FortChicago

Fort Chicago Energy Partners L.P.

1997 Annual Report

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Fort Chicago Energy Partners L.P. ("Fort Chicago") is a limited partnership formed to acquire an equity interest in the Alliance projects. Fort Chicago presently holds an approximate 26 percent interest in the Alliance projects. The Alliance Pipeline project involves the design, construction and operation of a 3,000-kilometre mainline natural gas pipeline from northeastern British Columbia to a delivery point near Chicago, Illinois. The expected in-service date for the pipeline is the second half of 2000. The Aux Sable Plant project involves the construction and operation of a natural gas liquids extraction facility near Chicago. Once all regulatory approvals for the Alliance projects are received as expected, Unitholders of Fort Chicago will participate in a long-term investment with strong, consistent cash flow generation and an opportunity for value creation. Fort Chicago units trade on the Toronto, Montreal and Alberta stock exchanges under the symbol "FCE.UN".

Fort Chicago Partnership units represent a quality long-term investment opportunity for Canadians through ownership in the Alliance projects.

Chairman's & President's Message

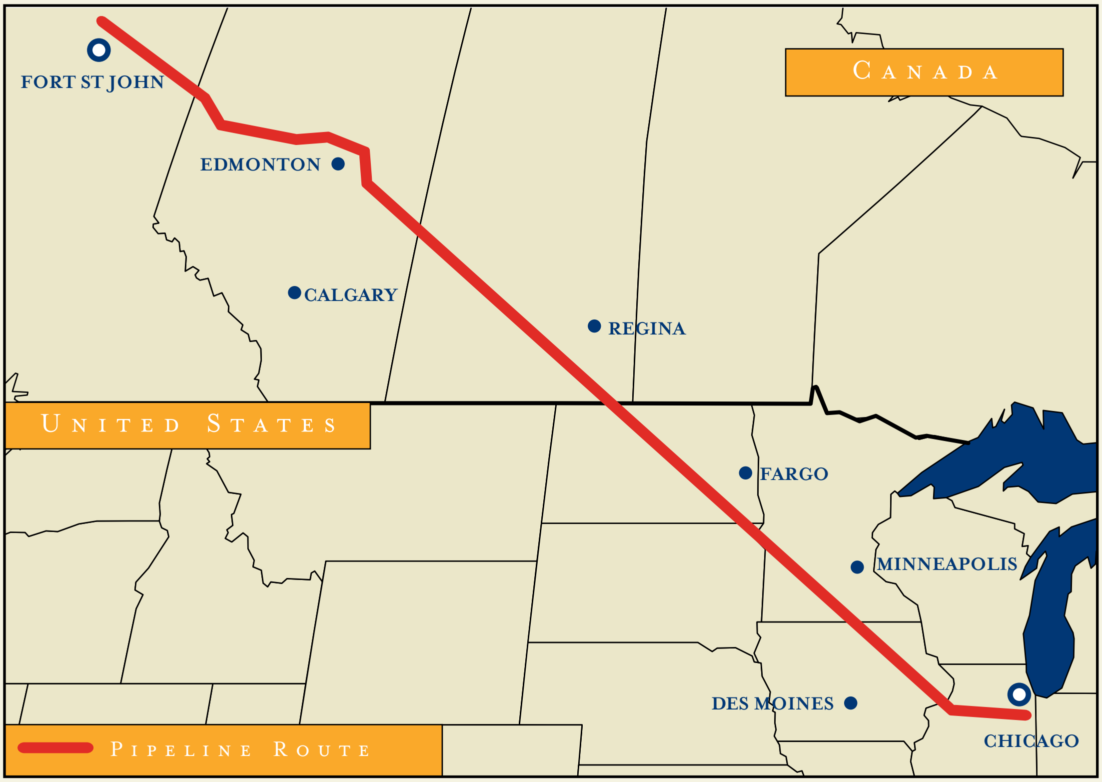
Unitholders of Fort Chicago are participants in an unprecedented project that will provide benefits to many stakeholders in Western Canada. Our Partnership's most significant asset is its equity ownership in the $4.3 billion Alliance projects, consisting of the Alliance Pipeline system and the Aux Sable natural gas liquids extraction plant.

The $4.1 billion Alliance Pipeline project is designed to initially carry 1.325 billion cubic feet per day of natural gas and associated liquids from Western Canada to the Chicago-area market for distribution throughout North America. In addition, lateral pipelines and related facilities will be built connecting 44 receipt points, primarily at gas processing facilities in Alberta and Northeastern British Columbia. The Aux Sable Plant will be a facility constructed near Chicago at a cost of between U.S.$150 and U.S.$315 million. It will be capable of extracting liquid hydrocarbons that are present in the gas stream to serve as valuable feedstock for the petrochemical industry or as a heating fuel.

Not only is the Alliance Pipeline project among the most significant for the Canadian oil and gas industry over the past several decades, it is also the largest proposal of its kind in North America. The Alliance Pipeline is expected to provide a much-needed, alternative solution to the long-term pipeline capacity constraints of Western Canadian natural gas producers. It will also enable producers to capture higher prices in Chicago and achieve direct access to U.S. markets and the Chicago distribution centre. The concept was initiated by producing natural gas companies and continues to garner their wide support and commitment.

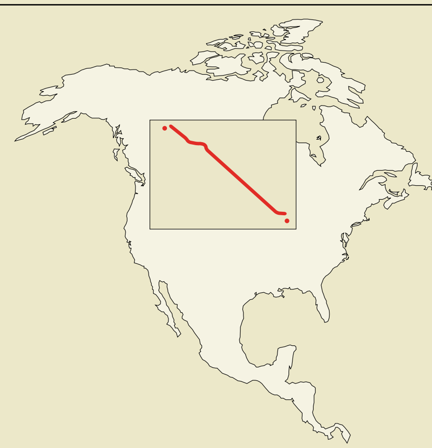
Through the ownership of Fort Chicago Partnership units, Canadians have the ability to own part of the historic Alliance projects. This investment offers Unitholders the potential for strong future cash distributions and capital appreciation.

Following favorable regulatory approvals, construction of the Alliance Pipeline and NGLs extraction plant will begin.



THE PIPELINE

- A $4.1 billion, 3,000-km natural gas pipeline system from Northeastern B.C. and Northwestern Alberta to the Chicago, Illinois market "hub".
- The pipeline will enhance the competitive position of Western Canadian natural gas in North American markets.



Project Update

We are pleased to report on the progress of the Alliance projects. Major support on behalf of natural gas producers is evidenced by 15-year take or pay contracts totaling over $8 billion in non-recourse commitments. This diversified portfolio consists of 37 shippers, of which 83 percent are investment grade or equivalent. Of the initial 1.325 billion cubic feet per day of gas to be shipped through the pipeline, 98 percent is represented by 15-year contracts.

A strong financing plan is in place, consisting of $1.4 billion in equity commitments agreed to in 1997 and $3.5 billion in underwritten bank debt which includes commitments for cost overruns. Bond financing may be completed to replace bank debt. Fort Chicago's 26 percent share of the equity commitments totals $380 million.

Construction will begin on the Alliance projects shortly after receiving all regulatory approvals. A preliminary go-ahead by the Federal Energy Regulatory Commission (FERC) in the United States has been received, with final approval conditional on a successful environmental impact study. Overall, the U.S. regulatory process remains on track for receiving the required approvals by the summer of 1998.

In Canada, delays at the National Energy Board (NEB) hearing have caused an adjustment of the project's construction timing and a re-scheduling in contractor and supplier commitments. However, we expect final NEB approval in the second half of 1998. In preparing its revised plans, Alliance will continue to focus on a start-up at the earliest practical date, now anticipated during the second half of 2000.

Potential Benefits

The project will meet the needs of both natural gas producers and consumers. As a single direct route from producer to consumer, the Alliance Pipeline will result in more certain costs, timing and security. Current pipeline capacity constraints in Western Canada will be eliminated, enabling gas supplies from the Western Canadian Sedimentary Basin to maintain their historical share of a growing U.S. market for natural gas, or to capture a larger share of those markets. Natural gas will be delivered to a market "hub" at an acceptable and competitive price, where it will enter the integrated U.S. pipeline grid. In addition, consumers will receive the advantages of a secure, reliable, cost effective supply of Canadian natural gas.

The Aux Sable plant will result in higher netbacks for natural gas liquids, and provide an incentive for producers to ship liquids-rich gas and an alternative market for surplus natural gas liquids in Western Canada. Overall, Canadian natural gas and natural gas liquids will meet demand across a broad geographic region of North America; demand that is anticipated will continue to grow.

The economic benefits to Alberta and B.C. will be substantial. Alliance estimates that due to higher gas prices within Alberta and access to the Chicago area prices, the producers' netbacks will increase by up to 50 percent, in the range of $0.50 to $0.70 per thousand cubic feet of natural gas. This represents a revenue increase of approximately $3 to $4 billion per year. The provincial Alberta and B.C. governments could realize an additional $500 million to $1 billion per year in increased royalties.

Conclusion

The Alliance projects began as a vision of the natural gas producers of Western Canada. As the final approval stage nears, we anticipate the positive impact this project will have on many stakeholders – from producers and consumers, to governments, citizens and investors.

We will have the opportunity to expand the Alliance Pipeline beyond 1.325 billion cubic feet per day of capacity very cost effectively, providing shippers very attractive tariffs and the Alliance owners an ideal expansion project. Beyond Alliance, Fort Chicago will maintain its focus on participation in other pipeline, processing and liquids extraction projects in the crude oil and natural gas industry. Future projects will be pursued which have similar attributes as our Alliance investment – financial strength, stability, high rate of return, and the ability to create unitholder value.

Guy J. Turcotte (signed)
Chairman and C.E.O.

Stephen H. White (signed)
President and C.F.O.

April 8, 1998

The Fort Chicago Partnership, the largest single owner of the Alliance projects, has a strong cash position of $344 million to fund its capital commitment.

Management's Discussion & Analysis

General Overview

Fort Chicago Energy Partners L.P. ("the Partnership") is a newly created Alberta limited partnership formed to acquire the interests in the Alliance projects previously held by Chauvco Resources Ltd. ("Chauvco"), Summit Resources Limited ("Summit"), and Beau Canada Exploration Ltd. ("Beau").

During the period ending January 9, 1998, the Partnership concluded the following significant transactions:

• Purchased the combined interest in the Alliance projects, formerly held by Chauvco, Summit and Beau.

• Issued 34,950,359 Special Warrants to the principal shareholders of Chauvco and Summit, and to Summit and Beau, raising approximately $201 million.

• Completed rights offerings to each of the shareholders of Chauvco and Summit, other than their principal shareholders, that resulted in the issuance of 31,041,009 Class A Units for approximately $185 million.

At the conclusion of these transactions, the Partnership held and continues to hold an approximate 26 percent interest in the Alliance projects, the largest single ownership interest, and has $344 million of cash to fund its capital commitment.

Going forward, the Partnership will pursue projects that offer the opportunity to generate significant levels of distributable cash, high rates of return and significant value creation for the Unitholders.

Significant Transactions

Acquisition of Alliance Interests

During the year ended December 31, 1997, the Partnership acquired the combined interest in the Alliance projects held by Chauvco, Summit and Beau, totaling 27.901 percent. In early January 1998, Alliance issued additional equity to a third party that resulted in the Partnership's equity being reduced to 26.026 percent. The purchase price, together with additional cash calls from Alliance of $35.2 million, was financed by the issuance of Special Warrants referred to below.

Issuance of Special Warrants

During the year, the Partnership issued a total of 34,950,359 Special Warrants to the principal shareholders of Chauvco and Summit, and to Summit and Beau, for total proceeds of $201 million. Each of the Special Warrants were issued at $5.75 and are convertible into a Class A Unit of the Partnership. Each purchaser paid cash of $2.00 per Special Warrant and paid the balance of $3.75 on the closing of the rights offerings referred to below. This resulted in the Partnership receiving $70 million in 1997 and $131 million by January 9, 1998.

The funds received in 1997 were utilized to purchase the interests in the Alliance projects and the balance, combined with the funds received January 9, 1998, will fund the future capital obligations relative to the Alliance projects.

Rights Offerings

In late 1997, the Partnership commenced a rights offering to each of the shareholders of Chauvco and Summit other than their principal shareholders. The rights offerings closed on January 9, 1998 and resulted in the issuance of 31,041,009 Class A Units for approximately $185 million. These funds will be utilized to fund future capital commitments of the Partnership in the Alliance projects. The use of the rights offerings enabled the shareholders of Chauvco and Summit to continue to participate in the Alliance projects through Fort Chicago.

Results of Operations

The Partnership had minimal operations during the period, earning interest income of $187 thousand and incurring administration expenses of $60 thousand. The Partnership accounts for its investment in the Alliance projects by the equity method, whereby it records its share of the income, which totaled $243 thousand. Total net income of $370 thousand is not reflective of anticipated income in future years.

Liquidity and Capital Resources

With the rights offering and Special Warrants financings, the Partnership has raised $379 million of equity (after offering costs). This level of equity should be sufficient to fund the Partnership's share of capital expenditures of the Alliance projects for the "Most Likely" capital cost of construction.

Equity Capital Commitments to the Alliance Projects

The seven owners of Alliance have provided irrevocable equity commitments to fund approximately 30 percent of the currently estimated construction costs of the Alliance projects (including a cost overrun amount). Each owner committed to a base equity commitment, a cost overrun equity commitment and an extraction plant equity commitment.

Should an owner, including the Partnership, fail to meet all or some part of its equity commitment obligations to Alliance and Aux Sable, Alliance and Aux Sable will: (i) enforce any security held by them, and then, if the equity commitment continues to be unfunded; (ii) call on any over-subscription pool commitments, should one exist; (iii) offer the right to subscribe for the units and shares to the existing owners on a pro-rata basis; and (iv) obtain financing from third parties. If the unpaid equity commitment is funded by any of the means described in (ii), (iii) or (iv), the funding party shall be entitled to purchase a corresponding portion of the defaulting party's shares and units in the Alliance projects, if prior to the receipt of all regulatory approvals, at 25 percent of the original cost, or, if after the receipt of all regulatory approvals, at 50 percent of the original cost. In addition, a defaulting party will be required to pay the greater of one percent of its remaining equity commitment and $250 thousand if the default is cured by any such means and will be liable for all consequential damages if the equity default is not cured by another party.

The following table sets forth the funds which will be required to meet the Partnership's anticipated equity commitment to the Alliance projects (based on a 26.026 percent equity commitment and on a range of construction costs). The table does not include the amount paid to purchase the interests in the Alliance projects previously held by Chauvco, Summit and Beau, and the equity contributions paid to the Alliance projects by the Partnership prior to January 22, 1998 in the aggregate amount of $39.4 million.

Future Equity Commitments

($ millions)

	Low	Most Likely	High
Alliance Canada Pipeline	$ 139.9[3]	$ 155.4[1]	$ 176.1[4]
Alliance U.S. Pipeline	114.3[3]	127.1[1, 2]	147.7[4]
Aux Sable Plant (5)	49.2[3]	54.6[1, 2]	60.0[6]
	$ 303.4	$ 337.1	$ 383.8

Notes:

1 Based on the capital estimate included with the equity commitment notice as the base equity commitment.

2 Based on a U.S./Canadian dollar conversion of 1.40.

3 Based on 90% of the Most Likely cost.

4 Based on base equity commitment and cost overrun equity commitment.

5 Assuming no debt financing.

6 Based on 110% of the Most Likely case.

The Partnership had cash available of approximately $340 million to fund its equity commitment to the Alliance projects. On January 22, 1998, the Partnership was required to pledge cash to secure 50 percent of its equity commitment obligations to the Alliance projects including cost overrun amounts, an amount of approximately $192 million. Before any drawdowns by Alliance of bank or bond financing, the Partnership will be required to increase the pledged cash up to 100 percent of the equity commitment obligations for the "High Cost" case. The Partnership will require a letter of credit, or additional cash, for a minimum of $37.7 million to meet these obligations. The Partnership is negotiating with a number of banks to provide the letter of credit.

In the event that the Partnership is unable to obtain a letter of credit or additional cash, the Partnership may raise additional equity capital or sell a portion of its interests in the Alliance projects.

Alliance Debt Financing Plans

Alliance has executed a term sheet with four banks to provide debt financing for the two major aspects of the Alliance Pipeline project – the Alliance Canada Pipeline and Alliance U.S. Pipeline. The banks have provided a fully underwritten commitment to fund 70 percent of the currently estimated base capital costs and a cost overrun amount. The four banks are presently syndicating the loans to a large number of North American and international banks.

The banks' commitment is subject to a number of conditions being met, including but not limited to completion of definitive documentation, receipt of required regulatory approvals and execution of transportation service agreements with shippers pursuant to the existing precedent agreements, and is subject to termination in certain stated events.

Alliance has been conducting negotiations with bond underwriters regarding the issuance of bonds to reduce the amount of financing from the banking group. Alliance has sought indicative ratings for the senior indebtedness from each of Moody's Investor Service, Standard & Poor's Rating Services, Dominion Bond Rating Service and Canadian Bond Rating Service for this purpose.

Alliance is considering whether to issue bonds to cover construction costs prior to receipt of final NEB and FERC regulatory approvals. Any such bonds would be secured by an assignment of the equity commitments made by Alliance owners, including the Partnership. It is anticipated that the holders of these bonds would have the ability to "put" the bonds back to Alliance should required regulatory approvals not be received and other conditions relative to bank financing not being met within one year of issuance of the bonds. If such a put occurs, Alliance would be required to draw down the equity commitments to pay the principal and accrued interest of such bonds and, if applicable, a redemption or "make-whole" premium.

Distributions

The Partnership will distribute distributable cash to Unitholders on a quarterly basis. The General Partner 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. It is unlikely that there will be any distribution to Unitholders until after the Alliance Pipeline is in service, which is not expected prior to July 1, 2000. There is no assurance that the Alliance Pipeline will be placed into service by this date or at all.

The annual distributable cash in the initial years following the in-service date will vary based on a number of factors including the following: (i) the rate of return allowed on the Alliance Canada Pipeline and the Alliance U.S. Pipeline; (ii) the return of capital allowed on the Alliance Canada Pipeline and the Alliance U.S. Pipeline; (iii) the size and scope of the Aux Sable Plant; (iv) the amount of cash held in reserve; and (v) the operating expenses of the Partnership.

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 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to (i) 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) or (ii) a person who is a "Competitor" (as defined in the Partnership Agreement). The Partnership Agreement further provides that no person, other than an "Exempt Person" (as defined in the Partnership Agreement), may beneficially own 10 percent or more of the outstanding Class A Units until 180 days after the in-service date of the Alliance Pipeline project.

Risk Factors

Investment in the Partnership is subject to a number of risks. There is a risk that a purchaser may lose some or all of his investment. Initially, the Partnership's sole asset will be its interest in the Alliance projects. The Alliance Pipeline project has not yet received the regulatory approvals required to commence construction. Should required approvals not be received on a timely basis, the in-service date for the Alliance Pipeline project would be delayed and therefore income distributions would be delayed.

While Alliance has signed a committed term sheet with lenders for debt financing, there is no assurance that definitive loan documents will be finalized or that conditions precedent to the availability of advances will be met. The Partnership has not secured all the financing required to meet its cost overrun equity commitment obligations to the Alliance projects. The Partnership believes that it will be able to provide a letter of credit to meet its cost overrun obligations. Should it not be able to obtain a letter of credit, the Partnership would have to issue additional equity capital or sell a portion of its interest in the Alliance projects in order to satisfy its equity commitment obligations. Failure to meet the equity commitment obligations may result in the sale of the Partnership's interest in the Alliance projects at a significant loss. Should the Alliance projects not proceed, the Partnership will be dissolved and remaining cash will be distributed to holders of Class A Units.

Should the Alliance projects proceed to completion, the business of the Partnership will be subject to the normal risks associated with the pipeline and natural gas liquids industries, including 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 and fluctuations in the U.S.–Canada exchange rate. Further, risks of substantial costs and liabilities relating to environmental claims are inherent in pipeline operations and there can be no assurance that such costs or liabilities will not be incurred.

Distributions by the Partnership to the Unitholders 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 agreements end 15 years after the in-service date, 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 Unitholders, such that the Unitholders may be subject to a dilution of their interests. A Unitholder, to maintain limited liability, must not take part in the management or control of the Partnership's business.

Year 2000

The Partnership has recently acquired computer hardware and software to manage its affairs. All such hardware and software are "Year 2000" compliant.

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.

The financial statements are prepared on a going concern basis and, as outlined in the notes to the financial statements, certain future events must occur or the stated amounts of assets and liabilities would be reflected on a different basis.

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, Price Waterhouse, 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 changes in financial position in conformity with generally accepted accounting principles.

Guy J. Turcotte (signed)
Chairman and C.E.O.

Stephen H. White (signed)
President and C.F.O.

March 26, 1998

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, 1997 and the Consolidated Statements of Income and Undistributed Income and Changes in Financial Position for the period ended December 31, 1997. 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 audit.

We conducted our audit in accordance with 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, 1997 and the results of its operations and the changes in its financial position for the period ended December 31, 1997 in accordance with generally accepted accounting principles.

CALGARY, CANADA
March 26, 1998

PRICE WATERHOUSE (SIGNED)
Chartered Accountants

Consolidated Statement of Financial Position

	December 31, 1997	(unaudited) Proforma Adjustments Note 5	(unaudited) Proforma January 9, 1998 Note 5
Assets			
Current assets			
Cash and short term investments	**$ 39,245,453**	$ 304,527,331	$ 343,772,784
Receivables	**27,033**	–	27,033
Subscriptions receivable (Note 3(**b**))	**126,213,473**	(126,213,473)	–
	165,485,959	178,313,858	343,799,817
Investment in Alliance projects (Note 2)	**35,451,307**	–	35,451,307
	$ 200,937,266	$ 178,313,858	$ 379,251,124
Liabilities			
Payables	**$ 1,613,965**	$ (1,613,965)	$ –
Partners' equity			
Partners' capital account (Note 3(**a**))	**5,426,184**	373,455,148	378,881,332
Special warrants (Note 3(**b**))	**193,527,325**	(193,527,325)	–
Undistributed income	**369,792**	–	369,792
	199,323,301	179,927,823	379,251,124
	$ 200,937,266	$ 178,313,858	$ 379,251,124

Approved by the Board of Directors of Fort Chicago Energy Management Ltd.
as the General Partner of Fort Chicago Energy Partners L.P.

By: Guy J. Turcotte (signed)
Director

By: Stephen W. C. Mulherin (signed)
Director

See accompanying notes to the consolidated financial statements

Consolidated Statement of Income and Undistributed Income

For the period ended December 31, 1997

Income		
Interest	$	187,215
Expenses		
Administration		(60,558)
Net income before equity income		126,657
Equity income of Alliance projects (Note 1)		243,135
Net income for the period and undistributed income at the end of the period	$	369,792
Net income per Class A unit		
Basic	$	0.286
Fully diluted	$	0.005

Consolidated Statement of Changes in Financial Position

For the period ended December 31, 1997

Operating		
Net income for the period	$	369,792
Less: Equity income of Alliance projects		(243,135)
Cash flow		126,657
Financing		
Share capital		1
Special warrants		200,964,565
Subscriptions receivable		(126,213,473)
Issue costs		(2,011,057)
Changes in non-cash working capital		1,586,932
		74,326,968
Investing		
Investment in Alliance projects		(35,208,172)
Cash and short term investments at the end of the period	$	39,245,453
Cash flow per Class A unit		
Basic	$	0.098
Fully diluted	$	0.002

See accompanying notes to the consolidated financial statements

As at December 31, 1997

NOTE 1
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 shall consist 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 parties who are engaged primarily in these activities or carrying on the business of a financial intermediary.

The Alliance projects consist of the Alliance Pipeline project and the Aux Sable Plant project. The Alliance Pipeline project involves the design, construction and operation of a mainline natural gas pipeline from northeastern British Columbia to points near Chicago, Illinois. The Aux Sable plant project involves the construction and operation of a natural gas liquids extraction facility proposed to be constructed near the terminus of the Alliance Pipeline project.

The Alliance projects have not received all of the regulatory approvals required to commence construction. Should all required approvals not be received in a timely manner, the in-service date for the Alliance projects may be delayed. Notwithstanding the receipt of all the required approvals the owners of Alliance may decide to terminate the Alliance projects. Should the owners of the Alliance projects choose to terminate the projects, or should the necessary regulatory approvals not be received, the carrying value of the assets reported on the December 31, 1997 consolidated statement of financial position may not be recovered.

Fort Chicago Energy Management Ltd., as general partner of the Partnership, will be 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 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. The Alliance projects follow the regulatory accounting method for the Alliance Pipeline project. For the period ended December 31, 1997 the Partnership recorded $243,135 as its share of the income of the Alliance projects.

NOTE 2
INVESTMENT IN ALLIANCE PROJECTS

On October 29, 1997 Chauvco transferred their 20.92% interest in the Alliance projects to Fort Chicago for an aggregate purchase price of $13.5 million plus capital invested since September 3, 1997 of $3.9 million. The purchase price was paid for with the proceeds raised under the private placements of special warrants noted in 3 (b)(*i*) below. On October 30, 1997 the Partnership invested a further $8.5 million in the Alliance projects.

On December 2, 1997 Beau Canada Exploration Ltd. ("Beau") transferred their 2.17% interest in the Alliance projects to the Partnership for an aggregate purchase price of approximately $2.9 million.

On December 3, 1997 Summit Resources Limited ("Summit") transferred their 4.811% interest in the Alliance projects to the Partnership for an aggregate purchase price of approximately $6.4 million.

On January 8, 1998 the Alliance projects issued additional equity to a new investor that resulted in the Partnership's interest in the Alliance projects being diluted to 26.026%. Notwithstanding the 26.026% ownership interest, the Partnership is restricted to voting 20% of the votes to be cast at a partners' or shareholders' meeting of the Alliance project's owners.

Note 3
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		Class B units	
	Number	Value	Number	Value
Issued on formation of the Partnership	1	$ 1	1	$ 1
Conversion of Special warrants (Note 3 (**b**))	1,293,433	7,437,240	–	–
Redemption of Class B unit	–	–	(1)	(1)
Issue costs	–	(2,011,057)	–	–
December 31, 1997	1,293,434	5,426,184	—	—
Proforma adjustments (unaudited)				
Conversion of Special warrants (Note 3 (**b**))	33,656,926	193,527,325	—	—
Chauvco rights offering (Note 3 (**c**)(*i*))	26,142,058	155,545,245	—	—
Summit rights offering (Note 3 (**c**)(*ii*))	4,898,951	29,148,758	—	—
Issue costs	—	(4,766,180)	—	—
January 9, 1998 (unaudited)	65,991,369	$378,881,332	—	$ —

(b) Special warrants

(i) Chauvco shareholders

On October 28, 1997 the Partnership completed private placements with three shareholders of Chauvco holding an aggregate of 22,774,974 common shares of Chauvco. Each shareholder purchased special warrants of the Partnership by way of private placements at a price of $5.75 per special warrant. The purchase price for the special warrants was paid by the delivery to the Partnership of cash in the amount of $2.00 per special warrant and the balance of the purchase price of $3.75 per special warrant was payable to the Partnership on demand. Each shareholder delivered to the Partnership a letter of credit or letters of credit in the aggregate amount equal to the unpaid portion of the purchase price.

The total proceeds to Fort Chicago were $130,956,101, representing approximately 47% of the total proceeds to be raised under the Chauvco rights offering as noted in (c) (*i*) below. Each shareholder purchased that number of special warrants that such shareholder would have been entitled to receive had they exercised their initial right under the Chauvco rights offering. Each special warrant entitled the holder thereof to acquire one Class A limited partnership unit of the Partnership.

Each of the shareholders agreed not to exercise or sell the rights to be issued to it pursuant to the Chauvco rights offering. Such rights therefore expired on the expiry date of the rights offering.

(ii) Summit Group

On December 2, 1997, the Partnership issued 3,060,870 special warrants by way of private placement to Summit at a price of $5.75 per special warrant. In addition, on December 2, 1997 the Partnership issued 3,807,063 special warrants by way of private placement with certain of the shareholders of Summit or their nominees at a price of $5.75 per special warrant. Each shareholder purchased that number of special warrants that such shareholder would have been entitled to receive had they exercised their initial rights under the Summit rights offering. Summit and the Summit shareholders subscribing for special warrants are collectively referred to as the "Summit Group". The purchase price for the special warrants was paid by the delivery to the Partnership of cash in the amount of $2.00 per special warrant and the balance of the purchase price of $3.75 per special warrant was payable to the Partnership on demand. The Summit Group delivered to the Partnership letters of credit in the amount equal to the unpaid portion of the purchase price. The total proceeds of $39,490,615 was utilized to purchase Summit's 4.811% interest in the Alliance projects for approximately $6.4 million and to fund future commitments to the Alliance projects.

Each special warrant entitles the holder thereof to acquire one Class A limited partnership unit of the Partnership. The special warrants expire on the earlier of the expiry date for the Chauvco rights offering and March 31, 1998.

(iii) Beau

On November 24, 1997, the Partnership issued 5,307,452 special warrants by way of private placement to Beau at a price of $5.75 per special warrant. The purchase price for the special warrants was paid by the delivery to the Partnership of cash in the amount of $2.00 per special warrant and the balance of the purchase price of $3.75 per special warrant was payable to the Partnership on demand. Beau delivered to the Partnership a letter of credit in the amount equal to the unpaid portion of the purchase price. The total proceeds of $30,517,849 was utilized to purchase Beau's 2.17% interest in the Alliance projects for approximately $2.9 million and to fund future commitments to the Alliance projects.

Each special warrant entitles the holder thereof to acquire one Class A limited partnership unit of the Partnership. The special warrants expire on the earlier of the expiry date for the Chauvco rights offering and March 31, 1998.

	Number	Value	Subscription Receivable
Issued to Chauvco shareholders	22,774,974	$ 130,956,101	$ 85,406,153
Issued to Summit Group	6,867,933	39,490,615	25,754,749
Issued to Beau	5,307,452	30,517,849	19,902,945
Conversion to Class A units	(1,293,433)	(7,437,240)	(4,850,374)
December 31, 1997	33,656,926	193,527,325	126,213,473
Proforma adjustments (unaudited)			
Conversion to Class A units	(33,656,926)	(193,527,325)	(126,213,473)
January 9, 1998 (unaudited)	–	$ –	$ –

(c) Rights offerings

(i) Chauvco rights offering

On December 3, 1997 the Partnership filed a prospectus to qualify the distribution of 26,142,058 Class A limited partnership units by way of a rights offering to shareholders of Chauvco at a price of $5.95 per unit for proceeds of $155,545,245. On December 3, 1997 the Partnership entered into an underwriting agreement with ScotiaMcLeod Inc., Gordon Capital Corporation and Trilon Securities Corporation to underwrite the Chauvco rights offering on a standby basis. On January 9, 1998 the Chauvco rights offering closed and the Partnership received the proceeds.

(ii) Summit rights offering

On December 3, 1997 the Partnership filed a prospectus to qualify the distribution of 4,898,951 Class A limited partnership units by way of a rights offering to shareholders and optionholders of Summit at a price of $5.95 per unit for proceeds of $29,148,758. On December 3, 1997 the Partnership entered into an underwriting agreement with ScotiaMcLeod Inc., Gordon Capital Corporation and Trilon Securities Corporation to underwrite the Summit rights offering on a standby basis. On January 9, 1998 the Summit rights offering closed and the Partnership received the proceeds.

(d) 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 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to (i) 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) or (ii) a person who is a "Competitor" (as defined in the Partnership Agreement). The Partnership Agreement further provides that no person, other than an "Exempt Person" (as defined in the Partnership Agreement), may beneficially own 10 percent or more of the outstanding Class A Units until 180 days after the in-service date of the Alliance Pipeline project.

(e) Unitholders rights plan

The Partnership has a unitholders rights plan (the "Plan"). Under the Plan, one right will be issued with each Class A limited partnership unit issued. The rights remain attached to the Class A limited partnership units and are not exercisable or separable unless one or more specified events occur. If a person or group acting in concert acquires 20 percent or more of the Class A limited partnership units of the Partnership, the rights will entitle the holders (other than the acquiring person or group) to purchase Class A limited partnership 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.

(f) Eligible optionholder warrants

On December 15, 1997 the holders of options to acquire common shares of Chauvco received for no consideration Eligible Optionholder Warrants of the Partnership on a one to one basis. This resulted in the issuance of 2,429,250 Eligible Optionholder Warrants. Subject to certain limitations, each Eligible Optionholder Warrant entitles the holder thereof to acquire one Class A limited partnership unit at a price of $5.95. The Eligible Optionholder Warrants will only be exercisable during the period from the date of issuance until the date which is 180 days after the in-service date for the Alliance projects.

Note 4
Commitment to Alliance projects

On January 22, 1998, the Partnership entered into an equity commitment to various entities comprising the Alliance projects in the amount of $176 million Canadian and U.S. $145 million.

Note 5
Proforma Adjustments (unaudited)

The unaudited proforma consolidated statement of financial position of the Partnership as at January 9, 1998 has been prepared as if the following transactions had been completed as of that date.

(a) The issuance by the Partnership of 26,142,058 Class A limited partnership units for proceeds of $155,545,245 under the Chauvco rights offering as described in Note 3 (c)(*i*).

(b) The issuance by the Partnership of 4,898,951 Class A limited partnership units for proceeds of $29,148,758 under the Summit rights offering as described in Note 3 (c)(*ii*).

(c) The conversion of 33,656,926 special warrants into Class A limited partnership units and the receipt of $126,213,473 being the remaining subscriptions receivable.

(d) The payment of issue expenses of $4,766,180 and the payables of $1,613,965.

Corporate Information

Board of Directors

Guy J. Turcotte
Calgary, Alberta

John E. Feick(2)
Calgary, Alberta

Verne G. Johnson (1)(2)
Calgary, Alberta

Arthur V. Mauro (1)
Winnipeg, Manitoba

Stephen W.C. Mulherin (1)(2)
Calgary, Alberta

Officers

Guy J. Turcotte
Chairman and Chief Executive Officer

Stephen H. White
President and Chief Financial Officer

Renée M. Ratke
Secretary
Partner, Bennett Jones Verchere

Head Office

Fort Chicago Energy Partners L.P.
Suite 975, McDougall Place,
808 Fourth Avenue S.W.,
Calgary, Alberta T2P 3E8

Phone: (403) 296-0140
Fax: (403) 296-0122

1 Member of the Audit Committee
2 Member of the Compensation Committee

Investor Relations

Contact: Lori Harper
Executive Assistant

Phone: (403) 296-0135
Fax: (403) 296-0122
Email: lharper@fortchicago.com

Auditors

Price Waterhouse
Calgary, Alberta

Solicitors

Bennett Jones Verchere
Calgary, Alberta

Bankers

The Toronto-Dominion Bank
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Transfer Agent and Registrar

Montreal Trust Company of Canada
Vancouver, Calgary, Winnipeg, Montreal, Toronto

Stock Exchange Listings

The Toronto Stock Exchange, Montreal Exchange
and Alberta Stock Exchange

Trading Symbol: FCE.UN

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Fort Chicago Energy Partners L.P.

Suite 975, McDougall Place, 808 Fourth Avenue S.W., Calgary, Alberta, Canada T2P 3E8
Phone: (403) 296-0140 Fax: (403) 296-0122 Internet: www.fortchicago.com

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