The consolidated financial statements of Fort Chicago Energy Partners L.P. ("Fort Chicago") for the year ended December 31, 2003 have been prepared by the management of Fort Chicago Energy Management Ltd. (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 is relevant, reliable and accurate, and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the General Partner has appointed an Audit Committee to meet regularly during the year with management and the external auditors. The Audit Committee reviews with management and the independent external auditors the annual consolidated financial statements of Fort Chicago prior to submitting them to the Board of Directors for final approval.

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, ensures that management fulfills its responsibilities for financial reporting.

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 for the year ended December 31, 2003 present fairly, in all material respects, the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles in Canada.

[Signed]

Stephen H. White
President and Chief Executive Officer
March 9, 2004

[Signed]

Hume D. Kyle
Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT

To the Board of Directors of Fort Chicago Energy Management Ltd.
as the General Partner 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, 2003 and 2002 and the Consolidated Statements of Income and Undistributed Income and Cash Flows for the years then ended. These 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 consolidated 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[Signed]

Calgary, Canada
March 9, 2004

PricewaterhouseCoopers LLP
Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ THOUSANDS)	DECEMBER 31 2003	2002
Assets		
Cash and short-term investments *(note 4)*	**$ 56,503**	$ 11
Distribution receivable	**–**	21,531
Transportation security deposits and revenue adjustments *(note 10)*	**11,763**	–
Receivables	**51,522**	191
Inventory	**6,298**	–
Prepaid expenses	**4,212**	–
	130,298	21,733
Long-term receivables *(note 5(a))*	**142,025**	–
Investment in Alliance and Aux Sable *(note 6)*	**–**	774,685
Pipeline, plant and other capital assets *(note 7)*	**2,467,218**	–
Other assets *(note 8)*	**18,548**	5,528
	$ 2,758,089	$ 801,946
Liabilities		
Current liabilities		
Payables	**$ 61,677**	$ 5,353
Transportation security deposits *(note 10)*	**5,645**	–
Distribution payable *(note 12(b))*	**14,654**	12,322
Bank debt	**135**	58,604
Current portion of long-term debt and capital leases *(note 9)*	**71,466**	4,739
	153,577	81,018
Non-current liabilities		
Long-term liabilities *(note 11)*	**31,981**	–
Long-term debt and capital leases *(note 9)*	**1,649,226**	251,208
Future taxes *(note 14)*	**120,349**	–
	1,801,556	251,208
	1,955,133	332,226
Partners' Equity		
Convertible debentures *(note 12)*	**203,280**	–
Partners' capital account *(note 12)*	**679,792**	443,067
Cumulative translation adjustment	**(70,321)**	14,497
Cumulative net income	**160,500**	115,337
Cumulative distributions	**(170,295)**	(103,181)
	802,956	469,720
Commitments and Contingencies *(note 15)*		
	$ 2,758,089	$ 801,946

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.

[Signed]

By: Stephen H. White
Director

[Signed]

By: Stephen W.C. Mulherin
Director

CONSOLIDATED STATEMENT OF INCOME

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS)	FOR THE YEAR ENDED DECEMBER 31 2003	2002
Revenues		
Transportation *(note 5)*	**$ 297,462**	$ –
Natural gas liquids	**200,158**	–
Interest	**3,553**	120
Foreign exchange gain and other	**18,312**	100
	519,485	220
Expenses		
Natural gas, natural gas liquids and transportation	**183,918**	–
Operations and maintenance	**43,744**	–
Depreciation and amortization	**87,594**	1,020
Interest and other finance *(note 9)*	**97,998**	10,245
General and administration	**28,328**	4,472
	441,582	15,737
Net income (loss) before taxes	**77,903**	(15,517)
Current taxes	**4,203**	2,451
Future taxes *(note 14)*	**21,471**	–
Net income (loss) after taxes and before equity income	**52,229**	(17,968)
Equity income	**13,928**	43,702
Net income for the period	**66,157**	25,734
Cumulative net income at the beginning of the period	**115,337**	91,819
Interest on convertible debentures *(note 12)*	**(11,529)**	–
Convertible debentures issue costs	**(9,465)**	–
Write-off of deferred foreign exchange loss	–	(2,216)
Cumulative net income at the end of the period	**$ 160,500**	$ 115,337
Net income per Class A Unit		
Basic and diluted	**$ 0.64**	$ 0.35

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

($ THOUSANDS)	FOR THE YEAR ENDED DECEMBER 31 2003	2002
Operating		
Net income for the period	**$ 66,157**	$ 25,734
Less: Equity income	**(13,928)**	(43,702)
Non-cash transportation revenue	**(43,655)**	–
Unrealized foreign exchange gain	**(7,886)**	(602)
Add: Depreciation and amortization	**87,594**	1,020
Amortization of deferred finance charges	**1,183**	–
Future income taxes	**21,471**	–
Changes in non-cash working capital	**(33,292)**	3,695
Distributions received	**21,786**	56,369
	99,430	42,514
Financing		
Convertible debentures	**212,500**	–
Class A Units	**222,440**	1,920
Equity and convertible debentures issue costs	**(21,425)**	(358)
Short-term debt	**(66,171)**	202,004
Debt issue costs	**(5,738)**	(2,116)
Long-term debt issued	**548,364**	–
Repayment of long-term debt and capital leases	**(839,586)**	(4,717)
Cash distributions paid	**(47,760)**	(41,910)
Interest on convertible debentures	**(11,529)**	–
	(8,905)	154,823
Investing		
Investment in Alliance and Aux Sable *(note 6)*	**(202,624)**	(210,996)
Sales tax refund	**6,763**	–
Additions to pipeline, plant and other capital assets	**(17,196)**	(7)
	(213,057)	(211,003)
Increase (decrease) in cash and short-term investments	**(122,532)**	(13,666)
Cash and short-term investments at the beginning of the period	**11**	13,677
Alliance and Aux Sable cash and short-term investments acquired *(note 6)*	**186,820**	–
Effect of foreign exchange rate changes on cash and short-term investments	**(7,796)**	–
Cash and short-term investments at the end of the period	**$ 56,503**	$ 11
Cash and short-term investments	**$ 13,344**	$ 11
Cash and short-term investments in trust	**43,159**	–
	$ 56,503	$ 11
Supplemental disclosure of cash flow information		
Interest paid	$ 98,307	$ 10,190
Taxes paid	$ 3,318	$ 2,263

See accompanying Notes to the Consolidated Financial Statements

NOTE 1 DISTRIBUTABLE CASH OF THE PARTNERSHIP[1]

	FOR THE THREE MONTHS ENDED DECEMBER 31		FOR THE YEAR ENDED DECEMBER 31	
	2003	2002	2003	2002
	(Unaudited)	*(Unaudited)*		
Cash inflows				
Distributions received prior to withholding for capital expenditures	**$ 27,688**	$ 21,158	**$ 113,836**	$ 68,985
Interest income	**247**	5	**429**	120
	27,935	21,163	**114,265**	69,105
Cash outflows				
General and administration	**(2,277)**	(2,552)	**(4,881)**	(4,472)
Realized foreign exchange gain (loss)	**7,284**	(582)	**9,840**	(502)
Interest and other finance	**(2,348)**	(3,278)	**(13,205)**	(10,245)
Interest on convertible debentures	**(3,619)**	–	**(11,529)**	–
Taxes	**(1,713)**	(703)	**(4,203)**	(2,451)
Extraction business support payments	**–**	–	**(10,394)**	–
Marketing support payments	**(1,436)**	–	**(2,384)**	(1,829)
Senior notes – principal repayments	**(980)**	(1,169)	**(4,235)**	(4,717)
Distributable cash for the period[2]	**$ 22,846**	$ 12,879	**$ 73,274**	$ 44,889
Distributions payable/paid	**$ 20,228**	$ 13,387	**$ 67,111**	$ 48,748
Distributions payable/paid per Class A Unit	**$ 0.20**	$ 0.18	**$ 0.75**	$ 0.66

(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. The calculation of distributable cash represents the cash expected to be available to the Partnership for distribution to holders of Class A Units and therefore does not proportionately consolidate the cash inflows and outflows of 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. During the year, the Partnership made capital contributions to its NGL business in the amount of $27.4 million, of which $10.4 million was in respect of cash operating deficiencies.

(2) See note 19 for reconciliation of distributable cash to cash flows from operations.

NOTE 2 BUSINESS AND STRUCTURE OF THE PARTNERSHIP

Fort Chicago Energy Partners L.P. (the "Partnership") is a limited partnership, which was originally created under the laws of the Province of Alberta on October 9, 1997 to hold 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.

Fort Chicago Energy Management Ltd. (the "General Partner") is responsible for overseeing the management of the Partnership, including the determination of the amount of distributions to the holders of limited partnership units of the Partnership, and is reimbursed for its costs and expenses. The principal activities of the Partnership include investing in and managing, directly or indirectly, businesses that generate, transport, store, market, process or produce energy with a view to providing its limited partners with stable and growing cash distributions in both the short and long terms.

Currently, the Partnership's two 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," "Alliance Pipeline" or the "Pipeline Business"). 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").

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.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF THE PARTNERSHIP

Basis of Presentation These consolidated financial statements have been prepared by the General Partner in accordance with accounting principles generally accepted in Canada. 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 accounts of Alliance and Aux Sable, which, as a consequence of the purchase described in note 6, became jointly controlled businesses and have therefore been proportionately consolidated effective April 1, 2003. For the three-month period ended March 31, 2003, and the year ended December 31, 2002, Alliance and Aux Sable were accounted for using the equity method.

The Partnership's Pipeline Business 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, recognition of certain revenues and expenses may differ from that otherwise expected under generally accepted accounting principles applicable to non-regulated businesses.

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 is 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, 2003. Inventory of plant spare parts is recorded at the lower of cost and replacement cost.

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 deferred and amortized over the life of the acquired assets.

Pipeline, Plant and Other Capital Assets Pipeline, plant and other capital assets include the costs associated with the design and construction of the Alliance Pipeline and the Aux Sable extraction and fractionation facility, including related support facilities associated with each business, and various other assets.

Pipeline in service is recorded at cost and is being depreciated on a four percent per annum straight-line basis commencing from the in-service date. 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 (being 30 years). 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 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 Pipeline that is expected to be recovered in future rates. Accordingly, these costs were capitalized.

Impairment of Pipeline, Plant and Other Long-term Assets The Partnership evaluates the pipeline, plant and other long-term 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 an impairment has occurred. If an impairment of the carrying value has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value.

Judgements and assumptions are inherent in management's estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset's fair value used to calculate the amount of any impairment. As at December 31, 2003, management is of the view that there has not been an impairment of Fort Chicago's pipeline, plant and other long-term assets.

Revenue Recognition 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 2003 and 2002, 100 percent of the firm capacity was contracted under firm-service transportation service agreements ending in 2015.

The period in which pipeline transportation costs are recovered from toll receipts may differ from the period that these costs are expensed in these 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.

If rate regulated accounting were not used, the long-term receivable and long-term liability and the transportation revenue adjustments in notes 11 and 5, respectively, would not be recognized in these consolidated financial statements.

Natural gas and NGL revenue is recognized at the time of delivery. Revenue on exchanged products is 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 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 Partnership's functional currency is the Canadian dollar. Foreign denominated monetary assets and liabilities of domestic partnerships and corporations 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 the Partnership's 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 16.

Unit Appreciation Rights Plan Unit appreciation rights ("UARs") issued by the Partnership are recorded at fair value by measuring, on an ongoing basis, the excess of the market price over the exercise price. The Partnership's obligation, which results from the variation in the market price of its 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 Unitholders with the result that no income taxes are reflected in these consolidated financial statements, in respect of the Partnership. 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 the Partnership'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 remainder of the Partnership's operations. Under this method, current income taxes are recognized for the estimated income taxes payable in 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.

NOTE 4 CASH AND SHORT-TERM INVESTMENTS

	2003	2002
Cash in trust accounts		
Operations and working capital	**$ 36,717**	$ –
Capital funding, debt repayment and/or return of equity	**6,350**	–
Debt service and debt service reserve	**423**	–
	43,490	–
Cash in non-trust accounts	**13,013**	11
	$ 56,503	$ 11

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, if any, are made to its owners. 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 to Alliance's owners.

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, 2003, this requirement was satisfied by letters of credit as discussed in note 9. At December 31, 2002, this requirement was satisfied by funds on deposit in debt service reserve trust accounts and by letters of credit provided directly by Alliance's limited partners.

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 and/or be returned to Alliance's owners.

NOTE 5 TRANSPORTATION REVENUE

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

	2003	2002
Tolls invoiced	**$ 253,807**	$ –
Increase (decrease) related to:		
Accounting depreciation rate	**28,297**	–
Property tax accruals	**3,617**	–
Differences from current period cost of service estimates	**(2,733)**	–
Prior year's over recovery	**14,474**	–
	43,655	–
Transportation revenue	**$ 297,462**	$ –

a) Accounting Depreciation Rate The long-term receivable at December 31, 2003 includes a regulatory asset of $142.0 million related to the cumulative difference between depreciation expense charged for accounting purposes and depreciation expense included in the 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.

b) Cost of Service Toll Estimate 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. Tolls therefore include amounts relating to differences between the estimated and actual costs of providing transportation service in a prior year.

At December 31, 2003, current assets included a transportation revenue adjustment of $6.1 million. Long-term liabilities include an adjustment of $2.6 million (note 11). These adjustments relate to differences between expenses accrued for accounting purposes and expenses included in the transportation tolls. These differences will be collected from or returned to shippers through an adjustment to rates in future years.

NOTE 6 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:

	APRIL 1, 2003
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 and short-term investments acquired[1]	**$ 185,608**
Non-cash working capital	**(105,969)**
Long-term receivables	**127,148**
Pipeline, plant, and 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 also 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 9). The First Bridge Credit Facility and the Second Bridge Credit Facility were repaid using the proceeds from the public offerings described in note 12.

NOTE 7 PIPELINE, PLANT AND OTHER CAPITAL ASSETS

	COST	ACCUMULATED DEPRECIATION	2003 NET BOOK VALUE	2002 NET BOOK VALUE
Pipeline in service	$ 2,593,247	$ 304,914	**$ 2,288,333**	$ –
Plant assets	187,774	27,729	**160,045**	–
Administrative assets	19,824	15,914	**3,910**	–
Capital spares	12,184	–	**12,184**	–
Land	2,746	–	**2,746**	–
	$ 2,815,775	$ 348,557	**$ 2,467,218**	$ –

NOTE 8 OTHER ASSETS

	2003	2002
Financing expenses – long-term debt(1)	$ 15,369	$ 1,043
Financing expenses – short-term debt(2)	–	1,739
Construction period unit appreciation rights(3)	2,140	2,446
Other	1,039	300
	$ 18,548	$ 5,528

(1) Amortized over the life of the related debt, being generally 10 years

(2) Amortized over the life of the related debt, being one year

(3) Amortized over 10 years commencing January 1, 2001

NOTE 9 LONG-TERM DEBT AND CAPITAL LEASES

	2003	2002
Fort Chicago		
Bank credit facility	**$ –**	$ 143,400
7.71% Senior Notes due 2011 (2003 – US $68,250; 2002 – US $71,250)	**88,208**	112,547
Less: current portion	**(3,878)**	(4,739)
	84,330	251,208
Alliance Canada[1]		
Bank credit facility	**17,600**	–
Senior Notes:		
7.230% due 2015	**137,927**	–
7.181% due 2023	**204,577**	–
7.217% due 2025	**163,043**	–
6.765% due 2025	**194,672**	–
5.546% due 2023	**142,875**	–
Fair value adjustment	**10,015**	–
	870,709	–
Less: current portion	**(39,962)**	–
	830,747	–
Alliance U.S.[1]		
Bank credit facility (US $16,400)	**21,195**	–
Senior Notes:		
7.770% due 2015 (US $139,980)	**180,910**	–
6.996% due 2019 (US $153,451)	**198,320**	–
7.877% due 2025 (US $100,000)	**129,240**	–
4.591% due 2025 (US $146,238)	**188,998**	–
Obligations under capital leases (US $1,328)	**1,716**	–
Fair value adjustment (US $20,132)	**29,714**	–
	750,093	–
Less: current portion	**(27,435)**	–
	722,658	–
Aux Sable[1]		
Bank credit facility (US $3,843)	**4,966**	–
Capital leases (US $5,197)	**6,716**	–
Less: current portion	**(191)**	–
	11,491	–
	$ 1,649,226	$ 251,208

[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 by Fort Chicago 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 12.

The Partnership maintains a $60 million extendible revolving credit facility (the "Revolving Credit Facility"), which matures on June 30, 2004, but may be extended from time to time for additional 364-day periods with the approval of the lenders. Management anticipates that this facility will be extended.

The interest applicable to these facilities is based on bankers' acceptance rates or London Interbank Offered Rates, plus applicable margins. Standby and letter of credit fees vary from 0.6 percent to 1.2 percent per annum of the undrawn amount under the credit facilities or the face amount of letters of credit. These facilities contain covenants customary to bank credit facilities that include, among other things, (i) the maintenance of consolidated tangible net worth of at least $375 million, subject to downward adjustment for certain events and capitalization, and (ii) the maintenance of debt to total capitalization of no greater than 50 percent, excluding the debt of Alliance and Aux Sable.

As at December 31, 2003, the Partnership had no borrowing under its bank credit facilities (2002 – $110.0 million and US $58.5 million). In January, 2003, the Partnership repaid approximately $143.4 million of the First Bridge Credit Facility utilizing proceeds from the convertible debenture offering described in note 12(c) and as a consequence, $143.4 million of the credit facility was classified as a non-current liability at December 31, 2002.

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.

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, 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, 2003, the average interest rate applicable to the outstanding borrowings was 2.8 percent. At December 31, 2003, $50 million of letters of credit and $17.6 million of borrowings were outstanding, leaving $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, 2003, the average interest rate applicable to the outstanding borrowings was 1.94 percent. At December 31, 2003, US $35 million of letters of credit and US $16.4 million of borrowings were outstanding, leaving US $11.1 million available under this facility.

Alliance Senior Notes On January 16, 2003, the Partnership raised $200 million through Alliance Canada's issuance of 6.765 percent Senior Notes under a base shelf prospectus which expired on March 31, 2003.

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

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

The Senior Notes are collateralized on the same basis as the Canadian Credit Facility, the U.S Credit Facility and other outstanding issues of Senior Notes and rank equally in right of payment. The Canadian dollar denominated 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 U.S. 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. As at December 31, 2003, US $7.7 million was drawn on this facility, comprising US $3.85 million in cash and US $3.85 million in letters of credit.

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

Scheduled principal repayments of long-term debt, excluding the fair value adjustment of $39,729, which is being amortized over the life of the related debt, are as follows:

	FOR THE YEARS ENDED DECEMBER 31
2004	$ 71,222
2005	80,576
2006	103,569
2007	65,748
2008	68,707
Thereafter	1,282,709
Obligations under capital leases *(see note 15)*	8,432
	$ 1,680,963

NOTE 10 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. During the year ended December 31, 2003, a shipper that had previously satisfied its security requirement with a cash deposit replaced the deposit with a letter of credit. Included in transportation security deposits and revenue adjustments at December 31, 2003 is $5.6 million in cash security deposits. Letters of credit provided to meet the security requirement at December 31, 2003 totalled $71.1 million.

NOTE 11 LONG-TERM LIABILITIES

	2003	2002
Transportation contracts	**$ 28,898**	$ –
Transportation revenue adjustment accrued	**6,309**	–
Other	**3,564**	–
Less: current portion	**(6,790)**	–
Total long-term liabilities	**$ 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 Canada estimates the tolls necessary to recover the projected cost of providing transportation service to its shippers in accordance with its transportation contracts and NEB regulations. The tolls are submitted to shippers and filed with the NEB. Tolls include amounts relating to differences between estimated and actual costs of providing transportation service in a prior year. The Partnership's toll for the year 2004, filed prior to the end of the 2003 toll period, included an estimate of $3.7 million for the difference arising in the 2003 and 2002 toll periods. The balance of $2.6 million of the actual 2003 difference will be adjusted in the Partnership's 2005 toll.

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

NOTE 12 PARTNERS' EQUITY

(a) Partners' Capital Account

(i) Authorized

In May 2003, the Partnership's 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 Units and an unlimited number of Class B Units, issuable in series.

(ii) Issued

	CLASS A UNITS	
	NUMBER	VALUE
December 31, 2001	73,275,759	$ 433,786
Warrants – Cash	288,750	1,920
– Initial value	–	380
Units issued under DRIP[1] *(Note 12(f))*	808,164	6,274
Issue costs	–	(358)
December 31, 2002	74,372,673	442,002
Units issued under DRIP[1] *(Note 12(f))*	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 *(Note 12(c))*	1,024,437	9,220
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	674,216
Units to be issued under DRIP[1] *(Note 12(f))*	573,558	5,576
	101,715,848	$ 679,792

[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.

The weighted average number of Class A Units outstanding for the year ended December 31, 2003 were 85,531,788 (2002 – 73,730,376) and 101,763,422 (2002 – 73,730,376) for determining the earnings per Class A Unit on a basic and diluted basis, respectively.

(b) Distributions

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

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER CLASS A UNIT ($)	DISTRIBUTION PAID/PAYABLE IN CASH	DISTRIBUTION PAID IN UNITS	TOTAL DISTRIBUTION PAID/PAYABLE
2003					
March 31, 2003	April 30, 2003	**$ 0.18**	**$ 12,162**	**$ 1,250**	**$ 13,412**
June 30, 2003	July 31, 2003	**0.18**	**11,284**	**4,900**	**16,184**
September 30, 2003	October 31, 2003	**0.19**	**11,992**	**5,295**	**17,287**
December 31, 2003	January 30, 2004	**0.20**	**14,654**	**5,574**	**20,228**
		$ 0.75	**$ 50,092**	**$ 17,019**	**$ 67,111**
2002					
March 28, 2002	April 30, 2002	$ 0.16	$ 11,770	$ –	$ 11,770
June 28, 2002	July 31, 2002	0.16	9,342	2,429	11,771
September 30, 2002	October 31, 2002	0.16	7,975	3,845	11,820
December 31, 2002	January 31, 2003	0.18	12,322	1,065	13,387
		$ 0.66	$ 41,409	$ 7,339	$ 48,748

(c) Convertible Debentures

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, 2003, $9.2 million of Series A convertible debentures 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 have been converted into Class A Units as at December 31, 2003.

These convertible debentures (the "Convertible Debentures") rank equally with all other unsecured and subordinated indebtedness of the Partnership and are classified as Partners' equity for accounting purposes. The related interest costs are charged against undistributed income. 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.

(d) 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).

(e) Unitholders Rights Plan

The Partnership has a unitholders rights plan (the "Rights Plan"). Under the Rights Plan, one right will be 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 of the Partnership 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.

(f) 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 (the "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 Plan also allows DRIP 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. Under the Plan, Fort Chicago reserves the right to determine how much new equity is available under the Plan on any particular distribution date. Accordingly, participation may be prorated in certain circumstances. The Partnership reserves the right to determine, for each distribution, how much new equity will be issued under this plan. At December 31, 2003, an aggregate of 866,324 Class A Units are reserved and available for issuance pursuant to the terms of the DRIP.

NOTE 13 UNIT APPRECIATION RIGHTS

The Partnership adopted a Unit Appreciation Rights Plan (the "UAR Plan") effective December 3, 1997 pursuant to which UARs may be granted to directors, officers, employees and consultants (the "Participants") 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 TSX on the date of exercise. The following table sets out the accrued liabilities relating to the unexpired UARs outstanding at December 31, 2003 and 2002.

($ THOUSANDS, EXCEPT WHERE NOTED) AS AT DECEMBER 31, 2003

YEAR OF GRANT	NUMBER OF UARs	WEIGHTED AVERAGE EXERCISE PRICES PER UNIT	EXPIRY DATES	VESTED UARs	VALUE
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

AS AT DECEMBER 31, 2002

YEAR OF GRANT	NUMBER OF UARs	WEIGHTED AVERAGE EXERCISE PRICES PER UNIT	EXPIRY DATES	VESTED UARs	VALUE
2000	40,000	$ 7.80	December 31, 2003	40,000	$ 18
2001	537,500	$ 9.29	March 7, 2006	358,333	–
2002	125,000	$ 8.24	December 12, 2007	41,667	1
	702,500	$ 8.44		440,000	$ 19

The vesting provision for the unit appreciation rights issued in 2001, 2002 and 2003 were as follows: 33-1/3 percent on the date of grants; 33-1/3 percent on the first anniversary of the date of grants; and 33-1/3 percent on the second anniversary of the date of grants. As of December 31, 2003, 100 percent of UARs issued in 2001 had vested, 66-2/3 percent of the UARs issued in 2002 had vested and 33-1/3 percent of the UARs issued in 2003 had vested.

NOTE 14 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. The difference results from the following:

Earnings before income taxes	$ 77,903
Combined statutory income tax rate	36.7%
Income taxes at statutory rate	$ 28,590
Increase (decrease) resulting from:	
Taxable earnings attributable to Partnership's Unitholders	(4,502)
Future income taxes related to Canadian rate-regulated operations	(11,020)
Large corporations and capital taxes	4,203
Intergroup interest deductions	(4,187)
Higher income tax rates in other jurisdictions	1,441
Unrecognized benefit of current tax losses	17,080
Recognized benefit of loss carry-forwards	(6,253)
Other	322
Income taxes	$ 25,674
Effective income tax rate	33.0%

Components of Future Income Taxes

Future income tax liabilities (assets)	
Differences in the accounting and tax bases of:	
Pipeline, plant and other capital assets	$ 134,610
Deferred revenue and costs	49,016
Non-capital losses	(87,335)
	96,291
Valuation allowance	24,058
	$ 120,349

Accumulated future income taxes of $71,281 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 $36,313 and $59,198 (US $45,805) available to reduce future Canadian and U.S. taxable income, respectively. The Canadian losses expire in 2007 while the U.S. losses expire in varying amounts from 2020 to 2030.

NOTE 15 COMMITMENTS AND CONTINGENCIES

The Partnership has operating leases for office premises, vehicles 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 ENDED DECEMBER 31	
	CAPITAL LEASE	OPERATING LEASE
2004	$ 1,215	$ 2,410
2005	1,215	2,107
2006	1,243	1,393
2007	1,243	1,007
2008	1,243	854
Thereafter	11,302	3,342
Total minimum lease payments	17,461	11,113
Lease imputed interest	(9,029)	–
Capital lease liability	$ 8,432	$ 11,113

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.

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.

NOTE 16 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, 2003, based on quoted market prices, is $1.8 billion (2002 – $121.8 million) compared with the aggregate carrying value of $1.7 billion (2002 – $112.5 million).

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 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. 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 (note 10).

The earnings and cash flows of the NGL Business are sensitive to changes in the price of natural gas and NGL. To mitigate this exposure, beginning in August 2003, Aux Sable entered into derivative financial instruments to manage its price exposure to natural gas and natural gas liquids, including its fractionation margins, being the relative price differential between NGL sales and offsetting natural gas purchases.

The Partnership's share of outstanding derivatives at December 31, 2003 is as follows:

COMMODITY	MATURITY DATE	NOTIONAL VOLUME	INDEX	STRIKE PRICE	FAIR VALUE 2002
		(mmbtu/d)		*(US$/mmbtu)*	*($000s)*
Purchases					
Fixed for floating swap	March 31, 2004	1,281	NYMEX	$ 5.735	$ 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	January 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 – 4.775	1,121
Natural gas basis swap	March 31, 2004	17,079	NYMEX – AECO	0.50	(158)
Net gain					$ 2,171
		(gallons/d)		*(US$/gallon)*	
Sales					
Ethane	March 31, 2004	255,547	OPIS	$ 0.43 – 0.4325	$ (801)
Propane	January, 31, 2004	44,833	OPIS	0.6163	(119)
Propane	March 31, 2004	44,833	OPIS	0.5626	(916)
Butane	March 31, 2004	26,900	OPIS	0.6475	(622)
Iso-butane	March 31, 2004	17,933	OPIS	0.6475	(326)
Net loss					$ (2,784)

NOTE 17 SUBSEQUENT EVENTS

On January 14, 2004, the Partnership announced the adoption of a monthly cash distribution policy effective January 1, 2004 which replaces the previous quarterly cash distribution policy. The Partnership also declared a distribution of $0.06875 per Class A Unit for each of January, February and March 2004.

NOTE 18 SEGMENTED INFORMATION

	YEAR ENDED DECEMBER 31, 2003			
	PIPELINE TRANSPORTATION	NATURAL GAS LIQUIDS	PARTNERSHIP[1]	TOTAL
Revenues[2] [3]	**$ 312,166**	**$ 200,007**	**$ 17,992**	**$ 519,485**
Depreciation and amortization[2]	**78,480**	**6,774**	**2,340**	**87,594**
Interest and other finance[2]	**83,378**	**1,415**	**13,205**	**97,998**
Net income (loss) before taxes	**94,409**	**(14,012)**	**(2,494)**	**77,903**
Total assets	**2,555,018**	**191,600**	**11,473**	**2,758,089**
Capital expenditures[2]	**15,827**	**1,138**	**231**	**17,196**

[1] After giving effect to intersegment eliminations and allocations to businesses

[2] 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 their results

[3] Includes $10.7 million of transportation revenue from an affiliate company that is eliminated upon consolidation

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

	YEAR ENDED DECEMBER 31, 2003		
	CANADA	U.S.	TOTAL
Revenues	$ 205,327	$ 314,158	$ 519,485
Pipeline, plant and other capital assets	1,329,893	1,137,325	2,467,218

NOTE 19 DISTRIBUTABLE CASH RECONCILIATION

	FOR THE THREE MONTHS ENDED DECEMBER 31		FOR THE YEAR ENDED DECEMBER 31	
	2003	2002	2003	2002
	(Unaudited)	*(Unaudited)*		
Consolidated operating cash flow	**$ 17,349**	$ 11,008	**$ 99,430**	$ 42,514
Non-cash items	**(19,881)**	13,898	**(44,779)**	43,284
Cash distributions received from Alliance	**–**	(14,407)	**(21,786)**	(56,369)
Change in non-cash working capital	**29,250**	(3,711)	**33,292**	(3,695)
Net income	**26,718**	6,788	**66,157**	25,734
Partnership's non-cash items				
Equity income from Alliance and Aux Sable	**(29,281)**	(14,082)	**(69,630)**	(43,702)
Unrealized foreign exchange (gains) losses	**3,392**	(318)	**(10,098)**	(602)
Depreciation and amortization	**364**	502	**1,551**	1,020
	(25,525)	(13,898)	**(78,177)**	(43,284)
Partnership's cash items				
2003 distributions from Alliance	**27,688**	21,158	**113,836**	68,985
NGL business support payments	**–**	–	**(10,394)**	–
Marketing support payments	**(1,436)**	–	**(2,384)**	(1,829)
Interest on convertible debentures	**(3,619)**	–	**(11,529)**	–
Principal repayments on senior notes	**(980)**	(1,169)	**(4,235)**	(4,717)
Distributable cash	**$ 22,846**	$ 12,879	**$ 73,274**	$ 44,889

NOTE 20 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2003.