

## Frequently Asked Tax Questions

### General Tax Principles

Fort Chicago Energy Partners L.P. ("Fort Chicago" or the "Partnership") is a publicly traded limited partnership. Each unitholder of Fort Chicago (a "Unitholder") is a partner in the Partnership and is entitled to receive cash distributions declared by the Partnership. While certain of Fort Chicago's subsidiary entities are subject to Canadian or U.S. taxes, Fort Chicago is not currently subject to federal or provincial income taxes as it is a Canadian limited partnership. The annual income, gains, losses, deductions or credits of the Partnership flow through to the Unitholders, who are required to report their allocated share of these amounts on their income tax returns as though the Unitholder had incurred these items directly. These allocations are based on the Unitholders share of distributions on the last day of each month, or if not a business day, then on the preceding business day. The federal tax legislation affecting certain flow-through entities, including the Partnership, has been enacted and portion of the Partnership's taxable income will be subject to a tax equivalent to corporate taxes commencing in 2011, creating a two-tiered tax structure similar to a corporation.

In March, Unitholders of record receive a T5013 and, if a Quebec resident, a Relevé 15 that summarizes their allocated share of the Partnership's reportable tax items for the calendar year ended December 31, as well as certain information required to be included in their tax returns. Only the amounts shown on these forms should be entered on each Unitholder's tax return. To assist Unitholders in preparing their tax returns, the Partnership provides its transfer agent, Computershare Trust Company of Canada ("Computershare"), and the brokerage firms with a letter containing general guidance that we recommend accompany the tax receipts sent to each Unitholder. If you did not receive this letter with your tax receipts, please contact Computershare, if you hold your Fort Chicago Class A units ("Units") directly with Computershare, or your broker representative, if your Units are held in a brokerage account. Alternatively, this letter is contained in the "Investor Information" section of our website at [www.fortchicago.com](http://www.fortchicago.com).

#### 1. Who should I notify regarding a change of address?

If you hold your Units directly with Computershare, please notify Computershare directly. If you hold your Units in a brokerage account, please notify your broker.

#### 2. When can I expect my tax receipts for 2009?

If you hold Units directly with Computershare, the T5013 and, if you are a Quebec resident, the Relevé 15 should be mailed to you in March. If you hold Units in a brokerage account, the brokerage firms, not Fort Chicago, are responsible for sending you these tax forms. Tax information is sent to the Canadian Depository for Securities Limited ("CDS") by Fort Chicago by the end of February. The brokerage firms then access the tax information from CDS and are required to issue the T5013 and, if applicable, the Relevé 15 by March 31.

#### 3. What portion of the distributions is considered to be taxable?

Distributions paid by Fort Chicago are generally not taxable. As noted under question 11 below, distributions reduce your adjusted cost base ("ACB") of your Units and are therefore tax deferred until you dispose of your Units. If the reductions in the ACB of your Units leads to a negative amount, the negative amount becomes a capital gain in the year such negative ACB amount arises.

#### 4. What tax amounts have been allocated to Unitholders in 2009?

Taxable income is allocated to Unitholders annually based on their ownership on each record date. Assuming you held your Units throughout 2009, you would have been allocated taxable income of \$0.9896 per Unit, which would represent 99 percent of the \$0.9996 distribution paid per Unit in respect of 2009. Such income is derived from a combination of Canadian and U.S. sources. The monthly amounts allocated to Unitholders for 2009 can be found in the "Investor Information" section of Fort Chicago's website at [www.fortchicago.com](http://www.fortchicago.com) under "Tax Information." Unitholders should only report the amounts allocated to them on their T5013 form and, if applicable, their Relevé 15. As noted under question 11 below, any taxable income allocated to you is added to the ACB of your Units for the purposes of calculating any capital gains and losses on the sale of your Units while any tax losses or deductions allocated to you will reduce the ACB of your Units.

#### 5. What taxable income or loss will be allocated to Unitholders in 2010?

Based on current conditions, we expect that the taxable income allocated to Unitholders will represent approximately 95 to 100 percent of the 2010 distributions paid by Fort Chicago and will be from a combination of Canadian and U.S. sources.

## **6. Why is my distribution being reduced for U.S. withholding taxes?**

Fort Chicago has ownership interests in U.S. businesses, which are capitalized with a combination of debt and equity. For United States tax purposes, Fort Chicago therefore earns, from time to time, U.S. source dividend income and U.S. source interest income. To the extent applicable, U.S. tax rules require Fort Chicago to withhold U.S. taxes based on the taxable status of its Unitholders provided the Unitholder has completed a valid Form W-8; otherwise, 30 percent may be required to be withheld on such U.S. income. The appropriate Form W-8 and instructions can be obtained from and registered with Computershare or your brokerage firm, depending on where you hold your Units.

U.S. source dividends and U.S. source interest allocated to tax-exempt Unitholders should not be subject to U.S. withholding tax under the income tax treaty between the United States and Canada (the "Treaty"). U.S. source interest allocated to taxable Unitholders owning less than 10 percent of Fort Chicago's Units should be exempt from U.S. withholding tax under what is referred to as the portfolio interest exemption. If a taxable Unitholder does not qualify for this exemption, they should qualify for a reduced U.S. withholding tax rate of 10 percent under the Treaty, which rate may be reduced further to zero upon the introduction of certain announced changes to the Treaty. U.S. source dividends allocated to taxable Unitholders should qualify for a reduced U.S. withholding tax rate of 15 percent under the Treaty (five percent for certain corporate Unitholders owning more than 10 percent of Fort Chicago's Units). If, however, a valid Form W-8 or other relevant form has not been completed, resulting in you not being eligible for the reduced Treaty rates, all U.S. source interest and dividends for U.S. tax purposes may be subject to U.S. withholding tax at the statutory rate of 30 percent. In such circumstances, any tax withheld in excess of the reduced rates provided for under the Treaty will not be eligible for Canadian foreign tax credit purposes.

If you are unsure of your taxable status for U.S. withholding tax purposes, please check with Computershare, if you hold your Units directly, or your broker representative, if you hold your Units in a brokerage account, to ensure the applicable U.S. Internal Revenue Service Form W-8 or other relevant form has been completed so that you are eligible to take advantage of the reduced Treaty rates noted above.

## **7. Are the U.S. withholding taxes recoverable?**

Unitholders not eligible for the portfolio interest exemption paying U.S. withholding taxes at the reduced Treaty rate of 10 percent in respect of U.S. source interest income should generally be able to claim a non-business foreign tax credit to the extent of Canadian taxes paid on the U.S. source interest income allocated to them. If a Unitholder is unable to claim a non-business foreign tax credit for the full amount withheld, the remaining amount may be deductible in calculating their taxable income for the year. Unitholders subject to U.S. withholding tax at the reduced Treaty rate of 15 percent in respect of U.S. source dividends should generally be able to claim a business foreign tax credit to the extent of Canadian taxes paid on the U.S. source business income allocated to them. If a Unitholder is unable to claim a business foreign tax credit for the full amount withheld, the remaining amount can be carried forward for up to 10 years and back up to three years and may be utilized against Canadian taxes paid on U.S. source business income allocated to them in those years.

Unitholders who have not completed the applicable Form W-8 or other relevant form will, however, be subject to a 30 percent U.S. withholding tax rate and, as a consequence, the amount of foreign tax credits they can claim will be restricted by prescribed limitations contained in the Income Tax Act (Canada) (the "Tax Act").

## **8. What is the amount of U.S. withholding taxes that will be deducted from my distributions in 2010?**

The amount of U.S. withholding taxes deducted from distributions will be based on the status of each Unitholder (see comments contained under question 6 above) and the amount of U.S. earnings generated by our U.S. businesses, the prevailing Canadian/U.S. foreign exchange rate, and the number of Units outstanding during the year.

## **9. Are the Units of Fort Chicago qualified investments for RRSP and other purposes? What about the Convertible Debentures?**

Fort Chicago's Units and its Series B Convertible Debentures are currently qualified investments under the Tax Act for deferred profit sharing plans, registered retirement savings plans, registered retirement income funds, registered education savings plans and certain other tax exempt arrangements.

**10. Can investors, other than Canadian residents, purchase Class A Units of Fort Chicago? What about the Convertible Debentures?**

Units may only be held by persons (including partnerships) who are considered to be residents of Canada for the purposes of the Tax Act. In the event that any Units are acquired by a non-resident of Canada, the non-resident person will not be recognized as a partner and the General Partner has the authority to and will take any steps necessary to ensure that such Units are transferred to a resident of Canada.

The Series B Convertible Debentures can be purchased by non-residents of Canada. However, for any non-resident holder, Canadian withholding taxes will be deducted from the interest payments and the Convertible Debentures cannot be converted into Units unless the holder meets the Canadian ownership requirements applicable to the Units.

**11. How do I calculate my adjusted cost base?**

Generally, the ACB of your Units will be equal to:

- The cost of all Units acquired, including commissions*
- Less: distributions received since acquisition*
- Less: losses and other deductions allocated to you by Fort Chicago for tax purposes since acquisition*
- Plus: income allocated to you by Fort Chicago for tax purposes since acquisition*

These amounts can be obtained from your T5013 and, if you are a Quebec resident, Relevé 15. Fort Chicago's website at [www.fortchicago.com](http://www.fortchicago.com) also contains certain historical distribution, tax allocation and ACB information in the Tax Information section contained in the "Investor Information" section of the website.

**12. I received a U.S. tax form, 1042-S Foreign Person's U.S. Source Income Subject to Withholding; what is the purpose of this form?**

This form, prepared by the withholding agent and filed with the Internal Revenue Service ("IRS"), is the document that reflects the U.S. source income allocated to you and the amount of U.S. withholding tax remitted to the IRS, on your behalf, during the calendar year. A separate form is issued for each type of income you receive from U.S. sources. All amounts are in U.S. dollars and the amounts are not necessarily the same as the Canadian amounts contained on the T5013 and, if a Quebec resident, the Relevé 15, because of different tax rules in each country. The amounts included on Canadian form T5013 and the Relevé 15 as foreign tax paid represent the amount to be used in calculating the eligible foreign tax credit on your tax return. You may not necessarily receive the form 1042-S and it does not have to be filed with your Canadian tax return.

**13. The Canada Revenue Agency has disallowed my foreign tax credit; what should I do?**

Generally speaking, you should be entitled to claim the foreign tax credit specified on your T5013 and, if a Quebec resident, your Relevé 15 subject to the prescribed limitations contained in the Tax Act (see questions 6 and 7 above). If the Canada Revenue Agency has disallowed your foreign tax credit for reasons other than the prescribed limitations, please advise Fort Chicago investor relations at [investor-relations@fortchicago.com](mailto:investor-relations@fortchicago.com) of the name of the auditor and we will contact the Canada Revenue Agency, on your behalf, with this information. Canada Revenue Agency has recommended that we follow this procedure as the amounts on your T5013 and, if a Quebec resident, your Relevé 15 should generally not be challenged.

**14. After Fort Chicago converts to a corporation how will my dividends be taxes?**

On November 4, 2009 Fort Chicago announced its intention to restructure from a limited partnership to a taxable Canadian corporation prior to January 1, 2011. At that time current Unitholders will exchange their Class A limited partnership units for shares of a corporation. It is anticipated that post conversion to a corporate structure the current distribution level of \$1.00 per unit will be maintained in the form of a \$1.00 dividend per share subject to any unforeseen economic, operating or other circumstances.

The after-tax cash received on a \$1.00 eligible dividend to a Canadian individual shareholder in 2011:

Dividend - eligible	\$1.00
Tax	<u>\$0.28</u>
(assumes the combined federal & provincial top marginal tax rate on eligible dividends in Ontario)	
After-tax cash	<u>\$0.72</u>

*This is an illustrative example and Unitholders are encouraged to consult with their tax advisors.*