

## Letter to Unitholders

As President and Chief Executive Officer, I am pleased to report on the financial and operating results of Fort Chicago Energy Partners L.P. for the second quarter of 2010. Our businesses delivered strong results from operations this quarter as reflected in our second quarter distributable cash. We are very pleased that Aux Sable has continued to benefit from favourable NGL market conditions, recognizing \$22.1 million in margin-based lease revenues. An additional \$8.0 million of margin-based lease revenues remains to be recognized in the remainder of this year. Our pipeline business continued to meet expectations, as did our power business, which generated improved operating income this quarter.

These solid operating results are not as apparent in our second quarter net income when compared to the same period last year, primarily due to currency translation losses arising from our United States-based activities.

We have also made recent announcements regarding several strategic initiatives. Our agreement to acquire Swift Power Corp. is an important step towards growing our renewable energy portfolio and provides us with additional expertise in this field. In July, we successfully issued \$86.25 million of convertible debentures through a public offering, strengthening our overall capitalization. The majority of the proceeds from this offering were used to repay amounts drawn on our credit facilities. Furthermore, we are very pleased that Aux Sable Canada has entered into a new supply agreement for its Heartland Off-gas Facility. This arrangement will contribute to our earnings and cash flows beginning in the latter part of 2011.

### FINANCIAL RESULTS

For the three months ended June 30, 2010, we generated net income of \$18.4 million or \$0.13 per Unit compared to \$20.0 million or \$0.15 per Unit for the same period in 2009. The decrease primarily results from higher non-cash foreign exchange losses and a mark-to-market loss related to our exchangeable debentures. In aggregate, the effect of foreign exchange and the mark-to-market exchangeable debenture loss resulted in a \$10.2 million or \$0.07 per Unit reduction in second quarter net income when compared to net income for the same period last year.

Aux Sable's earnings for the three months ended June 30, 2010 increased significantly compared to the same period last year. As a result of continued favourable NGL market conditions, Aux Sable recognized \$22.1 million of margin-based lease revenues this quarter and deferred the recognition of an additional \$8.0 million in margin-based lease revenues. This reflects a substantial improvement from the same period last year when Aux Sable recognized \$6.8 million of margin-based lease revenues.

Earnings from our power business, excluding the mark-to-market loss recorded in relation to the exchangeable debentures, increased compared to the same period last year. This increase is due primarily to a contribution from the East Windsor cogeneration facility, which commenced operations in November 2009, and higher earnings from the Brush generation facility.

Earnings from our pipeline businesses, Alliance and AEGS, were relatively consistent with the same period last year, although Alliance's U.S.-generated earnings were impacted by the effect of the stronger Canadian dollar.

We incurred higher corporate costs during the second quarter of 2010, reflecting increased interest costs related to our July 2009 issuance of senior notes and foreign exchange losses. Corporate costs for the same period last year included foreign exchange gains. Taxes increased in the second quarter of 2010 compared to the same period last year due to higher Aux Sable earnings.

Distributable cash for the three months ended June 30, 2010 was \$49.3 million or \$0.34 per Unit, compared to \$38.6 million or \$0.29 per Unit for the same period in 2009, reflecting:

- consistent distributions from Alliance as higher income tax recoveries were offset by the effect of the stronger Canadian dollar and reduced return on investment base;
- comparable distributable cash from AEGS;
- higher distributions from Aux Sable, reflecting more favourable NGL market conditions;

- lower distributable cash from Fort Chicago Power, reflecting higher maintenance capital expenditures at the California cogeneration facilities and the effect of the stronger Canadian dollar, partially offset by higher capacity payments from the Brush facility and incremental cash flows from Glen Park;
- the absence of a foreign exchange gain realized in the second quarter of 2009;
- increased corporate interest costs, due primarily to the senior notes issued in July 2009; and
- lower current taxes, as the effect of increased Aux Sable earnings was mitigated due to loss utilization being made available through corporate restructuring.

In aggregate, the effect of the stronger Canadian dollar resulted in a \$2.2 million or \$0.02 per Unit reduction in distributable cash for the three months ended June 30, 2010 when compared to distributable cash for the same period last year.

We generated cash from operating activities of \$41.1 million for the three months ended June 30, 2010, a \$7.9 million increase from the same period last year, due primarily to increased operating cash flows from Aux Sable.

### **OPERATING HIGHLIGHTS**

During the three months ended June 30, 2010, the Alliance pipeline continued to operate in a reliable manner, fully meeting its contracted 1.325 billion cubic feet per day of firm-service shipping capacity. Actual transportation deliveries averaged 1.582 bcf/d, approximating volumes delivered during the same period last year.

AEGS second quarter toll volumes of 283.1 thousand barrels per day increased slightly relative to 273.4 mbbbls/d in the same period last year due to higher deliveries to Fort Saskatchewan.

During the three months ended June 30, 2010, Aux Sable processed 96 percent (2009 – 99 percent) of the natural gas delivered by Alliance. Modifications were successfully made to Aux Sable's Channahon Facility in the second quarter of this year to increase ethane recoveries. Aux Sable sold 74.6 mbbbls/d of natural gas liquids during the second quarter of 2010, up from 70.8 mbbbls/d for the same period in 2009. Average ethane volumes increased to 39.4 mbbbls/d in the second quarter of 2010 from 36.4 mbbbls/d in the second quarter of 2009 due to higher ethane recoveries. Propane plus volumes for the quarter increased to 35.2 mbbbls/d from 34.4 mbbbls/d in the second quarter of 2009.

Fort Chicago Power generated 97,308 megawatt hours of electricity, down from 112,525 MWh during the same period last year, primarily reflecting reduced dispatch at the California cogeneration facilities. Under the new Short Run Avoided Cost energy reimbursement formula, it is less economic to dispatch these facilities during non-peak periods. The decrease in electricity generated also reflects lower dispatch at the Brush facility. These decreases were partially offset by incremental electricity generated by Glen Park. As the earnings of most of Fort Chicago Power's facilities are comprised of fixed capacity payments, their earnings and cash flows are not significantly influenced by the volume of electricity generated.

NRGreen generated 34,731 MWh of electricity during the second quarter, approximating volumes generated during the same period last year. East Windsor Cogeneration, which commenced operations in November 2009, generated 52,810 MWh of electricity during the second quarter.

### **AGREEMENT TO ACQUIRE SWIFT POWER CORP.**

On June 22, we announced that we had entered into an agreement with Swift Power Corp. ("Swift Power") pursuant to which we agreed to make an offer to acquire all of the issued and outstanding common shares (the "Swift Shares") of Swift Power by way of a take-over bid. The aggregate transaction value, not including the Swift Shares owned by us, is approximately \$8.47 million. The offer is scheduled to close on August 9, 2010.

In April of this year, Swift Power was awarded a long-term Electricity Purchase Agreement by BC Hydro for the Dasque Cluster hydroelectric project, a 20 megawatt project located near Terrace, B.C. The Dasque Cluster project is planned to be in operation by late 2012, pending receipt of necessary regulatory approvals.

## **JULY 2010 CONVERTIBLE DEBENTURE OFFERING**

On July 19, we issued through a public offering \$75 million of 5.75 percent convertible unsecured subordinated debentures, Series C at a price of \$1,000 per Series C Debenture. The Series C Debentures, which mature on July 31, 2017, are convertible, at the option of the holder, at any time into our Class A Units at a conversion price of \$14.60 per Class A Unit. We used the net proceeds of approximately \$71.5 million to repay amounts borrowed under our credit facilities.

On July 22, the underwriters exercised the over-allotment option in full and purchased an additional \$11.25 million principal amount of Series C Debentures. We intend to use the net proceeds of approximately \$10.8 million to repay amounts borrowed under our credit facilities, to finance our ongoing acquisition and development activities and for general corporate purposes.

## **NEW SUPPLY AGREEMENT FOR AUX SABLE CANADA'S HEARTLAND OFF-GAS FACILITY**

On July 6, Aux Sable Canada announced the execution of a long-term off-gas processing agreement with Shell Canada Products, securing a new feedstock source for Aux Sable Canada's Heartland Off-gas Facility. Under the agreement, the Heartland Off-gas Facility will process up to 20 million cubic feet per day of off-gas and produce hydrogen, ethane and a propane-plus mix, which will be delivered via pipeline to Shell's Scotford Refinery. We expect the Heartland Off-gas Facility to be operational in the summer of 2011.

## **UPDATED 2010 GUIDANCE**

Today, we announced updated guidance for 2010 distributable cash to be in the range of \$1.00 per Unit to \$1.30 per Unit, compared to previously issued guidance of \$0.95 per Unit to \$1.40 per Unit. The updated range reflects Aux Sable's strong year-to-date performance and our updated outlook for NGL market conditions. Further details concerning 2010 guidance can be found in the "Investor Information" section of our website - [www.fortchicago.com](http://www.fortchicago.com).

Respectfully,



Stephen H. White  
*President and Chief Executive Officer*  
July 28, 2010