

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2006

This Management's Discussion and Analysis ("MD&A") dated March 7, 2007 provides a review of the significant events and transactions that impacted Fort Chicago's performance during 2006 relative to 2005. Certain forward-looking statements and information are provided. Forward-looking statements and information, by their nature, involve risk and uncertainty, which may cause actual results to differ materially from those expressed or implied herein. This MD&A should be read in conjunction with the consolidated financial statements of Fort Chicago as at and for the years ended December 31, 2006 and 2005. Capitalized terms used herein and not otherwise defined have the same meanings attributed to them in the December 31, 2006 consolidated financial statements. All financial information is in Canadian dollars unless otherwise noted and has been extracted from Fort Chicago's annual audited or quarterly unaudited consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"). Financial information pertaining to Alliance and Aux Sable reflects Fort Chicago's proportionate share unless otherwise noted. Additional information concerning the Partnership is available on SEDAR at www.sedar.com or on the Partnership's website at www.fortchicago.com.

OVERVIEW

BUSINESSES

Fort Chicago is a limited partnership with two principal business segments, a pipeline transportation segment comprised of a 50 percent ownership interest in the Alliance pipeline and a 100 percent ownership interest in AEGS, and an NGL extraction segment, comprised of a 42.7 percent ownership interest in Aux Sable. Each of these businesses owns and operates high quality, long-life assets that are uniquely positioned to provide Unitholders with relatively stable cash distributions and potential growth in the future.

The Pipeline business represents approximately 93 percent of Fort Chicago's total assets. Each of Alliance and AEGS are stable cash flow generators that are supported by long-term, take-or-pay transportation agreements. Alliance owns and manages an integrated, high-pressure natural gas pipeline that extends approximately 3,000 kilometres ("km") across North America. With an extensive gathering system, Alliance delivers natural gas from the gas rich regions of northeastern British Columbia and northwestern Alberta to delivery points near Chicago, Illinois, a major natural gas market hub. The system is capable of transporting 1.325 billion cubic feet per day ("bcf/d") of liquids-rich natural gas on a firm-service basis. AEGS is a key component of Alberta's energy infrastructure and of particular importance to Alberta's world-scale NGL extraction and petrochemical industries. AEGS is an integrated 1,324 km pipeline that transports pure ethane from various Alberta ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta and has interconnections with an underground storage site and an export pipeline system.

The NGL business, which represents approximately seven percent of Fort Chicago's assets, consists of: (i) a world-scale NGL extraction and fractionation facility near the terminus of the Alliance pipeline, capable of recovering up to 100,000 barrels per day ("bbls/d") of ethane, propane, normal butane, iso-butane and natural gasoline; (ii) storage, downstream NGL pipelines and loading facilities; (iii) NGL injection facilities in Alberta and British Columbia; and (iv) long-term firm natural gas transportation capacity on the Alliance pipeline.

STRATEGY

Strategically, Fort Chicago is committed to actively managing and growing its existing businesses and to making targeted accretive investments in long-life infrastructure assets that provide additional diversity and contribute toward stable and growing distributions.

FINANCIAL AND OPERATING HIGHLIGHTS

(\$ Thousands, except where noted)	2006	2005	2004 ⁽¹⁾
OPERATING HIGHLIGHTS			
Average daily volumes (100%)			
Pipeline			
Alliance (bcf/d)	1.592	1.597	1.581
AEGS – thousand barrels per day (“mbbls/d”) ⁽²⁾	310.3	308.3	296.7
Aux Sable (mbbls/d)	68.8	66.7	70.6
FINANCIAL RESULTS			
Revenues	563,108	879,709	780,681
Net income	80,954	71,201	77,623
Net income per Unit (\$)			
Basic	0.62	0.59	0.74
Diluted	0.62	0.59	0.73
Distributions			
Distributable cash ⁽³⁾	151,513	131,706	92,735
Per Unit (\$)	1.160	1.083	0.883
Distributions paid or payable ⁽³⁾	121,404	115,125	87,871
Per Unit (\$)	0.930	0.945	0.836
Distribution account ⁽³⁾	30,989	15,691	2,354
Payout ratio (%) ⁽³⁾	80	87	95
Capital expenditures			
Growth ^(3, 4)	39,945	15,315	15,434
Maintenance and sustaining ⁽³⁾	2,176	957	727
Taxable income allocated to Unitholders			
Per Unit (\$) ^(3, 5)	0.911	0.801	0.334
Taxable portion of distributions paid (%) ^(3, 5)	98	85	40
FINANCIAL POSITION			
Cash and short-term investments	44,718	21,373	34,982
Total assets	2,718,922	2,795,034	2,896,001
Long-term senior debt and capital leases	1,484,582	1,531,321	1,780,104
Subordinated convertible debentures	52,922	61,713	132,605
Partners' equity	818,496	825,097	646,992
Total enterprise value ⁽³⁾	3,407,691	3,575,353	3,592,495
UNITS			
Units outstanding – as at year-end ⁽⁶⁾	131,030,295	129,669,868	109,786,540
Average daily volume (Units)	267,965	257,598	209,337
Price per Unit – close (\$)	11.47	11.99	11.40
Market capitalization ⁽³⁾	1,502,917	1,554,742	1,251,567

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2005.

(2) AEGS was acquired on December 22, 2004. 2004 annual information has been provided for comparison purposes only and is based on information provided by the previous owners. Average daily volumes in respect of AEGS are based on toll volumes.

(3) This item is not a standard measure under GAAP and may not be comparable to similar measures presented by other entities. See section entitled “Non-GAAP Financial Measures” contained in this MD&A.

(4) Excludes construction settlement credit of \$5.2 million received by Alliance in the third quarter of 2005.

(5) Based on Units being held throughout the year.

(6) As at the close of markets on March 2, 2007, Fort Chicago had 131,164,738 Units outstanding.

OVERALL PERFORMANCE

Changes in distributable cash and net income for the three and 12 months ended December 31, 2006, by business segment, are highlighted in the table below. The factors contributing to these changes are discussed more fully in the section entitled “Results of Operations – By Business Segment”.

(\$ Thousands)	Period-over-period increase (decrease)					2006
	2005	Alliance	AEGS	Aux Sable	Fort Chicago	
THREE MONTHS ENDED DECEMBER 31						
Distributable cash	28,219	(2,190)	306	15,226	354	41,915
Net income	18,280	(1,998)	683	10,685	(17,583)	10,067
YEAR ENDED DECEMBER 31						
Distributable cash	131,706	(14,478)	(2,478)	26,078	10,685	151,513
Net income	71,201	(4,973)	(2,176)	28,723	(11,821)	80,954

Distributable cash for the three months ended December 31, 2006 was \$41.9 million or \$0.320 per Unit, compared to \$28.2 million or \$0.218 per Unit for the same period in 2005. This increase is primarily attributable to higher distributions from Aux Sable, resulting from strong NGL market conditions, which more than offset the impact of a depreciating Alliance investment base. For the year ended December 31, 2006 distributable cash was \$151.5 million or \$1.160 per Unit, compared to \$131.7 million or \$1.083 per Unit for 2005. This increase is primarily attributable to higher distributions from Aux Sable and lower Partnership costs, including lower interest costs resulting primarily from the additional conversion of the Partnership’s Convertible Debentures and from the accretive refinancing of AEGS in the second quarter of 2005, and lower current taxes. These increases were partially offset by the impact of a stronger Canadian dollar, a reduction in special distributions from Alliance and a depreciating Alliance investment base.

Net income for the three months ended December 31, 2006 was \$10.1 million or \$0.08 per Unit, compared to \$18.3 million or \$0.14 per Unit for the same period in 2005. Aux Sable’s fourth quarter 2006 contribution to net income was significantly higher than was the case in fourth quarter 2005. However, this increase was more than offset by the Partnership’s recognition of foreign exchange losses and increased project development costs. The impact associated with a declining Alliance investment base also contributed to the decrease in fourth quarter net income. Net income for the year ended December 31, 2006 was \$81.0 million or \$0.62 per Unit, compared to \$71.2 million or \$0.59 per Unit for the year ended December 31, 2005. Aux Sable’s strong performance in 2006 was partially offset by the same factors highlighted in the fourth quarter net income discussion, as well as the impact of a stronger Canadian dollar.

RESULTS OF OPERATIONS – BY BUSINESS SEGMENT

PIPELINE BUSINESS

Alliance Pipeline – 50 Percent Proportionate Share

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(\$ Thousands, except where noted)	Three months ended		Year ended	
	December 31		December 31	
	2006	2005 ⁽¹⁾	2006	2005 ⁽¹⁾
Revenues	93,742	96,824	365,911	383,372
Operations and maintenance	12,928	13,863	44,191	48,388
General and administrative	7,519	6,093	26,320	22,979
Earnings before interest, taxes, depreciation and amortization (“EBITDA”) ⁽²⁾	73,295	76,868	295,400	312,005
Depreciation and amortization	24,199	24,375	97,120	100,613
Interest and other finance	23,059	24,421	93,312	99,780
Net income before taxes	26,037	28,072	104,968	111,612
Distributions, prior to withholdings for capital expenditures and net of debt service	27,314	29,504	110,388	124,866
Total volume (100%, bcf/d)	1.586	1.593	1.592	1.597

(1) Certain comparative figures have been reclassified to conform to presentation adopted in 2006.

(2) This item is not a standard measure under GAAP and may not be comparable to similar measures presented by other entities. See section entitled “Non-GAAP Financial Measures” contained in this MD&A.

Alliance has firm-service transportation services contracts with initial terms extending to 2015 with a group of more than 30 shippers. The transportation service contracts obligate each shipper to pay monthly demand charges based on their contracted firm volume, regardless of volumes actually transported. These transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including depreciation, debt financing costs and an allowed return on equity of 11.25 percent in Canada and 10.85 percent in the United States. The portion of such costs recovered each year is based on the percentage of the firm transportation capacity contracted. During 2006 98.5 percent, or 1.305 bcf/d, of firm capacity was contracted under long-term, firm-service transportation service agreements (2005 – 100 percent, or 1.325 bcf/d) and 1.5 percent, or 0.02 bcf/d, of the firm capacity was contracted under short-term, firm-service agreements that extend to March 2007 (2005 – nil). (See “Liquidity and Capital Resources – Cash and Short-term Investments”).

Alliance continued to perform reliably in 2006, fully meeting its contracted firm-service shipping capacity. Actual transportation deliveries, including utilized Authorized Overrun Service (“AOS”), averaged 1.592 bcf/d (20.2 percent in excess of firm capacity) for the year ended December 31, 2006 compared with 1.597 bcf/d (20.6 percent in excess of firm capacity) in 2005. For the three months ended December 31, 2006 actual transportation deliveries averaged 1.586 bcf/d (19.7 percent in excess of firm capacity) in comparison to average deliveries of 1.593 bcf/d (20.2 percent in excess of firm capacity) for the same period of 2005. These high levels of AOS

reflect Alliance's ongoing commitment to optimize overall system performance and the effectiveness of its process improvement, maintenance and linepack management processes. Volumes in excess of firm capacity have no impact on Alliance's return on investment but do serve to reduce the per-unit transportation cost for shippers. As a consequence, changes in Alliance's cost of service and AOS have no impact on Alliance's net income or distributions, each of which is based solely on the availability of firm capacity on the pipeline.

Transportation revenues, which reflect the cost of service recovery, decreased by \$3.1 million and \$17.5 million for the three and 12 months ended December 31, 2006, respectively, compared with the same periods in 2005. For the year, the decrease in revenues is primarily due to the stronger Canadian dollar, the impact of the recovery of lower operations, maintenance, financing, and tax costs, and a reduced equity return. The reduction in return on equity stems from Alliance's depreciating investment base. These decreases were partially offset by increased general and administrative costs. For the three months ended December 31, 2006 the decrease in revenues reflects the effect of a stronger Canadian dollar and the impact of the recovery of lower financing costs and taxes, due to the elimination of the large corporation tax during 2006, partially offset by increased general and administrative costs.

Operations and maintenance costs for the three months ended December 31, 2006 decreased by \$0.9 million due primarily to lower consulting costs incurred in relation to Alliance's initiative to increase the maximum allowable operating pressure ("MAOP") on the U.S. portion of its pipeline system. For the 12 months ended December 31, 2006 operations and maintenance costs decreased by \$4.2 million, due primarily to a stronger Canadian dollar, a property tax reduction, resulting from a favourable Alberta property tax ruling in 2006, and reduced consulting requirements.

General and administrative costs increased by \$1.4 million and \$3.3 million for the three and 12 months ended December 31, 2006, respectively, reflecting increased compliance, personnel, legal and insurance costs.

Depreciation and amortization decreased \$0.2 million and \$3.5 million for the three and 12 months ended December 31, 2006, respectively, due primarily to a stronger Canadian dollar.

Interest and other finance costs decreased \$1.4 million and \$6.5 million for the three and 12 months ended December 31, 2006, respectively, reflecting a stronger Canadian dollar and Alliance's amortizing debt.

Net income before taxes decreased \$2.0 million and \$6.7 million for the three and 12 months ended December 31, 2006, respectively, due to the effect of a stronger Canadian dollar, a reduction in the equity return due to the depreciating investment base, and lower taxes.

Additions to pipeline, plant and other capital assets for the three and 12 months ended December 31, 2006 were \$10.7 million (2005 – \$3.5 million) and \$19.2 million (2005 – \$5.3 million), respectively. Additions in 2006 reflect maintenance capital related to scheduled pipeline maintenance and compressor overhauls, and enhancement capital related to optimization projects, including planned upgrades to selected turbines on the system and an increase in the MAOP on the U.S. portion of the pipeline. A \$5.2 million construction claim made by Alliance relating to the original construction of the pipeline was settled in the third quarter of 2005 and was credited against the cost of the pipeline.

Alliance is also managing the activities of NRGreen Power Limited Partnership (“NRGreen”), a non-rate-regulated entity in which the Partnership holds a 50 percent ownership interest, including the construction and commercial development of several non-regulated waste heat electrical generation facilities, located at certain Alliance compressor sites in Saskatchewan. The Kerrobert Waste Heat Electrical Generation Facility commenced commercial operations on December 29, 2006, with generated electrical power being sold to the Saskatchewan Power Corporation, resulting in minimal revenues being recorded in 2006. Construction of facilities at Alliance’s Alameda, Estlin and Loreburn compressor stations commenced in the third quarter of 2006 and those facilities are expected to be placed into commercial service in the third quarter of 2008. The total cost for the waste heat generation projects is expected to be approximately \$35 million (100 percent – \$70 million), of which approximately \$10 million was spent in 2006.

Aggregate distributions received/receivable from Alliance for the year ended December 31, 2006 were \$110.4 million, before deducting capital expenditure holdbacks of \$3.2 million, compared with \$124.9 million, before deducting capital expenditure holdbacks of \$2.7 million, for the comparable period in 2005. The decrease is due to the first quarter 2005 distribution of the remaining return on equity adjustment associated with a re-determination of the investment base, a stronger Canadian dollar, a lower equity return resulting from a depreciating investment base, and lower taxes, partially offset by a construction settlement paid out in 2006, discussed above. For the three months ended December 31, 2006 distributions from Alliance were \$27.3 million, before deducting capital expenditure holdbacks of \$0.3 million, compared with \$29.5 million, before deducting capital expenditure holdbacks of \$0.6 million, for the comparable period in 2005. The decrease in distributions for the three months ended December 31, 2006 is due to a lower equity return resulting from a depreciating investment base.

AEGS – 100 Percent

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(\$ Thousands, except where noted)	Three months ended December 31		Year ended December 31	
	2006	2005	2006	2005
Revenues	11,090	10,561	41,890	37,627
Operations, maintenance and administration	4,362	4,261	16,705	13,026
EBITDA	6,728	6,300	25,185	24,601
Depreciation and amortization	3,153	3,391	12,615	11,854
Interest	1,507	1,524	6,015	4,016
Net income before taxes	2,068	1,385	6,555	8,731
Distributable cash, after non-recoverable capital expenditures and debt service	4,671	4,365	17,003	19,481
Toll volume (mmbbls/d)	309.1	311.2	310.3	308.3

AEGS' revenues and earnings are based on long-term, take-or-pay ethane transportation agreements ("ETAs"), which extend to December 31, 2018, and provide for a minimum revenue stream based on specified committed volumes, the recovery of all operating costs, and the right for each shipper to transport ethane on the AEGS pipeline up to their committed volumes. As a consequence, AEGS is expected to generate a stable stream of revenues and earnings.

Revenues for the three and 12 months ended December 31, 2006 increased 5.0 percent and 11.3 percent to \$11.1 million and \$41.9 million, respectively, due mainly to higher operating cost recoveries. Toll volumes for the fourth quarter of 2006 decreased slightly to 309.1 mbbls/d from 311.2 mbbls/d in 2005. This decrease was generally the result of softer demand for natural gas in the Alberta export markets during the month of December 2006, which reduced the gas supply to the straddle plants connected to AEGS at Alberta border locations. Toll volumes for the year ended December 31, 2006 were relatively unchanged at 310.3 mbbls/d in comparison to 308.3 mbbls/d in 2005.

Operations, maintenance and administration costs for the three and 12 months ended December 31, 2006 rose 2.3 percent and 28.2 percent to \$4.4 million (2005 – \$4.3 million) and \$16.7 million (2005 – \$13.0 million), respectively. These increases were primarily attributable to higher maintenance costs related to an in-line inspection and correlation dig program, higher utility, systems, insurance and personnel costs, and a one-time charge in the first quarter for AEGS' share of a cavern work-over project at Fort Saskatchewan. Under the terms of the ETAs, these costs are recoverable from AEGS' shippers and form part of AEGS' revenue.

EBITDA for the three and 12 months ended December 31, 2006 increased by 6.8 percent and 2.4 percent to \$6.7 million (2005 – \$6.3 million) and \$25.2 million (2005 – \$24.6 million), respectively, due mainly to higher operating cost recoveries.

Depreciation and amortization expense for the three months ended December 31, 2006 decreased 7.0 percent to \$3.2 million (2005 – \$3.4 million) due to the write-off of certain capital spares in December 2005. For the 12 months ended December 31, 2006 depreciation and amortization expense increased 6.4 percent to \$12.6 million (2005 – \$11.9 million) due to the recognition of asset retirement obligations commencing in the fourth quarter of 2005.

Interest costs relate to the senior notes issued on May 4, 2005.

For the three months ended December 31, 2006 AEGS' distributable cash increased 7.0 percent to \$4.7 million (2005 – \$4.4 million), primarily as a result of higher EBITDA. For the 12 months ended December 31, 2006 distributable cash decreased 12.7 percent to \$17.0 million (2005 – \$19.5 million) due largely to lower 2005 debt service costs as a result of the senior notes not being issued until May 2005.

NGL BUSINESS

Aux Sable – 42.7 Percent Proportionate Share

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(\$ Thousands, except where noted)	Three months ended		Year ended	
	December 31		December 31	
	2006	2005	2006	2005
Revenues	36,748	128,645	170,800	476,108
Natural gas, NGL and transportation	15,219	125,751	91,999	454,101
Operations and maintenance	6,315	212	24,102	1,135
General and administrative	3,336	1,961	11,679	5,629
Foreign exchange (gain) loss and other	21	(466)	203	276
EBITDA	11,857	1,187	42,817	14,967
Depreciation and amortization	511	526	2,376	2,863
Interest and other finance	425	425	1,116	1,500
Net income before taxes	10,921	236	39,325	10,604
Distributions, net of support payments, non-recoverable debt service costs and maintenance capital	15,263	37	44,456	18,378
Margin-based fees under NGL Sales Agreement				
Estimated amount earned during period	10,115	–	39,393	–
Amount recognized from prior period	1,583	–	–	–
Amount recognized as revenue	11,698	–	39,393	–
Average daily NGL sales volumes (100%, mbbls/d)				
Ethane – indigenous	36.7	21.2	34.0	29.3
Propane plus ⁽¹⁾	31.4	29.5	28.6	27.9
NGL injections	7.2	5.5	6.2	9.5
	75.3	56.2	68.8	66.7

(1) Includes indigenous and fee-for-service sales volumes.

Effective December 31, 2005 Aux Sable entered into an NGL Sales Agreement with BP whereby Aux Sable agreed to sell all production from its NGL Facility to BP. In return, BP will pay Aux Sable a fixed annual fee and a percentage share of net margins in excess of the fixed fee that varies depending upon specified thresholds being reached. In addition, BP will compensate Aux Sable for all operating, maintenance, and capitalized maintenance costs associated with its NGL Facility, subject to certain limits in the case of capitalized costs. The agreement has a term of 20 years, and will be extended for additional 10-year terms on an evergreen basis unless either party elects to terminate. BP has the option in certain limited circumstances to terminate the agreement if cumulative losses from the business exceed a specified amount; however, Aux Sable retains the right to reduce such losses and thereby avoid termination. The NGL Sales Agreement creates a solid foundation for growth by converting Aux Sable into a fee-for-service NGL processor, whereby it is assured a base level of cash flow even when NGL fractionation margins are low, while retaining a meaningful upside when fractionation margins are strong. With this assured base level of cash flow and commercial alignment with BP, Aux Sable is better positioned to maximize the throughput of the NGL Facility and pursue a broader range of growth opportunities in the gas processing and NGL midstream industry through acquisition and/or new projects.

The terms of the NGL Sales Agreement are such that the presentation of Aux Sable's financial results for the three and 12 months ended December 31, 2006 has changed significantly from the corresponding periods in 2005, making year-over-year comparisons less meaningful. In particular, for 2006: (i) revenue does not reflect NGL sales to BP, but rather the recovery of operating costs and the fixed and margin-based fees earned by Aux Sable; and (ii) natural gas, NGL and transportation costs no longer include natural gas make-up costs associated with BP volumes as this obligation has been assumed by BP. The margin-based lease revenues, which are determined on an annual basis, are recognized to the extent that such revenues are determinable and certain. For the three months ended December 31, 2006 Aux Sable recognized \$1.6 million of margin-based lease revenues which were earned in the first three quarters of 2006 but not recognized. At December 31, 2006 all margin-based lease revenues earned during the year have been recognized.

Revenues and natural gas, NGL and transportation costs for the three and 12 months ended December 31, 2006 decreased significantly compared to the corresponding periods in 2005 due primarily to the previously noted commercial and financial reporting requirements associated with the NGL Sales Agreement. For the three and 12 months ended December 31, 2006 revenues included \$12.8 million (2005 – \$129.0 million) and \$89.3 million (2005 – \$475.8 million), respectively, of NGL sales and \$23.6 million (2005 – nil) and \$80.4 million (2005 – nil), respectively, of lease revenue in connection with the NGL Sales Agreement.

For the fourth quarter of 2006, crude oil prices, which influence NGL prices, decreased to US \$60.09 per barrel from the third quarter 2006 average of US \$70.72 per barrel, but were essentially unchanged from US \$60.08 per barrel in the fourth quarter of 2005. Average crude oil prices for the year increased by 17 percent, from US \$56.45 per barrel in 2005 to US \$66.14 per barrel in 2006. These higher average crude prices were fuelled by: (i) second quarter U.S. crude oil inventory builds being at a five-year low; and (ii) fears of potential supply disruptions from continued unrest in the Middle East and another severe U.S. Gulf Coast ("USGC") hurricane season. Crude oil prices remained strong in the third quarter, but weakened in the fourth quarter as supply concerns eased, given increased inventory levels. Chicago-based natural gas prices, on the other hand, averaged US \$6.63 per million British thermal units ("mmbtu") during the fourth quarter of 2006 compared to US \$11.25 per mmbtu during the fourth quarter of 2005, a decrease of 41 percent. Average natural gas prices for the year decreased by 22 percent, from US \$8.43 per mmbtu in 2005 to US \$6.55 per mmbtu in 2006. A mild winter across North America resulted in record natural gas inventories in storage at the end of the 2005/2006 heating season, triggering a substantial decline in natural gas prices, which commenced in the latter part of the first quarter of 2006 and continued through the third quarter of 2006, although average natural gas prices strengthened slightly in the fourth quarter of 2006. The crude to gas ratio averaged 9.1 and 9.8 in the three and 12 months ended December 31, 2006, respectively, compared to averages of 4.9 and 6.4 for the corresponding periods in 2005.

NGL average daily volumes increased by 34 percent from 56.2 mbbbls/d for the fourth quarter of 2005 to 75.3 mbbbls/d in the fourth quarter of 2006. NGL volumes for the year increased by three percent from 66.7 mbbbls/d in 2005 to 68.8 mbbbls/d in 2006. Ethane volumes increased by 73 percent during the quarter from an average of 21.2 mbbbls/d in the fourth quarter of 2005 to 36.7 mbbbls/d in the fourth quarter of 2006, due to strong USGC ethane margins. Ethane volumes for the year increased by 16 percent, from 29.3 mbbbls/d in 2005 to 34.0 mbbbls/d in 2006 as a result of very strong USGC ethane margins continuing into the fourth quarter, which more than offset the impact of modest levels

of ethane rejection during the first quarter and lower ethane volumes in the Alliance natural gas stream. Propane plus volumes increased six percent from an average of 29.5 mbbls/d in the fourth quarter of 2005 to 31.4 mbbls/d in the fourth quarter of 2006. Propane plus volumes for the year increased by three percent from 27.9 mbbls/d in 2005 to 28.6 mbbls/d in 2006. NGL injections increased from 5.5 mbbls/d in the fourth quarter of 2005 to 7.2 mbbls/d in the fourth quarter of 2006. NGL injections for the year decreased by 35 percent from 9.5 mbbls/d in 2005 to 6.2 mbbls/d in 2006. This decrease reflects production changes undertaken to optimize plant profitability and was supported by strong ethane margins and narrower Mont Belvieu to Edmonton propane and butane margins. Throughout 2006, Aux Sable continued to operate in a reliable manner and delivered exceptional safety and environmental performance. As scheduled, one production train was taken out of service for routine inspection during the fourth quarter of 2006, with no major issues resulting.

Operations and maintenance costs and general and administrative costs increased during the three and 12 months ended December 31, 2006 over the comparable periods in 2005 due principally to the NGL Sales Agreement, under which certain costs are no longer allocated to inventory or natural gas, NGL and transportation costs.

For the three and 12 months ended December 31, 2006 Aux Sable reported net income before taxes of \$10.9 million (2005 – \$0.2 million) and \$39.3 million (2005 – \$10.6 million), respectively. Similarly, EBITDA for the three and 12 months ended December 31, 2006 was \$11.9 million and \$42.8 million, respectively, compared to \$1.2 million and \$15.0 million, respectively, in the comparable periods in 2005. These results reflect solid operating performance, record NGL margins during the second and third quarters, and the profit sharing associated with the commencement of the NGL Sales Agreement.

Capital expenditures for the three and 12 months ended December 31, 2006 were \$1.5 million and \$12.1 million, respectively, compared with \$2.2 million and \$4.9 million during the same periods in 2005. These increases are primarily attributable to the construction of an isomerization unit at the NGL Facility, which will increase aggregate butane and iso-butane processing capacity and allow Aux Sable to capture premium iso-butane pricing over normal butane, mainly during the summer months. Start-up of this project has been delayed into the first quarter of 2007 as a result of equipment delays. A total of \$1.4 million was expended on this project in the fourth quarter (\$9.6 million for the year). In addition, Aux Sable spent \$1.8 million, most of which was in the second quarter, to acquire land and easements relating to the Heartland off-gas processing facility as well as other potential NGL extraction projects contemplated in the Fort Saskatchewan area.

Aux Sable cash distributions, net of support payments, were \$15.3 million and \$44.5 million for the three and 12 months ended December 31, 2006, respectively, compared with \$0.04 million and \$18.4 million during the same periods in 2005. The 2006 increases over 2005 reflect record NGL margins, partially offset by a special distribution paid by Aux Sable during the first quarter of 2005 of \$6.0 million related to prior period earnings, which could not be distributed until Aux Sable's then existing U.S. credit facility was amended.

With the establishment of the NGL Sales Agreement, Aux Sable's hedging activity was discontinued. As such, Aux Sable did not hedge any of its indigenous production during the three and 12 months ended December 31, 2006. Approximately 31 percent and 33 percent of production was hedged for the three and 12 months ended December 31, 2005, respectively, which increased earnings by \$0.1 million and decreased earnings by \$6.4 million during the respective periods in 2005.

FORT CHICAGO - CORPORATE

FINANCIAL HIGHLIGHTS ⁽¹⁾

(\$ Thousands)	Three months ended December 31		Year ended December 31	
	2006	2005 ⁽²⁾	2006	2005 ⁽²⁾
Revenues	286	87	853	264
Depreciation and amortization	985	986	3,987	4,310
Interest and other finance	2,527	2,831	10,505	16,941
General and administrative	1,613	1,548	6,170	7,336
Project development costs	4,813	1,397	14,811	3,244
Foreign exchange loss	12,134	2,872	20,457	12,354
Net loss before taxes	21,786	9,547	55,077	43,921
Current taxes	456	442	1,136	3,452
Future taxes	6,661	1,331	13,508	11,989
Net loss	28,903	11,320	69,721	59,362
Distributable cash outflows	5,333	5,687	20,334	31,019

(1) Reflects unallocated amounts applicable to Fort Chicago's head office activities.

(2) Certain comparative figures have been reclassified to conform to presentation adopted in 2006.

Revenues include interest income earned on temporary surplus cash positions.

Depreciation and amortization relates primarily to deferred financing costs and corporate office assets that are being amortized over the life of the debt and the useful lives of the assets, respectively. For the 12 months ended December 31, 2006 depreciation and amortization decreased by \$0.3 million due primarily to the ongoing conversion of Convertible Debentures to Units. Upon such conversion, a portion of unamortized deferred financing costs related to the Convertible Debentures is charged to partners' equity, resulting in a lower unamortized balance and amortization expense going forward. Depreciation and amortization for the three months ended December 31, 2006 was relatively unchanged compared to the same period in 2005.

Interest and other finance costs decreased by \$0.3 million and \$6.4 million for the three and 12 months ended December 31, 2006, respectively. This reduction is primarily due to the Partnership initially funding the AEGS acquisition with its Revolving Credit Facility, which was refinanced during the second quarter of 2005 with the proceeds from AEGS' \$110 million private placement and the Partnership's \$160 million public offering of Units. Interest in respect of the Convertible Debentures was also lower, reflecting a decline in the number of outstanding Convertible Debentures as holders exercised their right to convert these securities into Units.

General and administrative costs decreased by \$1.2 million for the year ended December 31, 2006 due mainly to lower performance-based compensation costs, which in 2005 were significantly higher as a result of the strong appreciation in the market price of Units that occurred during the second quarter of 2005. For the three months ended December 31, 2006 general and administrative costs were relatively unchanged compared to the same period in 2005.

Project development costs relate primarily to the proposed Jordan Cove liquefied natural gas (“LNG”) terminal, the Pacific Connector gas pipeline and Alton natural gas storage projects, which are being funded from the Partnership’s distribution account.

Foreign exchange losses arose primarily due to the recognition of losses that were previously deferred and recorded as a cumulative translation adjustment in partners’ equity.

Current taxes are down from 2005 due primarily to the elimination of the federal large corporation’s tax, effective January 1, 2006.

Future taxes relate primarily to the recognition of temporary differences between the accounting basis and the tax basis of Fort Chicago’s consolidated assets and liabilities (excluding those related to Canadian rate-regulated operations) that will reverse over time. For the year ended December 31, 2006 the increase in future taxes is primarily due to higher overall earnings, driven by Aux Sable, partially offset by a reduction in Canadian tax rates and the utilization, for accounting purposes, of previously unrecognized loss carry-forwards. The enactment of federal and provincial tax rate reductions used to calculate Fort Chicago’s future tax liabilities resulted in a \$9.7 million future tax recovery being recognized during the second quarter of 2006. For the three months ended December 31, 2006 future taxes increased due primarily to higher earnings in respect of Aux Sable.

QUARTERLY FINANCIAL HIGHLIGHTS

	Three months ended 2006			
(\$ Thousands, except where noted)	March 31	June 30	Sept. 30	Dec. 31
Revenues	144,336	143,820	137,165	137,787
Net income	16,583	30,303	24,001	10,067
Net income per Unit (\$)				
Basic and diluted	0.13	0.23	0.18	0.08
Distributable cash	30,016	36,792	42,790	41,915
Distributable cash per Unit (\$)	0.231	0.282	0.327	0.320

	Three months ended 2005			
(\$ Thousands, except where noted)	March 31	June 30	Sept. 30	Dec. 31
Revenues	207,920	212,281	227,849	231,659
Net income	19,483	16,830	16,607	18,281
Net income per Unit (\$)				
Basic and diluted	0.18	0.15	0.13	0.14
Distributable cash	42,857	29,855	30,775	28,219
Distributable cash per Unit (\$)	0.385	0.256	0.239	0.218

LIQUIDITY AND CAPITAL RESOURCES

(\$ Thousands, except where noted)	Year ended December 31			
	2006	2005 ⁽¹⁾		
Cash flows				
Operating activities	228,463	184,449		
Financing activities	(169,557)	(183,707)		
Investing activities	(36,121)	(14,695)		
Cash and short-term investments	44,718	21,373		
Capitalization				
Senior debt and capital leases ⁽²⁾	1,548,980	63%	1,603,863	63%
Subordinated convertible debentures	52,922	2%	61,713	2%
Other long-term liabilities	43,872	2%	39,201	2%
Partners' equity	818,496	33%	825,097	33%
	2,464,270	100%	2,529,874	100%

(1) Certain comparative figures have been reclassified to conform to presentation adopted in 2006.

(2) Includes current portion.

CASH FLOWS

Cash generated from operating activities during the year ended December 31, 2006 was \$228.5 million (2005 – \$184.4 million), net of interest payments of \$109.8 million (2005 – \$116.8 million). The increase in cash from operating activities from 2005 is primarily attributable to increased Aux Sable cash flow resulting from strong NGL market conditions.

Financing activities for 2006 included: (i) the issuance of \$5.2 million of debt under the Partnership's Revolving Credit Facility and \$9.2 million under Aux Sable's credit facility; (ii) \$117.1 million of cash distributions paid by the Partnership compared with \$112.1 million in 2005, reflecting an increase in the number of outstanding Units; and (iii) the repayment of \$67.4 million in debt, which relates primarily to scheduled principal repayments on senior debt. Significant financing activities that occurred during 2005 included: (i) net proceeds of \$109.2 million from the \$110 million private debt placement completed by AEGS; (ii) net proceeds of \$152.5 million from the \$160 million public offering of Class A Units; and (iii) the repayment of the Partnership's Revolving Credit Facility used to finance the AEGS acquisition and scheduled principal repayments on senior debt.

Investing activities for the year ended December 31, 2006 reflect capital expenditures of \$42.1 million. These expenditures include Alliance's capital spending on enhancement capital, compressor overhauls, and pipeline maintenance, spending on the construction of non-regulated waste heat electrical generation facilities, and Aux Sable's capital spending in relation to its isomerization unit and the Heartland off-gas processing facility. Over time, the Partnership's share of the equity required to fund Alliance's capital expenditures is funded through the Partnership's DRIP program as these investments are added to Alliance's investment base and incorporated into the negotiated toll.

CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of amounts held in cash deposit accounts with Canadian chartered banks, as well as highly liquid short-term investments. These cash balances, together with the Partnership's cash flows and significant undrawn committed credit facilities are, in management's view, adequate to meet the ongoing liquidity and capital requirements of Fort Chicago and its businesses.

At year end, cash and short-term investments totalled \$44.7 million (2005 – \$21.4 million), of which \$12.1 million (2005 – \$16.7 million) represents funds held in trust accounts pursuant to applicable security and financing agreements. The majority of these trust funds are used by Alliance for current operating and working capital purposes, including scheduled principal and interest payments each June and December. Trust funds also include \$4.9 million of restricted cash, representing unused funds from the security received from Calpine Energy Services Canada Partnership ("CESCA") in respect of the firm transportation capacity it formerly held prior to repudiating its transportation service agreement with Alliance in 2006 when it was included in certain proceedings under the *Companies' Creditors Arrangement Act*. These funds have been placed into a restricted transportation deposit account with Alliance's Security Trustee and can be drawn upon by Alliance, when required, to fund revenue shortfalls that arise from remarketing the former CESCA capacity.

CAPITALIZATION

Virtually all of Fort Chicago's consolidated debt is long term and, with the exception of its Convertible Debentures and minor borrowings under long-term revolving credit facilities, contains terms to maturity and amortization periods that are designed to approximate the applicable depreciation associated with the underlying assets. Furthermore, substantially all of this long-term debt is fixed-rate debt, insulating Fort Chicago and its businesses from potentially higher future interest rates.

Partnership

During 2005 the Partnership extended, for a period of one year, its three-year \$300 million committed Revolving Credit Facility such that it would expire on October 4, 2008. This facility is used for general corporate purposes, including funding of acquisitions and distributions. As at December 31, 2006 the Partnership had outstanding borrowings of \$7.2 million (2005 – \$2.0 million) under this facility. In March 2007 the Partnership extended the term of its Revolving Credit Facility to April 1, 2010.

The Partnership has two series of Convertible Debentures outstanding, the Series A and Series B debentures. The Series A and Series B debentures are convertible, at the holder's option, into Units at a conversion price of \$9.00 per Unit and \$10.70 per Unit, respectively. During the year ended December 31, 2006 \$7.2 million (2005 – \$34.1 million) Series A debentures and \$1.5 million (2005 – \$36.8 million) of Series B debentures were converted into Units. As at December 31, 2006 there were \$28.7 million (2005 – \$35.9 million) Series A debentures and \$24.2 million (2005 – \$25.7 million) Series B debentures outstanding.

On October 7, 2005 the Partnership filed a short form base shelf prospectus, which allows the Partnership to offer for sale, from time to time, over a 25-month period, up to \$1.5 billion of Units and/or Class B Units, subordinated unsecured debt securities, and subscription receipts. Proceeds therefrom are expected to be used for general partnership purposes, including funding future investments. These securities may be offered for sale separately or together. The specific terms of any offering under this prospectus will be set forth in a prospectus supplement or supplements.

Alliance

During the second quarter of 2006 Alliance established new Canadian and U.S. extendible five-year committed revolving credit facilities. These Canadian and U.S. facilities provide Alliance with up to \$100 million (100 percent – \$200 million) and US \$62.5 million (100 percent – US \$125 million), respectively. Each facility contains an expansion provision that would facilitate the timely increase in the Canadian and U.S. credit facilities to \$150 million (100 percent – \$300 million) and US \$100 million (100 percent – US \$200 million), respectively, if required. At December 31, 2006 \$50 million (2005 – \$50 million) of letters of credit and \$25.4 million (2005 – \$24.0 million) of borrowings were outstanding under the Canadian facility, while US \$35 million (2005 – US \$35 million) of letters of credit and US \$6.0 million (2004 – US \$7.6 million) of borrowings were outstanding under the U.S. facility. The letters of credit are used to satisfy debt service reserve requirements required under Alliance's financing agreements.

AEGS

On May 4, 2005 AEGS completed a 5.565 percent, 15-year placement of senior notes in the aggregate principal amount of \$110 million, representing approximately 40 percent of Fort Chicago's acquisition cost of AEGS. These notes are direct unsecured obligations of AEGS and rank equally with its other unsecured and unsubordinated indebtedness. Blended payments of principal and interest in the aggregate amount of \$4.1 million are payable semi-annually on May 4 and November 4 in each year, with a final principal payment of \$64.6 million due on May 4, 2020. Net proceeds from this debt offering were used to reduce outstanding borrowings due under the Partnership's Revolving Credit Facility.

Aux Sable

On August 16, 2005 Aux Sable entered into a second Amended and Restated Credit Agreement ("U.S. Facility"), comprised of a US \$17.1 million (100 percent – US \$40 million) revolving facility and a US \$14.9 million (100 percent – US \$35 million) term facility to provide for, among other things, the funding of its isomerization project. The U.S. Facility was further amended in January 2007 to decrease the revolving credit facility to US \$6.4 million (100 percent – US \$15 million) and increase the term loan facility to US \$25.6 million (100 percent – US \$60 million). The revolving facility is used for working capital requirements, including letters of credit, and has a final maturity date of August 16, 2009. The term facility is used for financing capital projects and requires annual principal repayments equal to 20 percent of the aggregate committed amount under the facility, commencing on the third anniversary of the facility, with the final maturity date being August 16, 2010. At December 31, 2006 US \$0.3 million (2005 – US \$11.4 million) was drawn under the revolving facility, all of which (2005 – US \$7.1 million) related to letters of credit. Under the term facility, US \$12.3 million (2005 – US \$4.1 million) was drawn. Aux Sable also utilizes a revolving demand loan of \$3.0 million (100 percent – \$7 million) to finance its Canadian working capital requirements. At December 31, 2005 no amounts were outstanding under this facility (2005 – \$0.6 million, including issued letters of credit of \$0.4 million).

CREDIT AND STABILITY RATINGS

Maintaining strong and stable ratings is a key aspect of the Partnership's financing strategy, which provides for long-term ready access to the capital markets on attractive terms and conditions. The current ratings applicable to Fort Chicago and Alliance are set out below.

	DBRS	S&P	Moody's
Fort Chicago			
Stability ratings	STA-2 (low)	SR-2	N/A
Senior debt ratings	N/A	BBB	N/A
Alliance			
Senior debt ratings	A (low)	BBB+	A3

These ratings remained unchanged during 2006. The stability ratings reflect a high level of distributable cash flow generation stability relative to other Canadian "income funds". The credit ratings represent long-term investment grade credit ratings in respect of Fort Chicago's senior unsecured debt and Alliance's senior notes.

DISTRIBUTIONS

POLICY

The Partnership pays distributions on a monthly basis to Unitholders of record as at the last business day of each month on the 23rd day of the month following such record date, or if not a business day, then on the preceding business day.

The Partnership's general policy is to pay out 100 percent of its available distributable cash, over time, after the funding of project development costs, as reflected by the Distribution Account. The monthly distribution is set based on management's estimate of distributable cash earned and available for distribution, as reflected in the Distribution Account.

DETERMINATION OF DISTRIBUTABLE CASH

The amount of distributable cash earned by the Partnership will vary depending on: (i) distributions received/receivable from Alliance, Aux Sable and AEGS, which, in each case, are after providing for scheduled amortization of any long-term debt and any capital expenditures that are not growth-oriented or recoverable; (ii) any operating support payments required by any of the Partnership's businesses; (iii) all financing costs of the Partnership, including scheduled principal repayments on long-term debt; (iv) the operating, administrative and project development costs of the Partnership; and (v) any cash held in reserve by the Partnership.

The calculation of distributable cash for the three-month periods and years ended December 31, 2006 and 2005 is set out below. For the year ended December 31, 2006 distributable cash increased by \$19.8 million to \$151.5 million.

(\$ Thousands, except where noted)	Three months ended		Year ended	
	December 31		December 31	
	2006	2005	2006	2005
CASH INFLOWS				
Alliance distributions, prior to withholdings for capital expenditures, and net of debt service	27,314	29,504	110,388	124,866
Aux Sable distributions, net of support payments, non-recoverable debt service costs and maintenance capital	15,263	37	44,456	18,378
AEGS distributable cash, after non-recoverable capital expenditures and debt service	4,671	4,365	17,003	19,481
Interest income	286	55	853	264
	47,534	33,961	172,700	162,989
CASH OUTFLOWS				
General and administrative	1,613	1,548	6,170	7,336
Realized foreign exchange (gains) losses	167	38	(24)	(80)
Interest and other finance	1,565	1,806	6,444	10,254
Interest on convertible debentures	962	1,025	4,061	6,687
Taxes	456	442	1,136	3,452
Principal repayments on senior debt	856	883	3,400	3,634
Distributable cash ⁽¹⁾	41,915	28,219	151,513	131,706
Distributable cash per Unit (\$) ⁽²⁾	0.320	0.218	1.160	1.083
Distributions payable/paid	30,458	31,104	121,404	115,125
Distributions payable/paid per Unit (\$)	0.2325	0.2400	0.9300	0.9450

(1) See table below for reconciliation of distributable cash to cash flows from operating activities.

(2) The number of Units used to calculate distributable cash per Unit is based on the average number of Units outstanding at each record date. For the three months ended December 31, 2006 the average number of Units outstanding for this calculation was 131,002,454 (2005 – 129,596,130) and 136,479,170 (2005 – 136,072,730) on a basic and diluted basis, respectively. For the 12 months ended December 31, 2006 the average number of Units outstanding for this calculation was 130,542,971 (2005 – 121,643,206) and 136,329,208 (2005 – 130,821,313) on a basic and diluted basis, respectively. The number of Units outstanding would increase by 5,452,717 (2005 – 6,402,802) Units if the outstanding Convertible Debentures as at December 31, 2006 were converted into Units.

Reconciliation of Distributable Cash to Cash Flow from Operating Activities

(\$ Thousands)	Three months ended December 31		Year ended December 31	
	2006	2005	2006	2005
Consolidated cash flow from operating activities	17,690	10,027	228,463	184,449
Add (Deduct): Cash flow from operating activities applicable to Alliance and Aux Sable	21,994	19,051	(86,721)	(42,487)
Cash flow from operating activities applicable to AEGS and Corporate ⁽¹⁾	39,684	29,078	141,742	141,962
Add (Deduct):				
Project development costs	4,813	1,397	14,811	3,244
Change in non-cash working capital applicable to AEGS and Corporate	861	1,808	283	(4,674)
Principal repayments on senior notes	(1,406)	(1,230)	(5,567)	(1,770)
Distributions earned greater (less) than distributions received	(2,037)	(2,835)	244	(7,056)
Distributable cash	41,915	28,218	151,513	131,706

(1) Net of support payments made to Aux Sable of \$2.6 million (2005 – \$0.3 million) and \$4.1 million (2005 – \$1.5 million) for the three and 12 months ended December 31, 2006, respectively.

DISTRIBUTIONS PAID

In January 2006 the Partnership announced its revised distribution of \$0.0775 per Unit per month, reflecting its policy to maintain a monthly distribution at a level considered sustainable over a three-year time horizon.

The table below summarizes the distributions that were declared and paid by the Partnership to holders of Units in respect of 2006 and 2005.

(\$ Thousands, except where noted)

Record date	Payment date	Distribution per Unit (\$)	Distribution paid/payable in cash	Distribution paid in Units under DRIP	Total distribution paid/payable
2006					
January 31, 2006	February 23, 2006	0.0775	9,542	519	10,061
February 28, 2006	March 23, 2006	0.0775	9,540	537	10,077
March 31, 2006	April 21, 2006	0.0775	9,392	698	10,090
April 28, 2006	May 23, 2006	0.0775	9,453	645	10,098
May 31, 2006	June 23, 2006	0.0775	9,440	670	10,110
June 30, 2006	July 21, 2006	0.0775	9,565	550	10,115
July 31, 2006	August 23, 2006	0.0775	9,782	344	10,126
August 31, 2006	September 22, 2006	0.0775	9,781	350	10,131
September 29, 2006	October 23, 2006	0.0775	10,023	116	10,139
October 31, 2006	November 23, 2006	0.0775	10,037	112	10,149
November 30, 2006	December 22, 2006	0.0775	10,154	–	10,154
December 29, 2006	January 23, 2007	0.0775	10,154	–	10,154
		0.9300	116,863	4,541	121,404

(\$ Thousands, except where noted)

Record date	Payment date	Distribution per Unit (\$)	Distribution paid/payable in cash	Distribution paid in Units under DRIP	Total distribution paid/payable
2005					
January 31, 2005	February 23, 2005	0.0750	8,320	–	8,320
February 28, 2005	March 23, 2005	0.0750	8,363	–	8,363
March 31, 2005	April 22, 2005	0.0775	8,668	–	8,668
April 29, 2005	May 20, 2005	0.0775	8,681	–	8,681
May 31, 2005	June 23, 2005	0.0800	9,002	–	9,002
June 30, 2005	July 22, 2005	0.0800	10,034	–	10,034
July 29, 2005	August 23, 2005	0.0800	10,298	–	10,298
August 31, 2005	September 23, 2005	0.0800	10,303	–	10,303
September 30, 2005	October 21, 2005	0.0800	10,354	–	10,354
October 31, 2005	November 23, 2005	0.0800	10,364	–	10,364
November 30, 2005	December 23, 2005	0.0800	10,365	–	10,365
December 30, 2005	January 23, 2006	0.0800	10,373	–	10,373
		0.9450	115,125	–	115,125

DISTRIBUTION ACCOUNT

During 2006 the Partnership's Distribution Account increased by \$15.3 million to \$31.0 million. This increase reflects strong cash flow generation from Aux Sable, offsetting the impact of higher project development costs being funded from this account, which in 2006 aggregated \$14.8 million (2005 – \$3.2 million).

(\$ Thousands)	Three months ended December 31		Year ended December 31	
	2006	2005	2006	2005
Beginning balance	24,345	19,973	15,691	2,354
Distributions under (over) distributable cash	11,457	(2,885)	30,109	16,581
Project development costs ⁽¹⁾	(4,813)	(1,397)	(14,811)	(3,244)
Ending balance	30,989	15,691	30,989	15,691

(1) Project development costs relate primarily to Jordan Cove, Pacific Connector and Alton.

RESTRICTIONS ON DISTRIBUTIONS

The ability of the Partnership to make cash distributions to holders of Units is dependent on the terms of certain financing and security agreements applicable to the Partnership, certain intermediary subsidiaries, Alliance, AEGS and Aux Sable. As at December 31, 2006 no "Default" or "Event of Default" under any of these arrangements had occurred or was continuing that would restrict distributions being paid.

The Partnership's Revolving Credit Facility restricts the Partnership from making a cash distribution to holders of Units when a "Default" or an "Event of Default" has occurred or is continuing.

The Partnership's investments in Alliance, AEGS and Aux Sable have been made through debt and equity investments in subsidiary partnerships and corporations. In general, there are no legal or practical restrictions on such subsidiary partnerships or corporations from transferring funds received from Alliance, AEGS and Aux Sable to the Partnership except that the subsidiary corporations must

meet liquidity and solvency tests under applicable corporate law. Two subsidiaries of the Partnership, which hold direct investments in Alliance, are issuers of the Series A and Series B Senior Notes. The ability of each such issuer to make distributions to its parent is, at the time of each payment, dependent upon there not being any “Event of Default”, as defined in the related note agreements, or any event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an “Event of Default”.

The ability of Alliance to make distributions to its limited partners is subject to the terms of a Common Agreement, which sets out the common provisions applicable to Alliance’s senior debt financing. Under this agreement, quarterly distributions are permitted provided certain conditions are met including, among other things: (i) no “Event of Default” or event, which, with the giving of notice or passage of time or both, could become an “Event of Default”, shall have occurred and be continuing; (ii) certain debt service accounts and debt service reserve accounts are fully funded; and (iii) certain debt service coverage ratios and projected debt service coverage ratios are met.

The ability of AEGS to make distributions to its parent is subject to the terms of a note purchase agreement relating to the AEGS Notes issued in May 2005. Under this agreement, AEGS is permitted to make distributions provided certain conditions are met including, among other things: (i) no “Default” or “Event of Default” has occurred and is continuing and no “Default” or “Event of Default” will occur as a result of such distribution; and (ii) the senior debt expense ratio for the most recently completed fiscal quarter is greater than or equal to 1.50.

The ability of Aux Sable to make distributions to its owners, including Fort Chicago, is subject to the terms of its U.S. Facility. Under the terms of this facility, Aux Sable is permitted to make distributions from available cash flow subject to certain restrictions, which include, among other things: (i) no “Event of Default” has occurred and is continuing or would result from the making of a distribution; (ii) no circumstance or event that could reasonably be expected to have a “Material Adverse Effect” shall have occurred and be continuing; (iii) a certain debt service reserve account is fully funded; and (iv) certain debt and debt service ratios are being met.

A more detailed description of the restrictions on distributions can be found in Fort Chicago’s 2006 Annual Information Form dated March 12, 2007 in the section entitled “Restrictions on Distributions”.

CREDIT, CURRENCY AND COMMODITY EXPOSURES

The Partnership is exposed to credit risk since its businesses are concentrated in the natural gas transportation, ethane transportation and NGL industries and its revenue is dependent upon the ability of its customers to pay their invoices. This exposure is particularly relevant in the Pipeline Business where a majority of shippers operate in the oil and gas exploration and development or energy marketing/transportation industries and may be exposed to long-term downturns in energy commodity prices, including the price of crude oil or natural gas, or other credit events impacting these industries. Should these shippers be unable to fulfill their obligations under the transportation contracts, and if suitable replacement shippers are not available, revenues may not be sufficient to recover operating and financing costs or to support cash distributions. In the case of Alliance, this exposure is reduced, in part, by requiring shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or a suitable financial position. In the case of AEGS, this exposure is reduced, in part, by the fact that Alberta’s multi-billion dollar petrochemical industry is dependent on AEGS for its ethane feedstock.

With approximately 43 percent of Fort Chicago's assets situated in the U.S., Fort Chicago is exposed to fluctuations in the foreign exchange rate between Canadian and U.S. dollars. A significant portion of this exposure has been hedged through the issuance of U.S. dollar denominated debt. However, Fort Chicago's net U.S. investment in Alliance U.S. and Aux Sable U.S. and the net U.S. denominated earnings and cash flows generated by these businesses remains unhedged.

Through Fort Chicago's ownership interest in Aux Sable, Fort Chicago is exposed to fluctuations in the prices of NGL and natural gas. Prior to entering into the NGL Sales Agreement with BP, Aux Sable entered into cash flow hedges, utilizing derivative instruments to mitigate this exposure. With the establishment of this agreement, this exposure has been significantly reduced and Aux Sable's hedging activity was discontinued.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Alliance pipeline has firm-service transportation services contracts with a group of more than 30 shippers that obligate shippers to pay monthly demand charges based on contracted volumes, regardless of volumes actually transported on the pipeline. These charges are subject to limited rights for each shipper to receive demand charge credits to the extent Alliance is unable, for any reason related solely to the physical capability of the Alliance pipeline, to transport volumes of natural gas up to the shipper's contracted capacity that were properly scheduled for delivery. If incurred, demand charge credits would decrease Alliance's revenue and net income. During the year ended December 31, 2006 no demand charge credits were incurred (2005 – nil).

Pursuant to long-term ETAs, AEGS is committed to transport specified minimum volumes of ethane in respect of four shippers who are committed to pay a minimum toll regardless of whether or not they transport ethane on AEGS. The shippers are relieved of this obligation to the extent that AEGS is unable, for any reason related solely to its ability, to transport volumes of ethane up to the shipper's contractual capacity. Each shipper also has the right to terminate its ETA in certain limited circumstances where the shipper is unable to transport ethane on AEGS for a period of 180 days or more.

Under the NGL Sales Agreement, BP has agreed to purchase all of the NGL produced by Aux Sable at its NGL Facility and in return BP will: (i) cover all operating, maintenance and capital costs associated with the NGL Facility, subject to certain limits in the case of capital costs; (ii) pay Aux Sable a fixed annual fee; and (iii) pay Aux Sable a percentage share of any net margin generated in excess of specified thresholds. BP has agreed to also supply, at its cost, all natural gas make-up and fuel requirements to the NGL Facility and to pay market rates to use the capacity on the Alliance pipeline held by Alliance Canada Marketing, an affiliate of Aux Sable. The NGL Sales Agreement has an initial term of 20 years commencing December 31, 2005, and will be extended for 10-year terms on an evergreen basis unless either party elects to terminate. BP will have the option in certain limited circumstances to terminate the NGL Sales Agreement if cumulative losses from the business exceed a specified amount; however, Aux Sable retains the right to reduce such losses and thereby avoid termination.

Aux Sable is committed to deliver specified minimum quantities of ethane and propane to counterparties at market prices. Failure to meet the specified minimum volumes results in penalties payable to the counterparties by Aux Sable. Under the terms of the NGL Sales Agreement, the benefits and obligations of substantially all of these contracts will be assumed by BP.

NRGreen has entered into supply and construction contracts related to the construction of four waste heat electrical generation facilities situated at Alliance's Saskatchewan-based compressor stations. At December 31, 2006 NRGreen has capital expenditure commitments pursuant to these contracts of approximately \$23.4 million (100 percent – \$46.8 million).

East Windsor Cogeneration LP ("EWC"), a jointly held partnership with Pristine Power Inc. ("Pristine", an entity in which the Partnership holds a 20 percent ownership interest) was awarded a Combined Heat and Power Contract ("CHP") under a Request for Proposal process conducted by the Ontario Power Authority ("OPA"). Under the CHP, EWC is committed to construct an 84-megawatt cogeneration plant located in Windsor, Ontario, which will provide power to the OPA for a 20-year period upon the commencement of commercial operations. Each of Fort Chicago and Pristine has committed to provide \$17.5 million of equity capital to EWC. Fort Chicago has committed to the OPA to provide, in certain circumstances, up to 90 percent of the total equity capital required by EWC. Project permitting and financial closing are expected to occur in the second quarter of 2007, with the commencement of commercial operations scheduled for the first quarter of 2009.

Payments due for contractual obligations in each of the next five years and thereafter are as follows:

(\$ Thousands)	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 Years
Long-term senior debt	1,510,622	64,137	155,606	247,374	1,043,505
Subordinated convertible debentures	52,922	–	28,698	24,224	–
Capital leases	11,335	973	1,946	1,946	6,470
Operating leases	16,887	3,448	6,321	2,657	4,461
Other long-term obligations	72,965	23,873	21,211	4,884	22,997
	1,664,731	92,431	213,782	281,085	1,077,433

CRITICAL ACCOUNTING POLICIES

Alliance Pipeline is subject to rate regulation in Canada and the United States. The consolidated financial statements of the Partnership are prepared in accordance with GAAP, which include specific provisions applicable to rate-regulated businesses such as Alliance. As a consequence, the principles may differ from those used by non-rate-regulated entities. In order to achieve a proper matching of revenues and expenses, certain revenues and expenses are recognized differently than would otherwise be expected under generally accepted accounting principles applicable to non-regulated businesses.

Alliance transportation contracts are designed to provide toll revenues sufficient to recover all prudently incurred costs, including an 11.25 percent return on equity in Canada and 10.85 percent return on equity in the United States. The period in which costs are recovered from toll receipts may differ from the period when these costs are expensed under GAAP. Differences between the recorded toll revenue and actual toll receipts give rise to receivable or payable balances. In the case of Alliance's Canadian rate-regulated business, the taxes payable method is used to recover tax expense and, as such, Alliance's Canadian tolls do not include the recovery of future income taxes. As a consequence, future income taxes in respect of Alliance's Canadian rate-regulated operations are not recorded in the Partnership's consolidated financial statements as it is expected that all future income taxes will be recovered in rates when they become payable. GAAP requires the recognition of future income tax liabilities and future income tax assets in the absence of rate regulation. For purposes of

calculating tolls, depreciation of the Alliance Pipeline is based on negotiated rates contained in the transportation contracts, while depreciation expense under GAAP is recorded on a straight-line basis at a rate of four percent per annum commencing on the in-service date. The negotiated depreciation rates are generally less than the straight-line rate in earlier years resulting in accrued revenues and receivables in those years. These receivables are expected to be recovered from shippers in subsequent years when the negotiated depreciation in the toll exceeds the depreciation recorded for financial statement purposes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Fort Chicago's consolidated financial statements requires management to make judgements, estimates and assumptions about future events when applying GAAP that affect the recorded amounts of certain assets, liabilities, revenues and expenses. These judgements, estimates and assumptions are subject to change as the events occur or new information becomes available. The following highlights Fort Chicago's more significant accounting estimates. Readers should also refer to note 3 of the consolidated financial statements for a list of the significant accounting policies.

IMPAIRMENT OF LONG-LIVED ASSETS

Fort Chicago evaluates its long-term receivables and pipeline, plant and other capital 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. If management determines the recoverability of the asset's carrying value has been impaired, the amount of the impairment is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. Judgements and assumptions are inherent in the determination of the recoverability of such assets and the estimate of their fair value. In management's view, at December 31, 2006, there has not been an impairment in the carried value of these assets.

ASSET RETIREMENT OBLIGATION

The estimated fair value of legal obligations associated with the retirement of tangible long-lived assets is to be recognized in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The asset retirement cost, deemed to be the fair value of 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 these assets. This amortization is included in depreciation and amortization in the consolidated statement of income and undistributed income. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion expense in depreciation and amortization in the consolidated statement of income and cumulative income, over the estimated time period until settlement of the obligation. Actual expenditures incurred are charged against the accumulated asset retirement obligation.

A provision for asset retirement obligations has been recognized in Fort Chicago's consolidated financial statements with respect to AEGS. No provision for asset retirement obligations has been recognized with respect to the Alliance pipeline or Aux Sable as it is 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. No provision for asset retirement obligations has been recognized with respect to Aux Sable as the expected legal obligations are not material. Management believes it is reasonable to assume that all asset retirement obligations associated with the pipelines will be recoverable through future tolls.

DEPRECIATION

The Partnership's pipeline, plant and other capital assets are depreciated based on their estimated useful lives. A change in the estimation of useful lives could have a material impact on the consolidated financial statements, including transportation revenue and receivables.

REGULATORY ASSET

Fort Chicago has recorded a long-term receivable for the cumulative difference between depreciation expense included in the consolidated financial statements and depreciation expense included in Alliance's transportation tolls. The carrying value of this asset reflects management's assessment as to the ultimate recoverability of this receivable.

NEW ACCOUNTING STANDARDS

FINANCIAL INSTRUMENTS

In April 2005 the Canadian Accounting Standards Board issued new Handbook Sections 1530 "Comprehensive Income", 3855 "Financial Instruments – Recognition and Measurement", and 3865 "Hedges". Under these new standards, all financial assets should be measured at fair value with the exception of loans, receivables and investments that are intended to be held to maturity and certain equity investments, which should be measured at cost. Similarly, all financial liabilities should be measured at fair value when they are held for trading or they are derivatives.

Gains and losses on financial instruments measured at fair value will be recognized in the income statement in the periods they arise with the exceptions of gains and losses arising from:

- financial assets held for sale, for which unrealized gains and losses are deferred in other comprehensive income until sold or impaired; and
- certain financial instruments that qualify for hedge accounting.

Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but are excluded from net income. Unrealized gains and losses on qualifying hedge instruments, translation of self-sustaining foreign operations, and unrealized gains or losses on financial instruments held for sale will be included in other comprehensive income and reclassified to net income when realized. Comprehensive income and its components will be a required disclosure under the new standards.

These new standards are effective for fiscal years beginning on or after October 1, 2006 and early adoption is permitted. These new standards will be adopted by the Partnership as of January 1, 2007 on a prospective basis.

Under the new standards, deferred financing charges will be netted against long-term debt and will no longer be included as a part of other assets on the balance sheet, and cumulative translation adjustment will be classified as a component of accumulated other comprehensive income.

ACCOUNTING CHANGES

In July 2006 the Canadian Accounting Standards Board issued a revised Section 1506, "Accounting Changes". Under this statement:

- voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information;
- changes in accounting policy are applied retrospectively unless doing so is impracticable;
- prior period errors are corrected retrospectively; and
- new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The revised Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007, although earlier adoption is permitted. Fort Chicago intends to adopt the provisions of this statement on January 1, 2007. Adoption of this statement will affect Fort Chicago's financial statements for any changes in accounting policy made in the future and for the adoption of new pronouncements that do not provide transition provisions.

RECENT TAX DEVELOPMENTS

On December 21, 2006 the federal government released for comment draft legislation relating to the taxation of specified investment flow-through entities. If this proposed legislation is enacted into law as currently drafted, a portion of the Partnership's taxable income would be subject to a 31.5 percent tax, similar to the treatment of taxable income within a corporation, beginning in 2011 provided that it complies with the related "normal growth" guidelines. Under these guidelines, the amount of equity the Partnership can issue to fund growth prior to 2011 may not exceed the publicly traded value of its Units on October 31, 2007 (subject to cumulative limits of 40 percent in 2007, 60 percent in 2008, 80 percent in 2009 and 100 percent in 2010). With input from the Partnership's external legal, tax and financial advisors, management has reviewed the draft legislation and continues to assess its impact on the sector, the Partnership and its Unitholders. Through the Canadian Energy Infrastructure Group, it has also been active in lobbying the government for clarifications and changes to the proposed legislation in order to address inherent uncertainties and unintended consequences in the legislation and to mitigate its potential adverse effects. While considerable uncertainty remains regarding the interpretation and ultimate implementation of this proposed legislation, management expects that, if enacted in its present form, a portion of the Partnership's taxable income (i.e. the portion of taxable income excluding eligible Canadian dividends and U.S. income) will be subject to a 31.5 percent tax.

While this proposed legislation is expected to impose an additional cash expense on the Partnership, it does not change the Partnership's long-term strategy to optimize existing assets and invest in long-life, stable cash flow generating assets. Nor does it impact the strong fundamentals of its businesses, which have supported the Partnership's track record of delivering stable and growing distributions to its Unitholders and made it one of the premier income-generating funds in Canada. The Partnership remains committed to its growth agenda and is confident it has the capacity to fund the strategic growth initiatives that are currently under development. However, with the current uncertainty in the

capital markets stemming from the proposed legislation, there can be no assurance that the Partnership, as currently structured, will be able to access sufficient competitively priced capital to fund future acquisitions or expansion projects. The Partnership will continue to closely monitor all developments in connection with this proposed legislation and will carefully assess the impact of any enacted legislation with a view to developing a strategy that optimizes Unitholder value.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A are not measures recognized under GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP. Investors are further cautioned not to place undue reliance on any one financial measure.

The following non-GAAP financial measures are provided to assist investors with their evaluation of the Partnership, including their assessment of its ability to generate distributable cash to fund monthly distributions. Management considers these non-GAAP financial measures together with other financial measures calculated in accordance with GAAP to be important factors that assist investors in assessing performance.

Distributable Cash – represents the cash available to the Partnership for distribution to holders of Units and after providing for debt service obligations and any capital expenditures that are not growth oriented or recoverable and does not include distribution reserves, if any, available in Alliance and Aux Sable. Distributable cash is an important measure used by the investment community to assess the source and sustainability of the Partnership's cash distributions. A reconciliation of distributable cash to cash flow from operating activities is provided elsewhere in this MD&A.

Distributable Cash per Unit – reflects the per-unit amount of distributable cash calculated based on the average number of Units outstanding on each record date.

Distributions Paid/Payable – represents the distributions declared by the Board of Directors of the General Partner in respect of a period and which have been paid or are payable. Commencing in January 2004, distributions have been declared and paid on a monthly basis. This measure is used by the investment community to calculate the annualized yield of the Units, determined by dividing distributions paid/payable per Unit (annualized) by the current quoted per-unit market price of the Units.

Distributions Paid/Payable per Unit – reflects the per Unit amount of distributions paid/payable calculated based on the average of the number of Units outstanding on each record date.

Distribution Account – is calculated on a cumulative basis, since inception, and represents distributable cash earned by the Partnership in excess of: (i) distributions paid/payable; and (ii) amounts incurred to fund project development costs, the recovery of which has yet to be established. This measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

EBITDA – refers to earnings before interest, taxes, depreciation and amortization. EBITDA is reconciled to net income before tax by deducting interest, depreciation, and amortization. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions.

Enterprise Value – represents the aggregate market value of the Partnership's assets, on the applicable date, and is calculated based on the total assets reported in the consolidated financial statements adjusted to reflect any differences between the market value and book value in respect of the Partnership's consolidated debt and Units. This measure, together with other measures, is used by the investment community to assess the overall market value of a business.

Growth Capital Expenditures – are generally defined as capital expenditures that expand existing capacity and/or increase revenues. This measure is used by the investment community to assess the extent of discretionary capital spending.

Market Capitalization – is determined, on the applicable date, by multiplying the closing price per Unit by the total number of Units outstanding. This measure, together with other measures, is used by the investment community to assess the market value of the Units.

Maintenance and Sustaining Capital Expenditures – are generally defined as expenditures that involve an enhancement to existing assets without any associated increase in revenues, or new assets that provide support to operations without any associated increase in revenue. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

Payout Ratio – represents distributions paid/payable as a percentage of distributable cash earned for any given period. This measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

Total Unitholder Return – represents the percentage total return on investment earned by a Unitholder over a specified period. This return is calculated based on an investment in Units being made at the closing price reported by the TSX on the trading day immediately preceding the first day of the relevant period, the reinvestment of all distributions paid by the Partnership during such period, based on the relevant closing price reported by the TSX on the date the distribution is paid, and the closing price reported by the TSX on the last trading day of such period. This measure, together with other measures, is used by the investment community to assess relative performance.

Taxable Income (Losses) Allocated To Unitholders Per Unit – represents the amount of taxable income or losses allocated to a Unitholder on a per-unit basis for a given year, assuming that the Unitholder held the Unit throughout the year. This measure, together with other measures, is used by the investment community to assess the relative tax efficiency and after-tax returns.

Taxable Portion of Distribution – represents taxable income allocated to a Unitholder on a per-unit basis as a percent of distributions paid/payable, for a given period, to a Unitholder during such period. This measure, together with other measures, is used by the investment community to assess the relative tax efficiency and after-tax returns.

BUSINESS RISKS

Fort Chicago's Alliance and AEGS businesses are subject to normal risks associated with the pipeline industry. Aux Sable is subject to normal risks associated with the NGL extraction industry. Some risks are common to all of Fort Chicago's businesses and others are unique to either of the pipeline business or the NGL business.

In management's view, the more significant business risks affecting both Fort Chicago's profitability and the amount of distributions that can be paid to Unitholders are identified below. The Annual Information Form (the "AIF") for the year ended December 31, 2006 contains a more detailed description of these and other risk factors that are associated with the businesses and the Partnership's other business activities. The AIF should be read in conjunction herewith and is incorporated by reference.

RISKS SPECIFIC TO FORT CHICAGO

Distributions by the Partnership

The amount of distributions paid by the Partnership to holders of Units is dependent on the distributions made available from Alliance, Aux Sable and AEGS, each of which in turn may be restricted by the provisions contained in their respective credit obligations. The amount of distributions paid by the Partnership is also dependent on Fort Chicago's operating and administrative costs, debt service costs, taxes, capital expenditures, project development costs, reserves established by Fort Chicago and possible restrictions associated with its credit obligations. See also section entitled "Distributions – Restrictions on Distributions" contained herein.

Nature of Units

Securities such as Units are often associated with investments which provide for returns arising from a distribution of distributable cash and the pass-through of income tax deferrals associated with partnership activities. Currently outstanding Units, and any other Units that may be issued by the Partnership, do not have a guaranteed rate of return. The market price of Units may be influenced by the level of prevailing interest rates relative to the yield achieved by holders of Units, based on annual distributions thereon. An increase in market interest rates may lead purchasers of Units to desire a higher effective yield, which could adversely affect the market price of Units. In addition, the market price for Units may be affected by changes in general market conditions, fluctuations in the markets for equity and debt securities, changes in income tax laws and numerous other factors beyond Fort Chicago's control. As Fort Chicago is a limited partnership, holders of Units will not have the statutory rights normally associated with the ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions and statutory rights of "dissent" available pursuant to corporate statutes. In addition, the benefits of certain statutes applicable to corporations, such as the *Companies' Creditors Arrangement Act* (Canada), may not be applicable to the Partnership.

Income Tax Matters

There can be no assurance that Canadian or United States federal income tax laws or the judicial interpretation thereof or the administrative and/or assessing practices of either or both of the Canada Revenue Agency or the United States Internal Revenue Service will be the same, or will not change in a manner which adversely affects the holders of Units and/or Fort Chicago directly or indirectly through its businesses. Fort Chicago utilizes inter-company debt structures, including a cross-border debt structure, each of which generates interest expense that is deducted in computing taxable income. There can be no assurance that Canadian or United States taxation authorities will not challenge the amount of interest expense deducted. The inability to deduct interest, in whole or in part, could materially increase Fort Chicago's taxable income and reduce its after-tax cash flow available for distribution. Furthermore, any recharacterization of any cross-border debt by United States taxation

authorities could also affect the amount of United States withholding tax applicable to payments of principal and/or interest in respect of such debt, both in terms of the rate of any such United States withholding tax and the amount on which this rate is applied, thus also reducing the amount of the after-tax cash flow to holders of Units.

The assets held directly or indirectly by Fort Chicago generally have a cost base for applicable income tax purposes that is significantly below the estimated fair market value of such assets and may be significantly below the fair market value of such assets at the time of any disposition thereof in the future. As a result, any disposition of such assets by Fort Chicago or a partnership in which Fort Chicago is itself a partner may, depending on the particular circumstances at the time of such disposition, result in the recapture of previously deducted capital cost allowance and the realization of capital gains by Fort Chicago, which amounts would be allocated among the holders of Units for tax purposes. Income or loss for tax purposes, which includes recapture, is allocated to holders of Units based on the proportion of cash distributions received by the holders of Units in the fiscal year.

The after-tax return from an investment in Units to a holder of Units subject to Canadian income tax can be made up of both a return on capital and a return of capital. That composition may change over time, thus affecting the after-tax return of a holder of Units. The Partnership's income (or loss) for tax purposes is allocated to holders of Units. Any such income (or loss) allocated to holders of Units may be considered a return on capital and will generally be taxed as ordinary income (which includes business, interest and dividend income) in the hands of a holder of Units and will increase (or decrease) the holder's adjusted cost base in the Units for tax purposes. Distributions by the Partnership may be considered to be a return of capital and will generally be tax-deferred and will reduce the holder's adjusted cost base in the Units for tax purposes. Any such distributions may be more or less than the actual income or loss allocated to holders of Units for income tax purposes. Further information on this matter can be found in The Partnership Agreement under the section entitled "Allocation of Income or Loss for Income Tax Purposes".

RISKS COMMON TO FORT CHICAGO AND EACH OF ITS BUSINESSES

Possible Failure to Realize Anticipated Benefits of Investments

Fort Chicago and each of its businesses are focused on optimizing existing assets and growth through acquisitions and greenfield investments. Achieving the benefits of acquisitions and investments in greenfield projects depends in part on a wide variety of risks associated with such acquisitions and investments. Such acquisitions and investments require the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters. Acquisitions and greenfield investments may expose Fort Chicago or its businesses to additional risks including entry into markets or businesses in which they have little or no direct prior experience, the incurrence of additional debt, costs and contingent liabilities, including those relating to the protection of the environment, and exposure to liabilities of the acquired business or assets.

Capital Funding

Fort Chicago and its businesses utilize capital in the form of equity, debt and other securities to fund their existing businesses and future growth initiatives. There can be no assurance that sufficient capital will be available in future. The use of financial leverage by Fort Chicago and each of its businesses creates financial risk and, to the extent interest rates are not fixed or recoverable, increases the sensitivity of Fort Chicago's earnings and distributable cash to interest rate variations.

Fort Chicago and its businesses may be required to refinance some or all of their debt obligations. There can be no assurance that sufficient debt capital will be available or that such refinancing will not be on less favourable terms. Should additional equity be issued by Fort Chicago or any of its businesses, Fort Chicago's Unitholders may be diluted or Fort Chicago's percentage ownership interests in any one of its businesses may be diluted. In any of such events, the amount of cash available for distribution by Fort Chicago may be diluted or adversely impacted and such dilution or impact may be significant.

Exchange Rate Fluctuations between Canada and the United States

A significant portion of Fort Chicago's assets, net earnings and cash flows are denominated in U.S. dollars. To reduce this risk, a significant portion of its U.S. assets are funded with U.S. dollar denominated debt, which serves as a natural hedge against movements in the U.S./Canadian dollar exchange rate. To date, Fort Chicago has not entered into any foreign currency hedges to protect its net U.S. dollar investments and cash flows.

Adequacy of Insurance, Guarantees and Warranties

Fort Chicago and its businesses maintain customary insurance with limits that are consistent with applicable prudent business practices. There can be no assurance that such insurance coverage will continue to be available in the future on commercially reasonable terms or that such current or future coverage will be sufficient to recover all losses incurred or protect the cash flow of the businesses. The insurance coverage in place is subject to limits and exclusions or limitations on coverage that are considered to be reasonable, given the cost of procuring insurance and current operating conditions. Each of the businesses is subject to various environmental regulations and a breach of such laws may result in the imposition of fines or the issuance of clean-up orders, which may not be insurable.

Environmental Matters

The businesses are subject to laws and regulations relating to the protection of the environment. Although the Partnership believes that the operations of the businesses are in compliance with applicable environmental and safety laws and regulations, risks of substantial costs and liabilities, including those from leaks and explosions, are inherent in such operations. There can be no assurance that significant costs and liabilities will not be incurred in the future, including costs relating to claims for damages to property and persons resulting from such operations, and increased costs of compliance resulting from changes in laws and regulations, including those related to the reduction of carbon dioxide emissions. Also, Fort Chicago is unable to predict the effect that any future changes in environmental laws and regulations, including ratification of the Kyoto Protocol by the Government of Canada, will have on its future earnings.

Terrorist Risk

Energy industry operators have been working with government agencies to ensure the security of energy pipelines. The government agencies have worked with the operators of Fort Chicago's businesses to voluntarily improve security practices based on industry guidelines. It is possible that new security regulations will be developed and implemented. All measures to enhance security have the potential for increasing the cost of operation of the businesses. Although exposure to a terrorist attack, or the effect of any new regulation, is not any greater than the exposure for any of Fort Chicago's competitors, there is no assurance that Fort Chicago's businesses will not become the subject of a terrorist attack regardless of the steps taken to increase security or that any resulting losses will be insured.

RISKS SPECIFIC TO THE PIPELINE BUSINESSES

Exposure to Shippers

Fort Chicago's pipeline businesses are highly dependent upon the shippers for revenues from contracted transportation capacity. The failure of any shippers to perform their contractual obligations under the transportation contracts or the failure to replace such shippers on the same terms could have an adverse effect on the cash flows and financial condition of the pipeline businesses and their ability to make distributions. A prolonged economic downturn in the energy industry, among other things, could impact the ability of some or all of the shippers of the respective pipeline businesses to fulfill their obligations under the transportation contracts.

Transportation Contracts

Each of the pipeline businesses has transportation contracts that obligate the respective shippers to pay demand charges or to pay firm tolls regardless of whether or not they utilize the transportation service. These charges are subject to limited rights in favour of a shipper to be relieved of the obligation to pay demand charges or firm tolls to the extent that the pipeline is unable to provide transportation service, which would decrease the actual revenue received by the pipeline. As a result, the profitability of the pipeline businesses is dependent upon maintaining the aggregate physical capability at or above the contracted capacity.

Renewal of Transportation Contracts

The revenues generated by the pipeline businesses are derived from negotiated transportation contracts. In the case of Alliance, approximately 98.5 percent or 1.305 bcf/d of the firm-service capacity is contracted on a long-term basis which, unless extended, will expire in November 2015. AEGS transportation contracts had an initial term of 20 years, which expire in December 2018. The decision by shippers to extend or renew will depend on numerous factors, including the level of demand for natural gas and ethane in the geographic areas served by the pipelines, the ability and willingness of shippers to meet such demand, and the competitiveness of the pipelines' respective toll structures. Incentives exist for shippers on the Alliance system to extend their contracts beyond the initial term but there can be no assurance that they will do so.

If any one or more of the shippers on the affected pipelines do not renew their transportation contracts, the affected pipeline businesses may be forced to lower rates to retain or replace such shippers. As a result, the pipeline businesses are exposed to economic risk associated with the recovery of capital beyond the primary term of the transportation contracts. Fort Chicago cannot predict the impact of future economic conditions or the ability to replace any shippers that choose not to extend or renew their contracts.

Dependence on WCSB Reserves

Fort Chicago expects that all or substantially all of the natural gas shipped on Alliance and all of the natural gas streams used to produce ethane for transportation on AEGS will, for the foreseeable future, be produced from the Western Canadian Sedimentary Basin ("WCSB"). Continued sales of WCSB natural gas transported by Alliance into the midwestern and northeastern United States, and the sale of WCSB ethane into the Alberta market, will be dependent on a number of factors over which neither the Partnership nor either of the individual pipeline businesses have any control, including: (i) the level of exploration, drilling, reserves and production of WCSB natural gas and the price of such natural gas; (ii) the accessibility of WCSB natural gas; (iii) the price and quality of natural gas available from alternative sources; and (iv) regulations in effect in Canada and the United States, including those permitting the export of natural gas from Canada to the United States.

Competition

Alliance faces competition in natural gas transportation to Chicago area delivery points from both existing and proposed projects and there are several proposals to expand existing pipelines serving such areas and markets. AEGS has more limited existing competition but could face future competition in ethane transportation from existing or proposed projects.

With respect to each of the pipeline businesses, any new or upgraded natural gas pipelines, ethane or petrochemical feedstock transportation systems and/or ethane extraction facilities could either: (i) allow shippers and competing pipelines to have greater access to markets served by the pipeline businesses; or (ii) offer natural gas or ethane transportation services that are more desirable to shippers than those provided by the respective pipelines because of location, facilities or other factors. In addition, these new or upgraded pipelines could charge rates or provide service to locations that result in greater net profit for shippers. This may have the effect of forcing either or both of the pipeline businesses to lower their transportation rates, for commercial reasons, effective on the expiry of the initial 15-year term of the Alliance transportation contracts or on the expiry of the initial 20-year term of the AEGS transportation contracts, to avoid losing shippers, thereby reducing the cash flows generated from the impacted pipeline businesses' transportation contracts.

Pipeline Operating Risks

As with any comprehensive pipeline system, the operation of Fort Chicago's pipeline businesses involves many risks, including the breakdown or failure of equipment, information systems or processes, the performance of equipment at levels below or beyond those originally intended, failure to keep on hand adequate supplies of spare parts, operator error, labour disputes, disputes with interconnected facilities and carriers and catastrophic events, many of which are beyond its control. The occurrence or continuance of any of these events could increase the cost of operating the pipelines and/or reduce transportation capacity, thereby potentially impacting the cash flows from either or both of the pipeline businesses.

Each of the pipeline businesses operates through interconnections with numerous other facilities. Typical of the pipeline and energy industry on the whole, the regulated terms of service or the prevailing business and operating principles necessarily differ between and amongst these various facilities. Conflicts can arise from these differing requirements in various circumstances. Given the lack of control over the requirements adopted by operators of other facilities, no assurance can be given that these differing requirements will not result in operational problems or the potential materiality or duration thereof.

In the specific case of Alliance, if the Aux Sable extraction and fractionation facility does not provide heat content management services for any reason, the absence of these services may give rise to operational problems for Alliance and the shippers and, in certain circumstances, could result in an interruption or curtailment of transportation service on the Alliance pipeline until such time as such operational problems are rectified or alternative operational procedures are implemented. If the operations of Aux Sable were suspended or closed, Alliance could be required to provide alternative heat content management arrangements, which could reduce the amount of distributions by Alliance. It is not possible to predict the extent or duration of these operational problems or their precise effect on Alliance, although recent amendments to heat content requirements downstream of the Aux Sable facility have reduced this exposure.

Impact of Regulation and Legislation

Alliance is subject to Canadian and United States federal regulation by the National Energy Board (“NEB”) and the Federal Energy Regulatory Commission (“FERC”), respectively. Either on application by a third party or on their own initiative, the NEB and the FERC may require revisions to the tariffs applicable to the Alliance Canada pipeline and Alliance U.S. pipeline, respectively, including potentially material changes in the applicable transportation rates charged or other terms and conditions observed by Alliance. Changes in industry regulations or the regulation of Alliance Pipeline could adversely affect Alliance, including its ability to make distributions.

AEGS is subject to Canadian provincial regulation by the Alberta Energy and Utilities Board (the “EUB”). Such regulation may relate to, among other things, required permits and approvals and other complaint-based issues that may be raised by existing or potential shippers, and access to AEGS by new shippers. Changes in the regulation of AEGS, including decisions by regulators on the applicable tariff structure or changes in interpretations of existing regulations by courts or regulators, could adversely affect the results of operations of AEGS.

Abandonment Charges

Each of the pipeline businesses will be responsible for compliance with all laws and regulations concerning the abandonment of their pipeline and related facilities at the end of their respective economic life.

The costs of abandonment will be a function of then current regulatory requirements, which cannot be accurately predicted. In future, it may be necessary to establish and fund a reserve to address anticipated costs of abandonment of each of the pipelines. Although such costs are expected to be recoverable under the transportation contracts, the decision to fund any such reserve may reduce the funds available to discharge other obligations and could affect the ability to make distributions.

Alliance’s Dependence on Other Owners

The affairs of Alliance are governed by partnership and shareholder agreements entered into by the owners of such entities. Pursuant to such agreements, certain decisions regarding these entities require resolutions passed by the affirmative vote of a simple majority, 66 2/3 percent, 75 percent, 80 percent or 100 percent of the owners. All decisions requiring owner approval, in effect, require the agreement of both Fort Chicago and Enbridge Income Fund, in the case of Alliance Canada, and both Fort Chicago and Enbridge Inc., in the case of Alliance U.S.

Dependence on Third-party Operator for AEGS

Fort Chicago has entered into an operating agreement with NOVA Chemicals Corporation (“NOVA Chemicals”) whereby NOVA Chemicals physically operates AEGS. In the event the operating agreement is terminated, or NOVA Chemicals otherwise becomes unable to fulfill its obligations under the operating agreement, Fort Chicago may be required to secure a replacement operator for AEGS or Fort Chicago may be required to assume the operation of AEGS, which may increase the costs of operation and reduce earnings.

Structural Integrity of Storage Facilities related to AEGS

AEGS has entered into a long-term storage agreement to permit shippers on AEGS to store ethane in underground salt caverns located at Fort Saskatchewan, Alberta. The use of the facility is subject to risks related to the nature of the salt caverns that are used to store ethane. Deterioration in the integrity of the caverns could cause disruptions to the operations of the caverns and reduce the available storage capacity for an extended period of time. This could have a negative effect on the quantity of ethane transported on AEGS and the revenues of Fort Chicago.

AEGS Reliance on Ethane Customers

The two primary customers of the ethane shipped on AEGS are NOVA Chemicals and Dow Chemical Canada Inc. ("Dow Chemical"). If for any reason either NOVA Chemicals or Dow Chemical reduced or eliminated the quantities of ethane purchased by them that is transported on AEGS, this could have a negative effect on the quantity of ethane transported on AEGS and the revenues of Fort Chicago and, in the long term, could impair Fort Chicago's ability to secure replacement volumes.

RISKS SPECIFIC TO THE NGL BUSINESS

NGL Extraction Margins

Variations in NGL extraction margins continue to represent the single largest potential variability in the cash available for distribution to Unitholders. This margin depends, in part, on the relationship between the price of natural gas and the prices of ethane, propane, butane and condensate since the cost of shrinkage make-up gas is the largest cost component of producing NGL. The cost of this natural gas is not tied to the prices received by Aux Sable for its products and thus the profit margin from the production and sale of NGL has the potential to vary significantly as the pricing relationship between natural gas and NGL changes.

Aux Sable's exposure to this variability has been significantly reduced with the establishment of the NGL Sales Agreement between Aux Sable and BP. The agreement has an initial term of 20 years commencing December 31, 2005, and may be extended by mutual agreement for 10-year terms on an evergreen basis. BP has the option, in certain limited circumstances, to terminate the agreement if cumulative losses from the business exceed a specified amount; however, Aux Sable retains the right to reduce such losses and thereby avoid termination.

Availability and Composition of Natural Gas

The production of NGL by Aux Sable is dependent upon the volumes transported on the Alliance pipeline and the composition of the natural gas stream at the inlet to the extraction facility. These volumes and composition have the potential to vary over time and in turn could adversely impact Aux Sable's production and revenues.

NGL Operating Risks

Aux Sable processes large volumes of natural gas at high pressure in equipment with fine tolerances. Equipment failures could result in damage to the extraction and fractionation facilities and liability to third parties against which Aux Sable may not be able to fully insure or may elect not to insure because of high premium costs or for other reasons.

Chicago/AECO Natural Gas Price Differential

Alliance Canada Marketing holds long-term contracts for 76.2 mmcf/d of transportation capacity on the Alliance pipeline. The amount of cash available to distribute to its owners or the amount of support payments required from its owners will depend on the relationship between the price of natural gas sold in Chicago and the price of natural gas purchased in Alberta, the cost of transporting the natural gas on the Alliance pipeline and associated administration costs. Since commencement, this margin has not been sufficient to cover the costs associated with the long-term contracts. There can be no assurance as to when or if this margin will improve.

Dependence on Other Owners

The affairs of Aux Sable are governed by partnership and shareholder agreements entered into by the owners of such entities. Pursuant to such agreements, certain decisions regarding these entities require resolutions passed by the affirmative vote of a simple majority, 66 2/3 percent, 75 percent, 80 percent, or 100 percent of the owners. While most decisions can be made with the agreement of both Fort Chicago and Enbridge, some decisions could depend on the views of Aux Sable's minority owner.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President & Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

Fort Chicago has evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision of its CEO and CFO. Based on this evaluation, Fort Chicago concluded that the disclosure controls and procedures, as defined in Multilateral Instrument 52-109 were effective as of December 31, 2006.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the design of internal controls over financial reporting as at December 31, 2006, and based on that assessment determined that Fort Chicago's design of internal controls over financial reporting was effective.

No changes were made in Fort Chicago's internal control over financial reporting during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.