



Audited Consolidated Financial Statements of

FORT CHICAGO ENERGY PARTNERS L.P.

Year ended December 31, 2009

March 2, 2010

MANAGEMENT'S REPORT

To the Unitholders of Fort Chicago Energy Partners L.P.

The consolidated financial statements of Fort Chicago Energy Partners L.P. ("Fort Chicago") and all information contained in this annual report are the responsibility of the management of Fort Chicago Energy Management Ltd. (the "General Partner"), the general partner of Fort Chicago.

The consolidated financial statements have been prepared by the management of 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 these consolidated 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 contained in this annual report is, in all material respects, 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 Fort Chicago's annual consolidated financial statements and, primarily through its Audit Committee, for ensuring that management fulfills its responsibilities for financial reporting and internal control.

The Audit Committee is comprised of five independent and financially literate board members that meet regularly during the year with management and the external auditors to satisfy itself that management's responsibilities are being discharged; to review and approve the interim consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's interim reports prior to their release; and to review the annual consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's Annual Report, as well as its Annual Information Form prior to submitting them to the Board of Directors for approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders of Fort Chicago to express an opinion as to whether the consolidated financial statements of Fort Chicago present fairly, in all material respects, its financial position as at December 31, 2009 and 2008 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Stephen H. White
President and Chief Executive Officer

Richard G. Weech
Chief Financial Officer

March 2, 2010

March 2, 2010

Independent Auditors' Report

To the Unit holders 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, 2009 and 2008 and the consolidated statements of income and cumulative income, of comprehensive income and cumulative other comprehensive income and of cash flows for each of the years in the two year period ended December 31, 2009. These consolidated financial statements are the responsibility of the management of the Partnership's general partner. 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, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

Fort Chicago Energy Partners L.P.**Consolidated Statement of Financial Position**

| (\$ Thousands; audited) | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and short-term investments (note 4) | 57,945 | 53,308 |
| Restricted cash (note 5) | 3,084 | 23,036 |
| Transportation security deposits and revenue adjustments (note 6) | 8,538 | 7,989 |
| Receivables | 59,155 | 61,935 |
| Inventory | 5,071 | 3,913 |
| Prepaid expenses and other | 9,848 | 12,349 |
| | 143,641 | 162,530 |
| Long-term receivables (note 7) | 351,629 | 273,392 |
| Pipeline, plant and other capital assets (note 9) | 2,286,255 | 2,547,701 |
| Intangible assets (note 10) | 59,647 | 121,267 |
| Other assets (note 11) | 23,727 | 22,789 |
| | 2,864,899 | 3,127,679 |
| Liabilities | | |
| Current liabilities | | |
| Payables | 91,264 | 112,623 |
| Transportation security deposits | 4,008 | 5,581 |
| Distribution payable | 6,406 | 11,162 |
| Current portion of long-term senior debt (note 12) | 145,014 | 88,773 |
| Subordinated convertible debentures and exchangeable debentures (note 13) | 49,302 | 25,717 |
| | 295,994 | 243,856 |
| Long-term senior debt (note 12) | 1,534,689 | 1,753,503 |
| Subordinated convertible debentures (note 13) | - | 23,909 |
| Future taxes (note 16) | 291,279 | 239,823 |
| Other long-term liabilities (note 14) | 44,211 | 66,001 |
| | 2,166,173 | 2,327,092 |
| Partners' Equity | | |
| Partners' capital account (note 15) | 1,057,239 | 1,013,278 |
| Cumulative other comprehensive loss | (54,624) | (7,306) |
| Cumulative net income | 583,718 | 546,143 |
| Cumulative distributions | (887,607) | (751,528) |
| | 698,726 | 800,587 |
| | 2,864,899 | 3,127,679 |
| Commitments and contingencies (note 17) | | |

See accompanying Notes to the Consolidated Financial Statements

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

By:

/s/ David J. Drybrough

David J. Drybrough
Director

By:

/s/ Bertrand A. Valdman

Bertrand A. Valdman
Director

Fort Chicago Energy Partners L.P.**Consolidated Statement of Income and Cumulative Income**

| | Year ended December 31 | |
|--|------------------------|---------|
| (\$ Thousands, except per unit amounts; audited) | 2009 | 2008 |
| Revenues | | |
| Operating revenues (note 7) | 633,729 | 683,952 |
| Interest and other | 15,404 | 17,478 |
| | 649,133 | 701,430 |
| Expenses | | |
| Operations and maintenance | 204,466 | 241,486 |
| Depreciation and amortization | 140,903 | 131,095 |
| Interest and other finance (note 12) | 103,401 | 108,577 |
| General, administrative and project development | 89,146 | 80,474 |
| Foreign exchange and other | 1,435 | 30,038 |
| Asset impairment loss (note 8) | 80,493 | 21,105 |
| | 619,844 | 612,775 |
| Net income (loss) before taxes | 29,289 | 88,655 |
| Current taxes (note 16) | 16,330 | 24,378 |
| Future taxes (note 16) | (24,616) | 2,778 |
| Net income (loss) | 37,575 | 61,499 |
| Cumulative net income at the beginning of the year | 546,143 | 484,644 |
| Cumulative net income at the end of the year | 583,718 | 546,143 |
| Net income per Unit | | |
| Basic and diluted | 0.28 | 0.46 |

Consolidated Statements of Comprehensive Income and Cumulative Other Comprehensive Income

| | Year ended December 31 | |
|--|------------------------|-----------|
| (\$ Thousands; audited) | 2009 | 2008 |
| Net income (loss) | 37,575 | 61,499 |
| Other comprehensive income (loss), net of taxes | | |
| Cumulative translation adjustment | | |
| Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations | (72,148) | 94,140 |
| Deemed realization of cumulative translation adjustment reclassified to net income | 7,150 | 26,957 |
| Gain (loss) on hedge of self-sustaining foreign operation | 15,419 | (24,190) |
| Fair value loss transferred to net income | 1,427 | - |
| Other | 834 | (2,121) |
| | (47,318) | 94,786 |
| Comprehensive income (loss) | (9,743) | 156,285 |
| Cumulative other comprehensive loss at the beginning of the year | (7,306) | (102,092) |
| Other comprehensive income (loss), net of taxes | (47,318) | 94,786 |
| Cumulative other comprehensive loss at the end of the year | (54,624) | (7,306) |

See accompanying Notes to the Consolidated Financial Statements

Fort Chicago Energy Partners L.P.**Consolidated Statement of Cash Flows**

| (\$ Thousands; audited) | Year ended December 31 | |
|---|------------------------|-----------|
| | 2009 | 2008 |
| Operating | | |
| Net income (loss) | 37,575 | 61,499 |
| Non-cash transportation revenue (note 7) | (12,571) | (18,003) |
| Depreciation, amortization and other non-cash items | 138,716 | 127,457 |
| Unrealized foreign exchange loss | 4,030 | 33,796 |
| Future taxes | (24,616) | 2,778 |
| Asset impairment loss (note 8) | 80,493 | 21,105 |
| Changes in non-cash working capital | (12,884) | 33,980 |
| | 210,743 | 262,612 |
| Financing | | |
| Long-term debt issued, net of issue costs | 263,003 | - |
| Long-term debt repaid | (73,198) | (68,562) |
| Net change in credit facilities | (249,424) | 49,961 |
| Distributions paid | (96,876) | (132,942) |
| Other | (4,744) | 15,816 |
| | (161,239) | (135,727) |
| Investing | | |
| Acquisition of Brush II Generation Facility, net of cash acquired | - | (33,969) |
| Pipeline, plant and other capital assets | (50,887) | (139,026) |
| Restricted cash (note 5) | 19,134 | 56,615 |
| Other | (1,610) | (12,007) |
| Changes in non-cash investing working capital | (6,455) | 855 |
| | (39,818) | (127,532) |
| Increase in cash and short-term investments before the effect of foreign exchange rate changes on cash and short-term investments | 9,686 | (647) |
| Effect of foreign exchange rate changes on cash and short-term investments | (5,049) | 10,504 |
| Cash and short-term investments at the beginning of the year | 53,308 | 43,451 |
| Cash and short-term investments at the end of the year | 57,945 | 53,308 |
| Cash and short-term investments | 34,598 | 31,727 |
| Cash and short-term investments in trust | 23,347 | 21,581 |
| | 57,945 | 53,308 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | 101,849 | 114,208 |
| Taxes paid, net of refunds received | 36,917 | 1,674 |

See accompanying Notes to the Consolidated Financial Statements

1. Business and Structure of the Partnership

Fort Chicago Energy Partners L.P. (the “Partnership”) is a publicly traded limited partnership, created under the laws of the Province of Alberta on October 9, 1997. Fort Chicago Energy Management Ltd. (the “General Partner”) manages the Partnership and is reimbursed for its costs and expenses. The Partnership’s principal activities include investing in and managing businesses that generate, transport, store, market, process or produce energy, minerals or chemicals.

Currently, the Partnership’s principal investments are in pipeline, natural gas liquids (“NGL”) and power businesses.

| | Ownership Interest (%) | Entity ⁽¹⁾ | Business Description |
|---|------------------------|---|---|
| Pipeline Business | 50 | <ul style="list-style-type: none"> • Alliance Pipeline Limited Partnership (“Alliance Canada”) • Alliance Pipeline L.P. (“Alliance U.S.”) • (Collectively “Alliance” or “Alliance Pipeline”) | Alliance owns a 3,000-kilometre natural gas pipeline comprised of a mainline and various connecting lateral pipelines. The Alliance pipeline extends from northeastern British Columbia to points near Chicago, Illinois. |
| | 100 | <ul style="list-style-type: none"> • Alberta Ethane Gathering System L.P. (“AEGS”) | AEGS owns a 1,324-kilometre pipeline that transports pure ethane from various Alberta ethane extraction plants to Alberta’s major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta. |
| NGL Business (Collectively “Aux Sable”) | 50 | <ul style="list-style-type: none"> • Aux Sable Canada L.P. • Sable NGL Canada L.P. • (Collectively “Aux Sable Canada”) | Aux Sable Canada owns: <ul style="list-style-type: none"> • an off-gas processing facility in Fort Saskatchewan, Alberta, • a natural gas processing plant in northeastern British Columbia, and • is constructing a natural gas pipeline to connect its gas plant to the Alliance pipeline. |
| | 42.7 | <ul style="list-style-type: none"> • Aux Sable Liquid Products L.P. (“Aux Sable U.S.”) • Alliance Canada Marketing L.P. (“Alliance Canada Marketing”) | Aux Sable U.S. owns: <ul style="list-style-type: none"> • an NGL extraction and fractionation facility near the terminus of the Alliance pipeline, • storage facilities, • downstream pipelines, • loading facilities, and • long-term natural gas transportation capacity on the Alliance pipeline. |
| Power Business | 100 | <ul style="list-style-type: none"> • Fort Chicago Power Ltd. (together with its subsidiaries referred to as | Fort Chicago Power owns: <ul style="list-style-type: none"> • one gas-fired power cogeneration |

| | | | |
|--|---------------------|--|--|
| | | “Fort Chicago Power”) | facility and two district energy systems located in Canada, and <ul style="list-style-type: none"> two gas-fired cogeneration facilities and one combined cycle generation facility located in the United States. |
| | 50 | <ul style="list-style-type: none"> NRGreen Power Limited Partnership (“NRGreen”) | NRGreen owns four waste-heat power generation facilities located at Alliance’s Saskatchewan compressor stations. |
| | 50 | <ul style="list-style-type: none"> East Windsor Cogeneration LP (“East Windsor Cogeneration”) | East Windsor Cogeneration owns a cogeneration facility in Windsor, Ontario (the “East Windsor Cogeneration Facility”). |
| | 12 (2008 – 10.9) | <ul style="list-style-type: none"> Pristine Power Inc. (“Pristine”) | Pristine is a publicly traded power development company. |

(1) Where applicable, defined entities include the respective managing general partner.

In November 2009, the board of directors of the General Partner announced that prior to January 1, 2011, the Partnership will be restructured from a limited partnership to a taxable Canadian corporation.

2. *Basis of Presentation*

The General Partner has prepared these consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). These consolidated financial statements include the accounts of the Partnership and its intermediary subsidiaries (collectively “Fort Chicago”), AEGS, Fort Chicago Power, and the Partnership’s proportionate interests in Alliance, Aux Sable, NRGreen, and East Windsor Cogeneration, which are jointly controlled businesses and are, therefore, proportionately consolidated.

Investments in which Fort Chicago does not have control or joint control, but does have significant influence, are accounted for using the equity method. Investments in which Fort Chicago does not have significant influence are accounted for using the cost method.

Alliance Pipeline is regulated by the National Energy Board (“NEB”) in Canada and by the Federal Energy Regulatory Commission (“FERC”) in the United States. The Partnership has adopted accounting and reporting requirements applicable to rate-regulated entities in connection with Alliance. The requirements provide for certain revenues and expenses being recognized differently than otherwise expected under GAAP applicable to non-regulated businesses. None of Fort Chicago’s other businesses are rate-regulated entities.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent assets and liabilities, revenues and expenses. Actual amounts could differ from these estimates. Significant estimates used in the preparation of these consolidated financial statements relate to the determination of any impairment in the carried value of long-term assets, the estimated useful

lives over which certain assets are depreciated or amortized, and the measurement of asset retirement obligations.

3. Summary of Significant Accounting Policies of the Partnership

New Accounting Pronouncements

(a) Goodwill and Intangible Assets

Effective January 1, 2009, the Partnership adopted the new CICA Handbook Section 3064 “*Goodwill and Intangible Assets*”. The new standard replaces Handbook Section 3062 “*Goodwill and Other Intangible Assets*”, establishing standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Adoption of this new standard did not have a material impact on the Partnership.

(b) Accounting for the Effects of Rate Regulation

In August 2007, the Canadian Accounting Standards Board published its decision in respect of Rate-Regulated Operations. Much of the existing accounting guidance related to rate-regulated operations has been retained, however, the exemption from the requirement to record future income taxes, as previously provided in CICA Handbook Section 3465, “*Income Taxes*”, and the exemption from CICA Handbook Section 1100, “*Generally Accepted Accounting Principles*”, has been removed, effective January 1, 2009. The Partnership adopted these changes effective January 1, 2009 and the principal effect was the balance sheet recognition of future Canadian income tax liabilities associated with Alliance, equally offset by regulatory assets.

(c) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to retrospectively adopt International Financial Reporting Standards (“IFRS”) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Fort Chicago is currently assessing the impact of the convergence of Canadian GAAP with IFRS on its results of operations, financial position and disclosures. This impact cannot be determined until certain IFRS standards, including the currently outstanding Exposure Drafts “*Rate-Regulated Activities*” and “*Joint Arrangements*” are adopted as final standards.

(d) Business Combinations

The CICA issued Section 1582 “*Business Combinations*”, which replaces Section 1581. The new standard aligns accounting for business combinations under Canadian GAAP with IFRS. Under the new standard, assets and liabilities acquired in a business combination are to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs such as advisory and legal fees to be expensed in the period they are incurred. The adoption of the revised standard will impact the accounting treatment of future business combinations. While the standard is effective for business combinations occurring on or after January 1, 2011, earlier adoption is permitted. The Partnership intends to adopt this standard effective January 1, 2011.

Cash and Short-term Investments

Cash and short-term investments comprise cash and highly liquid investments with original maturities of 90 days or less and carrying values which approximate market value. A portion of these short-term investments are held in trust accounts, the majority of which are permitted to be used for operating, capital expenditure and working capital purposes.

Pipeline, Plant and Other Capital Assets

| Fixed asset category | Measurement | Depreciation policy and rates (per annum) |
|----------------------|---|---|
| Pipeline | Cost | Straight-line basis at four percent |
| Plant | Cost | Straight-line basis over the life of the asset with rates ranging from three to 33 percent |
| Power facilities | Cost | Straight-line basis over the life of the asset with rates ranging from three to 33 percent |
| Administrative | Cost | Straight-line basis over the life of the asset or the term of the lease, where applicable, with rates ranging from 10 to 33 percent |
| Capital spares | Lower of average cost or net realizable value | Not depreciated |

Pipeline, plant and other capital assets include an allowance for funds used during construction (“AFUDC”) of the Alliance pipeline which have been capitalized based on the rate of return on rate base approved by regulators and are expected to be recovered in future tolls. Accordingly, these costs are being amortized to earnings on a basis consistent with the underlying assets.

Expenditures that increase or prolong the service life or capacity of an asset are capitalized. Maintenance and repair costs are expensed as incurred. Construction work in progress, which includes capitalized interest, will be reclassified to pipeline, plant and power facilities and depreciated over the estimated useful life upon commencement of operations.

Intangible assets

AEGS ethane transportation agreements (“ETAs”) are being amortized on a straight-line basis over the term of the agreements. Fort Chicago Power’s customer relationships and agreements are being amortized on a straight-line basis over periods ranging from 11 to 21 years.

Impairment of Pipeline, Plant and Other Capital Assets and Intangible Assets

The Partnership evaluates, at least annually, the pipeline, plant and other capital assets and intangible 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 is made, management’s estimate of the sum of undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets to determine whether the recoverability of the carrying value has been impaired. If the carrying value exceeds the sum of undiscounted cash flows, the carrying value of the assets is deemed to be impaired. The amount by which the carrying value exceeds the estimated fair value is recognized as an impairment loss.

Judgements and assumptions are inherent in management’s estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset’s fair value used to calculate the amount of any impairment.

Goodwill

Goodwill represents the amount by which the purchase price exceeds the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized, but is subject to a two-step impairment test, which the Partnership evaluates at least annually, wherein any excess of the carrying value of goodwill over its fair value is recognized as an impairment loss.

Asset Retirement Obligations

The estimated fair value of asset retirement obligations associated with tangible long-lived assets are recognized in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The asset retirement obligation is capitalized as part of the cost of the related long-lived assets and is amortized over the remaining life of the assets.

Revenue Recognition

Alliance Pipeline transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including operating, maintenance and administrative costs, allowances for depreciation, allowances for taxes, costs of indebtedness, and an allowed return on equity.

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

If rate-regulated accounting was not used in respect of Alliance, the long-term receivable and the transportation revenue adjustments in note 7 would not be recognized in these consolidated financial statements.

AECS transportation revenue is based on toll charges and operating cost recoveries, including maintenance capital, as provided for under the ETAs. Revenue is recognized at each receipt point and is subject to minimum take-or-pay arrangements.

NGL revenues include revenues earned pursuant to the terms of a long-term agreement between Aux Sable and BP Products North America, Inc. and affiliates thereof (“BP”) whereby Aux Sable agreed to sell all associated production from its Channahon, Illinois facilities (“Channahon Facility”) to BP (“NGL Sales Agreement”). The NGL Sales Agreement is being accounted for as an operating lease. Revenues earned in connection with the NGL Sales Agreement reflect fixed and margin-based fees and the recovery of all associated operating costs with the exception of natural gas make-up costs, which have been assumed by BP. NGL sales and purchases with parties other than BP, including those which form part of the margin under the NGL Sales Agreement, are recorded on a gross basis. The margin-based component of lease revenues, which under the NGL Sales Agreement is determined on an annual basis, is estimated and recognized quarterly to the extent its realization is certain.

Power revenue derived from the sale of energy in the form of electricity, steam, hot water and chilled water is recognized on the accrual basis upon delivery at rates pursuant to the relevant agreements. In addition, Fort Chicago Power receives fixed capacity payments that are not dependent upon the amount of energy delivered to customers. This revenue is recognized as earned on a monthly basis.

Project Development Costs

The Partnership expenses project development costs as incurred. Project development costs are only capitalized when, in management's judgement, certain commercial and regulatory criteria have been met, which make it probable that such costs will be recoverable from a project's future revenues. Capitalized project development costs are amortized on a systematic basis over the applicable project's useful life.

Foreign Currency Translation

The functional currency of the Partnership and its Canadian subsidiaries is the Canadian dollar. The Partnership's foreign operations are self-sustaining and are translated using the current rate method. Under this method all assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the balance sheet date, and all revenues and expenses are translated into Canadian dollars at average exchange rates during the year. The resulting net cumulative translation gain or loss is deferred and reported as a separate component of other comprehensive income. A portion of such deferred translation gain or loss is recognized in net income when there has been an ownership interest reduction in or distribution from such foreign subsidiaries.

Long-term Incentive Compensation

Fort Chicago has a long-term employee incentive plan ("LTIP"), which grants notional units to each eligible employee. The notional units are payable in cash at the date of vesting. Under Fort Chicago's LTIP, notional units vest when certain conditions are met, including the employee's continued employment during a specified period and the achievement of specified performance targets. Other LTIPs have been established by Fort Chicago's operating businesses. Expenses related to the various LTIPs are accounted for on an accrual basis.

Financial Instruments

Financial assets and financial liabilities are classified as held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. Financial instruments are initially recorded at fair value on the balance sheet. Subsequent measurement of each financial instrument is based on its classification. At December 31, 2009 and 2008, the Partnership did not have held-to-maturity instruments or instruments in qualifying hedging relationships.

Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recognized in earnings. The Partnership has classified the following as held-for-trading: cash and short-term investments; restricted cash; investments measured at fair value which are included in other assets; and Fort Chicago Power's 6.25 percent U.S. dollar-denominated unsecured subordinated exchangeable debentures "Exchangeable Debentures").

Loans and receivables are measured at amortized cost using the effective interest rate method. The Partnership has classified the following as loans and receivables: transportation security deposits and revenue adjustments; and receivables.

Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income. If no quoted market prices exist for investments in equity instruments classified as available-for-sale then the investments are recorded at recoverable cost. The Partnership has classified the following as available-for-sale: investments in equity instruments classified under other assets.

Other financial liabilities are measured at amortized cost using the effective interest rate method. The Partnership has classified the following as other financial liabilities: payables; transportation security deposits; distribution payable; other long-term liabilities excluding asset retirement

obligations; senior debt; and the Partnership's 6.75 percent convertible unsecured subordinated debentures, series B ("Convertible Debentures").

Income Taxes

Pursuant to the *Income Tax Act* (Canada) as presently enacted, the Partnership and its subsidiary partnerships are not taxable entities in Canada. All income earned by the Partnership for tax purposes is allocated to its Unitholders. As a result, no Canadian income taxes in respect of these entities are reflected in these consolidated financial statements. Certain U.S. subsidiary partnerships, which are deemed corporations for U.S. tax purposes, and certain subsidiary corporations, are taxable. The applicable income and withholding taxes associated with these entities have been reflected in these consolidated financial statements.

The Partnership's operations use the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in respect of the current year. Future tax assets and liabilities are recognized for temporary differences between the tax and accounting asset and liability bases using tax rates and laws expected to apply when the liabilities are settled and the assets realized. Future tax assets are recognized in circumstances where it is considered more likely than not the related income tax benefits will be realized.

Commencing in 2011, following its conversion to a taxable Canadian corporation, Fort Chicago's taxable income will be subject to 27.0 percent tax.

4. Cash and Short-term Investments

| | 2009 | 2008 |
|---------------------------------------|---------------|---------------|
| Cash in trust accounts | | |
| Operations and working capital | 22,993 | 21,059 |
| Debt service and debt service reserve | 354 | 522 |
| | <u>23,347</u> | <u>21,581</u> |
| Cash in non-trust accounts | 34,598 | 31,727 |
| | <u>57,945</u> | <u>53,308</u> |

Cash in trust primarily relates to Alliance. Under the terms of Alliance's finance agreements, all funds received from shippers in settlement of transportation tolls, as well as interest earned on trust account balances, are segregated in trust accounts. These funds must first be applied to meet debt service and operating requirements before distributions can be made. At the completion of each fiscal quarter, Alliance determines the amount of cash and cash equivalents necessary to satisfy these requirements. Excess funds, if any, are transferred to non-trust accounts, which, following lender confirmation, can be distributed to the partners.

Alliance must also maintain a six-month debt service reserve sufficient to fund scheduled principal and interest payments for such period. At December 31, 2009 and 2008, this requirement was satisfied by letters of credit as discussed in note 12.

5. *Restricted Cash*

Restricted cash primarily relates to East Windsor Cogeneration. As at December 31, 2009, East Windsor Cogeneration had \$2.0 million of restricted cash, mostly comprised of funds received under the terms of certain construction contracts. Under the terms of East Windsor Cogeneration's Trust Indenture, use of this cash is restricted to repay long-term debt.

At December 31, 2008, East Windsor Cogeneration had \$20.3 million of restricted cash. Under the terms of its Trust Indenture, East Windsor Cogeneration had established separate bank accounts under the control of its Bond Trustee. Prior to commercial operations in November 2009, use of this cash was restricted to certain construction expenditures in relation to the East Windsor Cogeneration Facility that was approved by the Bond Trustee prior to payment.

East Windsor Cogeneration's restricted cash is held in short-term investments, the carrying values of which do not materially differ from the fair values.

6. *Transportation Security Deposits*

Under Alliance's transportation contracts, shippers who fail to maintain specified credit ratings or a suitable financial position are required to provide acceptable security equal to one year of shipping charges. Transportation security may consist of cash, deposits or letters of credit, and/or other security acceptable to Alliance or its lenders.

At December 31, Alliance holds the following transportation security:

| | 2009 | 2008 |
|------------------------------------|--------|--------|
| Cash deposits and accrued interest | 3,255 | 3,271 |
| Letters of credit | 15,921 | 36,906 |
| | 19,176 | 40,177 |

7. *Effects of Rate Regulation*

The NEB and the FERC previously granted Alliance certificates of public convenience and necessity to construct and operate high-pressure natural gas facilities and approved a negotiated toll methodology established between Alliance and its contracted shippers.

Alliance advised the NEB and the FERC that toll adjustments would normally be filed on an annual basis, and that such filings would likely be for amended tolls effective on January 1 of each year. Alliance also noted that shippers had agreed to an arrangement whereby variances between estimated costs and actual costs would be monitored and carried forward.

Transportation Revenue

Transportation revenue is adjusted to reflect differences between the period in which costs are recovered from Alliance toll receipts and the period in which these costs are expensed in these consolidated financial statements as follows:

| | 2009 | 2008 |
|---|---------|---------|
| Tolls invoiced | 407,815 | 397,223 |
| Increase (decrease) related to: | | |
| Accounting depreciation rate | 10,091 | 17,986 |
| Property tax accruals | (794) | (406) |
| Differences from current period cost-of-service estimates | (2,487) | (4,393) |
| Prior year's over recovery | 5,761 | 4,815 |
| | 12,571 | 18,003 |
| Transportation revenue | 420,386 | 415,226 |

Depreciation

The long-term receivable at December 31, 2009 includes a regulatory asset of \$247.0 million (2008 - \$262.3 million) related to the cumulative excess of depreciation expense charged for accounting purposes over depreciation expense recovered as revenue under Alliance's transportation contracts. Alliance expects to recover this amount over a number of years when depreciation rates prescribed in the transportation contracts are expected to exceed depreciation rates used for accounting purposes.

Alliance complies with the NEB and the FERC "Gas Pipeline Uniform Accounting Regulations" which includes the practice of group asset accounting, requiring property to be identified, unified and recorded in plant-in-service accounts. Gains or losses are not recognized when such assets are disposed or retired. The net book value of these assets remain in pipeline, plant and other capital assets until fully depreciated and recovered in the tolls.

In the absence of rate regulation, the net book value of any assets disposed or retired would be removed from the accounts and the corresponding gain or loss recognized in income.

Cost-of-Service Toll Estimate

Alliance tolls reflect the projected cost of providing transportation service to shippers in accordance with the transportation contracts and applicable NEB and FERC regulations. The tolls are submitted to shippers and filed with the NEB and the FERC, as applicable. Alliance tolls therefore include amounts relating to prior year differences between the estimated and actual costs of providing transportation service.

At December 31, 2009, current assets include a transportation revenue adjustment of \$5.3 million (2008 - \$4.7 million). These adjustments relate to differences between Alliance's expenses included in these consolidated financial statements and expenses included in the transportation tolls. These differences will be collected from shippers through an adjustment to future tolls.

Income Taxes

Alliance's Canadian rate-regulated operations recover tax expense using the taxes payable method, as prescribed by the NEB for ratemaking purposes. Effective January 1, 2009, the Partnership adopted revisions to CICA Handbook Section 3465 "Income Taxes". The revised standard removed the exemption from the requirement for rate-regulated enterprises, including Alliance Canada, to recognize future income taxes.

On January 1, 2009, the Partnership recognized a future income tax liability of \$105.1 million and an offsetting regulatory asset of \$105.1 million. The regulatory asset is recorded on the consolidated statement of financial position in long-term receivables. At December 31, 2009, the future income tax liability on regulated assets, and offsetting regulatory asset was \$103.6 million.

Allowance for Funds Used During Construction

Alliance's transportation contracts permit AFUDC to be included in its investment base. AFUDC is included in the cost of pipeline, plant and other capital assets for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset since depreciation expense, including the AFUDC, is permitted under the transportation contracts. The AFUDC calculation for rate-regulated entities includes both an interest component and equity component. The recognition of the equity component as a capitalized asset and the resulting revenue and depreciation of the asset would not be permitted in the absence of rate regulation. To date, an equity component of \$104.6 million (2008 - \$104.1 million) is included as a capitalized asset, net of related depreciation. The period over which Alliance will recover AFUDC will be determined based on future negotiations with shippers for contract periods beyond 2015, the primary term of Alliance's long-term firm transportation agreements.

Alliance earns a return of and a return on its rate base, including AFUDC, from long-term firm transportation contracts, the vast majority of which have primary terms ending on November 30, 2015, unless extended. Changes in the regulation of Alliance's business, including changes in interpretations of existing regulations by courts or regulators; the exclusion of AFUDC amortization as a cost of service amount; any other adverse change to the rates on the respective rate structures or terms and conditions of service; and a reduction in the negotiated rate of return on equity could adversely affect its ability to recover AFUDC.

Beyond 2015, the transportation commitments and the associated revenues of Alliance will also depend on various factors, including the supply of, and the demand for, natural gas produced from the Western Canadian Sedimentary Basin and the ability of Alliance to compete at the supply and demand ends of its system.

8. *Impairment*

In August 2009, the California Public Utilities Commission amended the pricing formula applicable to Fort Chicago Power's two cogeneration facilities located in California. As a result of this change, in accordance with its accounting policy, the Partnership tested the related power facilities and power customer relationships and agreements for impairment. The Partnership determined the carrying value of the assets was impaired as it exceeded the sum of the estimated undiscounted future cash flows attributable to the assets. The \$78.1 million non-cash pre-tax impairment loss was determined by comparing the carrying value of the assets to their estimated fair value, calculated using a discounted cash flow approach. The impairment was allocated \$35.4 million to power facilities (note 9) and \$42.7 million to power customer relationships and agreements (note 10).

On March 31, 2009 the Partnership reclassified a \$2.4 million non-cash pre-tax expense from other comprehensive income to net income. This expense represented the fair value decrease of the Partnership's investment in Pristine as the decline in fair value from Pristine's initial public offering in March 2008 was deemed to be other than temporary. The fair value was determined based on the closing trading price for Pristine common shares at March 31, 2009.

At December 31, 2008, the Partnership tested goodwill for impairment. Goodwill arose from the acquisition of Countryside Power Income Fund (now Fort Chicago Power) in August 2007. The impairment test was calculated by comparing Fort Chicago Power's fair value, determined on a discounted cash flow basis, to its carrying value. Consequently, an impairment loss of \$19.9 million was recognized in 2008 net income and the goodwill balance was written down to nil.

9. Pipeline, Plant and Other Capital Assets

| | Cost | Accumulated depreciation | 2009 Net book value | 2008 Net book value |
|-------------------------------|-----------|--------------------------|------------------------|------------------------|
| Pipeline | 2,713,013 | 889,018 | 1,823,995 | 2,042,154 |
| Plant | 307,717 | 75,033 | 232,684 | 140,071 |
| Power facilities (note 8) | 226,299 | 59,061 | 167,238 | 227,094 |
| Administrative | 12,169 | 7,894 | 4,275 | 3,447 |
| Capital spares | 13,013 | - | 13,013 | 12,100 |
| Land | 15,019 | - | 15,019 | 15,434 |
| Construction work in progress | 30,031 | - | 30,031 | 107,401 |
| | 3,317,261 | 1,031,006 | 2,286,255 | 2,547,701 |

The cost and accumulated depreciation of pipeline, plant and other capital assets deemed to be under operating leases at December 31, 2009 was \$624.0 million and \$190.3 million, respectively (2008 – cost: \$599.4 million, accumulated depreciation: \$130.2 million). For the year ended December 31, 2009, these assets generated \$138.6 million in operating lease revenues (2008 - \$202.1 million).

At December 31, 2009, pipeline, plant and other capital assets include \$107.9 million of capitalized interest (2008 – \$132.4 million), including \$101.0 million of debt AFUDC in respect of Alliance (2008 - \$126.4 million).

10. Intangible Assets

| | Cost | Accumulated amortization | 2009 Net book value | 2008 Net book value |
|--|---------|--------------------------|------------------------|------------------------|
| Ethane transportation agreements | 15,572 | 5,583 | 9,989 | 11,099 |
| Power customer relationships and Agreements (note 8) | 98,742 | 52,764 | 45,978 | 105,435 |
| Computer software | 16,830 | 13,150 | 3,680 | 4,733 |
| | 131,144 | 71,497 | 59,647 | 121,267 |

ETAs represent value attributed to AEGS' intangible assets upon Fort Chicago's acquisition in December 2004. Under the ETAs, which expire on December 31, 2018, AEGS has agreed to provide certain transportation services to shippers at specified firm (take-or-pay) and interruptible (volume-based) toll rates. The ETAs provide for the recovery of all operating costs, including maintenance capital. Under the ETAs, each shipper is committed to pay a minimum firm toll based on 90 percent of its total committed volume.

Customer relationships and agreements represent the value attributed to intangible assets upon acquisition of Countryside Power Income Fund and the Brush II generation facility in August 2007 and September 2008, respectively. Each of Fort Chicago Power's U.S. facilities has one long-term power purchase agreement ("PPA") to supply electricity to their respective customer. The PPAs effectively require the respective customers to purchase energy as produced by each facility, either up to stipulated maximums or based on dispatching requests, and to make capacity payments. The London Cogeneration Facility's 20-year Combined Heat and Power ("CHP") contract provides for capacity payments and the sale of electricity to the Ontario markets as produced. The district energy systems have long-term contracts and relationships with customers which provide for the sale of thermal energy and/or cooling and which, in most cases, include capacity payments.

11. Other Assets

| | 2009 | 2008 |
|----------------------|--------|--------|
| Investments (note 8) | 17,795 | 16,684 |
| Other | 5,932 | 6,105 |
| | 23,727 | 22,789 |

Other assets include the Partnership's investments in Pristine (2009 - \$9.2 million; 2008 - \$6.6 million) and a private, independent power company (2009 - \$8.6 million; 2008 - \$10.1 million). The Partnership uses the cost method to account for these investments.

12. Long-Term Senior Debt

| | 2009 | 2008 |
|---|----------|----------|
| Fort Chicago | | |
| Bank credit facilities | | |
| Canada | | |
| US (2009 – US \$38,000; 2008 – US \$100,000) | 27,000 | 153,900 |
| 7.71% Senior notes due 2011 (2009 – US \$50,250; 2008 – US \$53,250) | 39,771 | 122,460 |
| 5.60% Senior notes due 2014 | 52,592 | 65,210 |
| | 200,000 | - |
| | 319,363 | 341,570 |
| Less: current portion | (28,140) | (3,674) |
| Less: deferred financing charges | (1,830) | (313) |
| | 289,393 | 337,583 |
| AEGS | | |
| 5.565% Senior notes due 2020 | 99,532 | 102,086 |
| Less: current portion | (2,699) | (2,555) |
| Less: deferred financing charges | (560) | (614) |
| | 96,273 | 98,917 |
| Alliance ⁽¹⁾ | | |
| <u>Canada</u> | | |
| Bank credit facility | 1,000 | 57,500 |
| Senior notes: | | |
| 7.230% due 2015 | 98,233 | 113,233 |
| 4.928% due 2019 | 60,000 | - |
| 7.181% due 2023 | 165,682 | 168,253 |
| 5.546% due 2023 | 100,377 | 100,377 |
| 7.217% due 2025 | 132,457 | 134,791 |
| 6.765% due 2025 | 151,384 | 162,384 |
| Fair value adjustment | 6,331 | 6,947 |
| | 715,464 | 743,485 |
| Less: current portion | (33,861) | (30,905) |
| Less: deferred financing charges | (3,822) | (3,640) |
| | 677,781 | 708,940 |
| <u>U.S.</u> | | |
| Bank credit facility (2009 – US \$1,000; 2008 – US \$1,000) | 1,047 | 1,225 |
| Senior notes: | | |
| 7.770% due 2015 (2009 – US \$92,001; 2008 – US \$108,001) | 96,288 | 132,258 |
| 6.996% due 2019 (2009 – US \$87,727; 2008 – US \$92,726) | 91,815 | 113,553 |
| 7.877% due 2025 (2009 – US \$100,000; 2008 – US \$100,000) | 104,660 | 122,460 |
| 4.591% due 2025 (2009 – US \$102,106; 2008 – US \$113,115) | 106,864 | 138,521 |
| Fair value adjustment (2009 – US \$11,422; 2008 – US \$12,873) | 11,954 | 15,764 |
| | 412,628 | 523,781 |
| Less: current portion (2009 – US \$33,105; 2008 – US \$32,010) | (34,548) | (39,199) |
| Less: deferred financing charges (2009 – US \$2,361; 2008 – US \$2,798) | (2,471) | (3,426) |
| | 375,609 | 481,156 |

| Aux Sable ⁽¹⁾ | | |
|---|-----------|-----------|
| <u>U.S.</u> | | |
| Bank credit facilities (2009 – US \$22,983; 2008 – US \$21,648) | 24,054 | 26,510 |
| Less: current portion (2009 – US \$17,511; 2008 – US \$9,977) | (18,327) | (11,870) |
| | 5,727 | 14,640 |
| <u>Canada</u> | | |
| Term facility | 5,717 | - |
| Less: current portion | (536) | - |
| Less: deferred financing charges | (149) | - |
| | 5,032 | - |
| East Windsor Cogeneration ⁽¹⁾ | | |
| 6.234% Senior bonds due 2029 | 88,930 | 89,500 |
| Less: current portion | (2,894) | (570) |
| Less: deferred financing charges | (1,162) | (1,113) |
| | 84,874 | 87,817 |
| NRGreen ⁽¹⁾ | | |
| Bank credit facility | 24,050 | 24,550 |
| Less: current portion | (24,009) | - |
| Less: deferred financing charges | (41) | (100) |
| | - | 24,450 |
| | 1,534,689 | 1,753,503 |

⁽¹⁾ The amounts set forth in the above table reflect Fort Chicago's proportionate share of the corresponding amounts contained in the financial statements of the jointly held businesses and the fair value adjustments recorded in connection with its purchases of additional interests in these entities.

Fort Chicago

Revolving Credit Facilities

In July 2008, the Partnership extended the term of its unsecured committed revolving credit agreement with three Canadian chartered banks (the “2004 Revolving Credit Facility”) to April 1, 2011. Such term may, from time to time, be extended for further one-year periods, subject to lender consent. The maximum principal amount available under this facility is \$300 million, which can be used for general purposes, including acquisitions and distributions. Outstanding advances bear interest based on various quoted floating rates plus a margin. A standby fee applies to any undrawn amounts. The terms and conditions of the 2004 Revolving Credit Facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis. As at December 31, 2009, the Partnership had \$11.8 million (2008 - \$1.6 million) of letters of credit outstanding, leaving \$246.4 million (2008 - \$22.0 million) available under this facility.

On December 24, 2008, the Partnership entered into an additional 364-day revolving credit and letter of credit facility with a United States-based financial institution (the “2008 Revolving Credit Facility”). The maximum principal amount available under this facility was \$25 million that could be used for general corporate purposes, including working capital needs and the issuance of up to \$5 million of stand-by letters of credit. At December 31, 2009, there were no amounts outstanding on the 2008 Revolving Credit Facility (2008 – nil). On July 15, 2009, the Partnership amended the 2008 Revolving Credit Facility by adding a \$25 million term facility (“2009 Term Facility”, and collectively with the 2008 Revolving Credit Facility referred to as the “2008 Credit Facility”), and extending the term of the 2008 Credit Facility such that it now matures on July 14, 2010. Outstanding Canadian dollar advances bear interest at the Canadian

prime rate plus a margin and outstanding U.S. dollar advances at the U.S. base rate plus a margin. The Partnership has fully drawn on the 2009 Term Facility and used the proceeds to repay all indebtedness under the 2008 Revolving Credit Facility and a portion of the outstanding indebtedness under the 2004 Revolving Credit Facility. The terms and conditions of the 2008 Credit Facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

7.71% Senior Notes

On August 15, 2001, two subsidiaries of the Partnership issued senior unsecured notes to institutional investors in the United States. Two series of senior notes, Series A and Series B, of equal amount, were issued in the aggregate principal amount of US \$75.0 million bearing interest at the rate of 7.71 percent per annum, with interest and principal due quarterly. Total principal repayments for both series of US \$0.75 million are payable each quarter with a final payment of US \$45.75 million due on the maturity date of July 31, 2011. These senior notes are direct unsecured obligations of the relevant subsidiary and rank *pari passu* with all other unsecured and unsubordinated indebtedness of that issuer. Each subsidiary has provided covenants customary for note issuances that include, among other things, meeting specified financial covenants on an ongoing basis.

Each subsidiary may redeem all or any of its notes, subject to a minimum of 10 percent of the aggregate principal amount outstanding, at any time prior to maturity at par plus a make-whole payment and any accrued and unpaid interest on the redeemed amount.

5.60% Senior Notes

On July 28, 2009, the Partnership issued \$200 million of senior unsecured notes series 1 (the "Senior Notes") pursuant to a public offering under the Partnership's short form base shelf prospectus dated May 2, 2008 and a prospectus supplement dated July 23, 2009. The Senior Notes bear interest at the rate of 5.60 percent per annum, payable semi-annually in arrears on January 28 and July 28 of each year commencing on January 28, 2010, and mature on July 28, 2014. The net proceeds from the offering of the Senior Notes were used to repay a portion of the outstanding indebtedness under the Partnership's 2004 Revolving Credit Facility. The terms and conditions of the Senior Notes include covenants customary to debt instruments of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

AEGS

5.565% Senior Notes

On May 4, 2005, AEGS completed a 15-year unsecured debt placement in the aggregate principal amount of \$110 million, bearing interest of 5.565 percent. Blended payments of principal and interest in the aggregate amount of \$4.1 million are payable semi-annually on each of May 4 and November 4, with a final principal payment of \$64.6 million on May 4, 2020.

These senior notes are direct unsecured obligations of AEGS and rank *pari passu* with all other unsecured and unsubordinated indebtedness of AEGS. Under the terms of the note purchase agreement, AEGS has provided covenants customary for such note issuances that include, among other things, meeting specified financial covenants on an ongoing basis.

Jointly Held Businesses

Unless otherwise stated, the amounts referred to in this section represent Fort Chicago's proportionate share of the amounts contained in the financial statements of the Partnership's jointly held businesses.

Alliance Security and Covenants

Under the terms of the Alliance Common Agreement, certain assets and material contracts are pledged as collateral to Alliance's lenders including transportation service agreements, permits issued by the NEB and by the FERC, trust accounts, real property and tangible personal property. Alliance is also required to meet specified financial conditions and adhere to specified covenants on an ongoing basis. The senior debt of Alliance contains cross-default provisions, whereby an event of default by one entity constitutes an event of default by the other.

Alliance Bank Credit Facilities

Alliance's credit facilities comprise a Canadian and a U.S. committed extendible revolving credit facility, with an initial term of five years, in the amounts of \$100 million and US \$62.5 million, respectively, with expansion provisions to facilitate timely increases of the facilities to \$150 million and US \$100 million, if required. The facilities are currently set to mature on June 28, 2012.

Interest on the Canadian credit facility is based on Bankers' Acceptance rates, plus applicable margins. At December 31, 2009, \$40 million (2008 - \$40 million) of letters of credit were outstanding under the Canadian credit facility, leaving \$59 million (2008 - \$2.5 million) available under this facility. Interest on the U.S. credit facility is based on the U.S. dollar London Interbank Offered Rate, plus applicable margins. At December 31, 2009, US \$30 million (2008 - US \$30 million) of letters of credit were outstanding under the U.S. credit facility, leaving US \$31.5 million (2008 - US \$31.5 million) available under this facility. A standby fee applies to any undrawn amounts under these facilities.

Alliance Senior Notes

Interest and principal repayments on the senior notes are payable semi-annually each June 30 and December 31, with the exception of the 7.877 percent senior notes, for which principal repayments do not commence until June 2019, and the 4.928 percent senior notes issued December 16, 2009. Principal repayments are closely tied to the recovery rates for depreciation and U.S. future income taxes contained in the transportation contracts.

On December 16, 2009, Alliance issued \$60 million of senior unsecured notes pursuant to a public offering under Alliance's short form base shelf prospectus and a prospectus supplement, each dated December 9, 2009. The senior notes bear interest at the rate of 4.928 percent per annum, payable semi-annually in arrears on June 16 and December 16 of each year commencing on June 16, 2010 and maturing on December 16, 2019. The notes are non-amortizing with the principal due and payable upon maturity. The net proceeds from the offering were used mainly to repay indebtedness under Alliance's Canadian bank credit facility and for general partnership purposes.

Alliance may redeem any series of senior notes at any time, in whole but not in part, at a price equal to the outstanding principal amount of such senior notes plus accrued but unpaid interest up to, but excluding the date of redemption plus a make whole premium.

Aux Sable Bank Credit Facilities

Aux Sable's Amended and Restated Credit Agreement (the "U.S. Facility") is comprised of a US \$14.9 million revolving facility and a US \$17.1 million term facility. Aux Sable uses the revolving facility for working capital requirements, capital project financing, and letters of credit. Aux Sable uses the term facility for capital project financing. The U.S. Facility matures on August 16, 2010. In August 2008, the U.S. Facility was amended to, among other things, eliminate the previously required annual principal repayments.

The terms and conditions of the U.S. Facility include covenants customary to bank credit facilities of this nature, including meeting specified financial covenants on an ongoing basis and establishing and maintaining a debt service reserve account. At December 31, 2009, Aux Sable was required to maintain US \$0.3 million (2008 – US \$0.3 million) in its debt service reserve account, classified as restricted cash. Aux Sable has pledged its fractionation, processing, storage, and support facilities as collateral. Interest is based on various U.S. floating interest rates plus applicable margins. A standby fee applies to any undrawn amounts under these facilities.

At December 31, 2009 no amount (2008 – US \$4.7 million) was drawn under the revolving facility. Under the term facility, US \$17.1 million (2008 – US \$17.0 million) was drawn. At December 31, 2009, an aggregate US \$14.9 million (2008 – US \$10.4 million) was available under the U.S. Facility.

On October 2, 2009, Aux Sable U.S. entered into a 10-year loan agreement with a U.S. financial institution. The loan amount is US \$6.0 million at an interest rate of 6.95 percent. The proceeds were used to purchase capital assets previously financed under a capital lease.

On December 16, 2009, Aux Sable Canada entered into a two-year extendible secured non-revolving credit agreement with a Canadian chartered bank and Enbridge Aux Sable Holding Inc. The maximum principal amount available under this facility is \$5.8 million. The proceeds were used to fund a portion of Aux Sable Canada's purchase of the Septimus Gas Plant. Interest is based on various Canadian floating interest rates plus applicable margins. The terms and conditions of the facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

East Windsor Cogeneration 6.234% Senior Bonds

On November 2, 2007 East Windsor Cogeneration issued \$89.5 million Series 1 Senior Bonds bearing quarterly interest of 6.234 percent, maturing September 27, 2029. The principal amount is repayable quarterly commencing on December 27, 2009. The proceeds were to fund the construction of the 84 megawatt East Windsor Cogeneration Facility.

East Windsor Cogeneration may redeem the bonds in whole at anytime, or in part from time to time provided no default or event of default is continuing, and subject to bondholder approval. The terms and conditions of the bonds include covenants customary to debt instruments of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

East Windsor Cogeneration has also entered into a Letter of Credit facility with a Canadian Chartered Bank, maturing November 10, 2010. At December 31, 2009, \$3.4 million in letters of credit was outstanding (2008 - \$4.7 million).

NRGreen Credit Facility

In March 2008, NRGreen entered into credit facilities comprised of a \$26.3 million construction credit facility and a \$2.5 million operating facility (collectively the “NRGreen Credit Facility”). Upon the commercial completion of the Loreburn, Estlin, Alameda waste heat facilities in November 2008, the construction facility converted to a two-year revolving credit facility. The operating facility is an extendible revolving facility which matures on August 31, 2011 subject to one-year extension requests on August 31 of each year. The facility is secured by a first ranking floating charge over all real property of NRGreen forming part of the NRGreen Credit Facility as well as an assignment of material contracts.

Interest is accrued and payable based on Bankers’ Acceptance rates, plus applicable margins, for terms not exceeding twelve months. The terms and conditions of the facility include covenants customary to bank credit facilities of this nature including, among other things, meeting specified financial covenants on an ongoing basis.

Compliance with Debt Covenants

Each of Fort Chicago, AEGS, Alliance, Aux Sable, East Windsor Cogeneration, and NRGreen were in compliance with their respective debt covenants as at December 31, 2009 and 2008, as applicable.

Scheduled Principal Repayments of Long-Term Senior Debt

Scheduled principal repayments of long-term senior debt, including the current portion thereof, and excluding the fair value adjustment of \$18.3 million (2008 - \$22.7 million), which is being amortized over the life of the related debt, are as follows:

| For the years ending December 31 | |
|---|-----------------------|
| 2010 | 145,014 |
| 2011 | 169,952 |
| 2012 | 80,698 |
| 2013 | 82,099 |
| 2014 | 285,283 |
| Thereafter | 908,407 |
| | <hr/> 1,671,453 <hr/> |

13. Subordinated Convertible Debentures and Exchangeable Debentures

| | 2009 | 2008 |
|---|--------------|--------------------|
| Subordinated convertible debentures due 2010 | 24,199 | 24,199 |
| Exchangeable debentures due 2012 (2009 – US \$22,234; 2008 - US \$22,234) | 25,248 | 25,717 |
| Less: deferred financing charges | (145) | (290) |
| | <hr/> 49,302 | <hr/> 49,626 |
| Less: current portion, net of deferred financing charges | (49,302) | (25,717) |
| | <hr/> - | <hr/> 23,909 <hr/> |

The Partnership’s 6.75 percent Convertible Debentures are due on December 31, 2010 and are convertible, at the holder’s option, into Units at a conversion price of \$10.70 per Unit. During the year ended December 31, 2009, no Convertible Debentures, were converted into Units (2008 – \$20 thousand).

The Convertible Debentures rank equally with all other unsecured and subordinated indebtedness of the Partnership. The Convertible Debentures are qualified investments under the *Income Tax Act* (Canada) for deferred profit sharing plans, registered retirement savings plans, registered retirement income funds, registered education savings plans and certain other tax exempt arrangements.

The 6.25 percent Exchangeable Debentures are due on October 31, 2012. The payment of Exchangeable Debenture principal and interest is subordinated in right of payment to the prior payment of any senior indebtedness of Fort Chicago Power. Exchangeable Debenture holders are entitled to exchange each debenture for \$1,051 up until the date of maturity. During the year ended December 31, 2009 no Exchangeable Debentures were exchanged into cash (2008 – US \$0.5 million). On or after October 31, 2010 and prior to the maturity date, the Exchangeable Debentures may be redeemed by Fort Chicago Power, in whole or in part, at a price equal to the principal amount thereof plus accrued and unpaid interest on not more than 60 days and not less than 30 days prior written notice.

The Exchangeable Debentures are classified as “held for trading”. Accordingly, changes in fair value, representing changes in the quoted market price and gains and losses arising from translation from U.S. dollars to Canadian dollars, are included in net income (2009 - \$0.5 million pre-tax gain; 2008 – \$2.3 million pre-tax loss).

14. Other Long-term Liabilities

| | 2009 | 2008 |
|-------------------------------|-------------|-------------|
| Transportation contracts | 14,246 | 16,688 |
| Asset retirement obligations | 18,654 | 16,038 |
| Construction security deposit | - | 16,424 |
| Other | 13,753 | 19,293 |
| | 46,653 | 68,443 |
| Less: current portion | (2,442) | (2,442) |
| | 44,211 | 66,001 |

Transportation Contracts

The obligation under the transportation contracts relates to proceeds received by Fort Chicago in connection with its acquisitions of additional interests in Alliance Canada Marketing and its assumption of the associated liability arising from the firm transportation contracts. This liability is being amortized on a straight-line basis over the remaining term of the transportation contracts.

Asset Retirement Obligations

At December 31, 2009, \$16.8 million of the consolidated asset retirement obligation (“ARO”) relates to AEGS (2008 - \$15.8 million). This represents management’s estimate of the cost to abandon the ethane transportation pipeline and the timing of the costs to be incurred. Estimated cash flows were discounted at AEGS’ weighted average credit-adjusted risk free rate of return of 6.3 percent and an inflation rate of 2.3 percent. The total undiscounted amount of future cash flows required to settle the obligation is estimated to be \$110.9 million (2008 - \$110.9 million). While the estimated ARO costs do not reflect the full removal of the pipeline, they do reflect such activities as dismantling, demolition and disposal of a portion of the pipeline as well as remediation and restoration of the surface land. Payments to settle the obligation are not expected to occur prior to 2040.

The remaining \$1.9 million balance (2008 - \$0.2 million) relates to ARO established by East Windsor Cogeneration, NRGreen and Aux Sable Canada. Each of these jointly held business has estimated costs of site remediation, dismantling and disposal of their respective facilities. Estimated cash flows were discounted at credit-adjusted risk free rates of return ranging from 6.3 to 7.0 percent and inflation rates ranging from 2.0 to 2.5 percent. The total undiscounted future cash flows required to settle these obligations are estimated to be \$8.4 million (2008 - \$0.8 million). Payments to settle these obligations are expected to occur between 2029 and 2039.

No assets have been legally restricted for settlement of these liabilities.

No provision for asset retirement obligations has been recognized in these consolidated financial statements with respect to Alliance Pipeline or Aux Sable U.S., as it is currently not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the respective asset retirements. Management believes it is reasonable to assume that all asset retirement obligations associated with the pipeline will be recoverable through future tolls.

| | 2009 | 2008 |
|--|-------------|-------------|
| Asset retirement obligation, January 1 | 16,038 | 14,651 |
| Liabilities recognized in the current year | 1,591 | - |
| Accretion expense | 1,025 | 888 |
| Changes in cash flow estimates | - | 499 |
| Asset retirement obligation, December 31 | 18,654 | 16,038 |

Construction Security Deposit

In November 2008, Aux Sable Canada curtailed construction of its Heartland Off-gas facility as a result of its counterparty suspending the construction of its upgrader. As a result, the counterparty reimbursed Aux Sable Canada for all capital costs and commitments incurred in respect of this facility. At December 31, 2008, these funds were reflected as a long-term construction security deposit. In 2009, Aux Sable Canada and its counterparty entered into a settlement agreement. As a result, Aux Sable Canada recognized a \$9.5 million pre-tax gain in interest and other income. Further, Aux Sable Canada has retained full ownership of the off-gas facility.

Other

Other long-term liabilities include, among other things, \$11.5 million of accruals for long-term employee incentive programs (2008 - \$6.5 million) and \$2.0 million for Alliance property taxes not payable within one year (2008 - \$2.1 million).

15. Partners' Equity

(a) Partners' Capital Account

Authorized

The Partnership is authorized to issue an unlimited number of Class A Units ("Units") and an unlimited number of Class B Units, issuable in series.

Issued

| Units | 2009 | | 2008 | |
|---|-------------|-----------|-------------|-----------|
| | Number | Value | Number | Value |
| January 1 | 134,110,877 | 1,013,278 | 131,668,086 | 991,294 |
| Convertible Debentures converted into Units, net of issue costs of nil (2008 - \$5) | - | - | 2,442,791 | 21,984 |
| Units issued under Distribution Reinvestment Plan ("DRIP") ⁽¹⁾ | 4,844,769 | 38,801 | - | - |
| December 31 | 138,955,646 | 1,052,079 | 134,110,877 | 1,013,278 |
| Units to be issued under DRIP ⁽¹⁾ | 544,799 | 5,160 | - | - |
| | 139,500,445 | 1,057,239 | 134,110,877 | 1,013,278 |

(1) Represents Units issued to satisfy a portion of the Partnership's distributions.

The weighted average number of Units outstanding used to determine net income per Unit on a basic and diluted basis for the year ended December 31, 2009 was 135,843,726 (2008 – 133,032,094) and 138,105,347 (2008 – 136,372,498), respectively.

(b) Distributions

For the year ended December 31, 2009, the Partnership declared and paid distributions to Unitholders in the amount of \$136.1 million or \$1.00 per Unit (2008 - \$133.2 million or \$1.00 per Unit).

| Record date | Payment date | Distribution per Unit (\$) | Distribution paid/payable in cash | Distribution paid in Units under DRIP | Total distribution paid/payable |
|--------------------|--------------------|----------------------------|-----------------------------------|---------------------------------------|---------------------------------|
| 2009 | | | | | |
| January 30, 2009 | February 23, 2009 | 0.0833 | 11,171 | - | 11,171 |
| February 27, 2009 | March 23, 2009 | 0.0833 | 11,171 | - | 11,171 |
| March 31, 2009 | April 23, 2009 | 0.0833 | 7,408 | 3,763 | 11,171 |
| April 30, 2009 | May 22, 2009 | 0.0833 | 7,495 | 3,723 | 11,218 |
| May 29, 2009 | June 23, 2009 | 0.0833 | 7,137 | 4,126 | 11,263 |
| June 30, 2009 | July 23, 2009 | 0.0833 | 7,235 | 4,073 | 11,308 |
| July 31, 2009 | August 21, 2009 | 0.0833 | 7,089 | 4,262 | 11,351 |
| August 31, 2009 | September 23, 2009 | 0.0833 | 6,932 | 4,463 | 11,395 |
| September 30, 2009 | October 23, 2009 | 0.0833 | 6,784 | 4,656 | 11,440 |
| October 30, 2009 | November 23, 2009 | 0.0833 | 6,745 | 4,741 | 11,486 |
| November 30, 2009 | December 23, 2009 | 0.0833 | 6,536 | 4,994 | 11,530 |
| December 31, 2009 | January 22, 2010 | 0.0833 | 6,415 | 5,160 | 11,575 |
| | | 1.0000 | 92,118 | 43,961 | 136,079 |
| 2008 | | | | | |
| January 31, 2008 | February 22, 2008 | 0.0833 | 10,975 | - | 10,975 |
| February 29, 2008 | March 20, 2008 | 0.0833 | 10,978 | - | 10,978 |
| March 31, 2008 | April 23, 2008 | 0.0833 | 10,988 | - | 10,988 |

| | | | | | |
|--------------------|--------------------|--------|---------|---|---------|
| April 30, 2008 | May 23, 2008 | 0.0833 | 10,998 | - | 10,998 |
| May 30, 2008 | June 23, 2008 | 0.0833 | 11,014 | - | 11,014 |
| June 30, 2008 | July 23, 2008 | 0.0833 | 11,171 | - | 11,171 |
| July 31, 2008 | August 22, 2008 | 0.0833 | 11,171 | - | 11,171 |
| August 29, 2008 | September 23, 2008 | 0.0833 | 11,171 | - | 11,171 |
| September 30, 2008 | October 23, 2008 | 0.0833 | 11,171 | - | 11,171 |
| October 31, 2008 | November 21, 2008 | 0.0833 | 11,171 | - | 11,171 |
| November 28, 2008 | December 23, 2008 | 0.0833 | 11,171 | - | 11,171 |
| December 31, 2008 | January 23, 2009 | 0.0833 | 11,171 | - | 11,171 |
| | | 1.0000 | 133,150 | - | 133,150 |

(c) Premium Distribution and Distribution Reinvestment Plan

The Partnership has a Premium Distribution and Distribution Reinvestment Plan (“DRIP”). The DRIP allows eligible holders of Units to elect to reinvest the eligible portion of the distribution declared by the Partnership in additional Units at a five percent discount to the average market price or to receive the distribution in cash plus a two percent premium cash payment based on the eligible portion of the distribution. The Partnership reserves the right to determine, for each distribution, how much new equity will be issued under the DRIP. At December 31, 2009, an aggregate of 1,337,738 (2008 – 182,507) Units are reserved and available for issuance pursuant to the terms of the DRIP.

16. Taxes

The provision for taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial statutory income tax rate to earnings before taxes. The difference results from a number of factors summarized in the following reconciliation:

Income Tax Reconciliation

| | 2009 | 2008 |
|--|-------------|-------------|
| Net income before taxes | 29,289 | 88,655 |
| Combined statutory income tax rate | 29.50% | 30.00% |
| Income taxes at statutory rate | 8,640 | 26,597 |
| Increase (decrease) resulting from: | | |
| Tax benefits attributable directly to Unitholders | 10,686 | 13,432 |
| Future taxes related to Canadian rate-regulated operations | 3,415 | 354 |
| Benefit of intergroup charges | (31,891) | (27,591) |
| Higher income tax rates in other jurisdictions | (2,394) | 8,530 |
| Asset impairment loss | - | 5,970 |
| Change in valuation allowance | 4,488 | - |
| Rate reduction and other | (1,230) | (136) |
| Income taxes | (8,286) | 27,156 |
| Net income | 37,575 | 61,499 |
| Effective tax rate | (28.3%) | 30.6% |

Components of Future Taxes

| | 2009 | 2008 |
|---|----------------|----------------|
| Future tax liabilities (assets) | | |
| Differences in the accounting and tax bases of: | | |
| Pipeline, plant and other capital assets | 174,718 | 219,951 |
| Regulatory assets | 103,633 | - |
| Deferred revenue and costs | 62,967 | 76,266 |
| Non-capital losses | (54,489) | (56,394) |
| Valuation allowance | 4,447 | - |
| | <u>291,279</u> | <u>239,823</u> |

Fort Chicago has Canadian and U.S. non-capital losses of \$46.8 million (2008 - \$20.7 million) and \$104.6 million (US \$99.9 million) (2008 - \$125.9 million; US \$102.8 million) available to reduce future Canadian and U.S. taxable income, respectively. Canadian losses expire beginning in 2026. U.S. losses will expire in varying amounts from 2021 to 2029.

17. Commitments and Contingencies

Fort Chicago and its operating businesses have operating leases for office premises, vehicles and railcars. Expected future minimum lease payments under the operating leases are as follows:

| <u>For the years ending December 31</u> | <u>Operating lease</u> |
|---|------------------------|
| 2010 | 4,390 |
| 2011 | 6,333 |
| 2012 | 4,622 |
| 2013 | 4,414 |
| 2014 | 4,335 |
| Thereafter | 26,914 |
| Total minimum lease payments | <u>51,008</u> |

Fort Chicago Power and East Windsor Cogeneration have each entered into agreements with natural gas suppliers to purchase, in aggregate, a minimum of approximately 20 million cubic feet per day, or approximately \$48.9 million per year, until 2013. Fort Chicago pledged security for East Windsor Cogeneration's agreement as a guarantee to the supplier.

In 2008, Alliance and Aux Sable each entered into equipment maintenance agreements expiring in 2015 and 2017. At December 31, 2009, outstanding commitments in respect of these agreements amounted to \$82.9 million.

Fort Chicago and its operating businesses are, or may be named as, parties to various legal claims associated with their normal course of business. As at the date of these consolidated financial statements, the resolution of these claims is not expected to have a material adverse impact on Fort Chicago's consolidated financial position or consolidated results of operations.

18. Financial Instruments and Risk Management

Financial Instruments:

The following table summarizes the Partnership's financial instrument carrying and fair values as at December 31, 2009:

| | Held-for-trading | Loans and receivables | Available -for-sale | Other financial liabilities | Non-financial instruments | Total | Fair value ⁽¹⁾ |
|--|------------------|-----------------------|---------------------|-----------------------------|---------------------------|-----------|---------------------------|
| Assets | | | | | | | |
| Cash and short-term investments | 57,945 | | | | | 57,945 | 57,945 |
| Restricted cash | 3,084 | | | | | 3,084 | 3,084 |
| Transportation security deposits and revenue adjustments | | 8,538 | | | | 8,538 | 8,538 |
| Receivables | | 59,155 | | | | 59,155 | 59,155 |
| Long-term receivables | | 4,201 | | | 347,428 | 351,629 | 4,201 |
| Other assets | 4,500 | | 17,795 | | 1,432 | 23,727 | 21,644 |
| Liabilities | | | | | | | |
| Payables | | | | 88,822 | 2,442 | 91,264 | 88,822 |
| Transportation security deposits | | | | 4,008 | | 4,008 | 4,008 |
| Distribution payable | | | | 6,406 | | 6,406 | 6,406 |
| Exchangeable debentures | 25,248 | | | | | 25,248 | 25,248 |
| Subordinated convertible debentures | | | | 24,199 | (145) | 24,054 | 25,409 |
| Senior debt | | | | 1,671,453 | 8,250 | 1,679,703 | 1,766,689 |
| Other long term liabilities | | | | 13,663 | 30,548 | 44,211 | 13,663 |

The following table summarizes the Partnership's financial instrument carrying and fair values as at December 31, 2008:

| | Held-for-trading | Loans and receivables | Available -for-sale | Other financial liabilities | Non-financial instruments | Total | Fair value ⁽¹⁾ |
|--|------------------|-----------------------|---------------------|-----------------------------|---------------------------|-----------|---------------------------|
| Assets | | | | | | | |
| Cash and short-term investments | 53,308 | | | | | 53,308 | 53,308 |
| Restricted cash | 23,036 | | | | | 23,036 | 23,036 |
| Transportation security deposits and revenue adjustments | | 7,989 | | | | 7,989 | 7,989 |
| Receivables | | 61,935 | | | | 61,935 | 61,935 |
| Prepaid expenses and other | 250 | 4,009 | | | 8,090 | 12,349 | 4,259 |
| Long-term receivables | | 11,314 | | | 262,078 | 273,392 | 11,314 |
| Other assets | 4,975 | | 16,684 | | 1,130 | 22,789 | 21,659 |
| Liabilities | | | | | | | |
| Payables | | | | 110,181 | 2,442 | 112,623 | 110,181 |
| Transportation security deposits | | | | 5,581 | | 5,581 | 5,581 |
| Distribution payable | | | | 11,162 | | 11,162 | 11,162 |
| Exchangeable debentures | 25,717 | | | | | 25,717 | 25,717 |
| Senior debt | | | | 1,828,771 | 13,505 | 1,842,276 | 1,873,433 |
| Subordinated convertible debentures | | | | 24,199 | (290) | 23,909 | 24,922 |
| Other long term liabilities | | | | 29,859 | 36,142 | 66,001 | 29,859 |

(1) Fair value excludes non-financial instruments.

For the years ended December 31, 2009 and 2008 the following amounts were recognized in income:

| | 2009 | 2008 |
|--|---------|---------|
| Interest revenue related to loans and receivables | - | - |
| Fair value loss on assets held-for-trading recognized in net income before tax | (274) | (1,101) |
| Fair value gain (loss) on assets available-for-sale recorded in other comprehensive income, net of tax | 2,347 | (1,427) |
| Fair value loss on assets available-for-sale reclassified from cumulative other comprehensive income to net income | (1,427) | - |
| Fair value gain (loss) on liabilities held-for-trading recognized in net income before tax | 469 | (2,347) |
| Total interest expense, recorded with respect to other financial liabilities, calculated using the effective rate method | 101,822 | 107,077 |

Fair Values

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of financial instruments included in cash and short-term investments, restricted cash, transportation security deposits and revenue adjustments, receivables, long-term receivables, payables, transportation security deposits, distribution payable, and other long-term liabilities approximate their carrying amounts due to the nature of the item and/or the short time to maturity.

The fair values of other assets which are investments in quoted equity instruments, Exchangeable Debentures and Convertible Debentures are measured at quoted market prices.

The fair values of senior debt are calculated by discounting future cash flows using discount rates estimated based on government bond rates plus expected spreads for similarly rated instruments with comparable risk profiles.

CICA Handbook Section 3862 "*Financial Instrument – Disclosures*" establishes a fair value hierarchy that distinguishes between fair values developed based on market data obtained from sources independent of the reporting entity, and fair values developed using the reporting entity's own assumptions based on the best information available in the circumstances. The levels of the fair value hierarchy are:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are not based on observable market data.

Financial instruments measured at fair value as of December 31, 2009 were:

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|--------|
| Financial assets held-for-trading measured at fair value through net income | | | | |
| Cash and short-term investments | 57,945 | | | 57,945 |
| Restricted cash | 3,084 | | | 3,084 |
| Other assets | | 4,500 | | 4,500 |
| Financial assets available-for-sale measured at fair value through other comprehensive income | | | | |
| Other assets | 9,161 | | | 9,161 |
| Financial liabilities held-for-trading measured at fair value through net income | | | | |
| Exchangeable debentures | 25,248 | | | 25,248 |

Maturity Analysis Financial Liabilities

The table below analyses the Partnership's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within one year equal or approximate their carrying balances as the impact of discounting is not significant.

| | <1 year | 1 - 3 years | 4 - 5 years | Over 5 years |
|---|---------|-------------|-------------|--------------|
| Payables | 88,822 | | | |
| Transportation security deposits | 4,008 | | | |
| Distribution payable | 6,406 | | | |
| Subordinated convertible debentures and exchangeable debentures | 24,199 | 25,248 | | |
| Long-term debt | 145,014 | 250,650 | 367,382 | 908,407 |

Currency Risk

At December 31, 2009, approximately 52 percent of Fort Chicago's net assets were denominated in U.S. dollars, exposing the Partnership to fluctuations in the foreign exchange rate between Canadian and U.S. dollars. At December 31, 2009, if the Canadian currency had strengthened or weakened by one cent against the U.S. dollar, with all other variables constant, net income for the year would have been \$0.1 million (2008 - \$0.5 million) lower or higher, respectively. Other comprehensive income would have been \$3.4 million (2008 - \$3.7 million) lower or higher, respectively.

The Partnership utilizes U.S.-denominated debt to hedge a portion of the net investment in its self-sustaining U.S. operations. To the extent these hedges are deemed to be effective, any such gains or losses are recorded in other comprehensive income. For the year ended December 31, 2009, a \$15.4 million gain (2008 - \$24.2 million loss) has been recognized in other comprehensive income.

Interest Rate Risk

At December 31, 2009, seven percent of consolidated long-term debt was floating-rate debt (2008 - 20 percent). At December 31, 2009, if interest rates applied to floating-rate debt were 100 basis points higher or lower with all other variables constant, net income before tax for the year would have been \$1.2 million (2008 - \$3.1 million) lower or higher, respectively. The impact on other comprehensive income would have been less than \$0.1 million (2008 - less than \$0.1 million) lower or higher, respectively.

Fort Chicago and its businesses periodically enter into interest rate swaps to manage interest rate exposures. No material contracts were in place as at December 31, 2009.

Credit Risk

Fort Chicago and its businesses are exposed to credit risk as their revenues are dependent upon the ability of customers to fulfill their contractual obligations, the failure of which could adversely affect the ability of Fort Chicago and its businesses to recover their operating and financing costs or make distributions. Alliance's business is concentrated in the natural gas transportation industry and its revenue is dependent upon the ability of its shippers to pay their monthly demand charges. Alliance limits, to some degree, its exposure to this credit risk by requiring its shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or can demonstrate equivalent financial strength. As at December 31, 2009, Alliance held \$19.2 million in letters of credit and cash deposits as security from its shippers.

AEGS is dependent upon the ability of four customers to pay each of their invoices. This risk is mitigated, in part, as each customer has substantial energy infrastructure and/or petrochemical

investments in Alberta that are dependent upon the continued operation of AEGS. Furthermore, Alberta's petrochemical industry is comprised of world-scale, low cost facilities that are expected to operate for some time.

In the case of the Partnership's NGL business, earnings and cash flows are primarily dependent upon the long-term NGL Sales Agreement with BP, a strong investment grade company and one of the largest integrated energy companies in the world.

The counterparty exposures associated with the Partnership's power business are diverse and are spread across numerous entities (including a number of government entities in the case of our district energy facilities) and individual counterparties with investment grade ratings.

None of the Partnership's financial assets are past due or impaired, nor have any terms been renegotiated. The Partnership is satisfied with the credit quality of its financial assets.

Commodity Risk

Through Fort Chicago's ownership interest in the NGL Business, Fort Chicago is exposed to fluctuations in the prices of NGL and natural gas. This exposure has been significantly reduced with the establishment of the NGL Sales Agreement. Management continues to monitor this exposure, but did not enter into any material hedges to reduce this exposure further. For the year ended December 31, 2009, if the price of Henry Hub natural gas were US \$1.00 higher or lower, with all other variables held constant, net income before tax would have been \$16.9 million lower or higher, respectively. Other comprehensive income would have been \$0.5 million higher or lower, respectively. If the price of WTI crude were US \$5.00 higher or lower, with all other variables held constant, net income before tax would have been \$11.4 million higher or lower, respectively. Other comprehensive income would have been \$0.3 million lower or higher, respectively.

Liquidity Risk

Fort Chicago and its businesses manage their liquidity requirements, utilizing cash from operations, excess cash and undrawn committed credit facilities. The Partnership believes these sources of funding are sufficient to meet its expected liquidity requirements. The Partnership also has the ability to access up to \$1.3 billion of public debt and equity, subject to market conditions, under its short form base shelf prospectus, filed with Canadian securities regulators May 2, 2008.

All financial liabilities classified as current on the balance sheet are expected to be settled within one year, with the exception of the Exchangeable Debentures which are classified as current due to the debenture holders being entitled to exchange each debenture for cash up until the date of maturity.

Capital Management

The Partnership is committed to maintaining a prudent capital structure comprised primarily of equity and long-term amortizing senior debt, backed with investment grade credit ratings. At December 31, 2009, substantially all of its consolidated debt is long term and, with the exception of its Convertible Debentures, Exchangeable Debentures and borrowings under long-term revolving credit facilities, contain amortization periods that are designed to provide for the repayment of all principal over the estimated useful economic life of the applicable underlying assets. This debt is generally issued by the Partnership's subsidiaries and operating businesses, on a non-recourse basis, bearing fixed rates of interest, insulating the Partnership and its businesses from potentially higher future interest rates and reducing the default risk associated with any one operating entity. Canadian and U.S. denominated debt are used to match the

currency of the underlying assets being financed and thereby serve as a partial hedge against any future movements in the Canadian/U.S. dollar exchange rate. The Partnership and its operating businesses also maintain committed credit facilities to fund operating or capital requirements that, from time to time, may be in excess of their available cash balances. Each debt agreement contains covenants customary for such issuances, which are monitored on an ongoing basis. As at December 31, 2009, Fort Chicago and each of its operating businesses are in compliance with their respective debt agreements. This strategy remains unchanged from December 31, 2008.

The Partnership's components of capital are summarized below:

| | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|
| Senior debt, exchangeable debentures, excluding deferred financing charges | 1,714,986 | 1,877,199 |
| Subordinated convertible debentures, excluding deferred financing charges | 24,199 | 24,199 |
| Partners' equity | 698,726 | 800,587 |
| Total capital | 2,437,911 | 2,701,985 |

19. Segmented Information

| | Pipeline | | NGL | | Power | | Corporate ⁽¹⁾ | | Total ⁽²⁾ | |
|---|------------------|-----------|----------------|---------|-----------------|----------|--------------------------|----------|----------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues ⁽³⁾⁽⁴⁾ | 430,614 | 434,531 | 149,709 | 180,351 | 75,709 | 93,429 | 803 | 651 | 649,133 | 701,430 |
| Operations and maintenance ⁽³⁾ | 86,708 | 85,680 | 77,436 | 96,908 | 48,024 | 66,430 | - | - | 204,466 | 241,486 |
| Depreciation and amortization | 113,131 | 109,036 | 3,087 | 3,173 | 20,632 | 14,608 | 4,053 | 4,278 | 140,903 | 131,095 |
| Interest and other finance | 85,525 | 89,084 | 292 | 864 | 2,819 | 1,958 | 14,765 | 16,671 | 103,401 | 108,577 |
| General, administrative and project development | 39,327 | 36,834 | 18,131 | 15,478 | 5,439 | 3,981 | 26,249 | 24,181 | 89,146 | 80,474 |
| Foreign exchange and other | - | - | (42) | 2 | (352) | 2,348 | 1,829 | 27,688 | 1,435 | 30,038 |
| Asset impairment loss | - | - | - | - | 80,493 | 21,105 | - | - | 80,493 | 21,105 |
| Net income (loss) before taxes | 105,923 | 113,897 | 50,805 | 63,926 | (81,346) | (17,001) | (46,093) | (72,167) | 29,289 | 88,655 |
| Total assets | 2,285,505 | 2,424,778 | 174,462 | 197,930 | 380,706 | 498,988 | 25,114 | 6,893 | 2,864,899 | 3,127,679 |
| Capital expenditures | 1,964 | 25,059 | 16,600 | 9,696 | 32,055 | 98,483 | 268 | 5,788 | 50,887 | 139,026 |

- (1) Reflects unallocated amounts applicable to Fort Chicago's head office activities. Corporate office general and administrative costs for year ended December 31, 2009 include project development costs of \$10.1 million (2008 - \$10.8 million).
- (2) After giving effect to intersegment eliminations and allocations to businesses.
- (3) For the year ended December 31, 2009, Pipeline revenues include \$7.7 million (2008 - \$7.5 million) of transportation revenue from the NGL Business that eliminates upon consolidation. The operations and maintenance costs of the NGL Business include the corresponding cost amount.
- (4) For the year ended December 31, 2009, NGL revenues include \$9.5 million in connection with Aux Sable's off-gas facility settlement. For the year ended December 31, 2008, Pipeline revenues include \$10.3 million received by Alliance in settlement from Calpine Energy Services Canada Partnership in connection with the repudiation of its Alliance transportation contracts. Also for the year ended December 31, 2008, Power revenues include a \$4.2 million gain related to the initial public offering of common shares by Pristine, which resulted in Fort Chicago's ownership interest in Pristine being diluted from approximately 20 percent to 11 percent.
- (5) The Partnership holds its ownership interests in multiple business lines through partnerships, which are consolidated into various corporate entities. Consequently, the tax provision is determined on a consolidated basis and, as such, the Partnership is not able to present income tax by segment.

The following table reflects Fort Chicago's revenues and pipeline, plant and other capital assets based on the geographic location of each entity:

| 2009 | | | |
|--|---------------|-------------|--------------|
| | Canada | U.S. | Total |
| Revenues ⁽¹⁾ | 308,156 | 340,977 | 649,133 |
| Pipeline, plant and other capital assets | 1,521,420 | 764,835 | 2,286,255 |

| 2008 | | | |
|--|---------------|-------------|--------------|
| | Canada | U.S. | Total |
| Revenues ⁽¹⁾ | 302,885 | 398,545 | 701,430 |
| Pipeline, plant and other capital assets | 1,558,730 | 988,971 | 2,547,701 |

(1) After giving effect to intersegment eliminations and allocations to businesses.

20. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2009.

21. Subsequent Events

The Partnership declared distributions of \$0.0833 per unit for each of January and February 2010.

On December 21, 2009, the Partnership entered into a purchase agreement to acquire a 100 percent interest in Northbrook New York, LLC, which owns Glen Park, a 33 megawatt hydro-power generation facility. The aggregate purchase price is approximately US\$80 million and is expected to be financed from existing bank credit facilities. The acquisition is expected to close in the first quarter of 2010, subject to usual closing conditions.