

# this is AltaGas

ALTAGAS INCOME TRUST • FIRST QUARTER 2010

## ALTAGAS REPORTS FIRST QUARTER RESULTS AND ANNOUNCES PLANS FOR CORPORATE CONVERSION

**Calgary, Alberta (April 29, 2010)** – AltaGas Income Trust (AltaGas or the Trust) (TSX: ALA.UN) today reported net income for the three months ended March 31, 2010 of \$36.4 million (\$0.45 per unit - basic), compared to \$37.5 million (\$0.50 per unit - basic) for the same period of 2009. Excluding the effect of unrealized gain on risk management contracts, first quarter 2010 net income was \$32.4 million compared to \$37.0 million for the same period in 2009.

“The operating segments reported operating income of \$49.5 million compared to \$52.5 million for the same period last year,” said David Cornhill, Chairman and CEO of AltaGas. “Although power prices in Alberta were the lowest we have seen in many years and we are just now starting to see renewed producer activity in the basin, our overall results reflect the benefits of the Trust’s diversified portfolio of assets and disciplined risk management. Our field gathering and processing business reported its third quarter of improved results and we are seeing increased volumes generally across all our gas businesses this year.”

AltaGas declared a distribution of \$0.18 per trust unit and exchangeable unit payable on June 15, 2010 to securityholders of record on May 25, 2010. The ex-distribution date is May 21, 2010. The Trust declared total cash distributions of \$0.54 per unit in first quarter 2010.

### **Board Proposes Reorganization to a Corporate Structure**

AltaGas is pleased to announce its proposed reorganization into a corporate structure, subject to securityholder, court and regulatory approval. The Board expects to declare an annual dividend of \$1.32 per share to be paid on a monthly basis with the final determination to be made subsequent to securityholder approval. This dividend level will provide a significant increase in internally generated funds, as well as provide investors with a stable, sustainable dividend over the long term. Should the Plan of Arrangement be approved at the Annual and Special Meeting of Securityholders on June 3, 2010, AltaGas expects that the Board would declare the first monthly dividend on the effective date of the reorganization for securityholders of record on or about July 25 to be paid mid-August.

“We are excited about our future as we continue to deliver on our commitment to create value in a financially disciplined manner,” said Mr. Cornhill. “With \$2 billion of projects in advanced stages of development, AltaGas is poised to enter a new phase in its history. The significant growth opportunities will be supported by a dividend policy which balances income and growth to provide long term, sustainable returns to AltaGas’ investors. The reorganization into a corporate structure will enhance AltaGas’ access to capital and provide a strong financial platform to support its growth strategy. AltaGas’ business is being built for the long term.”

### **The Reorganization Plan**

AltaGas has scheduled an Annual and Special Meeting of the holders (Unitholders) of trust units (Trust Units) and the holders of exchangeable limited partnership units (Exchangeable Units) of AltaGas Holding Limited Partnership No.1 (Exchangeable Unitholders and together with the Unitholders, collectively, the Securityholders) at 3 p.m. MDT on June 3, 2010 at the Petroleum Club, 319 5 Ave SW, Calgary, Alberta (the Meeting) to consider, among other things, a proposed arrangement (the Arrangement) pursuant to the Canada Business Corporations Act involving AltaGas and a number of its subsidiaries and newly formed corporate entities pursuant to which AltaGas will be reorganized into a

dividend paying corporation that will be named "AltaGas Ltd" (New AltaGas) The Arrangement is expected to be completed on or about July 1, 2010 and is subject to, among other things, the approval of at least two-thirds of the Securityholders, voting together as a single class, the approval of the Court of Queen's Bench of Alberta and certain regulatory approvals (including the approval of the Toronto Stock Exchange to the substitutional listing of the New AltaGas common shares). Pursuant to the Arrangement, Securityholders will receive one common share of New AltaGas for each Trust Unit or Exchangeable Unit on a tax deferred basis.

All current members of the Board of Directors and senior management are expected to continue serving as directors and officers of the new corporation.

A management information circular and proxy statement outlining the details of the matters to be dealt with at the Meeting, including the Arrangement, is expected to be mailed to Securityholders in early May and will be available on SEDAR ([www.sedar.com](http://www.sedar.com)) and the AltaGas Website ([www.altagas.ca](http://www.altagas.ca)).

If the effective date of the Arrangement is July 1, 2010, as currently anticipated, AltaGas expects that its final monthly distribution will be paid on July 1, 2010. To the extent the effective date of the Arrangement is delayed beyond July 1, 2010, regular monthly distributions will be paid in the usual manner until such effective date, at which time any outstanding distributions declared but not yet paid will be paid on the effective date to Unitholders of record on the applicable distribution record date.

Following the Arrangement, dividends will be paid monthly starting on or about August 15, 2010 subject to Board approval. The dividend is initially expected to be set at \$0.11 per share on a monthly basis or \$1.32 per share on an annual basis. This dividend level will provide a significant increase in internally generated funds, as well as provide investors with a stable, sustainable dividend over the long term. The Board of Directors will continue to conduct its annual review of the dividend amount and frequency after its review of the strategic plan and second quarter results as it has done in the past.

"We are excited about our future as we continue to deliver on our commitment to create shareholder value in a financially disciplined manner," said Mr. Cornhill.

#### **Rationale and Benefits of the Arrangement**

AltaGas' management and the Board of Directors have determined that enhanced Securityholder and asset value could be realized and delivered more effectively through a corporate structure than through the existing trust structure. Management and the Board of Directors believe that the proposed corporate structure will simplify the business structure of the Trust, thereby improving the company's access to capital.

Management and the Board of Directors believe the Arrangement provides a number of strategic benefits to AltaGas and its Securityholders including:

- a more simplified and efficient corporate structure which is easier for market participants to understand and value;
- greater flexibility to deliver long-term capital growth and a reliable cash yield;
- enhanced access to capital and removal of the restriction on non-resident ownership applicable to income trusts, resulting in greater access to capital markets and increased liquidity; and
- the reorganization into a corporate structure along with the growth projects and dividend policy provide a compelling value proposition for securityholders as stable earnings and cash flow are expected to grow.

#### **GROWTH HIGHLIGHTS**

The Trust continued to progress in realizing a planned \$2 billion of organic growth in the next five years. In 2010, AltaGas expects to invest more than \$56 million in the natural gas distribution business to grow its average mid-year rate base by roughly \$47 million or more than 18 percent. Approval was received to construct a gas-fired co-generation facility at the Harmattan Complex and expansions are underway at the Pouce Coupe, Ante Creek and Acme gas

processing facilities, which combined will add 34 Mmcf/d of capacity. Additionally, AltaGas is in the final stages of regulatory approval on its Harmattan Co-stream project, which is expected to increase extraction production by 25 percent. The acquisition of Landis Energy Corporation has now increased the Trust's ability to expand its storage business in key market areas.

Yesterday AltaGas announced the \$28 million acquisition of a 28 Mmcf/d sour gas plant located in the Groundbirch area of northeast B.C. and targeting the Montney formation. This supports the Trust's continuing efforts to proceed with opportunities to meet strong producer demand in northeast British Columbia and northwest Alberta by expanding existing facilities and building new infrastructure in the area.

Discussions are also continuing regarding the three northwest British Columbia run-of-river projects with the Government of British Columbia, BC Hydro, BC Transmission Corporation and First Nations. Underpinned by long-term contracts with solid counterparties, these renewable energy projects are expected to provide AltaGas with long-term stable cash flows and strong returns. The three power generation projects total 277 MW of capacity and are estimated to cost approximately \$1 billion. Subject to final government approvals, these projects are expected to begin generating cash flow and earnings between 2014 and 2016.

#### **FINANCIAL HIGHLIGHTS<sup>(1)</sup>:**

- Earnings before interest, taxes, depreciation and amortization (EBITDA) were \$65.5 million (\$0.81 per unit) for first quarter 2010, compared to \$62.3 million (\$0.82 per unit) for the same quarter in 2009.
- Funds from operations were \$51.3 million (\$0.63 per unit) for first quarter 2010, compared to \$57.0 million (\$0.75 per unit) for the same period in 2009.
- Total net debt on March 31, 2010 was \$1,043.0 million, compared to \$1,014.7 million at December 31, 2009. The Trust's debt-to-total capitalization ratio as at March 31, 2010 was 50.0 percent, versus 49.2 percent at December 31, 2009 and 33.6 percent at March 31, 2009.

<sup>(1)</sup> *Includes Non GAAP financial measures. See previous public disclosures available at [www.altagas.ca](http://www.altagas.ca) or [www.sedar.com](http://www.sedar.com) for definitions*

#### **IN THE FIRST QUARTER:**

- AltaGas acquired all of the outstanding common shares of Landis Energy Corporation for \$0.80 per common share. Landis is a developer of underground natural gas storage facilities, focused on opportunities in Atlantic Canada. Landis adds good opportunities for AltaGas to grow its storage capacity, including the Alton natural gas storage facility, which is in the advanced development phase. The acquisition was valued at \$25.6 million including estimated transaction costs and has been funded through AltaGas' existing credit facilities.
- AltaGas completed a \$200 million issue of senior unsecured medium term notes. The notes carry a coupon rate of 5.49 percent and mature on March 27, 2017.

#### **CONFERENCE CALL AND WEBCAST DETAILS:**

AltaGas will hold a conference call today at 7:30 a.m. MT (9:30 a.m. ET) to discuss first quarter 2010 financial and operating results and other general issues and developments concerning the Trust.

Members of the media, investment community and other interested parties may dial (416) 695-6616 or call toll free at 1-800-952-4972. No pass code is required. Please note that the conference call will also be webcast. To listen, please connect here: <http://events.digitalmedia.telus.com/altagas/042910/index.php>.

Shortly after the conclusion of the call, a replay will be available by dialing (416) 695-5800 or 1-800-408-3053. The passcode is 1756544. The replay expires at midnight (ET) on May 6, 2010. The webcast will be archived for one year.

# Management's Discussion and Analysis

*The Management's Discussion and Analysis (MD&A) of operations and unaudited interim Consolidated Financial Statements presented herein are provided to enable readers to assess the results of operations, liquidity and capital resources of AltaGas Income Trust (AltaGas or the Trust) as at and for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. This MD&A dated April 28, 2010 should be read in conjunction with the accompanying unaudited interim Consolidated Financial Statements and notes thereto of the Trust as at and for the three months ended March 31, 2010 and with the audited Consolidated Financial Statements and MD&A contained in the Trust's annual report for the year ended December 31, 2009.*

*This MD&A contains forward-looking statements. When used in this MD&A the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Trust or an affiliate of the Trust, are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among others things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. Specifically, such forward-looking statements are set forth under: "Reorganization to a Corporate Structure"; "Consolidated Outlook"; "Growth Capital"; "Gas Segment Outlook"; "Power Segment Outlook"; "Corporate Outlook" and "Corporate Reorganization".*

*These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Trust's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties including without limitation, changes in market competition, governmental or regulatory developments, changes in tax legislation, general economic conditions and other factors set out in the Trust's public disclosure documents.*

*Many factors could cause the Trust's or any of its business segment's actual results, performance or achievements to vary from those described in this MD&A, including without limitation those listed above as well as the assumptions upon which they are based proving incorrect. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements included in this MD&A herein should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Trust does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified as cautionary statements.*

*Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for the purposes other than for which it is disclosed herein.*

*Additional information relating to AltaGas can be found on its website at [www.altagas.ca](http://www.altagas.ca). The continuous disclosure materials of the Trust, including its annual MD&A and Consolidated Financial Statements, Annual Information Form, Information Circular, and Proxy Statement, material change reports and press releases issued by the Trust, are also available through the Trust's website or directly through the SEDAR system at [www.sedar.com](http://www.sedar.com).*

## **ALTAGAS INCOME TRUST**

The material businesses of the Trust are operated by AltaGas Ltd., AltaGas Operating Partnership, AltaGas Limited Partnership, AltaGas Pipeline Partnership, Taylor NGL Limited Partnership (Taylor), AltaGas Utility Group Inc. (Utility Group), as well as AltaGas Energy Limited Partnership and ECNG Energy L.P. (collectively the operating subsidiaries). The cash flow of the Trust is solely dependent on the results of the operating subsidiaries and is predominantly derived from interest earned on loans to the operating subsidiaries and from dividends or returns of capital from equity interests held within the Trust structure.

AltaGas General Partner Inc., through its Board of Directors, the members of which are elected by the Trust at the direction of the unitholders, has been delegated by the trustee of the Trust to manage or supervise the business and affairs of the Trust. AltaGas Ltd. provides all management, administrative and operating services to the Trust and its subsidiaries.

**CONSOLIDATED FINANCIAL RESULTS**(unaudited)  
(\$ millions)Three Months Ended  
March 31

	2010	2009
Revenue	<b>360.5</b>	354.6
Unrealized gain on risk management	<b>5.3</b>	0.6
Net revenue <sup>(1)</sup>	<b>127.2</b>	112.1
EBITDA <sup>(1)</sup>	<b>65.5</b>	62.3
EBITDA before unrealized gain on risk management <sup>(1)</sup>	<b>60.4</b>	61.7
Operating income <sup>(1)</sup>	<b>42.7</b>	44.5
Operating income before unrealized gain on risk management <sup>(1)</sup>	<b>37.4</b>	43.9
Net income	<b>36.4</b>	37.5
Net income before tax-adjusted unrealized gain on risk management <sup>(1)</sup>	<b>32.4</b>	37.0
Net income before tax <sup>(1)</sup>	<b>31.0</b>	39.0
Total assets	<b>2,652.8</b>	2,157.1
Total long-term liabilities	<b>923.8</b>	824.3
Net additions to capital assets	<b>48.2</b>	25.8
Distributions declared <sup>(2)</sup>	<b>43.7</b>	41.3
Cash flows		
Cash from operations	<b>37.0</b>	30.7
Funds from operations <sup>(1)</sup>	<b>51.3</b>	57.0

	2010	2009
EBITDA <sup>(1)</sup>	<b>0.81</b>	0.82
EBITDA before unrealized gain on risk management <sup>(1)</sup>	<b>0.75</b>	0.82
Net income - basic	<b>0.45</b>	0.50
Net income - diluted	<b>0.45</b>	0.49
Net income before tax-adjusted unrealized gain on risk management <sup>(1)</sup>	<b>0.40</b>	0.49
Net income before tax <sup>(1)</sup>	<b>0.38</b>	0.52
Distributions declared <sup>(2)</sup>	<b>0.54</b>	0.54
Cash flows		
Cash from operations	<b>0.46</b>	0.41
Funds from operations <sup>(1)</sup>	<b>0.63</b>	0.75
Units outstanding - basic (millions)		
During the period <sup>(3)</sup>	<b>80.8</b>	75.6
End of period	<b>81.0</b>	78.7

<sup>(1)</sup> Non-GAAP financial measure; see discussion in Non-GAAP Financial Measures section of this MD&A.<sup>(2)</sup> Distributions declared of \$0.18 per unit per month commenced in August 2008.<sup>(3)</sup> Weighted-average.

## **REORGANIZATION TO A CORPORATE STRUCTURE**

AltaGas has scheduled an Annual and Special Meeting of the holders (Unitholders) of trust units (Trust Units) and the holders of exchangeable limited partnership units (Exchangeable Units) of AltaGas Holding Limited Partnership No.1 (Exchangeable Unitholders and together with the Unitholders, collectively, the Securityholders) at 3 p.m. MDT on June 3, 2010 at the Petroleum Club, 319 5 Ave SW, Calgary, Alberta (the Meeting) to consider, among other things, a proposed arrangement (the Arrangement) pursuant to the Canada Business Corporations Act involving AltaGas and a number of its subsidiaries and newly formed corporate entities pursuant to which AltaGas will be reorganized into a dividend paying corporation that will be named "AltaGas Ltd" (New AltaGas). The Arrangement is expected to be completed on or about July 1, 2010 and is subject to, among other things, the approval of at least two-thirds of the Securityholders, voting together as a single class, the approval of the Court of Queen's Bench of Alberta and certain regulatory approvals (including the approval of the Toronto Stock Exchange to the substitutional listing of the New AltaGas common shares). Pursuant to the Arrangement, Securityholders will receive one common share of New AltaGas for each Trust Unit or Exchangeable Unit on a tax deferred basis.

All current members of the Board of Directors and senior management are expected to continue serving as directors and officers of the new corporation.

A management information circular and proxy statement outlining the details of the matters to be dealt with at the Meeting, including the Arrangement, is expected to be mailed to Securityholders in early May and will be available on SEDAR ([www.sedar.com](http://www.sedar.com)) and the AltaGas Website ([www.altagas.ca](http://www.altagas.ca)).

If the effective date of the Arrangement is July 1, 2010, as currently anticipated, AltaGas expects that its final monthly distribution will be paid on June 30, 2010. To the extent the effective date of the Arrangement is delayed beyond July 1, 2010, regular monthly distributions will be paid in the usual manner until such effective date, at which time any outstanding distributions declared but not yet paid will be paid on the effective date to Unitholders of record on the applicable distribution record date.

Following the Arrangement, the Board of Directors will approve the dividend policy subject to economic and financial conditions at that time. Dividends will be paid monthly starting on or about August 15, 2010 subject to Board approval. The dividend is expected to be set at \$0.11 per share on a monthly basis or \$1.32 per share on an annual basis. This dividend level will provide a significant increase in internally generated funds, as well as provide investors with a stable, sustainable dividend over the long term. The Board of Directors will continue to conduct its annual review of the frequency and amount of the dividend after its review of the annual strategic plan and second quarter results.

The Trust and the Board believe that there are many benefits to the arrangement. With approximately \$2 billion in growth projects over the next five years, the reorganization into a corporate structure along with a dividend policy that increases free cash flow to grow the company is expected to create long term securityholder value. There are several near term growth projects such as expansions at three field gathering facilities, a cogeneration plant and co-streaming expansion at the Harmattan Complex, as well as the acquisition of a new plant in the Montney area. The Trust continues to further its plans to meet producers' needs in northeast British Columbia and northwest Alberta and grow the natural gas storage and distribution businesses.

The Trust's strategy is to reduce its carbon footprint while creating securityholder value. The Trust will have a full year of operations from the Bear Mountain Wind Park in 2010 and will continue to find ways to reduce emissions in the gas business. The Trust is moving forward on securing contracts to underpin its wind projects and run-of-river projects in northwest BC. The 277 MWs of run-of-river projects will provide long-term stable cash flows with a solid counterparty. The projects are estimated to cost approximately \$1 billion and subject to final government approvals, these projects are expected to begin generating cash flow and earnings between 2014 and 2016.

The Trust's strategy is to grow the gas and power business to increase long-term earnings and cash flow to provide growing and stable returns for shareholders.

## CONSOLIDATED FINANCIAL REVIEW

Net income for first quarter 2010 was \$36.4 million compared to \$37.5 million in the same period in 2009. Net income was \$0.45 per basic unit for first quarter 2010 compared to \$0.50 per basic unit for 2009.

During first quarter 2010, the Gas Segment performed well due the addition of the Natural Gas Distribution (NGD) assets in fourth quarter 2009, the Sarnia Storage asset which began contributing to operating income in second quarter 2009, the expiration of a legacy gas marketing contract and higher frac spreads. These increases were partially offset by the reduction in liabilities related to natural gas transactions as reported in first quarter 2009, lower processing volumes at some Field Gathering and Processing (FG&P) locations and lower NGLs extracted. The gas business benefited from the third consecutive quarter of increased contribution from the FG&P business based on improved processing volumes and well tie-ins. The increased producer activity in horizontal drilling has resulted in higher volumes at some of the field facilities. Lower extraction volumes were primarily driven by lower throughput at the Younger and Empress plants, offset by higher production yields and higher frac spreads.

The Power Segment reported lower results primarily due to declines in realized power prices and higher environmental costs. These decreases were partially offset by contributions from the Bear Mountain Wind Park which commenced commercial operations in fourth quarter 2009 and lower power purchase arrangement (PPA) costs.

The Corporate Segment reported higher unrealized gains on risk management contracts partially offset by lower investment income and higher compensation and administrative costs. The Trust reported higher interest expense in first quarter 2010 compared to first quarter 2009 primarily due to higher average debt balances. The Trust reported an income tax recovery in first quarter 2010 compared to an expense in first quarter 2009 due to lower income subject to tax and a current income tax recovery reported by the NGD business, partially offset by the tax effect of risk management contracts.

On a consolidated basis, net revenue for the quarter ended March 31, 2010 was \$127.2 million compared to \$112.1 million in same quarter 2009. In the Gas Segment, net revenue increased due to the addition of the NGD assets and Sarnia Storage, the expiration of a legacy gas marketing contract and higher frac spreads. These increases were partially offset by the reduction in liabilities reported in first quarter 2009, lower throughput in most FG&P areas and lower volumes exposed to frac spreads. In the Power Segment, net revenue decreased due to lower realized power prices in Alberta partially offset by the Bear Mountain Park and lower PPA costs. The Corporate Segment reported higher net revenue due to higher gains on risk management contracts, partially offset by lower investment income.

Operating and administrative expense for first quarter 2010 was \$61.5 million, up from \$50.0 million in same quarter 2009. The increase was due to incremental costs associated with the growth of the Trust including the addition of NGD assets, higher environmental costs and higher compensation expenses. These increases were partially offset by lower operating costs related to the FG&P and Extraction and Transmission (E&T) businesses due to lower volumes processed as well as cost control measures.

Amortization expense for first quarter 2010 was \$23.0 million compared to \$17.6 million in the same quarter last year. The increase was due to the growth in AltaGas' asset base from acquisitions and construction activities.

Interest expense in first quarter 2010 was \$11.5 million compared to \$5.7 million in first quarter 2009. The increase was due to higher average debt balances of \$1,030.2 million compared to \$568.6 million in for the same period in 2009. The average borrowing rate was 4.6 percent in first quarter 2010 compared to 4.7 percent in first quarter 2009.

Income tax recovery in first quarter 2010 was \$5.4 million compared to income tax expense of \$1.5 million in the same period 2009. The decrease in expense was a result of \$5.1 million due to lower income subject to tax and a \$2.0 million current tax recovery in the NGD business. These decreases were partially offset by \$1.2 million due to the tax impact on gains reported on risk management contracts.

## **CONSOLIDATED OUTLOOK**

The Trust announced plans to reorganize to a corporate structure on or about July 1, 2010. As a result of the Arrangement, the company will increase its capital cost allowance claims (CCA) for tax purposes. The increased CCA claims will result in higher deferred taxes reported in the second half of 2010. The new dividend policy expected to be adopted by the Board upon completion of the Arrangement will result in increased free cash flow to finance growth projects or reduce debt.

AltaGas' operations are well positioned to deliver another year of strong results in 2010, despite a challenging economic environment. The addition of new assets in the second half of 2009 as well as plant expansions and addition of new assets in 2010, higher frac spreads and growing throughput at processing facilities are expected to increase earnings and cash flow. These increases are expected to be impacted by weak power prices in Alberta, higher general and administrative costs, higher interest and higher deferred (non-cash) taxes.

The majority of the Trust's earnings are underpinned by long-term, fee-for-service, cost-of-service or minimum volume commitment contracts. To the extent that the Trust is exposed to NGL frac spreads and Alberta power prices, the Trust has mitigated the impact of NGL frac spread and power price volatility through its hedging activity. For 2010, approximately two thirds of volumes exposed to NGL frac spreads have been hedged at approximately \$21/Bbl and approximately two thirds of Alberta power volumes have been hedged at approximately \$72/MWh.

The Gas Segment is expected to deliver increased earnings and cash flow in the second half of 2010 from expansions and plant efficiencies and throughput at the Acme, Ante Creek and Pouce Couple facilities. The NGD business expects to increase its rate base by more than 18 percent. The gas business is also expected to benefit from higher frac spreads and higher volumes at the Younger facility as a result of increased producer activity in the area. In addition, the gas business expects to benefit from the expiry of a legacy gas marketing contract which expired October 31, 2009, and historically resulted in depressed operating income in the Energy Services business. The expiry is expected to increase income by \$5.6 million in 2010. Offsetting these benefits, management expects that the ongoing low natural gas price will result in lower demand for AltaGas' energy services.

## **GROWTH CAPITAL**

Based on projects currently under review, development or construction, AltaGas expects capital expenditures for 2010 to be approximately \$250 million, 75 percent for gas and 25 percent for power. As at March 31, 2010, approximately \$130 million of capital has been committed for 2010. Growth capital is funded through AltaGas' cash from operations, DRIP proceeds and credit facilities. The following section has been updated from previous disclosure for material changes to projects with an expected in-service date post 2010.

### **Alton Gas Storage Project**

AltaGas has completed the acquisition of Landis Energy Corporation (Landis) which is a developer of underground natural gas storage facilities. The most advanced project under development is the Alton natural gas storage project, located near Truro, Nova Scotia which is expected to serve customers seeking to manage natural gas supply requirements in eastern Canada and the northeast United States. The timing of commercial operations and capital cost estimates are currently under review.

## **NON-GAAP FINANCIAL MEASURES**

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other entities. The non-GAAP measures and their reconciliation to GAAP financial measures are shown below. All of the measures have been calculated to be consistent with previous disclosures. These measures provide additional information that management believes is meaningful regarding AltaGas' operational performance, liquidity and its capacity to fund distributions, capital expenditures and other investing activities. The specific rationale for, and incremental information associated with, each non-GAAP measure is discussed below.

References to net revenue, operating income, EBITDA, EBITDA before unrealized gain (loss) on risk management, net income before tax-adjusted unrealized gain (loss) on risk management, net income before tax and funds from operations throughout this document have the meanings as set out in this section.

<b>Net Revenue</b> (unaudited) (\$ millions)	Three Months Ended March 31	
	<b>2010</b>	2009
Net revenue	<b>127.2</b>	112.1
Add: Cost of sales	<b>233.3</b>	242.5
Revenue (GAAP financial measure)	<b>360.5</b>	354.6

Net revenue, which is revenue less the cost of commodities purchased for sale and shrinkage, is a better reflection of performance than revenue, since changes in the market price of natural gas and power affect both revenue and cost of sales.

<b>Operating Income</b> (unaudited) (\$ millions)	Three Months Ended March 31	
	<b>2010</b>	2009
Operating income	<b>42.7</b>	44.5
Add (deduct): Interest expense	<b>(11.5)</b>	(5.7)
Foreign exchange (loss) gain	<b>(0.2)</b>	0.2
Income tax (expense) recovery	<b>5.4</b>	(1.5)
Net income (GAAP financial measure)	<b>36.4</b>	37.5

Operating income is a measure of the Trust's profitability from its principal business activities prior to how these activities are financed or how the results are taxed. The measure is used by management to assess the operating performance of the business segments since it is a better indicator of operating performance than net income. Operating income is calculated from the Consolidated Statements of Income and Accumulated Earnings and is defined as net revenue less operating and administrative expenses and amortization.

<b>Operating Income Before Unrealized Gains on Risk Management</b> (unaudited) (\$ millions)	Three Months Ended March 31	
	<b>2010</b>	2009
Operating income before unrealized gains on risk management	<b>37.4</b>	43.9
Add (deduct): Unrealized gain on risk management	<b>5.3</b>	0.6
Add (deduct): Interest expense	<b>(11.5)</b>	(5.7)
Foreign exchange (loss) gain	<b>(0.2)</b>	0.2
Income tax (expense) recovery	<b>5.4</b>	(1.5)
Net income (GAAP financial measure)	<b>36.4</b>	37.5

Operating income before unrealized gains on risk management is a measure of the Trust's profitability from its principal operating activities prior to how these activities are financed or how the results are taxed. The measure is used by management to assess the operating performance of the business segments since it is a better indicator of operating performance than net income. Operating income is calculated from the Consolidated Statements of Income and Accumulated Earnings and is defined as net revenue less operating and administrative expenses and amortization less any unrealized gains (losses) on risk management contracts.

EBITDA (unaudited) (\$ millions)	Three Months Ended	
	March 31	
	2010	2009
EBITDA	65.5	62.3
Add (deduct): Amortization	(23.0)	(17.6)
Interest expense	(11.5)	(5.7)
Income tax (expense) recovery	5.4	(1.5)
Net income (GAAP financial measure)	36.4	37.5

EBITDA is a measure of the Trust's operating profitability. EBITDA provides an indication of the results generated by the Trust's principal business activities prior to accounting for how these activities are financed, assets are amortized or how the results are taxed. EBITDA is calculated from the Consolidated Statements of Income and Accumulated Earnings and is defined as net revenue less operating and administrative expenses.

EBITDA Before Unrealized Gain on Risk Management (\$ millions)	Three Months Ended	
	March 31	
	2010	2009
EBITDA before unrealized gain on risk management	60.4	61.5
Add (deduct): Unrealized gain on risk management	5.3	0.6
Amortization	(23.0)	(17.6)
Interest expense	(11.5)	(5.7)
Foreign exchange (loss) gain	(0.2)	0.2
Income tax (expense) recovery	5.4	(1.5)
Net income (GAAP financial measure)	36.4	37.5

EBITDA before unrealized gain on risk management is a measure of the Trust's operating profitability without the impact of the change in fair value of risk management contracts. EBITDA before unrealized gain on risk management reports the results of the Trust's principal business activities on a realized basis and prior to how business activities are financed, assets are amortized or how the results are taxed. AltaGas does not speculate on commodity prices, but rather enters into financial instruments to manage risk, and therefore evaluates company performance excluding unrealized gain from risk management activities. EBITDA before gains or losses on risk management is calculated from the Consolidated Statements of Income and Accumulated Earnings and is defined as net revenue adjusted for unrealized gain (loss) on risk management less operating and administrative expenses.

Net Income Before Tax-Adjusted Unrealized Gain on Risk Management (\$ millions)	Three Months Ended	
	March 31	
	2010	2009
Net income before tax-adjusted unrealized gain on risk management	32.4	37.0
Add (deduct): Unrealized gain on risk management	5.3	0.6
Income tax expense on risk management	(1.3)	(0.1)
Net income (GAAP financial measure)	36.4	37.5

Net income before tax-adjusted unrealized gain on risk management is a better reflection of actual performance than net income, since changes related to risk management are based on unrealized estimates relating to commodity prices, interest rates and foreign exchange rates over time. AltaGas enters into financial instruments to manage risk, not as a principal business activity, and therefore evaluates performance prior to accounting for the unrealized gain from risk management activities. Net income before tax-adjusted unrealized gain on risk management is calculated from the Consolidated Statements of Income and Accumulated Earnings and is defined as net income adjusted for unrealized gain on risk management and its related income tax expense.

<b>Net Income Before Tax</b>	Three Months Ended	
	March 31	
(\$ millions)	2010	2009
Net income before tax	31.0	39.0
Add (deduct): Income tax (expense) recovery	5.4	(1.5)
<b>Net income (GAAP financial measure)</b>	<b>36.4</b>	<b>37.5</b>

Net income before tax is a better reflection of performance because it is not dependent on how those results are taxed, which can change from year to year. Net income before tax is calculated from the Consolidated Statements of Income and Accumulated Earnings and is defined as net income adjusted for income tax expenses or recoveries.

<b>Funds from Operations</b>	Three Months Ended	
	March 31	
(\$ millions)	2010	2009
Funds from operations	51.3	57.0
Add (deduct): Net change in non-cash working capital	(14.2)	(26.2)
Asset retirement obligations settled	(0.1)	(0.1)
<b>Cash from operations (GAAP financial measure)</b>	<b>37.0</b>	<b>30.7</b>

Funds from operations is used to assist management and investors in analyzing financial performance without regard to changes in the Trust's non-cash working capital in the period. Funds from operations as presented should not be viewed as an alternative to cash from operations, or other cash flow measures calculated in accordance with GAAP. Funds from operations is calculated from the Consolidated Statements of Cash Flows and is defined as cash provided by operating activities before changes in non-cash working capital and expenditures incurred to settle asset retirement obligations.

## RESULTS OF OPERATIONS BY SEGMENT

<b>Operating Income</b>	Three Months Ended	
	March 31	
(\$ millions)	2010	2009
Gas	32.6	28.4
Power	16.9	24.1
Corporate	(6.8)	(8.0)
	<b>42.7</b>	<b>44.5</b>

### GAS

<b>Operating Income</b>	Three Months Ended	
	March 31	
(\$ millions)	2010	2009
E&T	21.5	22.7
FG&P	2.3	3.2
NGD	7.2	-
Energy Services	1.6	2.5
<b>Total Gas Operating income</b>	<b>32.6</b>	<b>28.4</b>

Operating income from the Gas Segment was \$32.6 million in first quarter 2010 compared to \$28.4 million for the same period in 2009. Operating income increased due to the new NGD assets which were acquired in fourth quarter 2009, higher frac spread and the expiration of a gas marketing contract in fourth quarter which resulted in losses in previous quarters. Operating income also increased as a result of the addition of Sarnia Storage in second quarter 2009 and

lower operating costs. The increases were partially offset by non-recurring adjustments to liabilities related to natural gas transactions reported in first quarter 2009. Lower throughput in most FG&P areas due to lower producer activity, lower facility service revenues and lower volumes processed at extraction facilities also contributed to reduced operating income.

Net revenue in the Gas Segment for first quarter 2010 was \$99.0 million compared to \$84.1 million for the same period in 2009. Net revenue increased \$19.1 million due to the acquisition of the NGD assets, \$1.7 million due to the addition of Sarnia Storage, \$1.6 million from higher realized frac spreads and \$1.4 million due to the expiration of a gas marketing contract. These increases were partially offset by the non-recurring \$3.3 million adjustment to liabilities related to natural gas transactions reported in 2009, \$2.8 million in lower extraction volumes, \$1.7 million in lower volumes processed at FG&P facilities, \$1.2 million in lower facility service revenues and \$0.9 million in lower fixed price gas and transportation sales.

Operating and administrative expense in first quarter 2010 was \$47.9 million compared to \$40.7 million in first quarter 2009. The increase was largely due to the addition of new assets and businesses acquired by the Trust in the second half of 2009, partially offset by lower operating costs at existing extraction and FG&P facilities.

Amortization expense in first quarter 2010 was \$18.4 million compared to \$15.0 million in first quarter 2009. The increase was due to the growth in AltaGas' asset base from acquisition and construction activities.

#### **Extraction and Transmission (E&T) Variance Analysis**

Operating income in the E&T business for first quarter 2010 was \$21.5 million compared to \$22.7 million reported for the same period in 2009. Operating income decreased by \$2.8 million primarily due to lower volumes processed, reduced fee-for-service revenues and higher amortization costs. These decreases were partially offset by \$1.6 million from higher realized frac spreads, higher contracted transmission volumes and lower operating costs.

#### **Field Gathering and Processing (FG&P) Variance Analysis**

Operating income from the FG&P business for first quarter 2010 was \$2.3 million compared to \$3.2 million for the same quarter of 2009. Operating income decreased by \$1.7 million due to lower throughput and \$1.2 million due to lower rates and facility service revenues. These decreases were partially offset by \$2.1 million from lower operating and administration costs.

#### **Natural Gas Distribution (NGD) Variance Analysis**

Operating income for the NGD business commenced with the acquisition of Utility Group on October 8, 2009 and the remaining 75.1 percent of Heritage Gas on November 18, 2009. The results of the NGD business is highly seasonal due to the majority of natural gas deliveries occurring during the winter heating season. For first quarter 2010, the NGD business contributed \$7.2 million to operating income. The NGD business experienced warmer than normal temperatures in Alberta and Nova Scotia in first quarter 2010. The warmer weather resulted in approximately \$1.0 million lower operating income in the quarter. The decrease was partially offset by rate base growth and higher allowed returns on equity in Alberta.

#### **Energy Services Variance Analysis**

Operating income in the Energy Services business was \$1.6 million for first quarter 2010 compared \$2.5 million for first quarter 2009. Operating income decreased approximately \$3.3 million as a result of the non-recurring reduction of liabilities reported in first quarter 2009 and \$0.6 million of income that was previously reported in this business which is now reported in the Power Segment as a result of aligning the Alberta commercial and industrial power retail (C&I) business with the remaining power business. Operating income also declined by \$0.5 million due to lower transportation margins, reduced gas margins, higher commission expenses and lower interest revenue. These decreases were partially offset by the first quarter 2009 loss of \$1.4 million as a result of a legacy gas marketing contract, \$1.5 million from Sarnia Storage and \$0.6 million from various reductions in costs and improved volumes.

GAS OPERATING STATISTICS	Three Months Ended	
	2010	March 31 2009
<b>E&amp;T</b>		
Extraction inlet gas processed (Mmcf/d) <sup>(1)</sup>	787	882
Extraction ethane volumes (Bbls/d) <sup>(1)</sup>	26,592	29,089
Extraction NGL volumes (Bbls/d) <sup>(1)</sup>	11,837	13,809
Total Extraction volumes (Bbls/d) <sup>(1)</sup>	38,429	42,898
Frac spread - realized (\$/Bbl) <sup>(1) (2)</sup>	30.42	25.29
Frac spread - average spot price (\$/Bbl) <sup>(1)</sup>	35.38	15.20
Transmission volumes (Mmcf/d) <sup>(1) (3)</sup>	310	348
<b>FG&amp;P</b>		
Processing capacity (Mmcf/d) <sup>(4)</sup>	1,172	1,172
Processing throughput (gross Mmcf/d) <sup>(1)</sup>	432	480
Capacity utilization (%) <sup>(4)</sup>	37	41
Average working interest (%) <sup>(4)</sup>	93	94
<b>NGD</b>		
Natural gas deliveries - end-use (PJ) <sup>(5)(6)</sup>	7.2	-
Natural gas deliveries - transportation (PJ) <sup>(5)(6)</sup>	1.3	-
Service sites at year-end <sup>(7)</sup>	73,198	-
Degree day variance - AUI (%) <sup>(8)</sup>	(10.3)	-
Degree day variance - Heritage Gas (%) <sup>(9)</sup>	(10.5)	-
<b>Energy Services</b>		
Energy management service contracts <sup>(10)</sup>	416	429
Average volumes transacted (GJ/d) <sup>(11)</sup>	405,048	374,113

<sup>(1)</sup> Average for the period.

<sup>(2)</sup> Indicative frac spread or NGL margin, expressed in dollars per barrel of NGL, and derived from Edmonton postings for propane, butane and condensate and the daily AECO natural gas price.

<sup>(3)</sup> Excludes NGL pipeline volumes.

<sup>(4)</sup> As at the end of the reporting period.

<sup>(5)</sup> Petajoule (PJ) is one million gigajoules (GJ).

<sup>(6)</sup> Deliveries reflect Utility Group as of October 8, 2009 when the Trust obtained control and 100% of the deliveries of Heritage Gas as of November 18, 2009.

<sup>(7)</sup> Service sites reflect all of the service sites of AUI, Heritage Gas and Inuvik Gas.

<sup>(8)</sup> Degree days relate to AUI's service area. A degree day is the cumulative extent to which the daily mean temperature falls below 15 degrees Celsius. Normal degree days are based on a 20-year rolling average. Positive variances from normal lead to increased delivery volumes from normal expectations.

<sup>(9)</sup> Degree days relate to Heritage Gas' service area. A degree day is the cumulative extent to which the daily mean temperature falls below 18 degrees Celsius. Normal degree days are based on a 20-year rolling average. Positive variances from normal lead to increased delivery volumes from normal expectations.

<sup>(10)</sup> Active energy management service contracts at the end of the reporting period within the Gas Segment.

<sup>(11)</sup> Average for the period. Includes volumes marketed directly, volumes transacted on behalf of other operating segments and volumes sold in gas exchange transactions.

Average ethane and NGL volumes in the extraction business decreased by 2,497 Bbls/d and 1,972 Bbls/d, respectively, in first quarter 2010 compared to first quarter 2009, due to lower drilling north of Peace River, lower gas supply at Empress, leaner gas stream at the Edmonton Ethane Extraction plant and reduced throughput at the Harmattan Complex. These decreases were partially offset by higher inlet volumes and NGL yields at the Joffre facility. Natural gas volumes transported in the transmission business in first quarter 2010 decreased from first quarter 2009 primarily due to lower volumes moved on the Suffield system. However, in the transmission business, pipeline throughput has minimal impact on the financial results due to cost-of-service and take-or-pay contractual arrangements in place.

In FG&P, throughput in first quarter 2010 averaged 432 Mmcf/d compared to 480 Mmcf/d in first quarter 2009 but slightly higher than fourth quarter 2009. The decline was due to lower producer activity in response to low natural gas prices which results in insufficient new gas supply to offset natural declines. Utilization reported in first quarter 2010 was 37 percent compared to 41 percent in first quarter 2009, primarily due to lower throughput at most facilities.

### **Gas Segment Outlook**

In 2010 the Gas Segment is expected to deliver stronger results than 2009. The expected increase is largely due to the addition of the NGD assets for a full year. In 2010, AltaGas expects to invest more than \$56 million in the NGD business to grow its average mid-year rate base by roughly \$47 million or more than 18 percent. AltaGas also expects stronger results due to higher frac spreads, increased producer activity in the FG&P business along with expansions at AltaGas' existing Pouce Coupe, Ante Creek and Acme gas processing plants, a full year of Sarnia Storage and the expiration of a legacy gas marketing contract. These increases will be partially offset by non-recurring items reported in 2009, such as the reduction of liabilities and the decrease of Suffield revenue deferral.

The decline in gas production in the Western Canada Sedimentary Basin (WCSB) has resulted in lower volumes of gas being exported at the Empress facility and available for the extraction of NGLs. The lower NGL production at Empress is expected to be offset by higher frac spreads and increased NGL rich volumes at Younger as a result of new gas developments in the area. Based on management's analysis of historical NGL prices along with NGL published commodity prices, management expects NGL frac spreads to average approximately \$25/Bbl for the remainder of 2010. In 2010, the Trust expects 12 percent of extraction volumes will be exposed to frac spread. Of these, approximately two-thirds of the exposure has been hedged at an average price of \$21/Bbl. Efforts to continue to optimize assets and increase returns have resulted in the agreement to extract better commercial terms for frac spread exposed NGL volumes at one of the plants effective in second quarter. The new commercial arrangement is expected to increase net revenue.

AltaGas is well positioned to take advantage of new gas developments in northeast B.C. and northwest Alberta. AltaGas is working with producers to develop new gas plays such as the Montney and Doig pools as evidenced by AltaGas' Pouce Coupe and Ante Creek gas plant expansion and the recently announced planned acquisition of the Groundbirch gas plant. Given increased producer activity in northeast B.C., AltaGas is pursuing opportunities to increase the pipeline infrastructure around the Younger facility to serve Montney area producers and further enhance earnings and cash flow.

The Trust will be investing a total of \$11 million in its Ante Creek processing facility. The first phase of the Ante Creek expansion, which provided an additional 6 Mmcf/d of sweet gas processing capacity, was commissioned on April 21, 2010. The second phase of this expansion is currently underway and will convert the entire 20 Mmcf/d expanded plant capacity to sour gas processing service. The second phase will be in service in early fourth quarter.

After significant regulatory delays the Pouce Coupe expansion has received all regulatory approvals and is currently under construction and expected to be in service at the end of second quarter 2010. The horizontal directional drilling under the Pouce Coupe River has been completed and work is currently progressing on the plant upgrades, which includes the redeployment of used equipment. The Pouce Coupe expansion is estimated to cost \$28 million and increase capacity at the facility by 18 Mmcf/d. Both the Ante Creek and Pouce Coupe expansions are processing gas from producers active in the Montney area.

In addition, the Trust expects to invest approximately \$5 million to increase capacity by 10 Mmcf/d at the Acme facility. The increased capacity at Acme will serve the increased producer activity in the Horseshoe Canyon coal bed methane formation.

### **POWER**

Operating income in the Power Segment for first quarter 2010 was \$16.9 million compared to \$24.1 million for the same period in 2009. Operating income decreased as a result of lower realized power prices, lower contributions from gas-

fired peaking plants and higher environmental costs. These decreases were partially offset by lower PPA costs as a result of lower spot prices, contributions from the Alberta C&I business now reported in this segment and contributions from the Bear Mountain Wind Park.

Net revenue for first quarter 2010 was \$23.5 million compared to \$27.5 million for the same period in 2009. Net revenue decreased \$4.2 million due to lower spot prices in Alberta, which averaged \$40.88/MWh in first quarter 2010 compared to an average of \$63.01/MWh in first quarter 2009 and \$3.4 million due to lower hedged prices and volumes. The peaking plants reported \$1.2 million lower net revenue due primarily to lower power prices in Alberta and \$1.6 million higher environmental costs resulted partly due to increased production from the Sundance B PPAs. These decreases were partially offset by \$2.7 million contributed by Bear Mountain which commenced commercial operations in fourth quarter 2009, \$2.6 million of lower PPA costs and \$0.9 million contribution from the C&I electricity business, which was previously reported within the Gas Segment.

Operating and administrative expense was \$2.7 million for first quarter 2010 compared to \$1.5 million for the same period in 2009. The increase was due to costs related to the development of renewable energy projects, the inclusion of the C&I electricity business and the commencement of commercial operations at Bear Mountain in fourth quarter 2009.

Amortization expense was \$3.8 million in first quarter 2010 compared to \$1.9 million in first quarter 2009. The increase was due to the addition of the Bear Mountain Wind Park.

#### POWER OPERATING STATISTICS

	Three Months Ended	
	March 31	
	2010	2009
Volume of power sold (GWh) <sup>(1)(2)</sup>	685	664
Average price realized on the sale of power (\$/MWh) <sup>(1)(2)</sup>	62.16	74.33
Alberta Power Pool average spot price (\$/MWh) <sup>(3)</sup>	40.88	63.01

<sup>(1)</sup> Average for the period.

<sup>(2)</sup> Includes both Alberta and British Columbia sale of power.

<sup>(3)</sup> Includes only Alberta volumes and prices realized on the sale of power.

The Bear Mountain Wind Park is performing as expected given the wind conditions experienced since commercial operations began. The turbines are all operating and delivering power to the BC grid. Wind volumes were below historical averages in first quarter. The operating income impact of the weaker wind was approximately \$2.0 million in the quarter based on normal historical wind speeds. All green attributes associated with 2009 production from the Bear Mountain Wind Park have been sold at prices in-line with management's expectations, and the continued evolution of emissions regulations in North America, including the Federal government's plans to phase out coal plants, should continue to provide attractive opportunities to market the green attributes from the facility in the future.

#### Power Segment Outlook

In 2010 almost two thirds of the power delivered to the Alberta Power Pool from the Sundance Plant is hedged at a price of approximately \$72/MWh, slightly lower than the average hedge price in 2009. Hedge volumes were slightly higher than average in Q1, and are slightly lower in Q2 in anticipation of scheduled maintenance at the Sundance B PPAs. Current forward prices, as published in daily broker reports, are about \$50/MWh for the balance of 2010. Continued low natural gas prices and a temporary over-supply situation has created a pricing environment that management does not believe is sustainable over the long term. A large coal unit was retired at the end of March 2010 resulting in a reduction of base load supply that will not be fully replaced until mid 2011, and improved economic conditions are expected to bring increased power demand to the province. Offsetting weakness in the spot market will be the impact of a full year contribution from Bear Mountain Wind Park, as well as the addition of the Harmattan Cogeneration facility, currently expected to be on line in fourth quarter of 2010.

AltaGas is constructing a 13-MW gas-fired co-generation facility at its Harmattan Complex. The facility is expected to cost approximately \$22 million and will deliver power to the Alberta electrical grid and use steam to provide process heat to the Harmattan Complex. This is a highly efficient process of generating power and will reduce greenhouse gas emissions. It also adds further diversity to AltaGas' portfolio of generation assets and will provide another source of capacity to backstop the Sundance B PPAs. All regulatory approvals have been received and the facility is expected to be commissioned in fourth quarter 2010.

## **CORPORATE**

### **Description of Corporate Assets**

The Corporate Segment includes the cost of providing corporate services and general corporate overhead, investments in public and private entities and the effects of changes in the value of risk management assets and liabilities. Management makes operating decisions and assesses performance of its operating segments based on realized results and key financial metrics such as return on equity and return on capital without the impact of the volatility in commodity prices, interest rates and foreign exchange rates. Management monitors the impact of mark-to-market accounting as part of the consolidated entity since risk is managed on a portfolio basis. Consequently, the impact of mark-to-market accounting on net income is reported and monitored in the Corporate Segment.

### **Corporate Variance Analysis**

The operating loss for first quarter 2010 was \$6.8 million compared to \$8.0 million for first quarter 2009. The decreased loss was mainly due to higher unrealized gains from risk management contracts, partially offset by higher compensation costs and lower investment income.

Net revenue was \$5.5 million in first quarter 2010 compared to \$1.2 million for the same period in 2009. Net revenue increased \$4.8 million in due to higher unrealized gains on risk management contracts partially offset by lower investment income since AltaGas no longer records income from Utility Group on an equity basis.

Operating and administrative expense was \$11.6 million in first quarter 2010 compared to \$8.5 million in first quarter 2009. Increased expenses were incurred to support regulatory requirements and growth of the Trust.

Amortization expense was \$0.7 million in first quarter 2010 similar to the same quarter in 2009.

### **Corporate Segment Outlook**

Excluding the impact of mark-to-market accounting, the operating loss for 2010 is expected to be higher than the loss reported in 2009. Operating and administrative expenses are expected to be higher than 2009 as a result of the growth of the Trust as well as the cost of reorganizing into a corporate structure and meeting new financial reporting requirements. The Corporate Segment is also expected to report lower earnings from equity investments since Utility Group is no longer reported as an equity investment.

The effects of risk management contracts are based on estimates relating to commodity prices, interest rates and foreign exchange rates over time. The actual amounts will vary based on these drivers, and management is therefore unable to predict the impact of financial instruments. However, the impact of the accounting standards is expected to be relatively low as the Trust uses financial instruments to manage exposure to commodity price fluctuations and to buy and sell gas and power with locked-in margins. The Trust does not execute financial instruments for speculative purposes.

## **INVESTED CAPITAL**

During first quarter 2010, AltaGas acquired capital assets, long-term investments and other assets for \$43.1 million compared to \$36.0 million in first quarter 2009.

**Net Invested Capital - Investment Type**Three Months Ended  
March 31, 2010

(\$ millions)	Gas Segment	Power Segment	Corporate Segment	Total
Invested capital:				
Capital assets	42.5	3.7	2.0	48.2
Long-term investments and other assets	-	(0.1)	(4.7)	(4.8)
Net invested capital	42.5	3.6	(2.7)	43.4
Disposals:				
Long-term investments and other assets	(0.3)	-	-	(0.3)
Net invested capital	42.2	3.6	(2.7)	43.1

**Net Invested Capital - Investment Type**Three Months Ended  
March 31, 2009

(\$ millions)	Gas Segment	Power Segment	Corporate Segment	Total
Invested capital:				
Capital assets	12.7	11.9	1.2	25.8
Long-term investments and other assets	-	9.6	0.6	10.2
Net invested capital	12.7	21.5	1.8	36.0

The Trust categorizes its invested capital into maintenance, growth and administration.

Growth capital of \$39.7 million was expended in first quarter 2010 (first quarter 2009 - \$33.5 million). In the Gas Segment, growth capital comprised \$26.0 million for assets from the Landis acquisition, \$9.0 million for FG&P projects, \$5.6 million for NGD projects and \$1.1 million for the Harmattan fractionation project. Within the Power Segment, growth capital projects included \$1.8 million for renewable power development projects and \$1.2 million related to the Harmattan Cogeneration project. The Corporate Segment growth capital of \$(4.7) million was related to unrealized loss on mark-to-market for Magma Energy Corporation. Administrative and maintenance capital expenditures in first quarter 2010 were \$2.0 million and \$1.4 million, respectively (first quarter 2009 - \$1.9 million and \$0.6 million, respectively).

**Invested Capital - Use**Three Months Ended  
March 31, 2010

(\$ millions)	Gas Segment	Power Segment	Corporate Segment	Total
Invested capital:				
Maintenance	0.8	0.6	-	1.4
Growth	41.7	3.0	(4.7)	40.0
Administrative	-	-	2.0	2.0
Invested capital	42.5	3.6	(2.7)	43.4

**Invested Capital - Use**Three Months Ended  
March 31, 2009

(\$ millions)	Gas Segment	Power Segment	Corporate Segment	Total
Invested capital:				
Maintenance	0.6	-	-	0.6
Growth	12.0	21.5	-	33.5
Administrative	0.1	-	1.8	1.9
Invested capital	12.7	21.5	1.8	36.0

## FINANCIAL INSTRUMENTS

AltaGas enters into financial derivative contracts to manage exposure to fluctuations in commodity prices, interest rates and foreign exchange rates. During the first quarter 2010, the Trust had positions in the following types of derivatives:

- **Commodity forward contracts:** The Trust executes gas, power and other commodity forward contracts to manage its asset portfolio and lock-in margins from back-to-back purchase and sale agreements. In a forward contract, one party agrees to deliver a specified amount of an underlying asset to the other party at a future date at a specified price. The Energy Services business transacts primarily on this basis.
- **Commodity swap contracts:** The Trust executes fixed-for-floating power price swaps to manage its power asset portfolio. A fixed-for-floating price swap is an agreement between two counterparties to exchange a fixed price for a floating price. The Power Segment's results are significantly affected by the price of electricity in Alberta. AltaGas employs derivative commodity instruments for the purpose of managing the Trust's exposure to power price volatility. The Alberta Power Pool settles power prices on an hourly basis and prices ranged from \$8.09/MWh to \$376.37/MWh in first quarter 2010. The average spot price was \$40.88/MWh in first quarter 2010 (first quarter 2009 - \$63.01/MWh). AltaGas moderated the impact of this volatility on its business through the use of financial hedges on a portion of its power portfolio. The average price realized for power by the Trust was \$62.16/MWh in first quarter 2010 (first quarter 2009 - \$74.33/MWh). In 2010, almost two-thirds of the power delivered to the Alberta Power Pool from the Sundance Plant has been hedged at a price of approximately \$72/MWh.
- **NGL frac spread hedges:** The Trust executes fixed-for-floating NGL frac spread swaps to manage its NGL frac spreads. The E&T business' results are affected by fluctuations in NGL frac spreads. At March 31, 2010, the Trust had NGL frac spread agreements for 2,800 Bbls/d at an average price of approximately \$21/Bbl. The average spot NGL frac spread for first quarter 2010 was \$35.38/Bbl (first quarter 2009 - \$15.20/Bbl). The average NGL frac spread realized in first quarter 2010 was \$30.42/Bbl (first quarter 2009 - \$25.29/Bbl). The Trust has also hedged an average of 2,817 Bbls/d, or approximately 66 percent of volumes that are exposed to spot prices for 2010, at a price of approximately \$21/Bbl. In addition, the Trust has hedged 700 Bbls/d, or approximately 15 percent of volumes that are exposed to spot prices for 2011, at a price of approximately \$20/Bbl.
- **Interest rate forward contracts:** The Trust enters into interest rate swaps where cash flows of a fixed rate are exchanged for those of a floating rate. At March 31, 2010 the Trust had interest rate swaps for \$80 million with varying terms to maturity until March 31, 2012. At March 31, 2010, the Trust had fixed the interest rate of 75 percent of its debt including MTNs and capital leases.
- **Foreign exchange forward contracts:** Foreign exchange exposure created by transacting commercial arrangements in foreign currency is managed through the use of foreign exchange forward contracts whereby a fixed rate is locked in against a floating rate and option agreements whereby an option to transact foreign currency at a future date is purchased or sold.

The fair value of power, natural gas and NGL derivatives was calculated using estimated forward prices from published sources for the relevant period. The calculation of fair value of the interest rate derivatives used quoted market rates.

The Trust does not speculate on commodity prices and therefore does not engage in any commodity transactions that create incremental exposure or are based solely on expectations of future energy market price movements. Commodity transactions are used to lock in margins, optimize underlying physical assets or reduce exposure to energy price movements. AltaGas has a risk management group that reviews commodity and credit risk on a daily basis and has created and adheres to a conservative risk policy and hedging program.

## LIQUIDITY

AltaGas does not expect any currently known trend or uncertainty to affect the Trust's ability to access its historical sources of cash. Medium-term note (MTN) offerings during 2009 and in first quarter 2010, an equity offering in 2009 and

credit rating upgrades by DBRS and S&P in 2009 are indications of the Trust's strong financial position and capacity to access financing. Each of the Trust's credit facilities has a maturity date, on which date and absent replacement, extension or renewal, the indebtedness under the respective credit facility becomes repayable. The earliest maturity date for the Trust's credit facilities is August 2010. The Trust expects to enter into new credit arrangements with a syndicate of banks on or about July 1, 2010, the same time the reorganization from a trust to a corporate structure occurs.

Cash Flows (\$ millions)	Three Months Ended	
	March 31	
	2010	2009
Cash from operations	37.0	30.7
Investing activities	(28.4)	(48.1)
Financing activities	(6.1)	23.1
Change in cash	2.5	5.7

### Cash from Operations

Cash from operations reported on the Consolidated Statements of Cash Flows was \$37.0 million in first quarter 2010 compared to \$30.7 million in first quarter 2009. The increase in cash from operations was the result of lower non-cash working capital partially offset by a future income tax recovery, lower net income, and higher unrealized gains and non-operating investment income.

Working Capital (\$ millions except current ratio)	March 31	
	2010	2009
Current assets	325.3	359.5
Current liabilities	687.8	267.5
Working capital	(362.5)	92.0
Current ratio	0.47	1.34

Working capital was in a deficit position of \$362.5 million at March 31, 2010 compared to a positive balance position of \$92.0 million at March 31, 2009. The working capital ratio was 0.47 at the end of first quarter 2010 compared to 1.34 at the end of first quarter 2009. The change is mainly due to the classification of the current portion of long-term debt maturing in 2010 as a current liability. On March 27, 2010 the Trust issued a \$200 million MTN. The note carries a coupon rate of 5.49 percent and matures on March 27, 2017. The proceeds from the note has been used to pay bank indebtedness and general corporate activities.

### Investing Activities

Cash used for investing activities in first quarter 2010 was \$28.4 million compared to \$48.1 million in first quarter 2009. The decrease was due to the reduction in capital asset expenditures, a reduction in restricted cash holding from customers and the disposal of short-term investments. These decreases were partially offset by the acquisition of Landis.

### Financing Activities

Cash used for financing activities was \$6.1 million in first quarter 2010 compared to cash generated from financing activities of \$23.1 million in first quarter 2009. The cash from financing activities decreased due to lower proceeds from the issuance of units in first quarter 2009 and an increase in distributions paid to unitholders and a repayment of revolving long-term debt partially offset by the \$200 million MTN issuance.

### CAPITAL RESOURCES

The use of debt or equity funding is based on AltaGas' capital structure which is determined by considering the norms and risks associated with each of its business segments. At March 31, 2010 AltaGas had total debt outstanding of

\$1,043.0 million, up from \$1,014.7 million as at December 31, 2009. At March 31, 2010 the Trust had \$700.0 million in MTNs outstanding and had access to prime loans, base rate loans, LIBOR loans, bankers' acceptances and letters of credit through bank lines amounting to \$816 million. At March 31, 2010 the Trust had drawn bank debt of \$330.3 million and letters of credit outstanding of \$55.9 million against the extendible revolving-term letter of credit facility, the syndicated credit facilities and the demand operating facilities.

As of March 31, 2010, the Trust's current portion of long-term debt was \$416.6 million. The Trust's management expects to align the timing of the renewal of its credit facilities with the timing of its reorganization to a corporate structure, expected on or about July 1, 2010. The Trust has begun discussions with current and potential members of the syndicate and does not expect any issues with renewing or increasing its credit facilities.

All of the borrowing facilities have covenants customary for these types of facilities, which must be met at each quarter end. AltaGas has been in compliance with these covenants each quarter since the establishment of the facilities. The Trust's earnings interest coverage for the rolling 12 months ended March 31, 2010 was 3.92 times.

Credit facilities (\$ millions)	Borrowing capacity	Drawn at March 31 2010	Drawn at December 31 2009
Demand operating facility	86.0	20.4	16.3
Letter of credit facility	75.0	50.8	56.7
Syndicated credit facility <sup>(1)</sup>	150.0	-	-
Syndicated revolving credit facility <sup>(2)</sup>	375.0	186.3	350.8
Utility Group revolving term credit facility <sup>(3)</sup>	130.0	128.7	130.0
	816.0	386.2	553.8

<sup>(1)</sup> Revolving credit facility maturing August 13, 2010.

<sup>(2)</sup> Revolving credit facility maturing September 30, 2010.

<sup>(3)</sup> Revolving credit facility maturing November 17, 2010.

At March 31, 2010 the Trust held a \$75.0 million (December 31, 2009 - \$75.0 million) unsecured three-year extendible revolving letter of credit facility with a Canadian chartered bank maturing on September 30, 2010. AltaGas may borrow up to \$25.0 million by way of prime loans, U.S. base rate loans, LIBOR loans or bankers' acceptances on the letter of credit facility. Borrowings on the facility bear fees and interest at rates relevant to the nature of the draws made. At March 31, 2010 the Trust had letters of credit of \$50.8 million (December 31, 2009 - \$46.7 million) outstanding against the extendible revolving-term letter of credit facility and letters of credit of \$5.1 million (December 31, 2009 - \$5.1 million) outstanding against the demand operating facilities.

The Trust expects to renew its credit facilities in 2010 on or about July 1, 2010 when the reorganization from a trust to a corporate structure occurs.

## RELATED PARTIES

The Trust pays rent under a lease for office space and equipment to 2013761 Ontario Inc., which is owned by certain employees of AltaGas. Payments of \$22,496 were made in first quarter 2010 (first quarter 2009 - \$22,638) which is the exchange value of the property agreed to by both parties. The lease expires December 2011.

## TRUST UNIT INFORMATION

At March 31, 2010 the Trust had 78.9 million trust units and 2.1 million exchangeable units outstanding and a market capitalization of \$1.5 billion based on a closing trading price on March 31, 2010 of \$18.40 per trust unit. At March 31, 2010 there were 3.8 million options outstanding and 1.3 million options exercisable under the terms of the unit option plan.

## DISTRIBUTIONS

AltaGas distributions are determined giving consideration to the ongoing sustainable cash flow as impacted by the consolidated net income, maintenance and growth capital expenditures and debt repayment requirements of the Trust. AltaGas has been able to sustain its distributions through funds from operations. In first quarter 2010, the Trust declared distributions of \$43.7 million and had funds from operations of \$51.3 million (first quarter 2009 - \$41.3 million and \$57.0 million respectively), or a payout ratio of 85 percent (first quarter 2009 - 72 percent).

The following table summarizes AltaGas' distribution declaration history since 2008:

### Distributions

#### Years ended December 31

(\$ per unit)	2010	2009	2008
First quarter	0.540	0.540	0.525
Second quarter	-	0.540	0.525
Third quarter	-	0.540	0.535
Fourth quarter	-	0.540	0.540
<b>Total</b>	<b>0.540</b>	2.160	2.125

## CORPORATE REORGANIZATION

AltaGas expects to reorganize to a corporate structure on or about July 1, 2010 in response to the Government of Canada's changes in the tax treatment of income trusts effective January 1, 2011. In 2009, federal legislation was enacted for the conversion of income trusts in which the trust is able to convert to a corporation on a tax deferred basis.

AltaGas expects to continue to implement its growth strategy, while seeking to provide investors with a balance between income and growth. As a corporation, The Board of Directors expects to declare a dividend of \$1.32 per share on an annual basis to support the Trust's growth strategy and provide a stable sustainable dividend going forward. The Board also expects to pay the dividend on a monthly basis. Following the Arrangement, the Board of Directors will approve the dividend policy subject to economic and financial conditions at that time. Until its reorganization to a corporate structure, AltaGas expects to continue to pay a monthly distribution of \$0.18 per trust unit.

AltaGas has always executed its strategy as a tax-efficient corporate and focused on key traditional financial metrics such as earnings per unit and return on equity. It does not rely on the trust structure to sustain its business.

## NON-MONETARY TRANSACTIONS

AltaGas has entered into a non-monetary transaction with a third party in which it exchanged B.C. Renewable Energy Certificates (RECs) for verified emission offsets that were generated in Alberta. The RECs will be created through the generation of power at the Bear Mountain Wind Park between 2009 and 2011. The verified emission offsets received by AltaGas were used to offset the costs to comply with Specified Gas Emitters Regulation (SGER) in 2010.

## CHANGES IN ACCOUNTING POLICIES

### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting Standards Board (AcSB) confirmed in February 2009 that IFRS will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on or after January 1, 2011.

AltaGas commenced a process to transition from Canadian GAAP to IFRS in April 2008. AltaGas has established a project team that is led by Finance management and includes representatives from various areas of the organization as necessary to plan for and achieve a smooth transition to IFRS. Regular progress reporting to the Audit Committee of the Board of Directors on the status of the IFRS implementation project has been instituted and enacted.

The implementation project consists of six phases, which in certain cases will be in process concurrently as IFRS are applied to specific areas from start to finish:

- Scoping phase – This phase involves a high-level assessment to identify key areas impacted by the transition to IFRS and to identify the Standards and Interpretations applicable to the Trust. This phase was completed in July 2008.
- Diagnostic phase – In this phase, each Standard and Interpretation is assessed to identify the changes required in the existing accounting policies, information systems and business processes. An IFRS mock-financial statement has been prepared for further guidance in the conversion process. This phase was completed in December 2008.
- Design and planning phase – Available alternatives in the accounting policies, elective exemptions and mandatory exceptions are assessed and adopted. Evaluation of the quantitative impact from the IFRS adoption is in progress.
- Solution development phase – Based on the adopted accounting policies, the project team defines and develops systems, processes and training required for the implementation of the target solutions under IFRS. The evaluation of the quantitative impact from IFRS adoption is in progress.
- Implementation phase – During the dual reporting period from January 1 until December 31, 2010, changes in accounting policies and procedures are executed and tested. Financial information in accordance with IFRS is collected, enabling the comparative reporting in 2011. Where appropriate, processes to support the CEO/CFO certification will be implemented. Training is provided to support IFRS adoption.
- Post-implementation phase – IFRS financial statements are produced for each reporting period. External auditors are requested to provide their opinion on the compliance of the financial statements with IFRS requirements. CEO/CFO certification process is fully deployed for the IFRS conversion in compliance with the disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR). The achieved results are compared with the target objectives, including enhancing the effectiveness of financial reporting, to confirm whether the project has been successful and consequently can be closed.

There are currently no delays anticipated to AltaGas' project plan to meet IFRS reporting requirements in 2011.

#### Financial Statements Adjustments

IFRS 1 "First time adoption of International Financial Reporting Standards" provides entities adopting IFRS for the first time with a number of elective exemptions and mandatory exceptions, in certain areas, to the general requirement for a full retrospective application of IFRS. Similarly, other Standards provide for an accounting choice that has been assessed and elected prospectively from January 1, 2010, the transition date to IFRS. AltaGas is in the process of evaluating the standards and policy choices.

AltaGas has analyzed the various accounting policy choices available and determined those most appropriate for the Trust's business activities. Based on the analysis completed to date, the Trust has not identified any material impacts to the financial statements.

IFRS 3 Business Combinations	<ul style="list-style-type: none"> <li>• IFRS 1 exemption available and is expected to be applied from January 1, 2011, without retrospective application before January 1, 2011.</li> </ul>
	<ul style="list-style-type: none"> <li>• New Canadian Standards on business combinations, consolidated financial statements and non-controlling interests allow for early adopted effective January 1, 2010. AltaGas will not be early adopting this standard.</li> </ul>
IAS 21 The effects of Changes in Foreign Exchange Rates	<ul style="list-style-type: none"> <li>• IFRS 1 exemption available and is expected to be applied from January 1, 2010. Presentation currency is confirmed Canadian dollars.</li> <li>• Cumulative translation adjustment is expected to be reset to zero from January 1, 2010.</li> </ul>
IAS 19 Employee Benefits	<ul style="list-style-type: none"> <li>• IFRS 1 exemption available and is expected to be applied at January 1, 2010.</li> <li>• Corridor approach method is expected to be selected after January 1, 2010 for actuarial gains and losses.</li> </ul>

IAS 16 Property, Plant and Equipment	<ul style="list-style-type: none"> <li>• IFRS 1 exemption available and is expected to be applied for the deemed cost at transition date to certain items of land, buildings and other equipments.</li> <li>• Cost model is expected to be elected for all classes of assets, thus the revaluation method would not be applied.</li> </ul>
IAS 38 Intangible Assets	<ul style="list-style-type: none"> <li>• Cost model expects to be elected for intangible assets.</li> </ul>
IAS 23 Borrowing Costs	<ul style="list-style-type: none"> <li>• IFRS 1 exemption available and expected to be applied prospectively from January 1, 2010.</li> </ul>
IAS 17 Leases	<ul style="list-style-type: none"> <li>• IFRS 1 exemption available and is expected to be elected.</li> <li>• No change in lease classification has been deemed necessary to date.</li> </ul>
IAS 32 Financial Instruments: Presentation IAS 39 Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> <li>• Classification of the Trust's units is expected to be reported as equity.</li> <li>• Embedded derivatives previously grandfathered under Canadian Handbook identified and measured for recognition at transition date in accordance with IFRIC 9 "Reassessment of embedded derivatives".</li> <li>• Hedging effectiveness test method assessed and hedging transactions not effective reinstated through profit or loss.</li> <li>• Management is evaluating the impact of the New Standard on Financial Instruments IFRS 9.</li> </ul>
IAS 37 Provisions, Contingent Assets and Contingent Liabilities	<ul style="list-style-type: none"> <li>• IFRS 1 exemption available and is expected to be applied prospectively from January 1, 2010.</li> <li>• IAS 37 is expected to be applied for measuring decommissioning, restoration and similar liabilities and to litigation claims.</li> </ul>
IAS 36 Impairment of Assets	<ul style="list-style-type: none"> <li>• Cash-generating units have been identified.</li> </ul>
IAS 12 Income Taxes	<ul style="list-style-type: none"> <li>• The current version of IAS 12 has been used for assessing the required adjustments in deferred tax assets and deferred tax liabilities.</li> <li>• As IFRS will impact AltaGas' reported pre-tax profits, these differences, both on adopting IFRS and on an on-going basis, will be assessed for determining the appropriate tax treatment on the tax return and on the tax provision calculation.</li> </ul>
IAS 34 Interim Reporting	<ul style="list-style-type: none"> <li>• The first IFRS interim financial statements will be prepared for the period ending March 31, 2011 in accordance with IAS 34.</li> <li>• Mock financial statements have been prepared for on-going testing of the process for the preparation of IFRS financial statements.</li> </ul>
IFRS Exposure Draft - Rate Regulated Activities	<ul style="list-style-type: none"> <li>• Currently, Canadian GAAP has permitted utilities to account for the impact of rate regulation through the recognition of regulatory assets and liabilities, which is the deferral of costs (revenue) to a future period to match with the higher (lower) rates recovered in that period, usually as a result of a decision approved by the regulator. This approach is not in compliance with the recognition of assets and liabilities prescribed by IFRS. There are no corresponding IFRS pertaining to rate-regulated accounting and the general IFRS rules must be applied with significant adjustments to the opening balances at transition date and to the revenue recognition in future reporting periods.</li> </ul>

#### Disclosure Controls and Procedures and Internal Control Framework

- A risk assessment on disclosure controls and procedures and internal control framework has been initiated during 2010.
- The alignment between the IFRS conversion and the certification processes started during the design and planning phase.

As the International Accounting Standards Board (IASB) continues to issue new or amended standards, the Trust will evaluate the impact on the IFRS conversion plan.

### **Project Status**

AltaGas has initiated discussions with the external auditors around the IFRS opening balances and the timing for the audit work. At this time, it is not possible to reasonably quantify the overall effect of IFRS to the Trust's consolidated financial statements.

AltaGas will provide additional disclosures of the key elements of the plan and progress of the project as the information becomes available.

### **SIGNIFICANT ACCOUNTING POLICIES**

AltaGas' significant accounting policies remain unchanged from December 31, 2009, except as disclosed in the notes to the Interim Consolidated Financial Statements for the three ended March 31, 2010. For further information regarding these policies refer to the notes to the audited Consolidated Financial Statements in AltaGas' 2009 Annual Report.

### **CRITICAL ACCOUNTING ESTIMATES**

Since a determination of the value of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Trust's Consolidated Financial Statements requires the use of estimates and assumptions that have been made using careful judgment. AltaGas' significant accounting policies are contained in the notes to the Consolidated Financial Statements. Certain of these policies involve critical accounting estimates as a result of the requirement to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

AltaGas' critical accounting estimates continue to be amortization expense, asset retirement obligations, asset impairment assessment, income taxes, pension and rate-regulated assets and liabilities. For a full discussion of these accounting estimates, refer to the MD&A in AltaGas' 2009 Annual Report and the notes to the interim Consolidated Financial Statements for the three months ended March 31, 2010.

### **OFF-BALANCE-SHEET ARRANGEMENTS**

The Trust is not party to any contractual arrangement under which an unconsolidated entity may have any obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. The Trust has no obligation under derivative instruments, or a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support or engages in leasing, hedging or research and development services with the Trust.

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of the Trust is responsible for establishing and maintaining DC&P and ICFR, as those terms are defined in National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The objective of this instrument is to improve the quality, reliability and transparency of information that is filed or submitted under securities legislation.

The Chief Executive Officer and the Chief Financial Officer have designed, with the assistance of the Trust's employees, DC&P and ICFR to provide reasonable assurance that material information relating to the Trust is made known to them; is reported on a timely basis; financial reporting is reliable; and financial statements prepared for external purposes are in accordance with Canadian GAAP. During first quarter 2010 there were no changes made to the Trust's ICFR that materially affected, or are reasonably likely to materially affect, the Trust's ICFR.

## SUMMARY OF CONSOLIDATED RESULTS FOR THE EIGHT MOST RECENT QUARTERS

(\$ millions)	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08
Total Revenue	<b>360.5</b>	336.4	291.4	285.8	354.6	424.6	460.7	487.1
Net revenue <sup>(1)</sup>	<b>127.2</b>	115.4	114.7	114.3	112.1	125.8	122.7	117.3
Operating income <sup>(1)</sup>	<b>42.7</b>	38.8	45.4	45.5	44.7	54.1	50.7	37.0
Net income	<b>36.4</b>	32.1	34.7	36.9	37.5	39.6	53.5	32.9

  

(\$ per unit)	Q1-10	Q4-09	Q1-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08
Net income								
Basic	<b>0.45</b>	0.40	0.44	0.47	0.50	0.55	0.75	0.49
Diluted	<b>0.45</b>	0.40	0.43	0.46	0.49	0.56	0.75	0.49
Distributions declared	<b>0.54</b>	0.54	0.54	0.54	0.54	0.540	0.535	0.525

<sup>(1)</sup> Non-GAAP financial measure. See Non-GAAP Financial Measures.

Identifiable trends in AltaGas' business in the past eight quarters reflect the organization's internal growth, acquisitions, generally increasing power prices in Alberta until 2009 and higher NGL frac spreads through most of 2008 and increased volatility in commodity prices in recent quarters.

Significant items that impacted individual quarterly earnings were as follows:

- In second quarter 2008, operating income was affected by major turnarounds within the gas business and a one-time charge to expense project development costs.
- In third quarter 2008, AltaGas recognized an income tax recovery of \$13.8 million related to the reduction of future income tax liabilities, which was a result of the reorganization of legal entities within the Trust's structure and required the use of lower effective tax rates.
- In third quarter 2008, operating income was negatively impacted by two extraction plant turnarounds and unplanned outage due to a natural gas heater fire at the Harmattan Complex.
- In latter part of fourth quarter 2008 and during the first half 2009, prices for power, natural gas and NGL declined, breaking the historical price trend for these products. Reduced natural gas prices have directly affected the activity of producers within the WCSB.
- In second quarter 2009, the Trust purchased a short-term investment that resulted in an unrealized gain of \$4.6 million.
- During 2009, the Trust had adjusted liabilities related to natural gas transaction within Energy Services resulting in a one-time revenue impact of \$9.2 million.
- During fourth quarter 2009, Bear Mountain Wind Park was fully connected to the B.C. power grid and met the conditions for commercial operations in order to receive the firm price under the 25-year energy purchase agreement with BC Hydro.
- During fourth quarter 2009, acquired all the outstanding common shares of Utility Group not previously held by AltaGas for \$204.5 million including assumed debt;
- During fourth quarter 2009, acquired the 75.1 percent it did not already own of the outstanding shareholder loans and common shares of Heritage Gas Ltd. for \$111.0 million.
- During first quarter 2010, acquired all the outstanding common shares of Landis for \$25.6 million.

# Consolidated Balance Sheets

(unaudited)

(\$ thousands)	March 31 2010	December 31 2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,317	\$ 3,739
Short-term investment <i>(note 6)</i>	16,191	19,436
Accounts receivable	184,747	203,673
Inventory	1,106	1,401
Restricted cash holdings from customers	25,458	27,228
Regulatory assets	45	2,567
Risk management	79,398	66,271
Prepaid expense and other current assets	12,046	7,505
	<b>325,308</b>	331,820
<b>Capital assets</b>	<b>1,884,970</b>	1,857,095
<b>Energy arrangements, contracts and relationships</b>	<b>126,458</b>	128,949
<b>Goodwill</b>	<b>201,764</b>	201,728
<b>Regulatory assets</b>	<b>62,642</b>	60,885
<b>Risk management</b>	<b>26,380</b>	18,132
<b>Long-term investments and other assets</b>	<b>25,295</b>	30,487
	<b>\$ 2,652,817</b>	<b>\$ 2,629,096</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 145,748	\$ 158,319
Distributions payable to unitholders	14,589	15,110
Short-term debt	18,959	14,626
Current portion of long-term debt <i>(note 4)</i>	416,574	591,944
Customer deposits	28,901	30,678
Regulatory liabilities	1,727	1,403
Risk management	51,734	34,200
Other current liabilities	9,617	14,830
	<b>687,849</b>	861,110
<b>Long-term debt <i>(note 4)</i></b>	<b>607,425</b>	408,170
<b>Asset retirement obligations</b>	<b>42,424</b>	41,771
<b>Future income taxes</b>	<b>222,068</b>	228,596
<b>Regulatory liabilities</b>	<b>17,117</b>	16,610
<b>Risk management</b>	<b>24,911</b>	14,491
<b>Future employee obligations</b>	<b>9,865</b>	9,491
	<b>1,611,659</b>	1,580,239
<b>Unitholders' equity <i>(notes 7, 8 and 9)</i></b>	<b>1,041,158</b>	1,048,857
	<b>\$ 2,652,817</b>	<b>\$ 2,629,096</b>

See accompanying notes to the unaudited Consolidated Financial Statements.

# Consolidated Statements of Income and Accumulated Earnings

(unaudited)

<b>For the Three Months Ended</b> <i>(\$ thousands except per unit amounts)</i>	<b>March 31</b> <b>2010</b>	March 31 2009
<b>REVENUE</b>		
Operating	\$ 354,958	\$ 353,453
Unrealized gain on risk management <i>(note 6)</i>	5,282	635
Other <i>(note 6)</i>	256	469
	<b>360,496</b>	<b>354,557</b>
<b>EXPENSES</b>		
Cost of sales	233,290	242,410
Operating and administrative	61,511	49,999
Amortization:		
Capital assets	20,476	15,059
Energy arrangements, contracts and relationships	2,491	2,491
	<b>317,768</b>	<b>309,959</b>
<b>Foreign exchange gain (loss)</b>	<b>(248)</b>	152
<b>Interest expense</b>		
Short-term debt	406	193
Long-term debt	11,095	5,511
<b>Income before income taxes</b>	<b>30,979</b>	<b>39,046</b>
<b>Income tax expense (recovery)</b>		
Current income tax	(1,217)	87
Future income tax	(4,200)	1,424
<b>Net income</b>	<b>36,396</b>	<b>37,535</b>
<b>Accumulated earnings, beginning of year</b>	<b>814,869</b>	<b>673,736</b>
<b>Accumulated earnings, end of year</b>	<b>\$ 851,265</b>	<b>\$ 711,271</b>
<b>Net income per unit <i>(note 10)</i></b>		
Basic	<b>\$ 0.45</b>	\$ 0.50
Diluted	<b>\$ 0.45</b>	\$ 0.49
<b>Weighted average number of units outstanding (thousands) <i>(notes 8 and 10)</i></b>		
Basic	<b>80,780</b>	75,602
Diluted	<b>81,110</b>	76,517

See accompanying notes to the unaudited Consolidated Financial Statements.

# Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(unaudited)

For the Three Months Ended <i>(\$ thousands)</i>	March 31 2010	March 31 2009
<b>Net income</b>	<b>\$ 36,396</b>	<b>\$ 37,535</b>
<b>Other comprehensive income (loss), net of tax</b>		
Unrealized net loss on available-for-sale financial assets	(2,307)	-
Unrealized net loss on derivatives designated as cash flow hedges	(2,190)	9,696
Reclassification to net income of net gain on derivatives designated as cash flow hedges pertaining to prior periods	(6,273)	(4,459)
	<b>(10,770)</b>	<b>5,237</b>
<b>Comprehensive income</b>	<b>\$ 25,626</b>	<b>\$ 42,772</b>
<b>Accumulated other comprehensive income, beginning of period</b>	<b>\$ 21,225</b>	<b>\$ 31,569</b>
<b>Other comprehensive income (loss), net of tax</b>	<b>(10,770)</b>	<b>5,237</b>
<b>Accumulated other comprehensive income, end of period</b> <i>(note 6)</i>	<b>\$ 10,455</b>	<b>\$ 36,806</b>

See accompanying notes to the unaudited Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

(unaudited)

For the three months ended (\$ thousands)	March 31 2010	March 31 2009
<b>Cash from operations</b>		
Net income	\$ 36,396	\$ 37,535
Items not involving cash:		
Amortization	22,967	17,550
Accretion of asset retirement obligations	720	766
Unit-based compensation	(39)	49
Future income tax expense (recovery)	(4,200)	1,424
Gain on sale of investments	(1,396)	-
Equity income	-	(606)
Unrealized gain on risk management	(5,282)	(635)
Unrealized loss on held-for-trading investments	1,384	-
Other	1,127	906
Non-operating investment income	(345)	-
Asset retirement obligations settled	(66)	(149)
Net change in non-cash working capital <i>(note 11)</i>	(14,224)	(26,175)
	<b>37,042</b>	<b>30,665</b>
<b>Investing activities</b>		
Increase (decrease) in restricted cash holdings from customers	1,770	(3,923)
Capital expenditures	(14,238)	(34,362)
Investment in regulatory assets	86	-
Distributions from equity investments	-	218
Distributions from short-term investment	345	-
Disposition of short-term investments <i>(note 6)</i>	4,716	-
Business acquisition <i>(note 3)</i>	(21,917)	-
Acquisition of long-term investments and other assets	-	(10,000)
Disposition of long-term investments	850	-
	<b>(28,388)</b>	<b>(48,067)</b>
<b>Financing activities</b>		
Drawings (repayment) of short-term debt	4,333	(3,413)
Net repayment of revolving long-term debt	(175,336)	(38,584)
Issuance of long-term debt	199,096	-
Repayment of long-term debt	(361)	(337)
Distributions to unitholders	(43,539)	(40,034)
Net proceeds from issuance of units	9,731	105,475
	<b>(6,076)</b>	<b>23,107</b>
<b>Change in cash and cash equivalents</b>	<b>2,578</b>	<b>5,705</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,739</b>	<b>18,304</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 6,317</b>	<b>\$ 24,009</b>

See accompanying notes to the unaudited Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

*(Tabular amounts and amounts in footnotes to tables are in thousands of dollars unless otherwise indicated.)*

## 1. BASIS OF PRESENTATION

The interim unaudited Consolidated Financial Statements of AltaGas Income Trust (AltaGas or the Trust) include the accounts of the Trust and all of its wholly owned subsidiaries, and its proportionate interests in various partnerships and joint ventures.

The interim Consolidated Financial Statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). The accounting policies applied are consistent with those outlined in the Trust's annual Consolidated Financial Statements for the year ended December 31, 2009. These interim Consolidated Financial Statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the 2009 audited Consolidated Financial Statements included in the Trust's Annual Report.

## 2. FUTURE ACCOUNTING CHANGES

### Section 1582 "Business Combinations"

This section applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The new CICA Handbook Section 1582 will replace Section 1581 "Business Combinations" establishing standards for the accounting for a business combination that will more closely resemble those under International Financial Reporting Standards (IFRS). Earlier adoption of this section is permitted.

### Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests"

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, the new CICA Handbook Sections 1601 and 1602 will replace Section 1600 "Consolidated Financial Statements". These sections establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption of this section is permitted as of January 1, 2010 for the Trust.

### International Financial Reporting Standards (IFRS)

Canadian publicly-traded companies will be required to prepare their financial statements in accordance with IFRS as issued by the International Accounting Standards Board, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, AltaGas will adopt IFRS as the basis for preparing its Consolidated Financial Statements. Financial statements for all interim periods reported in 2011 shall be prepared on an IFRS basis, with comparative data on an IFRS basis, including an opening balance sheet, as at January 1, 2010. Management has not fully determined the financial impact of adopting IFRS on its financial statements; however, it should be noted that the current financial statements may be significantly different if presented in accordance with IFRS.

## 3. ACQUISITIONS

### Landis Energy Corporation (Landis)

On March 22, 2010 AltaGas acquired all of the outstanding common shares of Landis Energy Corporation. Landis is a developer of underground natural gas storage facilities, focused on opportunities in Atlantic Canada.

AltaGas paid Landis shareholders \$0.80 per common share in cash with an aggregate purchase price of \$25.6 million, including \$3.5 million in estimated transaction costs.

## **2009**

### **AltaGas Utility Group Inc. (Utility Group)**

On October 8, 2009 AltaGas Holdings No.3 Inc. (AltaGas Holdings #3), an indirect wholly-owned subsidiary of AltaGas acquired all of the outstanding common shares of Utility Group not already owned by AltaGas and its affiliates.

Utility Group was a publicly traded company holding interests in AltaGas Utility Inc. (AUI), Heritage Gas Limited (Heritage Gas) and Inuvik Gas Ltd. (Inuvik Gas). Utility Group also holds a 33.3335 percent interest in the Ikhil Joint Venture (Ikhil) which produces and supplies natural gas in Inuvik, Northwest Territories.

AltaGas paid Utility Group shareholders \$10.50 per common share in cash. The aggregate purchase price was \$80.2 million, including \$75.2 million of cash for the remaining 81.7 percent of Utility Group and \$5.0 million in estimated transaction costs.

Until the date of acquisition, AltaGas accounted for its investment in Utility Group using the equity method. As a result, the Trust's portion of income earned by Utility Group was recorded as other revenue in the Corporate Segment. As of October 8, 2009, the operating results of Utility Group are consolidated with the results of the Trust within the Gas Segment.

AltaGas drew on its available credit facility to finance the cash consideration of \$75.2 million for the Utility Group acquisition.

### **Heritage Gas Limited**

On November 18, 2009 AltaGas acquired all of the Heritage Gas common shares and shareholder loans not already owned. Heritage Gas operates a full regulation class natural gas distribution franchise in Nova Scotia.

AltaGas paid approximately \$109.8 million for the remaining 75.1 percent in Heritage Gas. The aggregate purchase price was \$111.0 million, including \$109.8 million of cash for all of the common shares and shareholder loans not previously owned and \$1.2 million in estimated transaction costs.

Until the date of acquisition, AltaGas accounted for its investment in Heritage Gas using the equity method.

### Purchase Price Allocation

The following table summarizes the total consideration and the estimated fair value of the assets acquired and liabilities assumed on October 8, 2009 and November 18, 2009 for Utility Group and Heritage Gas respectively. The preliminary allocation of the purchase price is as follows:

	Utility Group	Heritage Gas	Total
Cash consideration	\$ 75,199	\$ 109,828	\$ 185,027
Transaction costs	5,000	1,200	6,200
<b>Total consideration</b>		\$	<b>191,227</b>

### Purchase price allocation

<b>Assets acquired</b>			
Current assets	\$ 16,743	\$ 5,377	
Capital assets	149,371	74,808	
Regulatory assets	16,633	34,509	
Goodwill	44,143	13,895	
Long-term investments and other assets	3,267	-	\$ 358,746
<b>Less liabilities assumed</b>			
Current liabilities	23,078	8,214	
Long-term debt	101,511	-	
Regulatory liabilities	13,587	-	
Asset retirement obligations	96	-	
Future income taxes	9,113	9,347	
Future employee obligations	2,573	-	\$ 167,519
		\$	<b>191,227</b>

In accordance with CICA Handbook Section 1600 "Consolidated Financial Statements" AltaGas accounted for the Utility Group acquisition as a step acquisition purchase resulting from the Trust's original equity accounted investment in Utility Group. Accordingly, the \$12.3 million investment was proportionately allocated to identifiable assets and liabilities of Utility Group.

### 4. LONG-TERM DEBT

	March 31 2010	December 31 2009
Credit facilities	\$ 315,127	\$ 490,518
Medium-term notes	700,000	500,000
Loan from Province of Nova Scotia	4,338	4,272
Capital lease obligations	7,147	7,484
Other long-term debt	992	1,049
Unamortized deferred financing	(3,605)	(3,209)
	<b>1,023,999</b>	<b>1,000,114</b>
Less current portion	416,574	591,944
	<b>\$ 607,425</b>	<b>\$ 408,170</b>

### Credit Facilities

At March 31, 2010 the Trust held a \$375.0 million (December 31, 2009 - \$375.0 million) unsecured extendible revolving three-year credit facility with a syndicate of Canadian chartered banks. Borrowings on the facility can be by way of prime loans, U.S. base rate loans, LIBOR loans, bankers' acceptances or letters of credit. Borrowings on the facility have fees

and interest at rates relevant to the nature of the draw made. On September 30, 2007 AltaGas negotiated the extension of the maturity of this facility to September 30, 2010. The Trust expects to enter into a new arrangement with a syndicate of banks on or about July 1, 2010. The Trust expects to enter into a new arrangement with a syndicate of banks on or about July 1, 2010.

On March 10, 2009 the Trust closed a \$250.0 million unsecured 18-month credit facility with a syndicate of Canadian chartered banks that matures on August 13, 2010, replacing the credit facility that was due to mature on September 28, 2009. Borrowings on the facility can be by way of prime loans, U.S. base rate loans, LIBOR loans or bankers' acceptances. Borrowings on the facility bear fees and interest rates relevant to the nature of the draw. On April 29, 2009 the Trust issued \$200 million of senior unsecured medium-term notes (MTNs). On June 29, 2009 AltaGas issued \$100 million of senior unsecured MTNs. In accordance with the terms of the \$250 million credit facility, \$100 million of the MTN proceeds were used to repay and reduce the facility from \$250 million to \$150 million on July 9, 2009.

On October 8, 2009 the Trust acquired a \$130 million unsecured extendible revolving credit facility through the acquisition of Utility Group with a syndicate of Canadian chartered banks with a maturity date of November 17, 2010. Borrowings on the facility can be by way of prime rate loans, U.S. base rate loans, letters of credit, LIBOR loans or bankers' acceptance equivalent loans.

At March 31, 2010 the Trust had drawn \$315.1 million (December 31, 2009 - \$490.5 million) against the facilities. The average rate on the Trust's bankers' acceptances at March 31, 2010 was 1.2 percent (December 31, 2009 - 1.2 percent).

#### **Medium-Term Notes**

On August 30, 2005 \$100.0 million of 4.41 percent senior unsecured MTNs were issued. The notes mature on September 1, 2010, with interest payable semi-annually.

On January 19, 2007 AltaGas issued \$100.0 million of 5.07 percent senior unsecured MTNs. The notes carry a coupon rate of 5.07 percent and mature on January 19, 2012.

On April 29, 2009 AltaGas issued \$200 million of 7.42 percent senior unsecured MTNs. The notes carry a coupon rate of 7.42 percent and mature on April 29, 2014.

On June 29, 2009 AltaGas issued \$100 million of 6.94 percent senior unsecured MTNs. The notes carry a coupon rate of 6.94 percent and mature on June 29, 2016.

On March 25, 2010 AltaGas issued \$200 million of 5.49 percent senior unsecured MTNs. The notes carry a coupon rate of 5.49 percent and mature on March 27, 2017.

#### **Loan from Province of Nova Scotia**

On October 8, 2009 AltaGas acquired a loan from the Province of Nova Scotia through the acquisitions of Heritage Gas (note 3). The \$5.6 million loan is non-interest bearing until certain revenue targets are achieved, at which time interest will be charged prospectively at 6 percent. On or before July 31, 2011, AltaGas must elect to repay the loan in full on July 1, 2014 or in five equal installments beginning July 31, 2012. AltaGas may also elect to fully repay the loan at any time with no penalty.

#### **Letter of Credit Facility**

At March 31, 2010 the Trust held a \$75.0 million (December 31, 2009 - \$75.0 million) unsecured three-year extendible revolving-term letter of credit facility with a Canadian chartered bank maturing on September 30, 2010. AltaGas may borrow up to \$25.0 million by way of prime loans, U.S. base rate loans, LIBOR loans or bankers' acceptances on the

letter of credit facility. Borrowings on the facility bear fees and interest at rates relevant to the nature of the draw made. At March 31, 2010 the Trust had letters of credit of \$50.8 million (December 31, 2009 - \$46.7 million) outstanding against the extendible revolving-term letter of credit facility.

## 5. CAPITAL DISCLOSURE

The Trust's objective for managing capital is to maintain its investment-grade credit ratings and allow the Trust to maximize the profitability of its existing assets and grow its energy infrastructure to create long-term value and enhance returns for its investors. The Trust considers unitholders' equity (including accumulated other comprehensive income), short-term and long-term debt (including current portion) less cash and cash equivalents to be part of its capital structure. The Trust's overall strategy remains unchanged from 2009.

The use of debt or equity funding is based on AltaGas' capital structure, which is determined by considering the norms and risks associated with each of its business segments. AltaGas' target debt-to-total-capitalization ratio was 40 to 45 percent until third quarter 2009. Subsequent to the acquisition of Utility Group (note 3), the Trust increased its target debt-to-total-capitalization ratio to 45 to 50 percent. The increase is the result of the addition of stable, regulated natural gas distribution assets to the Trust's portfolio of energy infrastructure assets. The Trust's debt-to-total capitalization ratio as at March 31, 2010 was 50.0 percent (December 31, 2009 - 49.2 percent).

	<b>March 31</b>	December 31
	<b>2010</b>	2009
Debt		
Short-term debt	\$ 18,959	\$ 14,626
Current portion of long-term debt	416,574	591,944
Long-term debt	607,425	408,170
	<b>1,042,958</b>	1,014,740
Unitholders' equity	<b>1,041,158</b>	1,048,857
Total capitalization	<b>\$ 2,084,116</b>	\$ 2,063,597
Debt-to-total-capitalization ratio (%)	<b>50.0</b>	49.2

All of the borrowing facilities have covenants customary for the types of facilities that must be met at the end of each calendar quarter. AltaGas has been in compliance with these covenants each quarter since the issuance of the facilities.

## 6. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

In the course of normal operations the Trust purchases and sells natural gas, natural gas liquids (NGLs) and power and issues short and long-term debt. The Trust uses derivative instruments to reduce exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates that arise from these activities. The Trust does not make use of derivative instruments for speculative purposes.

### Fair Values of Financial Instruments

At March 31, 2010, all derivatives, other than those that meet the expected purchase, sale or usage requirements exemption, were carried on the Consolidated Balance Sheets at fair value. The fair value of power, natural gas and NGL derivatives was calculated using estimated forward prices from published sources for the relevant period. The calculation of fair value of the interest rate and foreign exchange derivatives used quoted market rates.

### Summary of Unrealized Gain (Loss) on Risk Management Recognized in Net Income

	Three Months Ended March 31	
	2010	2009
Natural gas	\$ 2,804	\$ 806
NGL	(1,577)	(160)
Power	3,664	131
Heat rate	(146)	(33)
Interest rate swaps	767	637
Foreign exchange	(230)	(746)
	<b>\$ 5,282</b>	<b>\$ 635</b>

In first quarter 2010 AltaGas changed the effectiveness testing of its power and NGL frac spread hedges to align the Trusts' methodology with IFRS requirements. The change eliminated the use of the critical terms method to test the effectiveness on a prospective basis. The net income impact, net of tax, was an unrealized gain of \$1.6 million related to the power hedges and an unrealized loss of \$1.6 million related to the NGL frac spread hedges.

### Summary of Unrealized Gain (Loss) and Tax Expense (Recovery) on Derivatives Designated as Cash Flow Hedges Recognized in Other Comprehensive Income

	Three Months Ended March 31 2010			Three Months Ended March 31 2009		
	Unrealized gain (loss)	Tax expense (recovery)		Unrealized gain (loss)	Tax expense (recovery)	
NGL	\$ (4,495)	\$ 1,269	\$ (3,226)	\$ 17,685	\$ (5,084)	\$ 12,601
Power	20,706	(5,856)	14,850	32,586	(9,282)	23,304
Bond forward	(2,739)	-	(2,739)	(2,864)	-	(2,864)
Interest rate swaps	-	-	-	(373)	-	(373)
Foreign exchange	-	-	-	5,829	(1,691)	4,138
Available-for-sale	1,745	(175)	1,570	-	-	-
OCI	<b>\$ 15,217</b>	<b>\$ (4,762)</b>	<b>\$ 10,455</b>	<b>\$ 52,863</b>	<b>\$ (16,057)</b>	<b>\$ 36,806</b>

### Long-term Investments and Other Assets

In January 2009 AltaGas purchased common shares of Magma Energy Corp. (Magma) through a private-equity offering for \$10 million. These shares were classified as available-for-sale. The changes in value for these common shares are reported within OCI, which was \$1.3 million as at March 31, 2010 (2009 - nil). In July 2009, AltaGas purchased additional common shares of Magma as part of its initial public offering. These shares were classified as held-for-trading and included in long-term investments and other assets. In first quarter 2010, the Trust recognized an unrealized loss of \$1.6 million (2009 - nil) in the Corporate Segment as other revenue.

In October 2009 AltaGas acquired an equity investment in a public company with the acquisition of Utility Group. The shares are classified as available-for-sale. The changes in value for these common shares are reported within OCI, which was \$0.4 million as at March 31, 2010 (2009 - nil) and realized gains (losses) recognized in other income. As at March 31, 2010, the Trust recognized a realized gain of \$0.2 million in the NGD business as other revenue.

### Short-Term Investment

In first quarter 2010 AltaGas recognized a realized gain of \$1.2 million (2009 - nil) and unrealized gain of \$0.3 million (2009 - nil) in the Corporate Segment as other revenue.

## 7. UNITHOLDERS' EQUITY

	March 31 2010	December 31 2009
Unitholders' capital (note 8)	\$ 995,787	\$ 982,662
Contributed surplus (note 9)	6,689	5,621
Accumulated earnings	851,265	815,045
Warrants	-	4,500
Accumulated dividends	(41,114)	(41,114)
Accumulated unitholders' distributions declared <sup>(1)</sup>	(752,076)	(709,058)
Distributions of common shares of Utility Group	(29,848)	(29,848)
Transition adjustment resulting from adopting new financial instruments accounting standards	-	(176)
Accumulated other comprehensive income	10,455	21,225
	<b>\$ 1,041,158</b>	<b>\$ 1,048,857</b>

<sup>(1)</sup> Accumulated unitholders' distributions paid by the Trust as at March 31, 2010 were \$737.5 million (as at December 31, 2009 - \$694.0 million).

## 8. UNITHOLDERS' CAPITAL

The Trust is authorized to issue:

- An unlimited number of trust units redeemable for cash at the option of the holder;
- An unlimited number of AltaGas Holding Limited Partnership No. 1 (AltaGas LP #1) Class B limited partnership units, which are exchangeable into trust units on a one-for-one basis. Prior to May 1, 2014 the exchange is at the option of the unitholder at any time, and at the option of the Trust should the number of AltaGas LP #1 units outstanding fall below 750,000. After May 1, 2014 the exchange is at the option of either the Trust or the unitholder; and
- An unlimited number of AltaGas Holding Limited Partnership No. 2 (AltaGas LP #2) Class B limited partnership units, which are exchangeable into trust units on a one-for-one basis. Prior to May 1, 2009 the exchange was at the option of the unitholder at any time, and at the option of the Trust should the number of AltaGas LP #2 units outstanding fall below 1,000,000. Since May 1, 2009 the exchange is at the option of either the Trust or the unitholder.

Trust Units Issued and Outstanding	Number of units	Amount
December 31, 2009	78,231,948	\$ 968,519
Units issued for cash on exercise of options	32,875	617
Units issued under DRIP <sup>(1)</sup>	520,316	9,114
Units issued for exchangeable units	506	9
Units issued on exercise of warrants <sup>(2)</sup>	180,433	3,394
<b>March 31, 2010</b>	<b>78,966,078</b>	<b>\$ 981,653</b>

Exchangeable Units Issued and Outstanding	Number of units	Amount
December 31, 2009 issued by AltaGas LP #1	2,083,656	\$ 14,143
AltaGas LP #1 units redeemed for Trust units	(506)	(9)
<b>March 31, 2010</b>	<b>2,083,150</b>	<b>14,134</b>
<b>Issued and outstanding at March 31, 2010</b>	<b>81,049,228</b>	<b>\$ 995,787</b>

<sup>(1)</sup> Distribution Reinvestment and Optional Unit Purchase Plan.

<sup>(2)</sup> On January 1, 2010 AltaGas issued 180,433 units on exercise of special warrants that were originally issued in February 2008 on a one-for-one basis at \$24.94 per special warrant.

<b>Weighted Average Units Outstanding</b> <sup>(1)</sup>	Three Months Ended	
	2010	March 30 2009
Number of units - basic	<b>80,780,225</b>	75,601,862
Dilutive equity instruments <sup>(2)</sup>	<b>330,007</b>	915,288
<b>Number of units - diluted</b>	<b>81,110,232</b>	76,517,150

<sup>(1)</sup> Includes exchangeable units.

<sup>(2)</sup> Includes options, convertible debentures and warrants

The Trust has an employee unit option plan under which employees and directors are eligible to receive grants. At March 31, 2010, 10 percent of units outstanding were reserved for issuance under the plan. As at March 31, 2010 options granted under the plan generally had a term of 9 years until expiry and vested no longer than over a four-year period.

At March 31, 2010 outstanding options were exercisable at various dates within the next ten years. As at March 31, 2010 the unexpensed fair value of unit option compensation cost associated with future periods was \$0.6 million (December 31, 2009 - \$0.7 million).

The following table summarizes information about the Trust's unit options:

	Options outstanding	
	Number of options	Exercise price <sup>(1)</sup>
Unit options outstanding, December 31, 2009	3,807,250	\$ 19.86
Granted	5,000	18.51
Exercised	(32,875)	14.24
Expired	(3,500)	20.54
<b>Unit options outstanding, March 31, 2010</b>	<b>3,775,875</b>	<b>\$ 19.90</b>
<b>Unit options exercisable, March 31, 2010</b>	<b>1,272,210</b>	<b>\$ 23.78</b>

<sup>(1)</sup> Weighted average.

The following table summarizes the employee unit option plan as at March 31, 2010:

	Options outstanding			Options exercisable	
	Number outstanding	Weighted Average Exercise price	Weighted Average Remaining contractual life	Number exercisable	Exercise price
\$5.00 to \$15.25	1,266,875	\$ 14.17	8.62	264,125	\$ 13.90
\$15.26 to \$25.08	1,718,500	20.56	8.71	396,876	24.16
\$25.09 to \$29.15	790,500	27.68	6.65	611,209	27.79
	<b>3,775,875</b>	<b>\$ 19.90</b>	<b>8.25</b>	<b>1,272,210</b>	<b>\$ 23.78</b>

In 2004 AltaGas implemented a unit-based compensation plan, which awards phantom units to certain employees. Beginning in 2008, all employees were eligible to receive phantom units. The phantom units are valued on distributions declared and the trading price of the Trust's units. The units vest on a graded vesting schedule. The compensation expense recorded in first quarter 2010 in respect of this plan was \$2.4 million (2009 - \$0.9 million). As at March 31, 2010 the unexpensed fair value of unit-based compensation costs associated with future periods was \$23.9 million (December 31, 2009 - \$26.4 million).

## 9. CONTRIBUTED SURPLUS

	March 31 2010	December 31 2009
Balance, beginning of period	\$ 5,621	\$ 4,261
Amortization of unit options	110	376
Exercise of unit options	(148)	(318)
Cancellation of unit options	-	(213)
Other adjustments <sup>(1)</sup>	1,106	1,515
Balance, end of period	\$ 6,689	\$ 5,621

<sup>(1)</sup> Includes exercise of warrants in January 2010 and equity portion of convertible debentures redeemed in September 2009.

## 10. NET INCOME PER UNIT

The following table summarizes the computation of net income per unit:

	Three Months Ended March 31	
	2010	2009
Numerator:		
Numerator for basic net income per unit	\$ 36,396	\$ 37,535
Numerator for diluted net income per unit	\$ 36,396	\$ 37,775
Denominator:		
Weighted-average number of units	80,780	75,602
Dilutive equity instruments <sup>(1)</sup>	330	915
Denominator for diluted net income per unit	81,110	76,517
Basic net income per unit	\$ 0.45	\$ 0.50
Diluted net income per unit	\$ 0.45	\$ 0.49

<sup>(1)</sup> Includes options, convertible debentures and warrants.

## 11. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in the following non-cash working capital items increased (decreased) cash flows from operations as follows:

	Three Months Ended March 31	
	2010 <sup>(1)</sup>	2009
Accounts receivable	\$ 18,969	\$ 22,766
Inventory	295	(360)
Other current assets	(4,527)	63
Regulatory assets	2,522	-
Accounts payable and accrued liabilities	(16,717)	(53,467)
Customer deposits	(1,777)	3,923
Deferred revenue	-	272
Regulatory liabilities	324	-
Other current liabilities	(5,213)	(8,568)
	(6,124)	(35,371)
Add back: increase (decrease) in capital costs payable	(8,100)	9,196
Net change in non-cash working capital related to operations	\$ (14,224)	\$ (26,175)

<sup>(1)</sup> Specific line items may not agree with the net change in the unaudited Consolidated Balance Sheets due to acquisitions (note 3).

The following cash payments have been included in the determination of earnings:

	Three Months Ended March 31	
	2010	2009
Interest paid	\$ 10,909	\$ 7,681
Income taxes paid	\$ 762	\$ 3

## 12. PENSION PLANS AND RETIREE BENEFITS

The costs of the defined benefit and post-retirement plans are based on management's estimate of the future rate of return on the fair value of pension plan assets, salary escalations, mortality and other factors affecting the payment of future benefits.

The net pension expense by plan for the period was as follows:

	Three Months Ended March 31	
	2010	2009
Defined contribution plan	\$ 655	\$ 566
Defined benefit plan	451	170
Supplemental executive retirement plan	355	295
Other post-retirement benefit plans	54	-
	\$ 1,515	\$ 1,031

## 13. NON-MONETARY TRANSACTION

AltaGas has entered into a non-monetary transaction with a third party in which it exchanged B.C. Renewable Energy Certificates (RECs) for verified emission offsets that were generated in Alberta. The RECs will be created through the generation of power at the Bear Mountain Wind Park between 2009 and 2011. The verified emission offsets received by AltaGas were used to offset the costs to comply with Specified Gas Emitters Regulation (SGER) in 2010.

## 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current financial presentation.

## 15. SEASONALITY

The natural gas distribution (NGD) business is highly seasonal with the majority of natural gas deliveries occurring during the winter heating season. Gas sales during the winter typically account for approximately two-thirds of annual NGD revenue resulting in strong first and fourth quarter results and losses in the second and third quarters.

## 16. SEGMENTED INFORMATION

AltaGas is an integrated energy trust with a portfolio of assets and services used to move energy from the source to the end-user. The majority of the transactions among the reporting segments are recorded at the market price of the commodities and the remainder is at the exchange amount. In accordance with the CICA Handbook Section 1700, in the year ended December 31, 2009, AltaGas changed the composition of its reportable segments as a result of modifications and growth of the enterprise. Comparative periods have been restated based on the current reportable segments. The following describes the Trust's three reporting segments:

- Gas**
- NGL processing and extraction plants
  - transmission pipelines to transport natural gas and NGL
  - natural gas gathering lines and field processing facilities
  - energy consulting and sale of natural gas and electricity
  - natural gas storage facilities
  - regulated natural gas distribution assets

- 
- Power**
- coal-fired and gas-fired power output under power purchase arrangements and other agreements
  - gas-fired power plants
  - wind and run-of-river power plants

- 
- Corporate**
- the costs of providing corporate services and general corporate overhead, investments in public and private entities, corporate assets and the effects of changes in the fair value of risk management contracts.

The following tables show the composition by segment:

**Three Months Ended**

<b>March 31, 2010</b>	Gas	Power Segment	Corporate Segment	Intersegment Elimination	Total
Revenue	\$ 353,145	\$ 56,607	\$ 256	\$ (54,794)	\$ 355,214
Unrealized gain on risk management	-	-	5,282	-	5,282
Cost of sales	(254,162)	(33,149)	-	54,021	(233,290)
Operating and administrative	(47,921)	(2,719)	(11,644)	773	(61,511)
Amortization	(18,423)	(3,824)	(720)	-	(22,967)
Foreign exchange gain	-	-	(248)	-	(248)
Interest expense	-	-	(11,501)	-	(11,501)
<b>Income (loss) before income taxes</b>	<b>\$ 32,639</b>	<b>\$ 16,915</b>	<b>\$ (18,575)</b>	<b>-</b>	<b>\$ 30,979</b>
Net additions to:					
Capital assets <sup>(1)</sup>	\$ 42,567	\$ 3,691	\$ 2,084	-	\$ 48,342
Long-term investment and other assets <sup>(2)</sup>	\$ (265)	\$ (96)	\$ (4,831)	-	\$ (5,192)
Goodwill	\$ 201,764	-	-	-	\$ 201,764
<b>Segmented assets</b>	<b>\$ 2,049,722</b>	<b>\$ 422,000</b>	<b>\$ 181,095</b>	<b>-</b>	<b>\$ 2,652,817</b>

<sup>(1)</sup> Difference in timing of cash flows, non-cash transactions and assets acquired in business acquisitions (note 3), recorded as acquisition of long-term investment on statement of cash flow of \$34,104.

<sup>(2)</sup> Difference in timing of cash flows, non-cash transactions and assets acquired in business acquisitions (note 3), recorded as acquisition of long-term investment on statement of cash flow of \$26,259.

Three Months Ended						
March 31, 2009						
	Gas	Power Segment	Corporate Segment	Intersegment Elimination	Total	
Revenue	\$ 317,747	\$ 49,294	\$ 571	\$ (13,690)	\$ 353,922	
Unrealized gain on risk management	-	-	635	-	635	
Cost of sales	(233,691)	(21,755)	-	13,036	(242,410)	
Operating and administrative	(40,691)	(1,466)	(8,495)	654	(49,998)	
Amortization	(14,933)	(1,991)	(626)	-	(17,550)	
Foreign exchange gain	-	-	151	-	151	
Interest expense	-	-	(5,704)	-	(5,704)	
Income (loss) before income taxes	\$ 28,432	\$ 24,082	\$ (13,468)	-	\$ 39,046	
Net additions to:						
Capital assets <sup>(1)</sup>	\$ 12,651	\$ 11,946	\$ 1,166	-	\$ 25,763	
Energy services arrangements, contracts and relationships	\$ -	-	-	-	\$ -	
Long-term investment and other assets <sup>(2)</sup>	-	\$ 9,659	\$ 594	-	\$ 10,253	
Goodwill	\$ 143,840	-	-	-	\$ 143,840	
Segmented assets	\$ 1,669,806	\$ 289,859	\$ 197,415	-	\$ 2,157,080	

<sup>(1)</sup> Difference in timing of cash flows, non-cash transactions and assets acquired in business acquisitions (note 3), recorded as acquisition of long-term investment on statement of cash flow of \$8,599.

<sup>(2)</sup> Difference in timing of cash flows, non-cash transactions and assets acquired in business acquisitions (note 3), recorded as acquisition of long-term investment on statement of cash flow of \$253.

# Supplementary Quarterly Financial Information

(unaudited)

(\$ millions unless otherwise indicated)	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
<b>FINANCIAL HIGHLIGHTS<sup>(1)</sup></b>					
Net Revenue <sup>(2)</sup>					
Gas	<b>99.0</b>	93.6	81.4	81.1	84.1
Power	<b>23.5</b>	26.5	24.8	23.4	27.5
Corporate	<b>5.5</b>	(3.5)	9.5	11.3	1.2
Intersegment Elimination	<b>(0.8)</b>	(1.2)	(1.0)	(1.5)	(0.7)
	<b>127.2</b>	115.4	114.7	114.3	112.1
EBITDA <sup>(2)</sup>					
Gas	<b>51.0</b>	49.6	40.8	39.9	43.4
Power	<b>20.8</b>	24.9	23.4	21.9	26.0
Corporate	<b>(6.3)</b>	(15.7)	(0.6)	1.8	(7.1)
	<b>65.5</b>	58.8	63.6	63.6	62.3
Operating Income (Loss) <sup>(2)</sup>					
Gas	<b>32.6</b>	32.0	25.3	24.6	28.4
Power	<b>16.9</b>	22.9	21.4	19.6	24.1
Corporate	<b>(6.8)</b>	(16.1)	(1.3)	1.3	(8.0)
	<b>42.7</b>	38.8	45.4	45.5	44.5

<sup>(1)</sup> Columns may not add due to rounding.

<sup>(2)</sup> Non-GAAP financial measure.

# Supplementary Quarterly Operating Information

(unaudited)

	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09
<b>OPERATING HIGHLIGHTS</b>					
<b>GAS</b>					
<b>E&amp;T</b>					
Extraction inlet gas processed (Mmcf/d) <sup>(1)</sup>	787	844	839	798	882
Extraction volumes (Bbls/d) <sup>(1)</sup>	38,429	39,812	38,222	39,334	42,898
Frac spread - realized (\$/Bbl) <sup>(1)(4)</sup>	30.42	25.96	20.55	22.05	25.29
Frac spread - average spot price (\$/Bbl) <sup>(1)(4)</sup>	35.38	26.87	19.74	16.34	15.20
Transmission volumes (Mmcf/d) <sup>(1)(3)</sup>	310	320	332	345	348
<b>FG&amp;P</b>					
Processing Capacity (gross Mmcf/d) <sup>(2)</sup>	1,172	1,172	1,172	1,172	1,172
Processing Throughput (gross Mmcf/d) <sup>(1)</sup>	432	423	433	475	480
Capacity utilization (%) <sup>(1)</sup>	37	39	37	41	41
<b>NGD</b>					
Natural gas deliveries - end-use (PJ) <sup>(5)(6)</sup>	7.20	6.62	-	-	-
Natural gas deliveries - transportation (PJ) <sup>(5)(6)</sup>	1.30	0.55	-	-	-
Service sites at period-end <sup>(7)</sup>	73,198	72,717	-	-	-
Degree day variance (%) - AUI <sup>(8)</sup>	(10.3)	9.9	-	-	-
Degree day variance (%) - Heritage Gas <sup>(9)</sup>	(10.5)	-	-	-	-
<b>Energy Services</b>					
Energy management service contracts <sup>(2)</sup>	416	412	425	424	429
Average volumes transacted (GJ/d) <sup>(1)</sup>	405,048	377,580	329,192	287,315	374,113
<b>POWER</b>					
Volume of power sold (GWh) <sup>(1)</sup>	685	707	683	672	664
Average price realized on sale of power (\$/MWh) <sup>(1)</sup>	62.16	67.54	70.22	63.84	74.33
Alberta Power Pool average spot price (\$/MWh) <sup>(1)</sup>	40.88	46.32	49.75	32.31	63.01

<sup>(1)</sup> Average for the period.

<sup>(2)</sup> As at period end.

<sup>(3)</sup> Excludes natural gas liquids pipeline volumes.

<sup>(4)</sup> AltaGas reports an indicative frac spread or NGL margin, expressed in dollars per barrel of NGL, which is derived from Edmonton postings for propane, butane and condensate and the daily AECO natural gas price.

<sup>(5)</sup> Petajoule (PJ) is one million gigajoules (GJ).

<sup>(6)</sup> Deliveries reflect AltaGas' 100 percent share in AUI and Heritage Gas as at October 8 and November 18, 2009 respectively.

<sup>(7)</sup> Service sites reflect all the service sites of AUI, Heritage Gas and Inuvik Gas.

<sup>(8)</sup> Degree days relate to AUI's service area. A degree day is the cumulative extent to which the daily mean temperature falls below 15 degrees Celsius. Normal degree days are based on a 20-year rolling average. Positive variances from normal lead to increased delivery volumes from normal expectations.

<sup>(9)</sup> Degree days relate to Heritage Gas' service area. A degree day is the cumulative extent to which the daily mean temperature falls below 18 degrees Celsius. Normal degree days are based on a 20-year rolling average. Positive variances from normal lead to increased delivery volumes from normal expectations.

# Other Information

## DEFINITIONS

Bbls/d	barrels per day
Bcf	billion cubic feet
GJ	gigajoule
GWh	gigawatt-hour
Mcf	thousand cubic feet
Mmcf/d	million cubic feet per day
MW	megawatt
MWh	megawatt-hour
PJ	petajoule

## ABOUT ALTAGAS

AltaGas Income Trust is one of Canada's largest and fastest growing integrated energy infrastructure organizations. The Trust creates value by growing and optimizing gas and power infrastructure, including a focus on renewable energy sources.

AltaGas Income Trust's units are listed on the Toronto Stock Exchange under the symbol ALA.UN. The Trust is included in the S&P/TSX Composite Index, the S&P/TSX Income Trust Index and the S&P/TSX Capped Energy Trust Index.

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