MANAGEMENT'S DISCUSSION AND ANALYSIS

($ THOUSANDS, EXCEPT UNIT DATA)	THREE MONTHS ENDED DECEMBER 31 2001 (UNAUDITED)	THREE MONTHS ENDED DECEMBER 31 2000 (UNAUDITED)	YEAR ENDED DECEMBER 31 2001	YEAR ENDED DECEMBER 31 2000
Net income	**$ 7,231**	$ 5,478	**$ 15,178**	$ 26,996
Net income per Class A Unit	**$ 0.10**	$ 0.07	**$ 0.21**	$ 0.40
Distributions				
Distributable cash	**$ 9,769**	N/A	**$ 49,625**	N/A
Distributable cash per Class A Unit	**$ 0.133**	N/A	**$ 0.678**	N/A
Distributions paid or payable	**$ 12,823**	N/A	**$ 49,045**	N/A
Distributions paid or payable per Class A Unit	**$ 0.175**	N/A	**$ 0.670**	N/A
Tax losses allocated to Unitholders per Class A Unit			**$ 0.57**	$ 1.08

	DECEMBER 31, 2001	DECEMBER 31, 2000
Financial position		
Cash and short-term investments	**$ 13,677**	$ 37,031
Investment in Alliance projects	**$ 586,430**	$ 593,725
Partners' equity	**$ 489,527**	$ 496,782
Class A Units outstanding	**73,275,759**	71,843,054

GENERAL OVERVIEW

The year 2001 was a significant year for Fort Chicago Energy Partners L.P. (the "Partnership" or "Fort Chicago"). Both the Alliance Pipeline and Aux Sable Plant completed their first full year of operations. In March 2001, Fort Chicago replaced its bank credit facilities to provide additional financial flexibility and to allow a transition to longer term debt financing. Fort Chicago then completed the transition to longer term debt financing by issuing in August 2001, through two indirect wholly owned subsidiaries, senior notes in the aggregate principal amount of U.S. $75 million. These senior note transactions completed the financing plan for the Partnership and effectively matches the repayment of the Partnership's long-term debt with the recovery of toll revenue from the Alliance Pipeline.

RESULTS OF OPERATIONS

The net income for the year ended December 31, 2001 was $15.2 million or $0.21 per Class A Unit compared to $27.0 million ($0.40 per Class A Unit) for 2000. The primary factors contributing to the reduced net income in the year were losses in Aux Sable of $13.6 million (versus a loss of $0.7 million in the prior year), a loss on natural gas marketing activities of $2.2 million in the current year (versus a loss of $0.4 million in the prior year) and slightly improved earnings on the Alliance Pipeline. The loss at Aux Sable was largely concentrated in the first quarter of 2001 and resulted from unprecedented natural gas prices driving extraction economics negative.

For the three-month period ended December 31, 2001, the Partnership recorded net income of $7.2 million or $0.10 per Class A Unit versus $5.5 million or $0.07 per Class A Unit in the fourth quarter of 2000. The primary reason for the increase in net income was slightly improved earnings on the Alliance Pipeline and lower financing expenses.

Late in 2001, the Partnership re-evaluated the method of foreign currency translation for the Partnership's U.S. investees. This review was undertaken due to the changed circumstances for these entities and the Partnership concluded that it was more appropriate to translate the foreign currency using the current rate method. In prior years, the Partnership's U.S. investees were considered to be integrated and, therefore, the Partnership had utilized the temporal method. Both methods of foreign currency translation are acceptable under Generally Accepted Accounting Principles, but the current rate method is the accepted method for self-sustaining investments, similar to Alliance Pipeline L.P. and Aux Sable. The change in translation methods resulted in an immaterial change to net income in the current year. This change in translation methods had no effect on the calculation of distributable cash for the Partnership.

QUARTERLY INFORMATION

	THREE MONTHS ENDED			
2001	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenues ($ THOUSANDS)				
Interest	**$ 311**	**$ 17**	**$ 119**	**$ 87**
Net income (loss) ($ THOUSANDS)	**$ (3,481)**	**$ 3,072**	**$ 8,356**	**$ 7,231**
Net income per Class A Unit				
Basic and diluted	**$ (0.05)**	**$ 0.04**	**$ 0.12**	**$ 0.10**
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**

	THREE MONTHS ENDED			
2000	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenues ($ THOUSANDS)				
Interest	$ 774	$ 332	$ 211	$ 316
Net income ($ THOUSANDS)	$ 6,892	$ 6,974	$ 7,652	$ 5,478
Net income per Class A Unit				
Basic and diluted	$ 0.10	$ 0.11	$ 0.12	$ 0.07

LIQUIDITY AND CAPITAL RESOURCES

The Partnership has been capitalized with Partners' Equity of $489.5 million and debt, net of working capital, of $103.5 million. On August 15, 2001, Fort Chicago Pipeline II U.S. L.P., an indirect wholly owned subsidiary partnership of Fort Chicago, sold U.S. $37.5 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. In addition, on the same date, Fort Chicago Pipelines (Canada) Ltd., an indirect wholly owned subsidiary corporation of Fort Chicago, also sold U.S. $37.5 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 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 on 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. The Partnership ultimately applied the proceeds of such notes firstly to fully repay an unsecured bridge facility provided by two Canadian chartered banks in the approximate principal amount of U.S. $63.0 million and secondly for general corporate or partnership purposes. The issuances of such senior unsecured notes and the repayment of such bridge facility completed the financing plans for Fort Chicago's share of the construction costs of the Alliance projects and left Fort Chicago with a Cdn. $40.0 million extendible revolving credit facility as its only bank credit facility.

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.

The ability of Fort Chicago to make cash distributions or return capital contributions or to repay its revolving bank credit facility 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 the Aux Sable Plant. 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 of the Alliance Pipeline; 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 unsecured 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 an "Event of Default" would exist.

The Partnership has certain commitments to fund Alliance 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 these obligations which are fully described in Note 10 of the Consolidated Financial Statements of the Partnership. The Partnership anticipates that it may be required to invest approximately $2.6 million in Aux Sable during the first quarter of 2002 to enable Aux Sable to make a payment under its credit facility that is due on March 31, 2002. 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.

The Partnership's extendible revolving credit facility was originally scheduled to mature on March 5, 2002, but may be extended from time to time for additional 364-day periods with the approval of the revolving lenders. On March 5, 2002, the Partnership accepted an offer from its revolving lenders to extend such facility for an additional 364-day period.

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 Partnership's indebtedness, (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" shall have occurred or be continuing.

The Partnership commenced the compilation of Distributable Cash on January 1, 2001. The Partnership has declared and paid the following distributions to holders of Class A Units:

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER CLASS A UNIT	TOTAL DISTRIBUTION PAID ($ THOUSANDS)
2000			
December 29, 2000	January 15, 2001	$ 0.075	$ 5,388
2001			
March 30, 2001	April 30, 2001	$ 0.175	$ 12,772
June 29, 2001	July 31, 2001	$ 0.160	11,725
September 28, 2001	October 31, 2001	$ 0.160	11,725
December 31, 2001	January 31, 2002	$ 0.175	12,823
		$ 0.670	$ 49,045
2002			
March 28, 2002	April 30, 2002	$ 0.160	$ 11,770

For 2002, the Partnership anticipates that the amount of distributions will vary between $0.60 and $0.80 per Class A Unit (annualized) based upon approximately $0.78 to $0.80 per Class A Unit of distributions from the Alliance Pipeline, $0.00 to $0.20 per Class A Unit for distributions from the Aux Sable Plant less $0.18 to $0.20 per Class A Unit for financing and administration expenses. These estimates have been prepared based on a U.S. $ exchange rate of $0.65. 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. A payment of distributable cash in 2002 in the upper end of the range would require a recovery in natural gas extraction margins in the final three quarters of 2002 to “normal” 10-year average values.

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 $0.57 per Class A Unit. The Partnership has summarized the information on the inside back cover of this annual report.

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 December 31, 2001 distribution payment made to Unitholders on January 31, 2002 was $0.09622691 per Class A Unit that was considered U.S. source interest income and therefore subject to U.S. withholding taxes.

In 2002, the Partnership anticipates that approximately $0.011 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. Initially, the Partnership's sole assets will be its interest in the Alliance Pipeline and the Aux Sable Plant.

The business of the Partnership is subject to the normal risks associated with the pipeline and natural gas liquids extraction 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 natural gas liquids, 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 the 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 project, 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 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 natural gas liquids 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 natural gas liquids extraction margins represent the largest potential variability in the cash available for distribution to Unitholders, the Partnership is not prepared to enter into hedging transactions at the current time. 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 natural gas liquids extraction margins and it would reduce the risk profile marginally; however, the possibility of losses occurring under the hedge at the same time as natural gas liquids 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 natural gas liquids 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 natural gas liquids extraction margin. The Partnership continues to monitor this situation and should it improve in the future, it may decide to hedge a portion of its natural gas liquids extraction margin.

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 35 shippers, 90 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 a letter of credit or a dedication of natural gas reserves.

NEW ACCOUNTING STANDARDS

Amendments to Handbook Section 1650, Foreign Currency Translation, eliminate the deferral and amortization of certain translation gains and losses, and require the disclosure of exchange gains and losses to be included in net income. This new standard is effective for fiscal years beginning on or after January 1, 2002, and is to be applied retroactively. As a result of the new standard, Fort Chicago's U.S. dollar denominated debt, held by a wholly owned Canadian subsidiary in the amount of U.S. $37.5 million, will be remeasured at each balance sheet date using the prevailing exchange rate on that date, with the resulting foreign currency gain or loss reported in the consolidated statement of income for the period. For the current year, such foreign currency gains and losses have been deferred and are being amortized to income over the life of the related debt.

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 or by contacting the general partner of the Partnership.