

M A N A G E M E N T ' S R E P O R T

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.

March 26, 1998

STEPHEN H. WHITE (SIGNED)
President and C.F.O.

A U D I T O R S ' R E P O R T

*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

C O N S O L I D A T E D S T A T E M E N T
O F F I N A N C I A L P O S I T I O N

	December 31, 1997	(unaudited) Proforma Adjustments Note 5	(unaudited) Proforma January 9, 1998 Note 5
A S S E T S			
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)	-
	<u>165,485,959</u>	178,313,858	343,799,817
INVESTMENT IN ALLIANCE PROJECTS (NOTE 2)	35,451,307	-	35,451,307
	<u>\$ 200,937,266</u>	\$ 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
	<u>199,323,301</u>	179,927,823	379,251,124
	<u>\$ 200,937,266</u>	\$ 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

C O N S O L I D A T E D S T A T E M E N T O F I N C O M E
A N D U N D I S T R I B U T E D I N C O M E

For the period ended December 31, 1997

INCOME	
INTEREST	\$ 187,215
EXPENSES	
ADMINISTRATION	(60,558)
NET INCOME BEFORE EQUITY INCOME	<u>126,657</u>
EQUITY INCOME OF ALLIANCE PROJECTS (NOTE 1)	243,135
NET INCOME FOR THE PERIOD AND UNDISTRIBUTED INCOME AT THE END OF THE PERIOD	<u>\$ 369,792</u>
NET INCOME PER CLASS A UNIT	
BASIC	<u>\$ 0.286</u>
FULLY DILUTED	<u>\$ 0.005</u>

C O N S O L I D A T E D S T A T E M E N T O F C H A N G E S
I N F I N A N C I A L P O S I T I O N

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	<u>126,657</u>
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
	<u>74,326,968</u>
INVESTING	
INVESTMENT IN ALLIANCE PROJECTS	(35,208,172)
CASH AND SHORT TERM INVESTMENTS AT THE END OF THE PERIOD	<u>\$ 39,245,453</u>
CASH FLOW PER CLASS A UNIT	
BASIC	<u>\$ 0.098</u>
FULLY DILUTED	<u>\$ 0.002</u>

See accompanying notes to the consolidated financial statements

NOTES TO 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.

N O T E 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 4.81% 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.

N O T E 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.

N O T E 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.