

Annual Report

FORT CHICAGO ENERGY PARTNERS L.P.



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Following favourable regulatory approvals, construction of the Alliance Pipeline and Aux Sable natural gas liquids extraction plant began in February, 1999.

Alliance Owners

Fort Chicago Energy Partners L.P.	26.0%
Westcoast Energy Inc.	23.6%
Enbridge Inc.	21.4%
The Coastal Corporation	14.4%
Duke Energy Marketing	9.8%
The Williams Companies	4.8%

Financial Highlights

Net income for the period	1998	1997
Net income before equity income	\$ 13,548,727	\$ 126,657
Net income	\$ 22,228,800	\$ 369,792
Net income per Class A Unit	\$ 0.34	\$ 0.29
Financial position as at December 31	1998	1997
Cash	\$ 229,805,085	\$ 39,245,453
Investment in Alliance	\$ 168,595,452	\$ 35,451,307
Partners' equity	\$ 401,828,912	\$ 199,323,301
Class A Units outstanding	66,003,609	1,293,434

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Fort Chicago Energy Partners L.P. is a limited partnership that participates indirectly through its affiliates in the transportation, storage, marketing or processing of hydrocarbons. The Partnership holds an approximate 26 per cent interest in the Alliance projects, which consist of two main components:

The Alliance Pipeline is a \$4.6 billion, 3,000-kilometre mainline natural gas pipeline, including a Canadian and a United States portion, from northeastern British Columbia to a delivery point near Chicago, Illinois (the "Alliance Pipeline project"). Construction began on the Alliance Pipeline on February 16, 1999 with an expected in-service date of October 1, 2000.

The Aux Sable Plant involves the construction and operation of natural gas liquids extraction, fractionation and delivery facilities near Chicago (the "Aux Sable project"). Construction of the Aux Sable facilities will commence in the second quarter of 1999 for the same planned in-service date as the Alliance Pipeline of October 1, 2000.

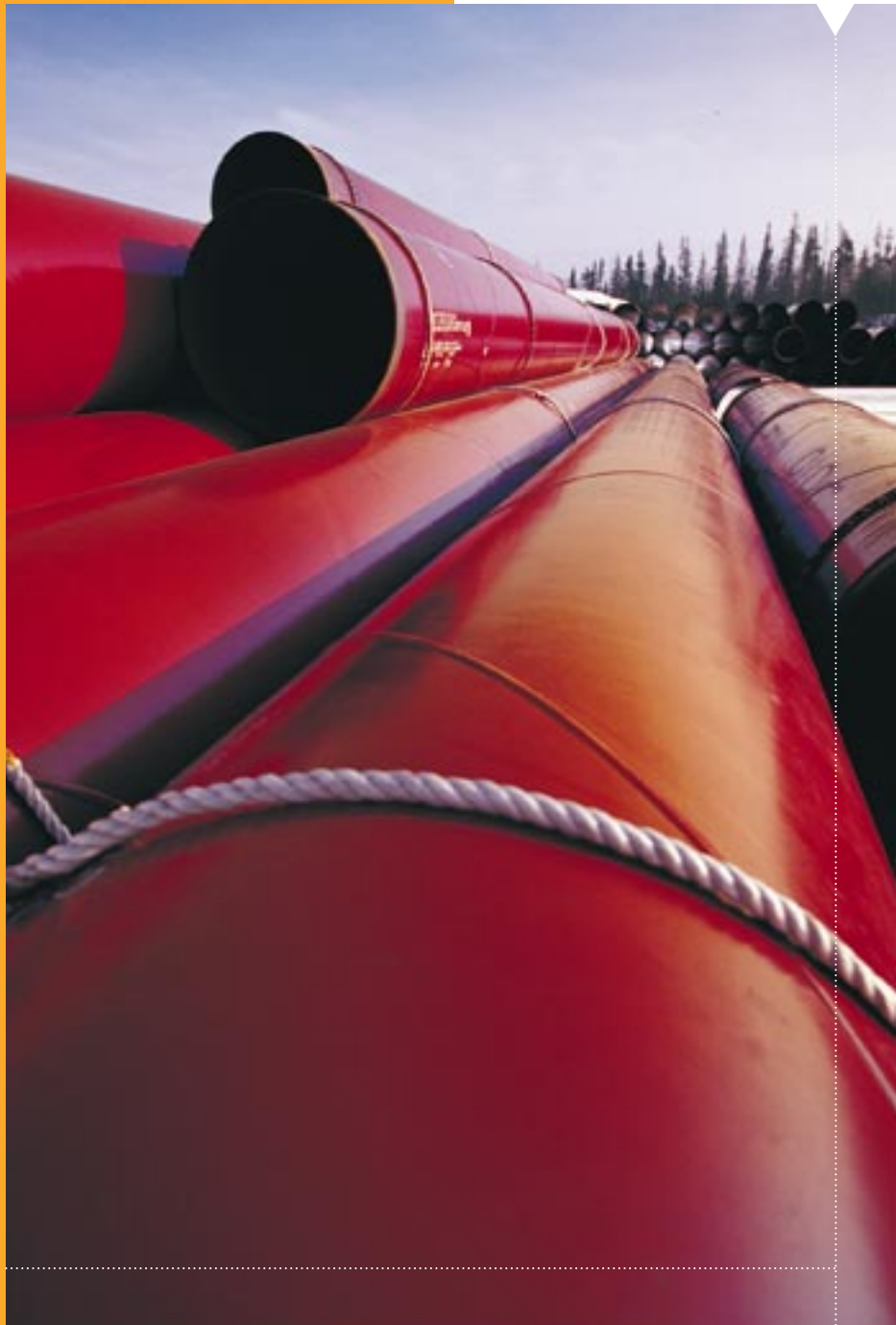
The Partnership became a publicly-traded entity in January 1998, providing investors with an opportunity to participate in the Alliance projects. Fort Chicago Units trade on the Toronto, Montreal and Alberta stock exchanges under the symbol "FCE.UN".



Land clearing near
Whitecourt, Alberta



Stockpiled Alliance pipe
awaiting installation
near Fox Creek, Alberta



Nineteen ninety-eight was a year of substantial progress for Fort Chicago and the Alliance projects. During the year, the Alliance Pipeline project received the necessary regulatory approvals in Canada and the United States. As a result, construction of the Alliance Pipeline and the Aux Sable Plant will begin in early 1999, with operations commencing in October 2000.

Unitholders of Fort Chicago have an opportunity to participate in the historic Alliance Pipeline and Aux Sable Plant projects. As an approximate 26 per cent owner of the \$4.6 billion Alliance Pipeline project, our Partnership is involved in the largest pipeline project currently under construction in North America. Unitholders are expected to benefit from future cash distributions when the Alliance projects begin operations.

The Chain of Events

Many milestones were achieved by Fort Chicago and the Alliance projects in 1998 and early 1999. Regulatory hearings were completed and key approvals were received, including the following:

- On January 6, 1998, Canada's National Energy Board (NEB) began oral hearings on the Canadian portion of the Alliance Pipeline, and concluded the hearings on May 21, 1998;
- On September 23, Alliance accepted the United States' Federal Energy Regulatory Commission's (FERC) Certificate of Public Convenience and Necessity (CPCN) for the U.S. portion of the Alliance Pipeline;

- On October 2, the NEB issued the final Comprehensive Study Report on environmental issues, concluding that the Canadian portion of the Alliance Pipeline is acceptable on environmental grounds provided certain mitigation measures are undertaken;

- On December 3, the NEB issued a CPCN for the Canadian portion of the Pipeline; and

- On February 16, 1999, the Alliance Pipeline commenced construction with the clearing of more than 660 kilometres (410 miles) of right-of-way in northwestern Alberta and northeastern British Columbia.

Fort Chicago's commitment to the projects totals \$530 million in equity financing. With the \$379 million of equity raised in early 1998, interest income of approximately \$25 million prior to start-up of the Alliance projects and \$145 million of arranged bank credit facilities, Fort Chicago expects to have sufficient funding to meet all of its equity financing requirements for both the Alliance Pipeline and the Aux Sable Plant. At December 31, 1998, Fort Chicago had advanced to Alliance and Aux Sable approximately \$160 million of this equity commitment.

The Alliance Pipeline has a financing plan in place, including \$1.5 billion in equity commitments and \$3.5 billion in underwritten bank debt, with commitments for cost overruns. In addition, the owners have made equity commitments totalling U.S. \$405 million (including a cost overrun amount) to construct the Aux Sable Plant. With the approvals received and secure financing, Alliance is focusing on completing the construction of the Alliance Pipeline and Aux Sable Plant to meet the anticipated start-up date.

Project Overview

The Alliance Pipeline is designed as an energy pipeline capable of transporting liquids-rich natural gas at high operating pressures. As a "bullet" pipeline, it will not deliver natural gas to market en route to its U.S. midwest destination. The Pipeline will initially carry 1.325 billion cubic feet per day of natural gas and associated liquids from western Canada to a market "hub" at Chicago where it will enter the integrated U.S. pipeline grid that carries 60 billion cubic feet of gas per day to markets. We are confident that with a construction period of two summers and one winter, the Pipeline will be completed and delivering gas by October 2000. In the future, the Alliance Pipeline can be expanded at an estimated cost of \$500 million to transport 1.825 billion cubic feet per day.

The Aux Sable project will consist of natural gas liquids extraction, fractionation and delivery facilities at the pipeline terminus near Chicago. The purpose of the facilities is to extract the higher value natural gas liquids associated with the gas – ethane, propane, butane and condensate. First, the natural gas liquids mix will be removed from the gas stream, followed by "fractionation" to separate the components to be sold separately. The facilities have been enlarged from their original plans of a 1.6 billion cubic feet per day single-train extraction facility to a two-train 2.1 billion cubic feet per day facility, at an estimated cost of approximately U.S. \$365 million. There will be three components:

- extraction of the C₂+ stream (ethane, propane, butane and condensate) from the gas;
- removal of the ethane for sale to regional markets under long-term contracts; and
- fractionation of the propane, butane and condensate, and the sale to regional markets. This will include storage and rail loading facilities, and contractual arrangements to handle excess volumes in the lower demand summer period.

Historical Perspective

For many years, western Canadian natural gas producers experienced a lack of pipeline capacity to the enormous U.S. midwest and eastern consumption markets. This factor, combined with a significant discrepancy in the supply/demand balance for natural gas, has contributed to a “made in Alberta” gas price. In addition, there has been a perceived need by Canadian natural gas producers for competitiveness and operational efficiencies among pipelines to ensure the lowest possible tolls.

These circumstances motivated a group of natural gas producers to develop the concept of a new pipeline. From this idea, the proposal for the Alliance Pipeline was developed. Through the Alliance Pipeline, it is believed that the differential between the NYMEX price and the Alberta price of natural gas will move to reflect more closely the transportation differential between the market centres.

Thirty-seven shippers have committed to 15-year “take-or-pay” contracts representing 98 per cent of the Pipeline’s capacity. If a shipper does not have the gas to ship, they must still pay the demand charge for their capacity on the pipeline. The shippers are required to give notice by the end of the tenth year if they wish to renew beyond the the end of the 15-year term. Should a shipper not renew, the depreciation of the rate base is accelerated for the final five years, thereby providing strong incentive for shippers to renew their contracts beyond the initial 15-year term.

The ownership of the Alliance Pipeline originally consisted of 22 producing companies. Today, control of the Alliance projects has evolved to include six owners, the majority of which are pipeline companies with interests in a variety of energy-related activities.

Advantages of the Alliance Projects

The Alliance projects are expected to meet a broad spectrum of needs on both the supply and demand sides of the natural gas industry. With the additional export capacity, we believe the projects will have a significant impact on keeping Alberta natural gas prices in line with NYMEX prices. As a result, netbacks to Canadian natural gas producers are expected to increase.

In addition, revenues to royalty owners and the federal and provincial governments will be maximized, and more jobs will be created in the petroleum industry as drilling activity increases. Royalty

payments to the Alberta and British Columbia governments will ultimately benefit the citizens of these provinces. Consumers across North America will receive a secure, reliable and cost-effective supply of Canadian natural gas.

Benefits of a Fort Chicago Investment

Fort Chicago is a unique and historic opportunity for investors. As the only “pure play” investment in the Alliance projects, Fort Chicago Units provide participation in a new pipeline project of immense size, importance and technological capability.

In addition, the Partnership provides a platform for Unitholders to participate in additional opportunities in the natural gas pipeline and liquids industries. The structure of the Partnership and the alignment of management’s interest with those of our Unitholders are further incentives for Fort Chicago to achieve strong future cash distributions and continued growth.

Summary

The Alliance projects are symbolic of the future of the North American natural gas industry. With the U.S. gas market growing at about two per cent per year, or about 1.1 billion cubic feet per year, tremendous opportunities exist for Canadian supplies to reach new and expanding markets. With the Alliance Pipeline and Aux Sable Plant, major obstacles to this objective will be removed and Canadian natural gas producers will have access to these lucrative markets.

Through the Alliance projects, Fort Chicago Unitholders will participate in the expanding North American gas industry. In addition, as part of our mandate, Fort Chicago will continue to seek other pipeline, processing and liquids extraction investments that meet the same quality standards as the Alliance projects.

Guy J. Turcotte (signed)
Chairman and C.E.O.

March 4, 1999

Stephen H. White (signed)
President and C.F.O.



An IPSCO mill technician monitors the in-line ultrasonic of the spiral pipe as it is welded.

The newly welded pipe is prepared for the first of a series of inspections and tests immediately after it comes off the mill line.



Today, the Fort Chicago Partnership has arranged all the required capital to fund its commitments to the Alliance projects.

Management's Discussion & Analysis

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General Overview

Fort Chicago Energy Partners L.P. (“the Partnership”) is a limited partnership formed to acquire the interests in the Alliance projects previously held by Chauvco Resources Ltd. (“Chauvco”), Summit Resources Limited (“Summit”), and Beau Canada Exploration Ltd. (“Beau”).

During late 1997 and early 1998, the Partnership concluded the following significant transactions:

- Purchased the combined interest in the Alliance projects, formerly held by Chauvco, Summit and Beau;
- Issued 34,950,359 Special Warrants to the principal shareholders of Chauvco and Summit, and to Summit and Beau, raising approximately \$201 million; and
- Completed rights offerings to each of the shareholders of Chauvco and Summit, other than their principal shareholders, that resulted in the issuance of 31,041,009 Class A Units for approximately \$185 million.

At the conclusion of these transactions, the Partnership held an approximate 26 per cent interest in the Alliance projects, the largest single ownership interest, and had \$344 million of cash to fund its capital commitment.

During the balance of 1998, the Partnership invested \$124 million in the Alliance projects, and at December 31, 1998 held \$230 million of cash to cover its future equity commitments to the Alliance projects.

Significant Transactions in 1997 and 1998

Acquisition of Alliance Interests

During the year ended December 31, 1997, the Partnership acquired the combined interest in the Alliance projects held by Chauvco, Summit and Beau, totaling 27.901 per cent. In early January 1998, Alliance issued additional equity to a third party that resulted in the Partnership's equity being reduced to 26.026 per cent. The purchase price was financed by the issuance of special warrants referred to below.

Issuance of Special Warrants

During 1997, the Partnership issued a total of 34,950,359 special warrants to the principal shareholders of Chauvco and Summit, and to Summit and Beau, for total proceeds of \$201 million. Each of the special warrants was issued at a price of \$5.75 and was converted into a Class A Unit of the Partnership. Each purchaser paid cash of \$2.00 per special warrant and paid the balance of \$3.75 per special warrant on the closing of the rights offerings referred to in the following section. This resulted in the Partnership receiving \$70 million in 1997 and \$131 million on January 9, 1998.

The funds received in 1997 were utilized to purchase the interests in the Alliance projects and the balance, combined with the funds received January 9, 1998, will fund the equity commitment obligation of the Partnership to the Alliance projects.

Rights Offerings

In late 1997, the Partnership commenced a rights offering to each of the shareholders of Chauvco and Summit other than their principal shareholders. The rights offerings closed on January 9, 1998 and resulted in the issuance of 31,041,009 Class A Units for approximately \$185 million. These funds are being utilized to fund equity commitment obligations of the Partnership to the Alliance projects. The use of the rights offerings enabled the shareholders of Chauvco and Summit to continue to participate in the Alliance projects through Fort Chicago.

Bank Financing

On December 3, 1998, the Partnership finalized agreements with three Canadian commercial lending institutions which created senior and subordinate credit facilities in the maximum principal amount of Canadian \$40 million and U.S. \$70 million. The Partnership delivered a general security agreement and its affiliates have delivered guarantees in favour of the lenders as security for the Partnership's obligations under the credit facilities. Fort Chicago intends to draw upon these credit facilities to fund its share of the construction costs of an expanded Aux Sable project, as well as cost overrun credit support required for the Alliance Pipeline project.

Fort Chicago also agreed to issue, as part of the financing arrangements, 495,000 warrants on a private placement basis to the lenders. Each warrant is exercisable for one Class A Unit at an exercise price of \$6.65 per unit. The warrants expire on the earlier of one year after start-up of the Alliance Pipeline project and one year after the retirement of the credit facilities and, in any event, not later than five years after the date of issuance.

Results of Operations

During 1998, the Partnership earned interest income of \$14.9 million and incurred administration expenses of \$1.4 million. Administration expenses were higher than forecast as a result of unbudgeted legal costs incurred in conjunction with the equity commitments of the Partnership. The Partnership accounts for its investment in the Alliance projects by the equity method, whereby its share of the income for 1998 was \$8.7 million (1997– \$0.2 million). Fort Chicago estimates that, from formation of the Partnership in 1997 to start-up of the Alliance projects on October 1, 2000, we will earn approximately \$80 million from interest income and equity income from the Alliance projects, less administration and financing expenses. On October 1, 2000, we are estimating Unitholder equity to be \$6.95 per Class A Unit versus \$6.08 at December 31, 1998.

Liquidity and Capital Resources

With the rights offering and special warrants financings of \$379 million of equity, interest income of approximately \$25 million prior to start-up of the Alliance project and the \$145 million of arranged bank credit facilities, the Partnership is expected to have sufficient funding for its share of the capital expenditures of the Alliance projects.

Equity Capital Commitments to the Alliance Projects

The six owners of Alliance have provided irrevocable equity commitments to fund approximately 30 per cent of the currently estimated construction costs of the Alliance Pipeline project (including a cost overrun amount) and 100 per cent of the currently estimated construction costs of the Aux Sable project. Each owner is committed to a base equity commitment and a cost overrun equity commitment.

Should an owner, including the Partnership, fail to meet all or some part of its equity commitment obligations to Alliance and Aux Sable, Alliance and Aux Sable will: (i) enforce any security held by them, and then, if the equity commitment continues to be unfunded; (ii) call on any over-subscription pool commitments, should one exist; (iii) offer the right to subscribe for the units and shares to the existing owners on a pro-rata basis; and (iv) obtain financing from third parties. If the unpaid equity commitment is funded by any of the means described in (ii), (iii) or (iv), the funding party shall be entitled to purchase a corresponding

portion of the defaulting party's shares and units in the Alliance projects at 50 per cent of the original cost. In addition, a defaulting party will be required to pay the greater of one per cent of its remaining equity commitment and \$250 thousand if the default is cured by any such means, and will be liable for all consequential damages if the equity default is not cured by another party.

The following table sets forth the equity commitment obligations of the Partnership as at December 31, 1998:

	Alliance Canada Pipeline	Alliance U.S. Pipeline	Aux Sable Project
	<i>Cdn. \$ Millions</i>	<i>U.S. \$ Millions</i>	<i>U.S. \$ Millions</i>
Total expected costs of project	\$ 2,406.6	\$ 1,429.4	\$ 365.0
Allowance for funds used during construction	248.8	173.9	-
Debt service reserve account	12.4	2.9	-
Remaining cost overrun commitments	54.2	104.0	40.0
	2,722.0	1,710.2	405.0
Allowance for equity funds used during construction	(122.9)	(80.1)	-
Total cash requirements	2,599.1	1,630.1	405.0
Expected debt financing	(1,878.1)	(1,185.8)	-
Cash equity commitment	721.0	444.3	405.0
Fort Chicago's share	187.6	115.6	105.4
Less: Funded to December 31, 1998	(83.3)	(47.0)	(3.8)
Add: Debt service reserve account	5.9	4.1	-
Future equity commitment	\$ 110.2	\$ 72.7	\$ 101.6

Alliance Debt Financing Plan

Alliance has arranged bank debt financing for the two major aspects of the Alliance Pipeline project – the Alliance Canada Pipeline and Alliance U.S. Pipeline. The banks have provided a fully under-written commitment to fund 70 per cent of the currently estimated base capital costs and a cost overrun amount.

In March 1999, Alliance met the conditions to drawing under the loan agreement. As a consequence, the Partnership will not be required to invest further equity capital into the Alliance Pipeline project for most of 1999.

Alliance has been conducting negotiations with bond underwriters regarding the issuance of bonds to reduce the amount of financing from the banking group. Alliance has sought indicative ratings for the senior indebtedness from each of Moody's Investor Service, Standard & Poor's Rating Services, Dominion Bond Rating Service and Canadian Bond Rating Service for this purpose. Alliance proposes to issue bonds in both Canada and the U.S. in 1999.

Distributions

The Partnership will distribute “distributable cash” to Unitholders on a quarterly basis. The General Partner anticipates distributing distributable cash in respect of the quarters ending March, June, September and December in each year to Unitholders of record on the last day of the applicable quarter. Payments will be made on or before the 30th day after each record date. It is unlikely that there will be any distribution to Unitholders until after the Alliance Pipeline is in service, which is not expected prior to October 1, 2000. There is no assurance that the Alliance Pipeline will be placed into service by this date or at all.

The annual distributable cash in the initial years following the in-service date will vary based on a number of factors including the following: (i) the rate of return allowed on the Alliance Canada Pipeline and the Alliance U.S. Pipeline; (ii) the return of capital allowed on the Alliance Canada Pipeline and the Alliance U.S. Pipeline; (iii) the size and scope of the Aux Sable Plant; (iv) the amount of cash held in reserve; and (v) the operating expenses of the Partnership. Any distribution to Unitholders will require the consent of the lenders under the Partnership’s Senior credit facilities.

Rate of Return on the Alliance Projects

The rate of return allowed on the Alliance Canada Pipeline and Alliance U.S. Pipeline was negotiated between Alliance and its shippers at the time of the open season in late 1996, and approved by the FERC and NEB. Alliance was allowed a 12 per cent return on equity on the base capital of Canadian \$2,071 million for Alliance Canada Pipeline and U.S. \$1,236 million for the Alliance U.S. Pipeline with an incentive mechanism based on final capital costs. Such incentive varies, on a linear basis, the return on equity ± 1 per cent for each ± 20 per cent of capital costs up to a maximum of ± 2 per cent. Based on Alliance’s presently projected capital costs of 116 per cent of the base capital costs, the return on equity is anticipated to be 11.2 per cent.

In conjunction with the Alliance shippers signing transportation agreements to replace the previous precedent agreements, Alliance agreed to modify the incentive mechanism such that Alliance will not receive return on the equity for any capital costs over 20 per cent of the original base. However, Alliance would still be able to recover the return of equity capital, a return on the debt capital and a return of the debt capital under the transportation tolls for the full amount of the capital costs. At this time, Fort Chicago believes that it is highly unlikely that the capital will exceed 120 per cent of the base capital and therefore Fort Chicago will receive a return on all of its capital invested in the Alliance Pipeline.

The Aux Sable Plant's income is unregulated and will vary primarily according to changes in the difference between its supply costs and the sales price of its products. The supply costs consist of shrinkage make-up gas and operating costs. Shrinkage make-up gas represents the cost of the natural gas which must be purchased to replace the energy equivalent of the natural gas liquids which are extracted from the natural gas processed by the Aux Sable Plant.

Ownership Restrictions

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to (i) a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership" for purposes of the *Income Tax Act* (Canada); or (ii) a person who is a "Competitor" (as defined in the Partnership Agreement). The Partnership Agreement further provides that no person, other than an "Exempt Person" (as defined in the Partnership Agreement), may beneficially own 10 per cent or more of the outstanding Class A Units until 180 days after the in-service date of the Alliance Pipeline project.

Risk Factors

Investment in the Partnership is subject to a number of risks. There is a risk that a purchaser may lose some or all of his investment. Initially, the Partnership's sole asset will be its interest in the Alliance projects. Although the Alliance Pipeline project has received the regulatory approvals required to commence construction, an appeal remains before the courts. Should this appeal be successful, the in-service date for the Alliance Pipeline project could be delayed, and therefore, income distributions would be delayed.

Although the Partnership has secured all the financing required to meet its equity commitment obligations to the Alliance projects, the agreements contain conditions to draw down on the facilities. Should the Partnership be unable to draw on the credit facilities, the Partnership would have to issue additional equity capital or sell a portion of its interest in the Alliance projects in order to satisfy its equity commitment obligations. Failure to meet the equity commitment obligations may result in the sale of the Partnership's interest in the Alliance projects at a significant loss. Should the Alliance projects not proceed, the Partnership will be dissolved and remaining cash will be distributed to holders of Class A Units.

Should the Alliance projects proceed to completion, the business of the Partnership will be subject to the normal risks associated with the pipeline and natural gas liquids industries, including government and environmental regulations where applicable, price fluctuations of natural gas and natural gas liquids, availability of inlet natural gas, risk of default by shippers, competitive pressures, fluctuation of the Partnership's operating costs and fluctuations in the U.S.-Canada exchange rate. Furthermore, risks of substantial costs and liabilities relating to environmental claims are inherent in pipeline operations, and there can be no assurance that such costs or liabilities will not be incurred.

Distributions by the Partnership to the Unitholders will fluctuate, and there can be no assurance regarding the amounts to be distributed. The revenue of the Partnership will be based upon tolls charged pursuant to transportation service agreements, which end 15 years after the in-service date, unless renewed. Therefore, beyond the initial term of such agreements, the revenues derived by the Partnership will depend upon demand for natural gas in markets served by the Alliance Pipeline and the availability of competitive alternatives for transportation of natural gas to such markets.

The Partnership may issue an unlimited number of additional Class A Units without the approval of the Unitholders, such that the Unitholders may be subject to a dilution of their interests. A Unitholder, to maintain limited liability, must not take part in the management or control of the Partnership's business.

Year 2000

The Partnership has recently acquired computer hardware and software to manage its affairs. All such hardware and software are "Year 2000" compliant. The Alliance projects have developed a Year 2000 readiness plan, calling for Alliance to be substantially compliant for the year 2000 by March 31, 1999.

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.

The financial statements are prepared on a going concern basis and, as outlined in the notes to the financial statements, certain future events must occur or the stated amounts of assets and liabilities would be reflected on a different basis.

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

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

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

The independent external auditors, 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 changes in financial position in conformity with generally accepted accounting principles.

Guy J. Turcotte (signed)
Chairman and C.E.O.

March 4, 1999

Stephen H. White (signed)
President and C.F.O.

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, 1998 and 1997 and the Consolidated Statements of Income and Undistributed Income and Changes in Financial Position for the periods ended December 31, 1998 and 1997. These financial statements are the responsibility of the management of the Partnership's General Partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

Calgary, Canada
March 4, 1999

PricewaterhouseCoopers LLP (signed)
Chartered Accountants

Consolidated Statement of Financial Position

As at December 31	1998	1997
Assets		
Current assets		
Cash and short term investments	\$ 229,805,085	\$ 39,245,453
Receivables	141,416	27,033
Subscription receivable (Note 3(b))	-	126,213,473
	229,946,501	165,485,959
Investment in Alliance Projects (Note 2)	168,595,452	35,451,307
Deferred expenses (Note 4)	3,766,610	-
Office equipment	49,506	-
	\$ 402,358,069	\$ 200,937,266
Liabilities		
Payables	\$ 529,157	\$ 1,613,965
Partners' equity		
Partners' capital account (Note 3(a))	378,576,920	5,426,184
Special warrants (Note 3(b))	-	193,527,325
Warrants (Note 3(g))	653,400	-
Undistributed income	22,598,592	369,792
	401,828,912	199,323,301
	\$ 402,358,069	\$ 200,937,266

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

By: Guy J. Turcotte (signed)
Director

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

See accompanying notes to the Consolidated Financial Statements

Consolidated Statement of
Income and Undistributed Income

For the period ended December 31	1998	1997
Income		(Note 1)
Interest	\$ 14,942,321	\$ 187,215
Expenses		
Administration	(1,393,594)	(60,558)
Net income before equity income	13,548,727	126,657
Equity income of Alliance Pipeline project (Note 1)	8,680,073	243,135
Net income for the period	22,228,800	369,792
Undistributed income at the beginning of the period	369,792	-
Undistributed income at the end of the period	\$ 22,598,592	\$ 369,792
Net income per Class A Unit		
Basic	\$ 0.34	\$ 0.29
Fully diluted	\$ 0.34	\$ 0.00

Consolidated Statement of
Changes in Financial Position

For the period ended December 31	1998	1997
Operating		(Note 1)
Net income for the period	\$ 22,228,800	\$ 369,792
Less: Equity income of Alliance Pipeline project	(8,680,073)	(243,135)
Add: Depreciation	21,455	-
Cash flow	13,570,182	126,657
Financing		
Share capital	184,766,840	1
Special warrants	-	200,964,565
Subscription receivable	126,213,473	(126,213,473)
Issue costs	(5,143,429)	(2,011,057)
Changes in non-cash working capital	(1,199,191)	1,586,932
	304,637,693	74,326,968
Investing		
Investment in Alliance projects	(124,464,072)	(35,208,172)
Deferred expenses	(3,113,210)	-
Office equipment	(70,961)	-
	(127,648,243)	(35,208,172)
Increase in cash and short-term investments	190,559,632	39,245,453
Cash and short-term investments at the beginning of the period	39,245,453	-
Cash and short-term investments at the end of the period	\$ 229,805,085	\$ 39,245,453
Cash flow per Class A Unit		
Basic	\$ 0.21	\$ 0.10
Fully diluted	\$ 0.21	\$ 0.00

See accompanying notes to the Consolidated Financial Statements

As at December 31, 1998

N o t e 1

Basis of Presentation and Business of the Partnership

Fort Chicago Energy Partners L.P. (the "Partnership") is a limited partnership created under the laws of the Province of Alberta on October 9, 1997. The Consolidated Statements of Income and Changes in Financial Position for 1997 reflect the operations of the Partnership from October 9, 1997 to December 31, 1997.

The Partnership was created to acquire the interests in the Alliance projects held by Chauvco Resources Ltd. ("Chauvco") and all agreements related thereto. The business of the Partnership shall consist solely of directly or indirectly participating in the transportation, storage, marketing or processing of hydrocarbons and directly or indirectly investing and managing investments in other 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, will be responsible for overseeing the management of the Partnership, including the determination of the amount of distributions to the holders of limited partnership units of the Partnership.

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

The 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 from north-eastern British Columbia to Chicago, Illinois. The Aux Sable project involves the construction and operation of natural gas liquids extraction and fractionation facilities proposed to be constructed near the terminus of the Alliance Pipeline project.

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. For the period ended December 31, 1998, the Partnership recorded \$8,680,073 (1997 - \$243,135) as its share of the income of the Alliance Pipeline project.

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.

N o t e 2

Investment in Alliance Projects

On October 29, 1997, Chauvco and its affiliates transferred their 20.92% interest in the Alliance projects to Fort Chicago and its affiliates for an aggregate purchase price of \$13.5 million plus capital invested since September 3, 1997 of \$3.9 million. The purchase price was paid for with the proceeds raised under the private placements of special warrants noted in 3 (b)(i) below.

On December 2, 1997, Beau Canada Exploration Ltd. ("Beau") and its affiliates transferred their 2.17% interest in the Alliance projects to Fort Chicago and its affiliates for an aggregate purchase price of approximately \$2.9 million.

On December 3, 1997, Summit Resources Limited ("Summit") and its affiliates transferred their 4.811% interest in the Alliance projects to Fort Chicago and its affiliates for an aggregate purchase price of approximately \$6.4 million.

On January 8, 1998, the Alliance projects issued additional equity to a new investor that resulted in the Partnership's interest in the Alliance projects being diluted to 26.026%. Notwithstanding the 26.026% ownership interest, the Partnership will be restricted to voting 20% of the votes to be cast at a partners' or shareholders' meeting of the Alliance project's owners.

During 1998, the Partnership invested \$124,314,072 as its share of the equity required by the Alliance Projects and incurred other expenditures of \$150,000 in conjunction with the acquisition of the Alliance interest purchased from Chauvco.

N o t e 3
Partners' Equity

(a) Partners' capital account

(i) Authorized

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

(ii) Issued

	Class A Units		Class B Units	
	Number	Value	Number	Value
Issued on formation of the Partnership	1	\$ 1	1	\$ 1
Exercise of special warrants <i>(Note 3 (b))</i>	1,293,433	7,437,240	-	-
Redemption of Class B Unit	-	-	(1)	(1)
Issue costs	-	(2,011,057)	-	-
December 31, 1997	1,293,434	5,426,184	-	-
Exercise of special warrants <i>(Note 3 (b))</i>	33,656,926	193,527,325	-	-
Chauvco rights offering <i>(Note 3 (c)(i))</i>	26,142,058	155,545,245	-	-
Summit rights offering <i>(Note 3 (c)(ii))</i>	4,898,951	29,148,767	-	-
Issue costs	-	(5,143,429)	-	-
Eligible optionholder warrants <i>(Note 3 (f))</i>	12,240	72,828	-	-
December 31, 1998	66,003,609	\$ 378,576,920	-	\$ -

(b) Special warrants

(i) Chauvco shareholders

On October 28, 1997, the Partnership completed private placements with three shareholders of Chauvco holding an aggregate of 22,774,974 common shares of Chauvco. Each shareholder purchased special warrants of the Partnership by way of private placement at a price of \$5.75 per special warrant. The purchase price for the special warrants was paid by the delivery to the Partnership of cash in the amount of \$2.00 per special warrant and the balance of the purchase price of \$3.75 per special warrant was payable to the Partnership on demand.

The total proceeds to the Partnership was \$130,956,101, representing approximately 47% of the total proceeds to be raised under the Chauvco rights offering as noted in (c)(i) below. Each shareholder purchased that number of special warrants that such shareholder would have been entitled to receive had they exercised their initial right under the Chauvco rights offering. Each special warrant entitled the holder thereof to acquire one Class A Unit.

Each of the shareholders agreed not to exercise or sell the rights issued to it pursuant to the Chauvco rights offering. On December 31, 1997, 1,212,972 special warrants were exercised for Class A Units and the Partnership received \$4,548,645. On January 9, 1998, the Partnership received the remaining subscription receivable of \$80,857,507 and issued 21,562,002 Class A Units upon the exercise of the special warrants.

(ii) Summit Group

On December 2, 1997, the Partnership issued 3,060,870 special warrants by way of private placement to Summit at a price of \$5.75 per special warrant. In addition, on December 2, 1997 the Partnership issued 3,807,063 special warrants by way of private placement to certain of the shareholders of Summit or their nominees at a price of \$5.75 per special warrant. Summit and the Summit shareholders subscribing for special warrants are collectively referred to as the "Summit Group". Each shareholder purchased that number of special warrants that such shareholder would have been entitled to receive had they exercised their initial rights under the Summit rights offering. Each of the shareholders agreed not to exercise or sell the rights issued to it pursuant to the Summit rights offering. The purchase price for the special warrants was paid by the delivery to the Partnership of cash in the amount of \$2.00 per special warrant and the balance of the purchase price of \$3.75 per special warrant was payable to the Partnership on demand. The total proceeds of \$39,490,615 was utilized to purchase Summit's 4.811% interest in the Alliance projects for approximately \$6.4 million and to fund future commitments to the Alliance projects.

Each special warrant entitled the holder thereof to acquire one Class A Unit. On December 31, 1997, one member of the Summit Group exercised 80,461 special warrants for Class A Units and the Partnership received \$301,729. On January 9, 1998 the Partnership received the remaining subscription receivable of \$25,453,028 and issued 6,787,472 Class A Units upon the exercise of the special warrants.

(iii) Beau

On November 24, 1997, the Partnership issued 5,307,452 special warrants by way of private placement to Beau at a price of \$5.75 per special warrant. The purchase price for the special warrants was paid by the delivery to the Partnership of cash in the amount of \$2.00 per special warrant and the balance of the purchase price of \$3.75 per special warrant was payable to the Partnership on demand. The total proceeds of \$30,517,849 was utilized to purchase Beau's 2.17% interest in the Alliance projects for approximately \$2.9 million and to fund future commitments to the Alliance projects.

Each special warrant entitled the holder thereof to acquire one Class A Unit. On January 9, 1998 the Partnership received the subscription receivable of \$19,902,945 and issued 5,307,452 Class A Units upon the exercise of the special warrants.

	Number	Value	Subscription Receivable
Issued to Chauvco shareholders	22,774,974	\$ 130,956,101	\$ 85,406,153
Issued to Summit Group	6,867,933	39,490,615	25,754,749
Issued to Beau	5,307,452	30,517,849	19,902,945
Exercised for Class A Units	(1,293,433)	(7,437,240)	(4,850,374)
December 31, 1997	33,656,926	193,527,325	126,213,473
Exercised for Class A Units	(33,656,926)	(193,527,325)	(126,213,473)
December 31, 1998	-	\$ -	\$ -

(c) Rights offerings*(i) Chauvco rights offering*

On December 3, 1997, the Partnership filed a prospectus to qualify the distribution of 26,142,058 Class A Units by way of a rights offering to shareholders of Chauvco at a price of \$5.95 per unit for proceeds of \$155,545,245. On December 3, 1997, the Partnership entered into an underwriting agreement with ScotiaMcLeod Inc., Gordon Capital Corporation and Trilon Securities Corporation to underwrite the Chauvco rights offering on a standby basis. On January 9, 1998, the Chauvco rights offering closed and the Partnership received the proceeds.

(ii) *Summit rights offering*

On December 3, 1997, the Partnership filed a prospectus to qualify the distribution of 4,898,951 Class A Units by way of a rights offering to shareholders and optionholders of Summit at a price of \$5.95 per unit for proceeds of \$29,148,767. On December 3, 1997, the Partnership entered into an underwriting agreement with ScotiaMcLeod Inc., Gordon Capital Corporation and Trilon Securities Corporation to underwrite the Summit rights offering on a standby basis. On January 9, 1998, the Summit rights offering closed and the Partnership received the proceeds.

(d) Ownership restrictions

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units may be transferred to (i) a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership" for purposes of the *Income Tax Act* (Canada); or (ii) a person who is a "Competitor" (as defined in the Partnership Agreement). The Partnership Agreement further provides that no person, other than an "Exempt Person" (as defined in the Partnership Agreement), may beneficially own 10 per cent or more of the outstanding Class A Units until 180 days after the in-service date of the Alliance Pipeline project.

(e) Unitholders' rights plan

The Partnership has a unitholders' rights plan (the "Plan"). Under the Plan, one right will be issued with each Class A 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 per cent 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 per cent discount from the then market price. The rights are not triggered by a "Permitted Bid", as defined in the Plan.

(f) Eligible Optionholder Warrants

On December 15, 1997 the holders of options to acquire common shares of Chauvco received for no consideration Eligible Optionholder Warrants of the Partnership on a one-to-one basis. This resulted in the issuance of 2,429,250 Eligible Optionholder Warrants. Subject to certain limitations, each Eligible Optionholder Warrant entitles the holder thereof to acquire one Class A Unit at a price of \$5.95. The Eligible Optionholder Warrants will only be exercisable during the period from the date of issuance until the date which is 180 days after the in-service date for the Alliance projects. During 1998, 12,240 (1997 – Nil) Eligible Optionholder Warrants were exercised for proceeds of \$72,828.

(g) Warrants

In conjunction with the arrangement of the credit facilities described in Note 5 below, 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 the later of (i) one year after the in-service date for the Alliance Pipeline project or (ii) one year after the retirement of the subordinated credit facilities described in Note 5 below provided that the warrants shall expire no later than January 25, 2004. As at December 3, 1998, the Partnership recognized \$653,400 as the value of these warrants.

N o t e 4
Deferred Expenses

	1998	1997
Financing expenses	\$ 3,460,672	\$ –
Other	305,938	–
	\$ 3,766,610	\$ –

(a) Financing expenses

During the year, the Partnership incurred cash expenses totaling \$2,807,272 and recognized \$653,400 as the value of warrants issued to establish the credit facilities described in Note 5 below. The Partnership will amortize the financing expenses over 33 months commencing January 1, 1999.

(b) Other

During the year, the Partnership paid legal expenses totaling \$212,368 for monitoring the regulatory hearings of the Alliance Pipeline project and \$93,570 for consulting fees as part of preparing a business plan for the Aux Sable project. The Partnership will amortize the expenditures over 10 years commencing on the in-service date of the Alliance projects.

N o t e 5

Bank Credit Facilities

On December 3, 1998 the Partnership entered into two credit agreements with a syndicate of banks to provide credit facilities to the Partnership in the amount of Canadian \$40 million and U.S. \$70 million as follows:

	Alliance Pipeline Project Cost Overruns <i>Canadian \$</i>	Aux Sable Project <i>U.S. \$</i>
Senior credit facilities	\$ 25,000,000	\$ 44,000,000
Subordinated credit facilities	15,000,000	26,000,000
	\$ 40,000,000	\$ 70,000,000

The Partnership delivered a general security agreement and its subsidiary partnerships delivered guarantees in favour of the lenders as security for the Partnership's obligations under the credit facilities. The Partnership intends to draw upon these credit facilities to fund its share of the construction costs of an expanded Aux Sable project, as well as cost overrun credit support required for the Alliance Pipeline project.

The interest rate on outstanding debt will vary in relationship to the lenders' prime interest rates. The Partnership has agreed to pay standby and letter of credit fees varying from 1.2% to 4% 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 and include the maintenance of consolidated tangible net worth of at least \$325,000,000. The credit facilities mature one year from the earlier of the in-service date of the Alliance Pipeline project and October 1, 2000 but may be extended for an additional six-month period with the approval of the lenders.

N o t e 6

Unit Appreciation Right Cash Bonus Plan

In 1997, the Partnership issued an aggregate of 846,666 unit appreciation rights to Directors, officers and employees of the General Partner and the Partnership. All of the unit appreciation rights granted under the plan have an exercise price of \$5.75 and expire on December 31, 2003. In addition, such unit appreciation rights vest as follows: 33 $\frac{1}{3}$ % on the date that all regulatory approvals required to commence construction of the Alliance Pipeline project are obtained; 33 $\frac{1}{3}$ % on the in-service date of the Alliance Pipeline project; and 33 $\frac{1}{3}$ % on December 31, 2000. All regulatory approvals required to commence construction of the Alliance Pipeline project were obtained on December 3, 1998 and, accordingly, 33 $\frac{1}{3}$ % of the unit appreciation rights granted under the plan vested on that date. The value of the vested unit appreciation rights as at December 31, 1998 was \$127,000.

N o t e 7

Commitment to Alliance Projects

On December 31, 1998, the Partnership entered into an equity commitment to various entities comprising the Alliance projects in the amount of Canadian \$110.2 million and U.S. \$174.3 million.

On December 9, 1998 the Partnership had entered into a forward purchase of U.S. \$80 million at Cdn. \$1.5435 (Cdn. \$123,480,000) to fund a portion of the U.S. dollar equity commitment.

N o t e 8

Financial Instruments

The Partnership's financial assets and liabilities as at December 31, 1998, included cash, accounts receivable and accounts payable. 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.

N o t e 9

Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Corporate Information

Board of Directors

Guy J. Turcotte
Calgary, Alberta

John E. Feick⁽²⁾
Calgary, Alberta

Verne G. Johnson⁽¹⁾⁽²⁾
Calgary, Alberta

Arthur V. Mauro⁽¹⁾
Winnipeg, Manitoba

Stephen W.C. Mulherin⁽¹⁾⁽²⁾
Calgary, Alberta

Officers

Guy J. Turcotte
*Chairman and
Chief Executive Officer*

Stephen H. White
*President and
Chief Financial Officer*

Renée M. Ratke
*Secretary
Partner, Bennett Jones*

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Executive Assistant

*Phone: (403) 296-0135
Fax: (403) 296-0122
Email: lharper@fortchicago.com*

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Solicitors

Bennett Jones
Calgary, Alberta

Bankers

The Toronto-Dominion Bank
Calgary, Alberta

Bank of Nova Scotia
Calgary, Alberta

Alberta Treasury Branches
Edmonton, Alberta

Transfer Agent and Registrar

Montreal Trust Company of Canada
Vancouver, Calgary, Winnipeg, Montreal, Toronto

Stock Exchange Listings

*The Toronto Stock Exchange, Montreal Exchange
and Alberta Stock Exchange*

Trading Symbol: FCE.UN

*1 Member of the Audit Committee
2 Member of the Compensation Committee*

1998 Income Tax Information

	Total 1998	Allocated to Class A Unitholders as of				Total
		March 31	June 30	Sept. 30	Dec. 31	
Net income	\$ 218,372	\$ 0.000827	\$ 0.000827	\$ 0.000827	\$ 0.000827	\$ 0.003308
Capital cost allowance	14,189	0.000054	0.000054	0.000054	0.000054	0.000216
Foreign tax paid	189,025	0.000705	0.000705	0.000705	0.000705	0.002820
Charitable donations	5,000	0.000019	0.000019	0.000019	0.000019	0.000076



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