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.

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

March 4, 1999

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

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 *(Note 1)*
Income		
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 *(Note 1)*
Operating		
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

Note 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 northeastern 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.

Note 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.

Note 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 *(Note 3 (b))*	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 *(Note 3 (b))*	**33,656,926**	**193,527,325**	**–**	**–**
Chauvco rights offering *(Note 3 (c)(i))*	**26,142,058**	**155,545,245**	**–**	**–**
Summit rights offering *(Note 3 (c)(ii))*	**4,898,951**	**29,148,767**	**–**	**–**
Issue costs	**–**	**(5,143,429)**	**–**	**–**
Eligible optionholder warrants *(Note 3 (f))*	**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.

Note 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.

Note 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	Aux Sable Project
	Canadian $	*U.S. $*
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.

Note 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 1/3% on the date that all regulatory approvals required to commence construction of the Alliance Pipeline project are obtained; 33 1/3% on the in-service date of the Alliance Pipeline project; and 33 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 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.

Note 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.

Note 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.

Note 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.