

**MANAGEMENT'S REPORT**

The financial statements of Fort Chicago Energy Partners L.P. have been prepared by the management of Fort Chicago Energy Management Ltd. (the "General Partner") in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Actual results may differ from these estimates and judgements. Management has ensured that the financial statements are presented fairly in all material respects.

Management maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the General Partner is responsible for reviewing and approving the financial statements and, primarily through its Audit Committee, ensures that management fulfills its responsibilities for financial reporting.

The Board of Directors of the General Partner has appointed an Audit Committee to meet periodically during the year with management and the external auditors. The Audit Committee reviews with management and the independent external auditors the annual financial statements prior to submission to the Board of Directors for final approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with Canadian generally accepted accounting principles.

(signed)

Guy J. Turcotte  
Chairman and Chief Executive Officer

March 19, 2002

(signed)

Stephen H. White  
President and Chief Financial Officer

**AUDITORS' REPORT**

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

We have audited the Consolidated Statement of Financial Position of Fort Chicago Energy Partners L.P. (the "Partnership") as at December 31, 2001 and 2000 and the Consolidated Statements of Income and Undistributed Income and Cash Flows for the years then ended. These financial statements are the responsibility of the management of the Partnership's General Partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed)

Calgary, Canada  
March 19, 2002

PricewaterhouseCoopers LLP  
Chartered Accountants

**FINANCIAL STATEMENTS**

| CONSOLIDATED<br>STATEMENT OF<br>FINANCIAL<br>POSITION | DECEMBER 31 (\$ THOUSANDS)               | 2001              | 2000              |
|---|--|-------------------|-------------------|
|   | <b>Assets</b>                            |                   |                   |
|   | <b>Current assets</b>                    |                   |                   |
|   | Cash and short-term investments          | \$ 13,677         | \$ 37,031         |
|   | Distribution receivable                  | 15,313            | –                 |
|   | Receivables                              | 295               | 1,265             |
|   | Prepaid expenses                         | 89                | 49                |
|   |  | <u>29,374</u>     | <u>38,345</u>     |
|   | Investment in Alliance projects (Note 4) | 586,430           | 593,725           |
|   | Deferred expenses (Note 6)               | 6,640             | 2,638             |
|   | Office equipment                         | 7                 | 15                |
|   |  | <u>\$ 622,451</u> | <u>\$ 634,723</u> |
|   | <b>Current liabilities</b>               |                   |                   |
|   | Payables                                 | \$ 1,851          | \$ 2,761          |
|   | Current portion of senior notes (Note 7) | 4,778             | –                 |
|   | Distribution payable (Note 5c)           | 12,823            | 5,388             |
|   |  | <u>19,452</u>     | <u>8,149</u>      |
|   | <b>Non-current liabilities</b>           |                   |                   |
|   | Senior notes (Note 7)                    | 113,472           | –                 |
|   | Bank debt                                | –                 | 129,792           |
|   |  | <u>113,472</u>    | <u>129,792</u>    |
|   |  | <u>132,924</u>    | <u>137,941</u>    |
|   | <b>Partners' equity</b>                  |                   |                   |
|   | Partners' capital account (Note 5a)      | 433,786           | 424,876           |
|   | Warrants (Note 5g)                       | 380               | 653               |
|   | Cumulative translation adjustment        | 17,975            | –                 |
|   | Undistributed income                     | 37,386            | 71,253            |
|   |  | <u>489,527</u>    | <u>496,782</u>    |
|   |  | <u>\$ 622,451</u> | <u>\$ 634,723</u> |

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

By: (signed) Guy J. Turcotte  
Director

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

| FOR THE YEAR ENDED DECEMBER 31 (\$ THOUSANDS)      | 2001      | 2000      | CONSOLIDATED<br>STATEMENT OF<br>INCOME AND<br>UNDISTRIBUTED<br>INCOME |
|--|-----------|-----------|---|
| Income   |           |           |   |
| Interest   | \$ 534    | \$ 1,633  |   |
| Expenses   |           |           |   |
| Administration                                     | 1,818     | 1,520     |   |
| Interest and other finance                         | 9,301     | 11,352    |   |
| Foreign exchange loss                              | 3,848     | 1,670     |   |
| Depreciation and amortization                      | 2,283     | 1,335     |   |
| Taxes  | 2,206     | (707)     |   |
| Net income (loss) before equity income             | (18,922)  | (13,537)  |   |
| Equity income of Alliance projects (Notes 2 and 4) | 34,100    | 40,533    |   |
| Net income for the year                            | 15,178    | 26,996    |   |
| Undistributed income at the beginning of the year  | 71,253    | 49,645    |   |
| Distribution paid or payable (Note 5c)             | (49,045)  | (5,388)   |   |
| Undistributed income at the end of the year        | \$ 37,386 | \$ 71,253 |   |
| Net income per Class A Unit                        |           |           |   |
| Basic and diluted                                  | \$ 0.21   | \$ 0.40   |   |

|  | MARCH 19,<br>2002 | DECEMBER 31,<br>2001 | DECEMBER 31,<br>2000 | STATEMENT OF<br>OUTSTANDING<br>UNITS |
|--|-------------------|----------------------|----------------------|--------------------------------------|
|  | (UNAUDITED)       |                      |                      |                                      |
| Class A Units (Note 5a)                  | 73,564,509        | 73,275,759           | 71,843,054           |                                      |
| Options                                  |                   |                      |                      |                                      |
| Eligible Optionholder Warrants (Note 5f) | —                 | —                    | 1,232,565            |                                      |
| Warrants (Note 5g)                       | —                 | 288,750              | 495,000              |                                      |

See accompanying notes to the Consolidated Financial Statements

| CONSOLIDATED<br>STATEMENT OF<br>CASH FLOWS                   | FOR THE YEAR ENDED DECEMBER 31 (\$ THOUSANDS) | 2001      | 2000      |
|--|---|-----------|-----------|
| <b>Operating</b>   |   |           |           |
| Net income for the year                                      | \$  | 15,178    | \$ 26,996 |
| Less: Equity income of Alliance projects                     |   | (34,100)  | (40,533)  |
| Add: Depreciation and amortization                           |   | 2,283     | 1,335     |
| Amortization of foreign exchange loss                        |   | 3,686     | 1,272     |
| Distribution from Alliance projects                          |   | 51,942    | —         |
| Cash flow  |   | 38,989    | (10,930)  |
| <b>Financing</b>   |   |           |           |
| Partners' equity   |   | 8,669     | 47,899    |
| Bank debt  |   | (132,186) | 97,227    |
| Issue costs  |   | (32)      | (2,178)   |
| Senior notes   |   | 114,675   | —         |
| Debt issue costs   |   | (2,119)   | —         |
| Repayment of senior notes                                    |   | (1,193)   | —         |
| Distribution paid  |   | (41,610)  | —         |
| Changes in non-cash working capital                          |   | 20        | (1,355)   |
|  |   | (53,776)  | 141,593   |
| <b>Investing</b>   |   |           |           |
| Investment in Alliance projects                              |   | (5,505)   | (175,845) |
| Deferred expenses  |   | (3,057)   | 1,216     |
| Office equipment   |   | (5)       | (5)       |
|  |   | (8,567)   | (174,634) |
| Increase (decrease) in cash and short-term investments       |   | (23,354)  | (43,971)  |
| Cash and short-term investments at the beginning of the year |   | 37,031    | 81,002    |
| Cash and short-term investments at the end of the year       | \$  | 13,677    | \$ 37,031 |
| <b>Cash flow per Class A Unit</b>                            |   |           |           |
| Basic and diluted  | \$  | 0.53      | \$ (0.16) |
| <b>Supplemental disclosure of cash flow information:</b>     |   |           |           |
| Interest paid  | \$  | 7,866     | \$ 8,936  |
| Income taxes paid  | \$  | 3,512     | \$ 732    |

See accompanying notes to the Consolidated Financial Statements

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

AS AT DECEMBER 31, 2001

| (\$ THOUSANDS)                                 | FOR THE<br>THREE MONTHS<br>ENDED<br>DECEMBER 31,<br>2001<br>(UNAUDITED) | FOR THE<br>YEAR ENDED<br>DECEMBER 31,<br>2001 |
|--|---|---|
| <b>Cash inflows</b>                            |   |   |
| Distributions from Alliance projects           | \$ 15,395   | \$ 67,255                                     |
| Interest income                                | 87  | 534   |
|  | <b>15,482</b>   | <b>67,789</b>                                 |
| <b>Cash outflows</b>                           |   |   |
| Administration                                 | (447)   | (1,818)                                       |
| Realized foreign exchange gain (loss)          | 157   | (162)   |
| Interest and other finance                     | (2,379)   | (9,301)                                       |
| Taxes  | (701)   | (2,206)                                       |
| Marketing losses                               | (1,140)   | (2,290)                                       |
| Senior note principal payment                  | (1,203)   | (2,387)                                       |
| Distributable cash                             | \$ 9,769  | \$ 49,625                                     |
| Distributable cash per Class A Unit            | \$ 0.133  | \$ 0.678                                      |
| Distributions paid or payable                  | \$ 12,823   | \$ 49,045                                     |
| Distributions paid or payable per Class A Unit | \$ 0.175  | \$ 0.670                                      |

**NOTE 1 –  
CONSOLIDATED  
STATEMENT OF  
DISTRIBUTABLE  
CASH**

Fort Chicago Energy Partners L.P. (the “Partnership”) is a limited partnership created under the laws of the Province of Alberta on October 9, 1997.

The Partnership was created to acquire the interests in the Alliance projects held by Chauvco Resources Ltd. (“Chauvco”) and all agreements related thereto. The business of the Partnership consists solely of directly or indirectly participating in the transportation, storage, marketing or processing of hydrocarbons and directly or indirectly investing and managing investments in other persons who are engaged primarily in these activities or carrying on the business of a financial intermediary.

Fort Chicago Energy Management Ltd., as General Partner, is responsible for overseeing the management of the Partnership, including the determination of the amount of distributions to the holders of limited partnership units of the Partnership.

The Consolidated Financial Statements include the accounts of the Partnership and its wholly owned subsidiary partnerships and corporations.

The Alliance projects consist of the Alliance Pipeline project and the Aux Sable Plant project. The Alliance Pipeline project involves the design, construction and operation of a mainline gas pipeline (with various connecting lateral pipelines) from Northeastern British Columbia to points near Chicago, Illinois. The Aux Sable Plant project involves the construction and operation of a natural gas liquids extraction and fractionation facility near the terminus of the Alliance Pipeline project.

**NOTE 2 –  
BASIS OF  
PRESENTATION  
AND BUSINESS  
OF THE  
PARTNERSHIP**

The Partnership's interest in the Alliance projects is accounted for using the equity method, whereby the investment is recorded at the original cost plus the Partnership's share of income or loss less any distributions received. The Alliance Pipeline project follows the regulatory accounting method. Under the regulatory accounting method, certain revenues and expenses may be recognized differently than otherwise expected under generally accepted accounting principles applicable to non-regulated businesses.

For the year ended December 31, 2001, the Partnership recorded \$34,100,000 (2000 – \$40,533,000) as its share of the income of the Alliance projects.

**FOREIGN CURRENCY TRANSLATION** Prior to January 1, 2001, Fort Chicago was obligated to equity fund its foreign operations and accordingly treated them as integrated. With the finalization of the financing for those entities and the removal of Fort Chicago's obligation to fund additional equity, the operations were determined to be self-sustaining. The net exchange gain attributable to current rate translation of non-monetary items as of the date of the change is included as part of the exchange gains included in the cumulative translation component of unitholders' equity. This determination was not completed until the fourth quarter of 2001, however the effect on the first three quarters of 2001 was immaterial.

The current rate method requires that all asset and liability amounts be translated into Canadian dollars using the exchange rate in effect at the balance sheet date, and requires that all revenues and expenses be translated at average exchange rates for the period. The resulting net cumulative translation gain or loss is reported as a separate component of Partners' equity.

As the Partnership is not a taxable entity, all income for tax purposes is allocated to the partners each year and, therefore, no tax expense is reflected in these financial statements in respect of the Partnership. Certain subsidiary partnerships are taxable in the U.S. and tax expense has been recorded for U.S. tax liabilities. A subsidiary corporation is taxable in Canada and federal and provincial capital taxes have been reflected in the financial statements of the subsidiary corporation.

Cash and short-term investments comprise cash and highly liquid investments of less than 90 days to maturity valued at market.

These financial statements have been prepared by the management of Fort Chicago Energy Management Ltd. (the "General Partner") in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

**NOTE 3 –  
CHANGE IN  
ACCOUNTING  
POLICIES**

Effective January 1, 2001, the Partnership adopted, retroactively without restatement of prior periods, the Canadian Institute of Chartered Accountants draft recommendations with respect to stock-based compensation. Under the new recommendations, the Partnership has recognized the "in-the-money" value of vested unit appreciation rights. As at December 31, 2001, the Partnership recognized a liability for \$48,000 with a corresponding increase in deferred expenses.

Effective January 1, 2001, the Partnership changed its method of computing diluted earnings per Class A Unit to the treasury stock method as recommended by the Canadian Institute of Chartered Accountants. The retroactive effect of applying this method of calculating diluted earnings per Class A Unit resulted in an increase from \$0.38 to \$0.40 per Class A Unit in the prior year.

At various times in 1997, the Partnership acquired interests in the Alliance Pipeline and Aux Sable Plant projects. The Partnership has invested the following amounts in the Alliance Pipeline and Aux Sable Plant projects since inception, recorded the following amounts of equity income and received the following distributions:

**NOTE 4 -  
INVESTMENT  
IN ALLIANCE  
PROJECTS**

| (\$ THOUSANDS) | INVESTMENT | EQUITY<br>INCOME | DISTRIBUTIONS<br>RECEIVED OR<br>RECEIVABLE | TRANSLATION<br>ADJUSTMENT | TOTAL      |
|----------------|------------|------------------|--|---------------------------|------------|
| 1997           | \$ 35,208  | \$ 244           | \$ -                                       | \$ -                      | \$ 35,452  |
| 1998           | 124,464    | 8,680            | -  | -                         | 133,144    |
| 1999           | 182,079    | 26,672           | -  | -                         | 208,751    |
| 2000           | 175,845    | 40,533           | -  | -                         | 216,378    |
| 2001           | 5,505      | 34,100           | (67,255)                                   | 20,355                    | (7,295)    |
|                | \$ 523,101 | \$ 110,229       | \$ (67,255)                                | \$ 20,355                 | \$ 586,430 |

The following summarizes the financial information of the Alliance Pipeline and Aux Sable Plant entities:

| (\$ THOUSANDS) | 2001 | 2000 |
|----------------|------|------|
|----------------|------|------|

**Statement of operations**

|                         |            |            |
|-------------------------|------------|------------|
| Net income for the year | \$ 132,016 | \$ 148,053 |
|-------------------------|------------|------------|

**Statement of financial position**

**Assets**

|                  |            |            |
|------------------|------------|------------|
| Current assets   | \$ 490,831 | \$ 510,614 |
| Long-term assets | 6,189,336  | 5,988,643  |

|                     |                     |                     |
|---------------------|---------------------|---------------------|
| <b>Total assets</b> | <b>\$ 6,680,167</b> | <b>\$ 6,499,257</b> |
|---------------------|---------------------|---------------------|

**Liabilities and unitholders' equity**

|                       |            |            |
|-----------------------|------------|------------|
| Current liabilities   | \$ 346,409 | \$ 352,316 |
| Long-term liabilities | 3,812,537  | 3,770,140  |
| Future income taxes   | 223,424    | 114,965    |
| Unitholders' equity   | 2,297,797  | 2,261,836  |

|  |                     |                     |
|--|---------------------|---------------------|
| <b>Total liabilities and unitholders' equity</b> | <b>\$ 6,680,167</b> | <b>\$ 6,499,257</b> |
|--|---------------------|---------------------|

**(a) PARTNERS' CAPITAL ACCOUNT**

(i) **Authorized** The Partnership is authorized to issue an unlimited number of Class A limited partnership units and one Class B limited partnership unit.

(ii) **Issued**

|  | CLASS A UNITS  |            |
|--|----------------|------------|
|  | NUMBER         | VALUE      |
|  | (\$ THOUSANDS) |            |
| December 31, 1999                        | 66,100,829     | \$ 379,155 |
| Eligible Optionholder Warrants (Note 5f) | 1,087,225      | 6,469      |
| Equity offering (Note 5b)                | 4,655,000      | 41,430     |
| Issue costs                              | -              | (2,178)    |
| December 31, 2000                        | 71,843,054     | 424,876    |
| Eligible Optionholder Warrants (Note 5f) | 1,226,455      | 7,297      |
| Warrants (Note 5g)                       | 206,250        | 1,645      |
| Issue costs                              | -              | (32)       |
| December 31, 2001                        | 73,275,759     | \$ 433,786 |

**NOTE 5 -  
PARTNERS'  
EQUITY**

**(b) EQUITY OFFERING** On November 7, 2000, the Partnership completed an equity offering of 4,655,000 Class A Units at a price of \$8.90 per Class A Unit with a syndicate of Canadian investment banks. Total proceeds received were \$41,429,500 prior to underwriting fees and expenses of the offering that totalled \$2,210,000.

**(c) DISTRIBUTIONS** The Partnership has declared and paid the following distribution to holders of Class A Units:

| RECORD DATE        | PAYMENT DATE     | DISTRIBUTION PER CLASS A UNIT | TOTAL DISTRIBUTION PAID (\$ THOUSANDS) |
|--------------------|------------------|-------------------------------|--|
| 2000               |                  |                               |  |
| December 29, 2000  | January 15, 2001 | \$ 0.075                      | \$ 5,388                               |
| 2001               |                  |                               |  |
| March 30, 2001     | April 30, 2001   | \$ 0.175                      | 12,772                                 |
| June 29, 2001      | July 31, 2001    | \$ 0.160                      | 11,725                                 |
| September 28, 2001 | October 31, 2001 | \$ 0.160                      | 11,725                                 |
| December 31, 2001  | January 31, 2002 | \$ 0.175                      | 12,823                                 |
|                    |                  | \$ 0.670                      | \$ 49,045                              |

**(d) OWNERSHIP RESTRICTIONS** The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997 and as further amended on March 7, 2001 (the “Partnership Agreement”). The Partnership Agreement provides that no Class A Units may be transferred to a person who is a “non-resident” of Canada, a person in which an interest would be a “tax shelter investment” or a partnership which is not a “Canadian partnership” for purposes of the *Income Tax Act* (Canada).

**(e) UNITHOLDERS RIGHTS PLAN** The Partnership has a unitholders rights plan (the “Plan”). Under the Plan, one right will be issued with each Class A Unit issued. The rights remain attached to the Class A Units and are not exercisable or separable unless one or more certain specified events occur. If a person or group acting in concert acquires 20 percent or more of the Class A Units of the Partnership, the rights will entitle the holders thereof (other than the acquiring person or group) to purchase Class A Units of the Partnership at a 50 percent discount from the then market price. The rights are not triggered by a “Permitted Bid,” as defined in the Plan.

**(f) ELIGIBLE OPTIONHOLDER WARRANTS** On December 15, 1997, the holders of options to acquire common shares of Chauvco received for no consideration Eligible Optionholder Warrants of the Partnership on a one-to-one basis. This resulted in the issuance of 2,429,250 Eligible Optionholder Warrants. Subject to certain limitations, each Eligible Optionholder Warrant entitled the holder thereof to acquire one Class A Unit at a price of \$5.95. The Eligible Optionholder Warrants expired on May 29, 2001. During 2001, 1,226,455 (2000 – 1,087,225) Eligible Optionholder Warrants were exercised for proceeds of \$7,297,407 (2000 – \$6,468,988).

**(g) WARRANTS** In conjunction with the arrangement of certain credit facilities in 1998, the Partnership issued 495,000 warrants. Each warrant entitles the holder thereof to acquire one Class A Unit at a price of \$6.65. Each warrant will expire on March 6, 2002. In 1998, the Partnership recognized \$653,400 as the value of these warrants. During 2001, 206,250 (2000 – NIL) warrants were exercised for proceeds of \$1,371,562.

| (\$ THOUSANDS)  | 2001            | 2000            | NOTE 6 - |
|---|-----------------|-----------------|----------|
| Financing expenses <sup>(1)</sup>                           | \$ 1,343        | \$ 1,138        | DEFERRED |
| Foreign exchange loss <sup>(1)</sup>                        | 2,216           | 1,133           | EXPENSES |
| Construction period unit appreciation rights <sup>(2)</sup> | 2,751           | -               |          |
| Other <sup>(2)</sup>  | 330             | 367             |          |
|   | <b>\$ 6,640</b> | <b>\$ 2,638</b> |          |

(1) Amortized over the life of the related debt, being generally 10 years.

(2) Amortized over 10 years commencing January 1, 2001.

On August 15, 2001, the Partnership, via two subsidiary entities, issued senior unsecured notes to institutional investors in the United States.

NOTE 7 -  
SENIOR NOTES

The Senior Notes, Series A issued by Fort Chicago Pipeline II U.S. L.P. in the aggregate principal amount of U.S. \$37,500,000 bear interest at the rate of 7.71 percent per annum, pay interest and principal quarterly in arrears and mature on July 31, 2011. Principal is repaid U.S. \$375,000 per quarter and U.S. \$22,875,000 at maturity.

The Senior Notes, Series B issued by Fort Chicago Pipelines (Canada) Ltd. in the aggregate principal amount of U.S. \$37,500,000 bear interest at the rate of 7.71 percent per annum, pay interest and principal quarterly in arrears and mature on July 31, 2011. Principal is repaid U.S. \$375,000 per quarter and U.S. \$22,875,000 at maturity.

Each series of notes are direct unsecured obligations of the relevant issuer and rank *pari passu* with all other unsecured and unsubordinated indebtedness of that issuer.

Each issuer has provided covenants customary for note issuances that include, among other things, the following: (i) each issuer will not, at any time, permit consolidated indebtedness to be more than 50 percent of consolidated capitalization and (ii) each issuer will not permit the ratio of operating cash flow to interest expense to be less than 3.00 to 1.00 at the end of each fiscal quarter of such issuer. Such financial covenants are calculated for each issuer and not at the Partnership level.

Each issuer has given the note purchasers a negative pledge not to encumber any of its assets except for permitted encumbrances and has agreed that in the event it sells any portion of its interest in Alliance Pipeline L.P. or Alliance Pipeline Limited Partnership, as applicable, prior to maturity of its notes to redeem such notes at that time to the extent of the proceeds of such sale plus a make-whole amount and any unpaid and accrued interest thereon.

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

Most of the proceeds from these note issuances were ultimately utilized to repay the bridge credit facility described in Note 8 below.

Future minimum principal repayments required in total on the Series A and Series B Senior Notes expressed in Canadian dollars (based on the exchange rate at December 31, 2001) over the next five years and thereafter are as follows:

|            |            |
|------------|------------|
| 2002       | \$ 4,778   |
| 2003       | 4,778      |
| 2004       | 4,778      |
| 2005       | 4,778      |
| 2006       | 4,778      |
| thereafter | 94,360     |
|            | \$ 118,250 |

**NOTE 8 -  
BANK CREDIT  
FACILITIES**

On March 6, 2001, the Partnership entered into a credit agreement with two Canadian chartered banks to provide for a Canadian \$40 million extendible revolving credit facility and a Canadian \$100 million bridge facility. The initial proceeds from these credit facilities were utilized to repay then existing credit facilities, which were then terminated.

These credit facilities are unsecured except that subsidiary partnerships and corporations delivered guarantees in favour of the lenders as security for the Partnership's obligations under these credit facilities.

The interest rates on outstanding debt are variable, including in relation to the lender's prime interest rate. The Partnership has agreed to pay standby and letter of credit fees varying from 0.6 percent to 1.325 percent per annum of the undrawn facilities and any letters of credit issued under the facilities. The Partnership has provided covenants customary to bank credit facilities that include, among other things, (i) the maintenance of consolidated tangible net worth of at least \$375 million subject to downward adjustment for certain events and (ii) the maintenance of debt to total capitalization of no greater than 50 percent.

On August 17, 2001, the Partnership repaid the entire bridge credit facility and made a payment under the extendible revolving credit facility from the proceeds of the note offerings described in Note 7 above. Concurrently with the repayment of the bridge credit facility, the bridge credit facility was terminated. The extendible revolving credit facility matures on March 5, 2002, but may be extended from time to time for additional 364-day periods with the approval of the lenders. The lenders have agreed to renew the extendible revolving credit facility for a further 364-day period to March 4, 2003.

As at December 31, 2001, the Partnership had issued letters of credit of Canadian \$13,491,000 and U.S. \$8,610,000 under the extendible revolving credit facility (see Note 10 below).

| YEAR OF GRANT                  | NUMBER OF UNITS | EXERCISE PRICE | EXPIRY        | VESTED  | VALUE        |
|--------------------------------|-----------------|----------------|---------------|---------|--------------|
| <b>As at December 31, 2001</b> |                 |                |               |         |              |
| 2000                           | 40,000          | \$ 7.80        | Dec. 31, 2003 | 40,000  | \$ 48,000    |
| 2001                           | 537,500         | \$ 9.29        | March 7, 2006 | 179,167 | —            |
|                                | 577,500         | \$ 9.19        |               | 219,167 | \$ 48,000    |
| <b>As at December 31, 2000</b> |                 |                |               |         |              |
| 1997                           | 846,666         | \$ 5.75        | Dec. 31, 2003 | 846,666 | \$ 2,328,000 |
| 2000                           | 40,000          | \$ 7.80        | Dec. 31, 2003 | 40,000  | 28,000       |
|                                | 886,666         | \$ 5.84        |               | 886,666 | \$ 2,356,000 |

**NOTE 9 –  
UNIT  
APPRECIATION  
RIGHTS CASH  
BONUS PLAN**

The vesting provisions for the unit appreciation rights issued in 1997 and 2000 were as follows: 33 $\frac{1}{3}$  percent on the date that all regulatory approvals required to commence construction of the Alliance Pipeline project were obtained; 33 $\frac{1}{3}$  percent on the in-service date of the Alliance Pipeline project; and 33 $\frac{1}{3}$  percent on December 31, 2000. As of December 31, 2001, 100 percent of the unit appreciation rights issued in 1997 and 2000 had vested.

The vesting provision for the unit appreciation rights issued in 2001 were as follows: 33 $\frac{1}{3}$  percent on the date of grant which was March 7, 2001; 33 $\frac{1}{3}$  percent on the first anniversary of the date of grant which is March 7, 2002; and 33 $\frac{1}{3}$  percent on the second anniversary of the date of grant which is March 7, 2003. As of December 31, 2001, 33 $\frac{1}{3}$  percent of the unit appreciation rights issued in 2001 had vested.

During the period ended December 31, 2001, 846,666 unit appreciation rights were exercised and the Partnership capitalized \$3,011,000 to deferred charges as the vesting provisions were structured in relation to Alliance Pipeline project approval, completion and operational milestones.

On December 31, 2001, the Partnership had obligations in the amount of Canadian \$7,917,000 and U.S. \$5,208,000 to fund its pro rata share of certain debt service reserve amounts required to be maintained in debt service reserve accounts under provisions relating to the senior debt financing for the Alliance Pipeline project and had delivered letters of credit to support such obligations.

**NOTE 10 –  
COMMITMENT  
TO ALLIANCE  
PROJECTS**

On December 31, 2001, several of the Partnership's subsidiary partnerships had obligations to guarantee their pro rata share of a stipulated amount relating to the natural gas transportation obligations of an entity affiliated with the Alliance Pipeline project and the Partnership had delivered letters of credit of Canadian \$5,574,000 and U.S. \$3,402,000 to support such obligations.

The Partnership's financial assets and liabilities as at December 31, 2001 included cash, accounts receivable, accounts payable and bank debt. Due to the current nature of cash, accounts receivable and accounts payable, fair value of these items is considered to be equal to book value. The fair value of the senior notes described in Note 7 above as at December 31, 2001 was approximately Canadian \$118.6 million. The Partnership has entered into variable rate agreements for its debt financing except for the senior notes described in Note 7 above.

**NOTE 11 –  
FINANCIAL  
INSTRUMENTS**