qualifying Facilities, including Fort Chicago Power's California cogeneration facilities, to refund a portion of what the facilities were paid between December 2000 and March 2001.

Any liability arising from changes to the SRAC calculation cannot be determined until the CPUC renders its final decision on these matters. However, the Partnership does not expect the final outcome will be material to its financial results.

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

19. Financial Instruments and Risk Management

Financial Instruments

The composition of the Partnership's financial instruments by classification and their carrying values are summarized in the table below:

	December 31, 2008	December 31, 2007	
Assets held-for-trading	81,569	128,302	Measured at fair value.
Cash and short-term investments			
Restricted cash			
Prepaid assets and other			Includes derivative financial assets measured at fair value. For the year ended December 31, 2008, net income before tax includes a fair value loss of \$0.2 million (2007 - nil).
Other assets			Includes investments in debt instruments measured at fair value. For the year ended December 31, 2008, net income before tax includes a fair value loss of \$0.8 (2007 - \$0.4).
Loans and receivables	347,325	284,260	Measured at amortized cost.
Transportation security deposits and revenue adjustments			Carrying value approximates fair value. For the year ended December 31, 2008, no interest revenue was earned in respect of these assets (2007 - nil).
Receivables			
Long-term receivables			Carrying value of Alliance's long-term receivable of \$262.1 million (2007 - \$209.3 million) compared to fair value of \$119.2 million (2007 - \$109.0 million). Carrying value of remaining long-term receivable balances approximates fair value. For the year ended December 31, 2008, no interest revenue was earned in respect of these assets (2007 - nil).
Assets available-for-sale	16,684	3,933	Measured at fair value. Includes investments in equity instruments measured at fair value where quoted market prices exist, otherwise at recoverable cost. For the year ended December 31, 2008, after-tax fair value losses of \$1.4 million (2007 - nil) and \$1.2 million (2007 - nil) were recognized in other comprehensive income and net income before tax, respectively.
Other assets			
Liabilities held-for-trading	25,717	23,920	Measured at fair value. For the year ended December 31, 2008, a fair value loss of \$2.3 million was recognized in net income before tax (2007 - nil).
Exchangeable debentures			
Other financial liabilities	2,028,826	1,859,225	Measured at amortized cost.
Payables			Carrying value approximates fair value.
Transportation security deposits			
Distribution payable			
Other long-term liabilities, excluding asset retirement obligations			
Senior debt and capital leases			Carrying value of \$1.8 billion (2007 - \$1.7 billion), compared to fair value of \$1.8 billion (2007 - \$1.8 billion). For the year ended December 31, 2008, net income before tax includes interest expense of \$104.4 million (2007 - \$105.4 million).
Subordinated convertible debentures			Carrying value of \$23.9 million (2007 - \$46.6 million), compared to fair value of \$24.9 million (2007 - \$52.4 million). For the year ended December 31, 2008, net income before tax includes interest expense of \$2.6 million (2007 - \$4.0 million).

Currency Risk

At December 31, 2008, approximately 48 percent of Fort Chicago's net assets were denominated in U.S. dollars, exposing the Partnership to fluctuations in the foreign exchange rate between Canadian and U.S. dollars. For the year ended December 31, 2008, the pro forma impact on net income of a one Canadian cent movement in the foreign exchange rate with the U.S. would be \$0.5 million.

The Partnership utilizes U.S. denominated debt to hedge a portion of the net investment in its self-sustaining U.S. operations. To the extent these hedges are deemed to be effective, any such gains or losses are recorded in other comprehensive income. For the year ended December 31, 2008, a \$24.2 million loss (2007 - \$5.5 million gain) has been recognized in other comprehensive income.

Interest Rate Risk

At December 31, 2008, 20 percent of consolidated long-term debt was floating-rate debt (2007 - 17 percent). For the year ended December 31, 2008, the pro forma impact on pre-tax net income of a 100 basis point movement in interest rates would be \$3.1 million.

Fort Chicago and its businesses periodically enter into interest rate swaps to manage interest rate exposures. No material contracts were in place as at December 31, 2008.

Credit Risk

Fort Chicago and its businesses are exposed to credit risk as their revenues are dependent upon the ability of customers to fulfill their contractual obligations, the failure of which could adversely affect the ability of Fort Chicago and its businesses to recover their operating and financing costs or make distributions. 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, Fort Chicago is primarily dependent on two large customers, NOVA Chemicals and Dow Chemical Canada Inc. While NOVA is currently a sub-investment grade credit, AEGS represents a critical component to securing ethane feedstock for NOVA's low cost, world-scale petrochemical facilities, which serves to partially mitigate this risk. Fort Chicago's estimated maximum exposure to NOVA is in the range of \$1.2 million to \$3.6 million.

Commodity Risk

Through Fort Chicago's ownership interest in the NGL Business, Fort Chicago is exposed to fluctuations in the prices of NGL and natural gas. This exposure has been significantly reduced with the establishment of the NGL Sales Agreement. Management continues to monitor this exposure, but has not entered into any material hedges to reduce this exposure further.

Liquidity Risk

Fort Chicago and its businesses manage their liquidity requirements, utilizing cash from operations, excess cash and undrawn committed credit facilities. The Partnership believes these sources of funding are sufficient to meet its expected liquidity requirements. The Partnership also has the ability to access up to \$1.5 billion of public debt and equity, subject to market conditions, under its short form base shelf prospectus, filed with Canadian securities regulators May 2, 2008.

All financial liabilities classified as current on the balance sheet are expected to be settled within one year, with the exception of the Exchangeable Debentures which are classified as current due to the debenture holders being entitled to exchange each debenture for cash up until the date of maturity.

Capital Management

The Partnership is committed to maintaining a prudent capital structure comprised primarily of equity and long-term amortizing senior debt, backed with investment grade credit ratings. At December 31, 2008, substantially all of its consolidated debt is long-term and, with the exception of its Convertible Debentures, Exchangeable Debentures and borrowings under long-term revolving credit facilities, contain amortization periods that are designed to provide for the repayment of all principal over the estimated useful economic life of the applicable underlying assets. This debt is generally issued by the Partnership's subsidiaries and operating businesses, on a non-recourse basis, bearing fixed rates of interest, insulating the Partnership and its businesses from potentially higher future interest rates and reducing the default risk associated with any one operating entity. Canadian and U.S. denominated debt are used to match the currency of the underlying assets being financed and thereby serve as a partial hedge against any future movements in the Canadian/U.S. dollar exchange rate. The Partnership and its operating businesses also maintain committed credit facilities to fund operating or capital requirements that, from time to time, may be in excess of their available cash balances. Each debt agreement contains covenants customary for such issuances, which are monitored on an ongoing basis. As at December 31, 2008, Fort Chicago and each of its operating businesses are in compliance with their respective debt agreements. This strategy remains unchanged from December 31, 2007.

The Partnership's components of capital are summarized below:

	December 31, 2008	December 31, 2007
Senior debt, capital leases and exchangeable debentures	1,873,851	1,741,208
Subordinated convertible debentures	23,909	47,181
Partners' equity	800,587	755,453
Total capital	2,698,347	2,543,842

20. Segmented Information

	Pipeline		NGL		Power		Corporate ⁽¹⁾		Total ⁽²⁾	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenues ^{(3) (4)}	434,531	401,236	180,351	166,103	93,429	27,230	651	1,622	701,430	589,223
Operations and maintenance ⁽³⁾	85,680	61,749	96,908	84,655	66,430	18,196	-	-	241,486	157,632
Depreciation and amortization	109,036	109,026	3,173	4,665	14,608	4,209	4,278	3,538	131,095	121,438
Interest and other finance	89,084	93,631	864	1,569	1,958	434	16,671	13,712	108,577	109,346
General, administrative and project development	36,834	30,979	15,478	13,162	3,981	1,414	24,181	20,707	80,474	66,262
Foreign exchange and other	-	-	2	101	2,348	(609)	25,524	21,676	27,874	21,168
Asset impairment loss	-	-	-	-	23,269	-	-	-	23,269	-
Net income (loss) before taxes	113,897	105,851	63,926	61,951	(19,165)	3,586	(70,003)	(58,011)	88,655	113,377
Total assets	2,424,778	2,292,737	197,930	158,058	498,988	401,474	6,893	19,924	3,127,679	2,871,364
Capital expenditures	25,059	25,217	9,696	12,715	98,483	59,267	5,786	2,398	139,024	99,597

(1) Reflects unallocated amounts applicable to Fort Chicago's head office activities. Corporate office general and administrative costs for year ended December 31, 2008 include project development costs of \$10.8 million (2007 - \$12.0 million).

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

(3) For the year ended December 31, 2008, Pipeline revenues include \$7.5 million (2007 - \$7.0 million) of transportation revenue from the NGL Business that eliminates upon consolidation. The operations and maintenance costs of the NGL Business include the corresponding cost amount.

(4) For the year ended December 31, 2008, Pipeline revenues include \$10.3 million received by Alliance in settlement from Calpine Energy Services Canada Partnership in connection with the repudiation of its Alliance transportation contracts (2007 - nil). Also for the year ended December 31, 2008, Power revenues include a \$4.2 million gain (2007 - nil) related to the initial public offering of common shares by Pristine, which resulted in Fort Chicago's ownership interest in Pristine being diluted from approximately 20 percent to 11 percent.

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

2008			
	Canada	U.S.	Total
Revenues ⁽¹⁾	302,885	398,545	701,430
Pipeline, plant and other capital assets	1,563,463	988,971	2,552,434
2007			
	Canada	U.S.	Total
Revenues ⁽¹⁾	260,218	329,005	589,223
Pipeline, plant and other capital assets	1,514,191	811,866	2,326,057

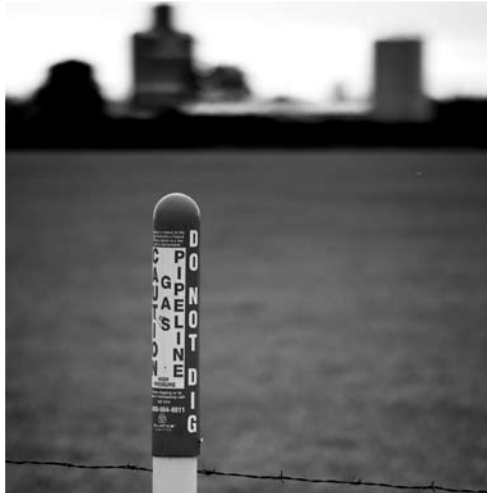
(1) After giving effect to intersegment eliminations and allocations to businesses.

21. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2008.

22. Subsequent Events

The Partnership declared distributions of \$0.0833 per unit for each of January and February 2009.



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FORT CHICAGO ENERGY PARTNERS L.P.
Suite 440, Livingston Place, 222 - 3rd Avenue S.W.
Calgary, Alberta T2P 0B4

Phone: (403) 296-0140
Fax: (403) 213-3648

Investor relations: (403) 213-3633
investor-relations@fortchicago.com

www.fortchicago.com