

## Financial Highlights

| (\$ thousands, except per Unit amounts)              | Three months ended December 31 |                           | Year ended December 31 |                         |
|--|--------------------------------|---------------------------|------------------------|-------------------------|
|  | 2002                           | 2001                      | 2002                   | 2001                    |
|  | (Unaudited)                    | (Restated)<br>(Unaudited) | (Audited)              | (Restated)<br>(Audited) |
| Net income   | \$ 6,788                       | \$ 8,722                  | \$ 25,734              | \$ 14,095               |
| Net income per Class A Unit                          | \$ 0.09                        | \$ 0.12                   | \$ 0.35                | \$ 0.19                 |
| Distributions  |                                |                           |                        |                         |
| Distributable cash                                   | \$ 12,879                      | \$ 9,769                  | \$ 44,889              | \$ 49,625               |
| Distributable cash per Class A Unit                  | \$ 0.173                       | \$ 0.133                  | \$ 0.608               | \$ 0.678                |
| Distributions paid or payable                        | \$ 13,387                      | \$ 12,823                 | \$ 48,748              | \$ 49,045               |
| Distributions paid or payable per Class A Unit       | \$ 0.180                       | \$ 0.175                  | \$ 0.660               | \$ 0.670                |
| Tax losses allocated to Unitholders per Class A Unit | –                              | –                         | \$ 0.34                | \$ 0.57                 |

  

| (\$ thousands, except Unit data) | December 31 |            |
|----------------------------------|-------------|------------|
|                                  | 2002        | 2001       |
|                                  | (Audited)   | (Audited)  |
| Financial position               |             |            |
| Cash and short-term investments  | \$ 11       | \$ 13,677  |
| Investment in Alliance projects  | \$ 774,685  | \$ 586,430 |
| Partners' equity                 | \$ 469,720  | \$ 487,311 |
| Class A Units outstanding        | 74,372,673  | 73,275,759 |

### General Overview

The year 2002 represented a significant milestone for Fort Chicago Energy Partners L.P. (the "Partnership" or "Fort Chicago"). Fort Chicago's investment in the Alliance Pipeline performed well during the year and distributions received by the Partnership from the Alliance Pipeline met expectations. The continued difficult business environment for the natural gas liquids ("NGL") extraction sector resulted in continued losses from our Aux Sable investment. During the year, the Partnership was able to increase its ownership interest in the Alliance Pipeline to 37.1 percent and in Aux Sable and Alliance Canada Marketing to 30.9 percent. The related acquisitions are more fully described later in this Management's Discussion and

Analysis ("MD&A"). Fort Chicago arranged the necessary bridge funding to complete these acquisitions and in early 2003 repaid a portion of this bridge funding with the proceeds from a convertible debenture offering of \$150 million that is more fully described later in this MD&A.

### Results of Operations

Net income for the year ended December 31, 2002 was \$25.7 million or \$0.35 per Class A Unit compared to \$14.1 million or \$0.19 per Class A Unit for 2001. The primary factors contributing to the improved net income in the year were reduced losses in Aux Sable of \$6.8 million (compared to a loss of \$13.6 million in the prior year), a reduced loss on

natural gas marketing activities of \$1.2 million in the current year (compared to a loss of \$2.2 million in the prior year) and slightly improved earnings on the Alliance Pipeline.

For the three-month period ended December 31, 2002, the Partnership recorded net income of \$6.8 million or \$0.09 per Class A Unit compared to \$8.7 million or \$0.12 per Class A Unit in the fourth quarter of 2001. The primary reason for the decrease in net income was higher general and administrative expenses offset by slightly improved earnings on the Alliance Pipeline and an improvement in the natural gas marketing activities conducted by Alliance Canada Marketing. During the fourth quarter of 2002, the Partnership incurred approximately \$1.9 million of expenditures related to business development initiatives that were expensed.

#### **Change in Accounting Policy and Restatement of Prior Years' Financial Results**

On January 1, 2002, the Partnership adopted the Canadian Institute of Chartered Accountants standard regarding foreign currency translation more fully described in Note 4 of the Consolidated Financial Statements of the Partnership. As a result, the results for 2001 and earlier have been restated. Therefore, comparative financial results that are included throughout this MD&A reflect this restatement. The adoption of this accounting standard has increased the volatility of the Partnership's reported net earnings due to the fact that a majority of the Partnership's debt is denominated in U.S. dollars. The reported distributable cash is unaffected by this new standard.

#### **Acquisition of Additional Interests in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing**

On October 29, 2002, the Partnership completed the purchase of an approximate 5.0 percent additional interest in the Alliance Pipeline from The Williams Companies, Inc. ("Williams") for approximately \$93 million. Fort Chicago also acquired an

approximate 6.1 percent additional interest in the Alliance Pipeline and an approximate 4.9 percent additional interest in Aux Sable and Alliance Canada Marketing from El Paso Corporation ("El Paso") for approximately \$110 million on November 21, 2002. The Partnership will acquire an additional 1.1 percent interest in the Alliance Pipeline from El Paso in late March, 2003 for approximately \$18.2 million.

As a result of these acquisitions, Fort Chicago's ownership has increased to an approximate 37.1 percent interest in the Alliance Pipeline (to increase to an approximate 38.2 percent interest when the additional 1.1 percent interest in Alliance Pipeline is acquired) and an approximate 30.9 percent interest in Aux Sable and Alliance Canada Marketing.

To finance these acquisitions, the Partnership arranged an acquisition credit facility in the maximum amount of \$250 million. Such facility is for a term of one year and has terms and covenants similar to Fort Chicago's existing revolving credit facility, except that Fort Chicago has undertaken to provide a security interest over the ownership interest in two subsidiary entities should such facility not be repaid by April 28, 2003. Approximately \$143.4 million of this facility was repaid from the issuance of convertible debentures in January 2003.

On March 20, 2003, the Partnership announced the acquisition of an additional 11.8 percent interest in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing for cash consideration of approximately \$184 million. To finance this acquisition, the Partnership has arranged a second bridge credit facility in the amount of \$160 million. The Partnership anticipates utilizing this new facility and the undrawn amount available under the original bridge credit facility to finance this latest acquisition.

## Quarterly Information

| 2002                                | Three months ended |          |              |             |
|-------------------------------------|--------------------|----------|--------------|-------------|
|                                     | March 31           | June 30  | September 30 | December 31 |
| Revenues (\$ thousands)             |                    |          |              |             |
| Interest                            | \$ 53              | \$ 30    | \$ 32        | \$ 5        |
| Net income (\$ thousands)           | \$ 5,943           | \$ 7,941 | \$ 5,062     | \$ 6,788    |
| Net income per Class A Unit         |                    |          |              |             |
| Basic and diluted                   | \$ 0.08            | \$ 0.11  | \$ 0.07      | \$ 0.09     |
| Distributable cash (\$ thousands)   | \$ 10,446          | \$ 9,935 | \$ 11,629    | \$ 12,879   |
| Distributable cash per Class A Unit | \$ 0.142           | \$ 0.135 | \$ 0.158     | \$ 0.173    |

| 2001 (Restated)                     | Three months ended |           |              |             |
|-------------------------------------|--------------------|-----------|--------------|-------------|
|                                     | March 31           | June 30   | September 30 | December 31 |
| Revenues (\$ thousands)             |                    |           |              |             |
| Interest                            | \$ 311             | \$ 17     | \$ 119       | \$ 87       |
| Net income (loss) (\$ thousands)    | \$ (7,165)         | \$ 7,360  | \$ 5,178     | \$ 8,722    |
| Net income (loss) per Class A Unit  |                    |           |              |             |
| Basic and diluted                   | \$ (0.10)          | \$ 0.10   | \$ 0.07      | \$ 0.12     |
| Distributable cash (\$ thousands)   | \$ 13,555          | \$ 13,446 | \$ 12,855    | \$ 9,769    |
| Distributable cash per Class A Unit | \$ 0.186           | \$ 0.184  | \$ 0.175     | \$ 0.133    |

## Liquidity and Capital Resources

The Partnership has been capitalized as follows:

| (\$ thousands)                     |            |      |
|------------------------------------|------------|------|
| Partners' equity                   | \$ 469,720 | 60%  |
| Senior Notes (U.S. \$71,250)       | 112,547    | 14%  |
| Acquisition Bridge Credit Facility | 202,004    | 26%  |
|                                    | \$ 784,271 | 100% |

**Partners' Equity** Partners' equity increased during the year as a result of the issuance of 288,750 Class A Units upon the exercise of warrants issued in 1998 and the issuance of 944,350 Class A Units under the Partnership's Distribution Reinvestment Plan (the "Plan").

The Plan enables eligible Unitholders to direct that the eligible portion of a cash distribution paid by Fort Chicago in respect of their existing Class A Units be reinvested in additional Class A

Units at a five percent discount to the average market price. The eligible portion of any declared cash distribution which may be reinvested under the Plan is that portion which is not subject to U.S. withholding taxes.

The Plan includes a unique feature which allows participants to elect to either have these additional Class A Units held for their account under the Plan, or have them delivered to a designated broker in exchange for a premium cash payment

equal to 102 percent of the reinvested amount. Subject to certain limits described in the Plan, participants will also be able to directly purchase additional Class A Units from Fort Chicago for cash at a purchase price equal to the average market price (with no discount).

The Partnership has utilized the Plan to fund the ongoing capital program of Alliance Pipeline with equity. In this manner, the ongoing capital expenditures do not negatively impact distributions to Unitholders.

**Senior Notes** On August 15, 2001, two of the Partnership's subsidiary entities each sold U.S. \$37.5 million (total of U.S. \$75 million) principal amount of 7.71 percent senior unsecured notes due July 31, 2011 to institutional lenders in the United States on a private placement basis. Such notes are direct unsecured obligations of the issuer and rank equally with all other unsecured and unsubordinated indebtedness of the issuer. Interest on such notes is calculated and payable quarterly in arrears on each of January 31, April 30, July 31 and October 31 in each year commencing with October 31, 2001. Each issuer is obligated to repay principal in the amount of U.S. \$375,000 on each of the same quarterly payment dates commencing October 31, 2001 and in the amount of U.S. \$22,875,000 at maturity. During 2002, each issuer repaid U.S. \$1,500,000 (2001 – U.S. \$375,000) of such Senior Notes.

Each issuer of such notes has provided covenants customary for note issuances that include, among other things, the following: (i) each issuer will not, at any time, permit consolidated indebtedness to be more than 50 percent of consolidated capitalization and (ii) each issuer will not permit the ratio of operating cash flow to interest expense to be less than 3.00 to 1.00 at the end of each fiscal quarter of such issuer. Such financial covenants are calculated for each issuer and not at the Partnership level.

Each issuer of such notes has given the note purchasers a negative pledge not to encumber any of its assets except for

permitted encumbrances and has agreed that in the event it sells any portion of its interest in Alliance Pipeline L.P. or Alliance Pipeline Limited Partnership, as applicable, prior to maturity of its notes to 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 issuer of such notes may redeem all or any (subject to a minimum of 10 percent of the aggregate principal amount outstanding) of its notes at any time prior to maturity at par plus a make-whole payment and any accrued and unpaid interest on the redeemed amount.

Events of default apply to such notes which are customary for note issuances of this nature.

**Acquisition Bridge Credit Facility** On October 28, 2002, the Partnership obtained a non-revolving committed acquisition bridge credit facility in the maximum principal amount of up to \$250,000,000 (the "Bridge Credit Facility") from three lenders (the "Banks") to be used to finance the acquisitions of additional ownership interests in Alliance, Aux Sable and/or Alliance Canada Marketing representing up to an additional 15 percent of all of the ownership interests therein. The Bridge Credit Facility is available until, and matures on, October 28, 2003.

As of December 31, 2002, after completion of the Partnership's acquisitions of additional interests in Alliance, Aux Sable and Alliance Canada Marketing, the Partnership had principal amounts of approximately Canadian \$110.0 million and U.S. \$58.5 million outstanding under the Bridge Credit Facility. In January 2003, the Partnership made payments of Canadian \$54.0 million and U.S. \$58.5 million on the principal amount outstanding under the Bridge Credit Facility from the proceeds of the convertible debentures described below. The Partnership anticipates repaying the remaining principal amount outstanding on the Bridge Credit Facility prior to its maturity on October 28, 2003 from the proceeds of additional senior debt, convertible debt or issuances of Class A Units.

**Revolving Credit Facility** The limit available under the revolving credit facility provided by several of the Banks to the Partnership (the “Revolving Credit Facility”) was increased on October 28, 2002 to \$50.0 million from \$40.0 million. As of December 31, 2002, the Partnership had no borrowings under the Revolving Credit Facility, but had letters of credit outstanding thereunder in amounts of approximately Canadian \$11.3 million and U.S. \$7.4 million, both of which were issued to cover the Partnership’s pro rata share (as one of the owners of Alliance) of debt service reserve requirements relating to Alliance’s senior indebtedness.

The terms and conditions of the Bridge Credit Facility and the amended terms and conditions of the Revolving Credit Facility (including to increase the maximum principal amount thereof to \$50,000,000) are set forth in an amended and restated credit agreement between the Partnership and the Banks dated October 28, 2002 (the “Amended and Restated Credit Agreement”) which amended and restated a credit agreement dated March 6, 2001 (the “2001 Credit Agreement”). Such terms and conditions include covenants customary to bank credit facilities of this nature and which are similar to those set forth in the 2001 Credit Agreement including, among other things, the same financial covenants as were contained in the 2001 Credit Agreement.

For the purpose of providing continuing collateral security for the indebtedness and obligations of Fort Chicago under the Revolving Credit Facility and under the Bridge Credit Facility, certain of Fort Chicago’s direct or indirect subsidiary corporations and partnerships have delivered a guarantee and negative pledge to the lenders thereunder. This security replaces similar security that was already in place in regard to the Revolving Credit Facility. Pursuant to the terms and conditions relating to the Bridge Credit Facility, if the Bridge Credit Facility is not repaid by April 28, 2003, each of Fort Chicago Pipeline Canadian Limited Partnership and Fort Chicago Pipeline Canadian Pipeline L.P. will be required to execute and deliver, as continuing security for such guarantee, a security agreement granting a security interest in, as applicable, all of the issued

and outstanding shares of Fort Chicago Pipelines (Canada) Ltd. and all of its limited partner interests in Fort Chicago Pipeline II U.S. L.P.

**Convertible Debentures** In January 2003, the Partnership issued \$150.0 million principal amount of 7.50 percent convertible unsecured subordinated debentures (the “Debentures”). The Debentures are convertible at the option of the holder at any time into Class A Units at a conversion price of \$9.00 per Class A Unit, subject to adjustment in certain events. The Debentures are unsecured obligations and rank equally with all other unsecured and subordinated indebtedness of Fort Chicago. The Debentures pay interest semi-annually and have a maturity date of June 30, 2008. Pursuant to Canadian generally accepted accounting principles, the Debentures will be accounted for as unitholders’ equity and the interest paid on the Debentures will be charged to unitholders’ equity.

The net proceeds realized from the issuance of the Debentures were used to partially repay indebtedness incurred under the Bridge Credit Facility in connection with the acquisition of additional interests in Alliance Pipeline, Aux Sable and Alliance Canada Marketing.

**Long-term Credit Rating** In November 2002, the Partnership received from Standard & Poor’s a long-term corporate credit rating of BBB on its senior unsecured debt with a stable outlook. This rating applies both to the Senior Notes issued by the Partnership’s subsidiary entities and to the \$202 million principal amount outstanding under the Bridge Credit Facility. This long-term corporate credit rating does not apply to the Debentures issued in 2003.

As a result of receiving this investment grade rating, the Partnership was released from its obligation to provide letters of credit to secure its pro rata share (as one of the owners of Alliance Canada Marketing) of the obligations of Alliance Canada Marketing under certain transportation services agreements and provided, in place thereof, its guarantee of such pro rata share.

### **Restrictions on the Partnership's Ability to Make Distributions**

The ability of Fort Chicago to make cash distributions, return capital contributions or repay its bank credit facilities, or of its relevant subsidiaries to repay their senior unsecured notes, is primarily dependent upon the receipt by Fort Chicago through relevant subsidiaries of cash distributions and other payments from Alliance Pipeline and Aux Sable. Pursuant to the senior debt financing arrangements for the Alliance Pipeline, as long as there are any obligations outstanding to the lenders thereunder, Alliance Pipeline Limited Partnership and Alliance Pipeline L.P. may make distributions or return capital contributions to their limited partners (including relevant subsidiaries of Fort Chicago) so long as at the time of any such distribution or other payment various conditions are met including, among other things, (a) no "Event of Default" or event which with the giving of notice or passage of time or both could become an "Event of Default" shall have occurred and be continuing, (b) certain debt service accounts and debt service reserve accounts are fully funded, (c) certain debt service coverage ratios and projected debt service coverage ratios are met, and (d) such distribution or other payment is not funded by the senior debt of the Alliance Pipeline. An "Event of Default" is defined in the Common Agreement relating to the senior debt of the Alliance Pipeline to include those events which are typically referred to in a loan agreement and the occurrence of, among other things, any of the following events:

- 1) there is a stipulated level of defaults by shippers in making payments under transportation contracts or in complying with the creditworthiness requirements set forth in such Common Agreement; and
- 2) default by a third party under any operational agreement concerning Alliance or Aux Sable and failure to replace such third party within 90 days of such default and such default being likely to have a material adverse effect on Alliance Pipeline Limited Partnership or Alliance Pipeline L.P.

The Partnership's investment in the Alliance and Aux Sable projects has been made via debt and equity investments in subsidiary partnerships and corporations. There are no legal or practical restrictions on such subsidiary partnerships or corporations from transferring funds received from the Alliance and Aux Sable projects to the Partnership except that the subsidiary corporations must meet liquidity and solvency tests under applicable corporate law. The two subsidiaries of the Partnership which hold the direct investments in Alliance Pipeline Limited Partnership and Alliance Pipeline L.P., respectively, are the issuers of the Senior Notes described above. Each such issuer has given the note purchasers a covenant not to make distributions to its parent if at the time or as a result any "Event of Default" as defined in the note agreement, or any event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become such an "Event of Default," would exist.

### **Commitments**

The Partnership has certain commitments to fund Alliance Pipeline in respect to debt service reserve requirements relating to Alliance's senior indebtedness and has guaranteed certain transportation obligations of Alliance Canada Marketing L.P., an entity affiliated with the Alliance Pipeline. The Partnership has provided letters of credit to support the Alliance Pipeline obligations which are fully described in Note 11 of the Consolidated Financial Statements of the Partnership. The Partnership anticipates that it may be required to invest approximately \$1.9 million in Aux Sable in each of the first and third quarters of 2003 to enable Aux Sable to make payments under its credit facility that are due on March 31, 2003 and September 27, 2003. In addition, the Partnership may be required to invest further funds to enable Aux Sable to extend its revolving credit facility prior to its maturity on September 27, 2003. The Partnership may commit further funds during the coming year to enhance or expand the Alliance and Aux Sable projects, the amount of which should not be significant.

## Distributions

The Partnership distributes “Distributable Cash” to Unitholders on a quarterly basis. The Partnership anticipates distributing Distributable Cash in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of the applicable quarter. Payments will be made on or before the 30th day after each record date. There is no assurance that the Partnership will make a distribution for any particular quarter. In future, the Partnership may determine to distribute Distributable Cash on a monthly basis rather than a quarterly basis.

The annual amount of Distributable Cash will vary based on, (i) the amount of distributions received from the Alliance Pipeline and Aux Sable Plant, (ii) the economics of operating

the Aux Sable Plant, (iii) the amount of cash held in reserve by the Partnership, (iv) the financing costs of the Partnership, including the requirement to retire the indebtedness of the Partnership and applicable subsidiaries, (v) the operating expenses of the Partnership, and (vi) the Partnership’s subsidiaries which issued the Senior Notes described above not being in default under their note agreements.

The Partnership’s bank credit facilities impose certain restrictions on the ability of the Partnership to make cash distributions to Unitholders including (i) limiting the Partnership’s ability to incur additional debt to finance distributions and (ii) removing the ability of the Partnership to make distributions when a “Default” or an “Event of Default” as defined in the applicable credit agreement shall have occurred and be continuing.

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

| Record Date        | Payment Date     | Distribution per Class A Unit | Distributions Paid/Payable in Cash | Distribution Paid in Units | Total Distribution Paid/Payable |
|--------------------|------------------|-------------------------------|------------------------------------|----------------------------|---------------------------------|
|                    |                  |                               | (\$ thousands)                     | (\$ thousands)             | (\$ thousands)                  |
| <b>2001</b>        |                  |                               |                                    |                            |                                 |
| March 30, 2001     | April 30, 2001   | \$ 0.175                      | \$ 12,772                          | \$ –                       | \$ 12,772                       |
| June 29, 2001      | July 31, 2001    | \$ 0.160                      | 11,725                             | –                          | 11,725                          |
| September 28, 2001 | October 31, 2001 | \$ 0.160                      | 11,725                             | –                          | 11,725                          |
| December 31, 2001  | January 31, 2002 | \$ 0.175                      | 12,823                             | –                          | 12,823                          |
|                    |                  | \$ 0.670                      | \$ 49,045                          | \$ –                       | \$ 49,045                       |
| <b>2002</b>        |                  |                               |                                    |                            |                                 |
| March 28, 2002     | April 30, 2002   | \$ 0.160                      | \$ 11,770                          | \$ –                       | \$ 11,770                       |
| June 28, 2002      | July 31, 2002    | \$ 0.160                      | 9,342                              | 2,429                      | 11,771                          |
| September 30, 2002 | October 31, 2002 | \$ 0.160                      | 7,975                              | 3,845                      | 11,820                          |
| December 31, 2002  | January 31, 2003 | \$ 0.180                      | 12,322                             | 1,065                      | 13,387                          |
|                    |                  | \$ 0.660                      | \$ 41,409                          | \$ 7,339                   | \$ 48,748                       |

For 2003, the Partnership anticipates that the aggregate amount of distributions will vary between \$0.72 and \$0.82 per Class A Unit (annualized) based upon approximately \$1.05 to \$1.15 per Class A Unit of distributions from the Alliance Pipeline, -\$0.10 to \$0.10 per Class A Unit for distributions from the Aux Sable Plant less \$0.35 to \$0.40 per Class A Unit for financing and administration expenses. These estimates have been prepared based on a U.S. \$ exchange rate of \$0.67. The amount of distributable cash is highly sensitive to the natural gas liquids extraction margins. Since start-up of the Aux Sable Plant on December 1, 2000, this margin has been very volatile which has resulted in the Aux Sable Plant being unable to generate distributions for its owners, including Fort Chicago. In order for the Partnership to be in a position to pay aggregate cash distributions in 2003 in the upper end of the range, a recovery in natural gas extraction margins in the final three quarters of 2003 to a “normal” 10-year average value would be required.

#### **Taxation of Fort Chicago Unitholders and the Receipt of Distributions by Unitholders**

**The following is of a general nature and is not intended to be, nor should it be considered to be, legal or tax advice. Therefore, Unitholders should consult their own tax advisors with respect to their particular circumstances.**

**Tax Deductions** A partnership generally is not subject to federal or provincial income tax. The annual income gains, losses, deductions or credits of the Partnership flow through to the Unitholders who are required to report their allocated share of these amounts on their individual tax returns as though the Unitholder had incurred these items directly. The Partnership agreement allocates these amounts to Unitholders of record on March 31, June 30, September 30 and December 31 of each year (“Unitholder of Record”).

In March, Unitholders of Record receive a T5013 tax form that summarizes their allocated share of the Partnership’s reportable tax items for the calendar year ended December 31, and certain information required to be included in their tax returns. Only the amounts shown on the T5013 should be entered on each Unitholder’s tax returns. During the year, the Partnership allocated a loss to Unitholders of approximately \$0.34 per Class A Unit.

**Distributions and Adjusted Cost Base of Units** Holders of Class A Units are required to reduce the adjusted cost base of their units by the amount of any distributions received. In addition, the cost base of a holder’s units is reduced by the amount of any loss allocated to a Unitholder and increased by the amount of any income allocated to a Unitholder on their T5013 form.

The adjusted cost base is used in calculating capital gains and losses on the disposition of the Class A Units if the units are held as capital property by the Unitholder.

#### **U.S. Withholding Taxes**

A certain portion of the distribution paid by the Partnership is subject to U.S. withholding taxes. Included in the 2002 distribution payments made to Unitholders was approximately \$0.055 per Class A Unit that was considered U.S. source interest income and therefore subject to U.S. withholding taxes.

In 2003, the Partnership anticipates that approximately \$0.03 per Class A Unit per quarter will be subject to U.S. withholding taxes. The rate of withholding tax depends on the status of the Unitholder, with Canadian individuals and corporations subject to a 10 percent withholding tax rate and tax exempt organizations (generally RRSPs and pension plans) not subject to U.S. withholding taxes.

#### **Ownership Restrictions**

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 and as further amended on March 7, 2001 (the “Partnership Agreement”). **The Partnership Agreement provides that no Class A Units may be transferred to 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” for purposes of the *Income Tax Act (Canada)*.**

## Risk Factors

An investment in Class A Units is subject to a number of risks. There is a risk that a purchaser of Class A Units may lose some or all of his or her investment. Presently, the Partnership's sole asset is its interests in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing.

The business of the Partnership is subject to the normal risks associated with the pipeline, NGL extraction and natural gas marketing industries, including operating risks inherent in the operation of a complex pipeline system with little prior operating history, future demand risks beyond the terms of the current transportation contracts, related dependence on available reserves within the Western Canadian Sedimentary Basin and the exploitation thereof, government and environmental regulations where applicable, price fluctuations of natural gas and NGL, availability of inlet natural gas, risk of default by shippers, competitive pressures, fluctuation of the Partnership's operating costs, fluctuations in the U.S.-Canada currency exchange rate, present and future financing risk of the Alliance and Aux Sable projects and risks of claims in excess of insurance coverage maintained by Alliance and Aux Sable projects. Furthermore, risks of substantial costs and liabilities relating to environmental claims are inherent in pipeline and natural gas processing operations and there can be no assurance that such costs or liabilities will not be incurred.

Distributions by the Partnership to the holders of Class A Units will fluctuate and there can be no assurance regarding the amounts to be distributed. The revenue of the Partnership will be based upon tolls charged pursuant to transportation service agreements, which expire 15 years after the in-service date of the Alliance Pipeline, unless renewed. Therefore, beyond the initial term of such agreements, the revenues derived by the Partnership will depend upon demand for natural gas in markets served by the Alliance Pipeline and the availability of competitive alternatives for transportation of natural gas to such markets.

The Partnership may issue an unlimited number of additional Class A Units without the approval of the holders of Class A Units, such that the holders of Class A Units may be subject to a dilution of their interests. A holder of Class A Units, to maintain limited liability, must not take part in the management or control of the Partnership's business. A complete listing of risk factors is available on the Partnership's Web site.

A Unitholder should consult with his own financial or tax advisor with respect to the tax considerations in connection with an investment in the Class A Units.

## Risk Management

The primary risks affecting the amount of cash distributions to Unitholders are:

- 1) the movement of NGL extraction margins experienced by the Aux Sable Plant;
- 2) fluctuation in U.S./Canadian exchange rates; and
- 3) risk of default of shippers on the Alliance Pipeline.

Although the NGL extraction margins represent the largest potential variability in the cash available for distribution to Unitholders, the Partnership to date has not entered into hedging transactions. No recognized forward markets exist for ethane, and for propane the market is largely concentrated within the first two forward months. The use of a proxy hedge is theoretically possible to hedge NGL extraction margins and it would reduce the risk profile marginally; however, the possibility of losses occurring under the hedge at the same time as NGL extraction margins are falling was significant enough to override the potential benefits. In addition, the forward price for natural gas rises relative to the current price, while the opposite generally occurs for NGL prices. The resulting forward natural gas extraction margin therefore is generally much lower than the current margin, making it extremely difficult to hedge

an acceptable forward NGL extraction margin. In conjunction with the acquisition of an additional interest in Aux Sable in 2003, the Partnership and Enbridge have agreed to put in place during the second quarter of 2003 a hedging plan for a portion of the natural gas liquids production.

The Partnership's earnings and cash flow is largely derived in U.S. dollars. To offset some of this risk, we have denominated the Partnership's long-term borrowing in U.S. dollars to provide a hedge against movements in the U.S./Canadian exchange rate.

The Alliance shippers are concentrated in the natural gas producing and marketing sectors of the Western Canadian Sedimentary Basin. The Alliance Pipeline does not have a significant concentration of credit risk as it has a portfolio of 33 shippers, 78 percent of which are investment grade or equivalent. In addition, Alliance has a stringent credit review and approval process with any shipper not meeting Alliance's investment grade or equivalent criteria being required to post security in the form of cash, a letter of credit or a dedication of natural gas reserves. A number of significant shippers on the Alliance Pipeline are in the energy generation, transportation and marketing industries. These sectors are currently experiencing a financial downturn and declining credit quality. During 2003, approximately 10 percent of the Alliance shippers were downgraded to below investment grade and, as a result, they were required to post security that conformed to Alliance's credit policy.

## **Outlook**

As we enter 2003, Fort Chicago's investment in Alliance continues to produce stable returns. The recent increases in the prices of natural gas have again had a negative impact on the Aux Sable operations. Fort Chicago will continue to monitor the asset acquisition market and it will continue to be an acquirer of assets provided they are accretive to the Partnership's earnings and cash distributions. Fort Chicago believes that this is an excellent time to be an acquirer of high-quality assets that meet its strategic and financial objectives. However, Fort Chicago will not grow for the sake of a larger market capitalization, but to become more profitable.

## **Forward-looking Information**

Some of this information may contain projections or forward-looking statements regarding future events or the future financial performance of the Partnership. Fort Chicago cautions that the statements are only predictions, and by their nature, forward-looking statements involve risk and uncertainty. Fort Chicago's actual results may differ materially from those expressed or implied in such forward-looking statements and/or many factors outside the control of the Partnership could affect the extent to which a particular projection is realized. A full description of the risks and uncertainties that may affect the operations, performance, development and results of the Partnership's business is included in the Annual Information Form of the Partnership which is available at [www.fortchicago.com](http://www.fortchicago.com) or by contacting the General Partner of the Partnership.