

Management's Report

The financial statements of Fort Chicago Energy Partners L.P. 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 the 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 is responsible for reviewing and approving the financial statements and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Board of Directors of the General Partner has appointed an Audit Committee to meet periodically during the year with management and the external auditors. The Audit Committee reviews with management and the independent external auditors the annual financial statements prior to submission to the Board of Directors for final approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with Canadian generally accepted accounting principles.

(signed)

Guy J. Turcotte
Chairman

March 14, 2003

(signed)

Stephen H. White
President and Chief Executive Officer

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, 2002 and 2001 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, 2002 and 2001 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 14, 2003, except as
to Note 13(b) which is as
of March 20, 2003

PricewaterhouseCoopers LLP
Chartered Accountants

Consolidated Statement of Financial Position

	December 31	
(\$ thousands)	2002	2001
		(Restated – Note 4)
Assets		
Current assets		
Cash and short-term investments	\$ 11	\$ 13,677
Distribution receivable	21,531	15,313
Receivables	191	295
Prepaid expenses	–	89
	21,733	29,374
Investment in Alliance projects (Note 5)	774,685	586,430
Deferred expenses (Note 7)	5,528	4,431
	\$ 801,946	\$ 620,235
Current liabilities		
Payables	\$ 5,353	\$ 1,851
Current portion of Senior Notes (Note 8)	4,739	4,778
Distribution payable (Note 6(b))	12,322	12,823
Bank debt (Note 9)	58,604	–
	81,018	19,452
Non-current liabilities		
Senior Notes (Note 8)	107,808	113,472
Bank debt (Notes 9 and 13(a))	143,400	–
	251,208	113,472
	332,226	132,924
Partners' equity		
Partners' capital account (Note 6(a))	443,067	433,786
Warrants	–	380
Cumulative translation adjustment	14,497	17,975
Undistributed income	12,156	35,170
	469,720	487,311
	\$ 801,946	\$ 620,235

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: Guy J. Turcotte
Director

(signed)

By: Stephen W. C. Mulherin
Director

Consolidated Statement of Income and Undistributed Income

(\$ thousands, except per Unit amounts)	For the year ended December 31	
	2002	2001
		(Restated – Note 4)
Income		
Interest	\$ 120	\$ 534
Expenses		
Administration	4,472	1,818
Interest and other finance	10,245	9,301
Foreign exchange loss (gain)	(100)	4,931
Depreciation and amortization	1,020	2,283
Capital taxes	2,451	2,206
Net income (loss) before equity income	(17,968)	(20,005)
Equity income of Alliance projects (Notes 3 and 5)	43,702	34,100
Net income for the year	25,734	14,095
Undistributed income at the beginning of the year	37,386	71,253
Write-off of deferred foreign exchange loss (Note 4)	(2,216)	(1,133)
Distribution paid or payable (Note 6(b))	(48,748)	(49,045)
Undistributed income at the end of the year	\$ 12,156	\$ 35,170
Net income per Class A Unit		
Basic and diluted	\$ 0.35	\$ 0.19

Consolidated Statement of Cash Flows

	For the year ended December 31	
(\$ thousands, except per Unit amounts)	2002	2001
		(Restated – Note 4)
Operating		
Net income for the year	\$ 25,734	\$ 14,095
Less: Equity income of Alliance projects	(43,702)	(34,100)
Add: Depreciation and amortization	1,020	2,283
Unrealized foreign exchange loss (gain)	(602)	4,769
Distribution from Alliance projects	56,369	51,942
Cash flow	38,819	38,989
Financing		
Partners' equity	1,920	8,669
Issue costs	(358)	(32)
Bank debt	202,004	(132,186)
Debt issue costs	(2,116)	(2,119)
Senior notes	–	114,675
Repayment of senior notes	(4,717)	(1,193)
Distribution paid	(41,910)	(41,610)
Changes in non-cash working capital	3,695	20
	158,518	(53,776)
Investing		
Investment in Alliance projects	(210,996)	(5,505)
Deferred expenses	–	(3,057)
Office equipment	(7)	(5)
	(211,003)	(8,567)
Increase (decrease) in cash and short-term investments	(13,666)	(23,354)
Cash and short-term investments at the beginning of the year	13,677	37,031
Cash and short-term investments at the end of the year	\$ 11	\$ 13,677
Cash flow per Class A Unit		
Basic and diluted	\$ 0.53	\$ 0.53
Supplemental disclosure of cash flow information:		
Interest paid	\$ 10,190	\$ 7,866
Capital taxes paid	\$ 2,263	\$ 3,512

Note 1

Consolidated Statement of Distributable Cash

	For the three months ended December 31		For the year ended December 31	
(\$ thousands, except per Unit amounts)	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Cash inflows				
Distribution from Alliance projects prior to amounts withheld for capital expenditures	\$ 21,158	\$ 15,395	\$ 68,985	\$ 67,255
Interest income	5	87	120	534
	21,163	15,482	69,105	67,789
Cash outflows				
Administration	(2,552)	(447)	(4,472)	(1,818)
Realized foreign exchange gain (loss)	(582)	157	(502)	(162)
Interest and other finance	(3,278)	(2,379)	(10,245)	(9,301)
Capital taxes	(703)	(701)	(2,451)	(2,206)
Marketing support payments	–	(1,140)	(1,829)	(2,290)
Senior note – principal payments	(1,169)	(1,203)	(4,717)	(2,387)
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

Note 2

Basis of Presentation and Business of the Partnership

Fort Chicago Energy Partners L.P. (the “Partnership”) is a limited partnership created under the laws of the Province of Alberta on October 9, 1997.

The Partnership was created to acquire the interests in the Alliance projects held by Chauvco Resources Ltd. (“Chauvco”) and all agreements related thereto. The business of the Partnership consists solely of directly or indirectly participating in the transportation, storage, marketing or processing of hydrocarbons and directly or indirectly investing and managing investments in other persons who are engaged primarily in these activities or carrying on the business of a financial intermediary.

Fort Chicago Energy Management Ltd., as 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.

The Consolidated Financial Statements include the accounts of the Partnership and its wholly owned subsidiary partnerships and corporations.

The Alliance projects consist of the Alliance Pipeline, the Aux Sable Plant and Alliance Canada Marketing. The Alliance Pipeline involves the development, ownership and operation of a mainline gas pipeline (with various connecting lateral pipelines) from Northeastern British Columbia to points near Chicago, Illinois. The Aux Sable Plant involves the ownership and operation of a natural gas liquids extraction and fractionation facility near the terminus of the Alliance Pipeline. Alliance Canada Marketing holds long-term transportation capacity on the Alliance Pipeline.

These financial statements have been prepared by the management of Fort Chicago Energy Management Ltd. (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.

Note 3

Summary of Significant Accounting Policies of the Partnership

Investments

The Partnership’s interest in the Alliance projects is accounted for using the equity method, whereby the investment is recorded at the original cost plus the Partnership’s share of income or loss less any distributions received. For the year ended December 31, 2002, the Partnership recorded \$43.7 million (2001 – \$34.1 million) as its share of the income of the Alliance projects.

Foreign Currency Translation

The Partnership follows the current rate method of foreign currency translation that requires that all asset and liability amounts be translated into Canadian dollars using the exchange rate in effect at the balance sheet date, and requires that all revenues and expenses be translated at average exchange rates for the period. The resulting net cumulative translation gain or loss is reported as a separate component of Partners’ equity.

Income Taxes

As the Partnership is not a taxable entity, all income for tax purposes is allocated to the partners each year and, therefore, no tax expense is reflected in these financial statements in respect of the Partnership. Certain subsidiary partnerships are taxable in the U.S. and tax expense has been recorded for U.S. tax liabilities. A subsidiary corporation is taxable in Canada and federal and provincial capital taxes have been reflected in the financial statements.

Cash and Short-term Investments

Cash and short-term investments comprise cash and highly liquid investments of less than 90 days to maturity valued at market.

Note 4

Change in Accounting Policy

Effective January 1, 2002, the Partnership adopted, retroactively with restatement of prior periods, the Canadian Institute of Chartered Accountants standard regarding foreign currency translation. As a result of the standard, Fort Chicago's U.S. dollar denominated debt continued to be remeasured, however, the previously deferred foreign exchange loss was charged to the Consolidated Statement of Income and Undistributed Income as follows:

Deferred loss as at December 31, 2000	\$	(1,133)
Quarter ended March 31, 2001		(3,684)
Quarter ended June 30, 2001		4,288
Quarter ended September 30, 2001		(3,178)
Quarter ended December 31, 2001		1,491
	\$	(2,216)

For the current year, all foreign exchange gains and losses related to Fort Chicago's U.S. dollar denominated debt are reported in the Consolidated Statement of Income and Undistributed Income.

Note 5

Investment in Alliance Projects and Significant Accounting Policies for the Alliance Projects

At various times in 1997, the Partnership acquired interests in the Alliance Pipeline and Aux Sable Plant projects. During the fourth quarter of 2002, the Partnership acquired an additional 11.1 percent interest in the Alliance Pipeline from two vendors for \$206.3 million and an additional 4.9 percent interest in the Aux Sable Plant and Alliance Canada Marketing. In connection with the Aux Sable Plant and Alliance Canada Marketing purchases, the Partnership received approximately \$3.7 million which amount represents the difference between the aggregate purchase price paid by the Partnership for the ownership interest and the payment received by the Partnership to assume an additional 4.9 percent of the support obligation relating to Alliance Canada Marketing. In addition, the Partnership has agreed to purchase an additional 1.1 percent of the Alliance Pipeline in March, 2003 for approximately \$18.2 million.

Following the completion of the deferred purchase by the Partnership, the Partnership will own approximately 38.2 percent of the Alliance Pipeline and approximately 30.9 percent of Aux Sable and Alliance Canada Marketing. The Partnership has invested the following amounts in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing since inception, recorded the following amounts of equity income and received the following distributions:

(\$ thousands)	Investment	Equity Income	Distributions Received or Receivable	Translation Adjustment	Total
2000 and prior	\$ 517,596	\$ 76,129	\$ –	\$ –	\$ 593,725
2001	5,505	34,100	(67,255)	20,355	(7,295)
2002	210,996	43,702	(62,587)	(3,856)	188,255
	\$ 734,097	\$ 153,931	\$ (129,842)	\$ 16,499	\$ 774,685

The following summarizes the combined financial information of the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing entities:

(\$ thousands)	2002	2001
Statement of operations		
Net income for the year	\$ 159,238	\$ 132,016
Statement of financial position		
Assets		
Current assets	\$ 624,168	\$ 490,831
Long-term assets	6,000,303	6,189,336
Total assets	\$ 6,624,471	\$ 6,680,167
Liabilities and partners' equity		
Current liabilities	\$ 517,827	\$ 346,409
Long-term liabilities	3,659,704	3,812,537
Future income taxes	215,761	223,424
Partners' equity	2,231,179	2,297,797
Total liabilities and partners' equity	\$ 6,624,471	\$ 6,680,167

The financial statements for the entities comprising the Alliance Pipeline have been prepared utilizing the following significant accounting policies:

Capital Assets

Pipeline in service, including pipeline linepack and the allowance for funds used during construction, is recorded at cost and is being depreciated on a four percent per annum straight-line basis commencing from the in-service date. General plant assets, consisting of 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 four to 33 percent per annum. 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 to 33 percent per annum.

The allowance for funds used during construction ("AFUDC") represents the cost of debt and equity financing incurred during construction that is expected to be recovered in future rates. Accordingly, these costs were capitalized.

The partners are entitled to earn an after-tax rate of return of 11.3 percent in Canada and 10.7 percent in the U.S. for the equity portion of the AFUDC. The debt portion of the AFUDC is comprised of interest expense, commitment fees and credit facility financing fees incurred during construction. Interest income derived from debt-sourced funds was netted against interest expense in determining the allowance for debt funds used during construction. Interest income attributable to equity-sourced funds was included in net income in the year earned.

Removal and site restoration costs are not determinable and will be recorded when reasonably estimable.

Impairment of Capital Assets

The Partnership evaluates the capital 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 has been made, management's estimate of undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets to determine whether impairment has occurred. If an impairment of the carrying value has occurred, the amount of the impairment recognized in the financial statements is the amount that the carrying value exceeds the undiscounted future cash flow.

Judgements and assumptions are inherent in management's estimate of undiscounted future cash flows used to determine recoverability of an asset. The use of alternate judgements and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements. No provision for impairment was recorded in 2002.

Revenue Recognition

The Alliance Pipeline transportation contracts are designed to provide the Alliance Pipeline with 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. 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. At December 31, 2002, 100 percent (2001 – 100 percent) of the firm capacity was contracted under firm-service transportation service agreements ending in 2015.

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

Deferred Financing Charges

All costs directly associated with arranging Alliance's long-term Senior Notes are capitalized as deferred financing charges and amortized over the life of the related debt using the effective interest rate method. Prior to the commencement of commercial operations, amortization of deferred financing charges was included as a component of the allowance for debt funds used during construction.

Shipper Imbalances

The Alliance Pipeline may experience slight physical imbalances between the volume of gas received from its shippers, and the volume of gas delivered to downstream interconnects, which affects the volume of the Alliance Pipeline linepack, the cost of which is included in 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 were recognized in the financial statements.

The financial statements for the Aux Sable Plant and Alliance Canada Marketing entities have been prepared utilizing the following significant accounting policies:

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and include costs directly associated with the design and construction of the plant and related support facilities. Depreciation of the plant assets commenced on December 1, 2000 and is provided on a straight-line basis over the estimated useful life of the plant of 30 years. Assets under capital lease are amortized on a straight-line basis over their estimated useful lives of 30 years. Administrative and other assets are depreciated on a straight-line basis over their estimated useful lives ranging from three to five years.

Impairment of Property, Plant and Equipment

The Partnership evaluates the property, plant and equipment 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 has been made, management's estimate of 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 in the financial statements is the amount that the carrying value exceeds the undiscounted future cash flow.

Judgements and assumptions are inherent in management's estimate of undiscounted future cash flows used to determine recoverability of an asset. The use of alternate judgements and/or assumptions could result in the recognition of different levels of impairment charges in the financial statements. No provision for impairment was recorded in 2002.

Inventories

The valuation of NGL inventory is based on the lower of average cost or market as determined by closing market prices at December 31, 2002. Inventory of plant spare parts is recorded at the lower of cost and replacement cost.

NGL Sales Revenue

Revenues from the sale of NGL products are recognized on the date of product delivery. Revenues on exchange contracts are recognized on the date the exchanged product delivery occurs. Exchanged products are recorded as inventory until such time.

The Aux Sable Plant has completed two years of operation and has not yet achieved profitable operations or a positive cash flow from operations. Accordingly, it is dependent upon its partners, including Fort Chicago, to support any cash flow shortfalls and to meet its current debt repayment obligations.

Note 6

Partners' Equity

(a) Partners' Capital Account

(i) AUTHORIZED

The Partnership is authorized to issue an unlimited number of Class A limited partnership units and one Class B limited partnership unit.

(ii) ISSUED

	Class A Units	
	Number	Value
		(\$ thousands)
December 31, 2000	71,843,054	\$ 424,876
Eligible Optionholder Warrants	1,226,455	7,297
Warrants (Note 6(e))	206,250	1,645
Issue costs	–	(32)
December 31, 2001	73,275,759	433,786
Warrants – Cash (Note 6(e))	288,750	1,920
– Initial value	–	380
Distribution Reinvestment Plan	808,164	6,274
Issue costs	–	(358)
December 31, 2002	74,372,673	442,002
Units to be issued under Distribution Reinvestment Plan	136,186	1,065
	74,508,859	\$ 443,067

(b) Distributions

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)
2001					
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
2002					
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

(c) 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).

(d) Unitholders Rights Plan

The Partnership has a unitholders rights plan (the “Plan”). Under the 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 market price. The rights are not triggered by a “Permitted Bid,” as defined in the Plan.

(e) Warrants

In conjunction with the arrangement of certain credit facilities in 1998, the Partnership issued 495,000 warrants. Each warrant entitles the holder thereof to acquire one Class A Unit at a price of \$6.65. Each warrant expired on March 6, 2002. In 1998, the Partnership recognized \$653,400 as the value of these warrants. During 2002, 288,750 (2001 – 206,250) warrants were exercised for proceeds of \$1.9 million (2001 – \$1.4 million).

Note 7

Deferred Expenses

(\$ thousands)	2002	2001
Financing expenses – long-term debt ⁽¹⁾	\$ 1,043	\$ 1,185
Financing expenses – short-term debt ⁽²⁾	1,739	158
Construction period unit appreciation rights ⁽³⁾	2,446	2,751
Other	300	337
	\$ 5,528	\$ 4,431

(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 8

Senior Notes

On August 15, 2001, the Partnership, via two subsidiary entities, issued senior unsecured notes to institutional investors in the United States.

The Senior Notes, Series A issued by Fort Chicago Pipeline II U.S. L.P. in the aggregate principal amount of U.S. \$37,500,000 bear interest at the rate of 7.71 percent per annum, pay interest and principal quarterly in arrears and mature on July 31, 2011. Principal is repaid U.S. \$375,000 per quarter and U.S. \$22,875,000 at maturity.

The Senior Notes, Series B issued by Fort Chicago Pipelines (Canada) Ltd. in the aggregate principal amount of U.S. \$37,500,000 bear interest at the rate of 7.71 percent per annum, pay interest and principal quarterly in arrears and mature on July 31, 2011. Principal is repaid U.S. \$375,000 per quarter and U.S. \$22,875,000 at maturity.

Each series of notes are direct unsecured obligations of the relevant issuer and rank *pari passu* with all other unsecured and unsubordinated indebtedness of that issuer.

Each issuer 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 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 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.

Future minimum principal repayments required in total on the Series A and Series B Senior Notes expressed in Canadian dollars (based on the exchange rate at December 31, 2002) over the next five years and thereafter are as follows:

(\$ thousands)	
2003	\$ 4,739
2004	4,739
2005	4,739
2006	4,739
2007	4,739
thereafter	88,852
	\$ 112,547

Note 9

Bank Credit Facilities

On October 28, 2002, the Partnership entered into an amended and restated credit agreement (the "Credit Agreement") with three Canadian chartered banks to provide for a Canadian \$50 million extendible revolving credit facility (the "Revolving Credit Facility") and a Canadian \$250 million acquisition bridge facility (the "Bridge Credit Facility"). The initial proceeds from borrowings under the Bridge Credit Facility were utilized to purchase through subsidiaries of the Partnership additional interests in Alliance and Aux Sable. The Bridge Credit Facility is available until and matures on October 28, 2003.

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 direct or indirect subsidiary corporations and partnerships of the Partnership have delivered a guarantee and negative pledge to the lenders thereunder. 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. are 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 the limited partner interests in Fort Chicago Pipeline II U.S. L.P.

The interest rates on outstanding debt under the Credit Agreement are variable, including in relation to the prime interest rate of the agent lenders. The Partnership has agreed to pay standby and letter of credit fees varying from 0.6 percent to 1.325 percent per annum of the undrawn facilities and any letters of credit issued under the credit facilities and availability fees of 0.25 percent on any amounts outstanding under the Bridge Credit Facility at April 28, 2003 and July 28, 2003, respectively. The Partnership has provided covenants in the Credit Agreement 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 (ii) the maintenance of debt to total capitalization of no greater than 50 percent.

As at December 31, 2002, the Partnership had borrowings of Canadian \$110.0 million and U.S. \$58.5 million outstanding under the Bridge Credit Facility. In January, 2003, the Partnership made a payment under the Bridge Credit Facility of Canadian \$54.0 million and U.S. \$58.5 million from the proceeds of the convertible debentures described in Note 13(a) below. The Bridge Credit Facility was permanently reduced by the amount of such repayment. For disclosure purposes, the Partnership has included \$143.4 million of the Bridge Credit Facility under Non-current liabilities as it approximates the amount received from the convertible debentures described in Note 13(a) below.

The Revolving Credit Facility matures on March 5, 2003, but may be extended from time to time for additional 364-day periods with the approval of the lenders. The lenders have agreed to renew the Revolving Credit Facility for a further 364-day period to March 3, 2004.

As at December 31, 2002, the Partnership had issued letters of credit of Canadian \$11.3 million and U.S. \$7.4 million under the Revolving Credit Facility (see Note 11 below).

Note 10

Unit Appreciation Rights Cash Bonus Plan

Year of Grant	Number of Units	Exercise Price	Expiry	Vested	Value
(\$ thousands)					
As at December 31, 2002					
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
As at December 31, 2001					
2000	40,000	\$ 7.80	December 31, 2003	40,000	\$ 48
2001	537,500	\$ 9.29	March 7, 2006	179,167	–
	577,500	\$ 9.19		219,167	\$ 48

The vesting provisions for the unit appreciation rights issued in 2000 were as follows: 33 1/3 percent on the date of the grant; 33 1/3 percent on the in-service date of the Alliance Pipeline project which was December 1, 2000; and 33 1/3 percent on December 31, 2000. As of December 31, 2002, 100 percent of the unit appreciation rights issued in 2000 had vested.

The vesting provision for the unit appreciation rights issued in 2001 and 2002 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, 2002, 66 2/3 percent of the unit appreciation rights issued in 2001 had vested and 33 1/3 percent of the unit appreciation rights issued in 2002 had vested.

Note 11

Commitment to Alliance Projects

On December 31, 2002, the Partnership had obligations in the amount of Canadian \$11.3 million and U.S. \$7.4 million to fund its pro rata share of certain debt service reserve amounts required to be maintained in debt service reserve accounts under provisions relating to the senior debt financing for the Alliance Pipeline project and had delivered letters of credit to support such obligations.

On December 31, 2002, the Partnership had guaranteed the pro rata share of one of the Partnership's subsidiary partnerships of natural gas transportation obligations of Alliance Canada Marketing.

Note 12

Financial Instruments

The Partnership's financial assets and liabilities as at December 31, 2002 included cash, accounts receivable, accounts payable and bank debt. Due to the current nature of cash, accounts receivable and accounts payable, fair value of these items is considered to be equal to book value. The fair value of the Senior Notes described in Note 8 above as at December 31, 2002 was approximately Canadian \$121.8 million. The Partnership has entered into variable rate agreements for its debt financing except for the Senior Notes described in Note 8 above.

Note 13

Subsequent Events

(a) Convertible Debentures Offering

In January 2003, the Partnership issued \$150 million of 7.5 percent convertible unsecured subordinated debentures, Series A (the "Debentures"). The Debentures are convertible at the option of the holder at anytime into fully paid Class A Units at a conversion price of \$9.00 per Class A Unit, subject to adjustment in certain events. The Debentures pay interest semi-annually and have a maturity date of June 30, 2008. The Debentures are unsecured obligations of the Partnership and rank equally with all other unsecured and subordinated indebtedness of the Partnership. The Debentures will be classified as partners' equity for accounting purposes, and the related interest costs will be charged against undistributed income.

The net proceeds of the offering of approximately \$143.4 million were used to partially repay the Bridge Credit Facility incurred to purchase additional interests in Alliance and Aux Sable (See Note 9 above).

(b) Acquisition of additional interest in the Alliance Pipeline, Aux Sable Plant and Alliance Canada Marketing

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. Closing of this acquisition is expected to occur in late March or early April 2003 for all except 1.1 percent of the U.S. segment of the Alliance Pipeline which will be deferred until the fourth quarter of 2003.

In connection with this acquisition, the Partnership has accepted a new underwritten acquisition bridge credit facility in the maximum principal amount of \$160 million (the "Second Bridge Credit Facility"). The Partnership anticipates utilizing the undrawn amounts under the Bridge Credit Facility and the amounts available under the Second Bridge Credit Facility to finance this latest acquisition. The terms and conditions of the Second Bridge Credit Facility are identical to the Bridge Credit Facility except the maturity date for the Second Bridge Credit Facility will be one year from the date of the signing of the definitive credit agreement related to the Second Bridge Credit Facility.

Note 14

Commitment

The Partnership is obligated to purchase an additional 1.1 percent interest in the Alliance Pipeline late in the first quarter of 2003 for approximately \$18.2 million. The Partnership has available undrawn capacity within its Bridge Credit Facility to fund this purchase (See Note 9 above).