

## NEWS RELEASE

## ALTAGAS DELIVERS RECORD ANNUAL EARNINGS OF \$38.3 MILLION

CALGARY, Alberta - March 2, 2004 - TSX: ALA

**Year-end and Fourth Quarter 2003 Highlights**

*(All financial figures are in Canadian dollars unless otherwise stated.)*

- AltaGas Services Inc.'s successful business strategy delivered its tenth consecutive year of record consolidated net income. Net income was \$38.3 million or \$0.84 per share for the year ended December 31, 2003 compared to net income of \$29.4 million or \$0.70 per share for the same period of 2002. This 30 percent increase in net income and 20 percent increase in net income per share is based on shares outstanding for the year ended December 31, 2003 of 45.5 million compared to 42.3 million for 2002.
- The strength in AltaGas' base business and the substantial year over year volume increases in the transmission, extraction and power components related to late 2002 and 2003 business development drove the growth in net income for the year. In 2003, one time future income tax liability adjustments made to reflect federal legislative changes in taxation of resource income and large corporations tax reduced income by \$2.0 million or \$0.04 per share. In 2002, net income includes net gains on the sale of investments of \$0.6 million or \$0.02 per share.
- AltaGas adopted the new Canadian Institute of Chartered Accountants standard for accounting for asset retirement obligations. Under the new standard, the Corporation recognizes asset retirement obligations in the period in which they are incurred, if a reasonable estimate of a fair value can be determined. Concurrently, the Company adjusted its accumulated depreciation accounts to include the impact of including salvage values in the determination of its annual depreciation expense. Adoption resulted in a favorable impact on 2003 net income of \$0.8 million and \$0.02 per share.
- Fourth quarter 2003 net income was \$12.0 million, 7 percent higher than fourth quarter 2002 net income of \$11.2 million. Net income per share rose to \$0.26 in the fourth quarter of 2003 up from \$0.25 per share in the fourth quarter of 2002. The increase in net income in the fourth quarter of 2003 compared to the same period in 2002 was substantially due to the late December 2002 Suffield pipelines acquisition and the Joffre ethane extraction plant commissioning. In 2003, a one time charge associated with phasing out of the large corporations tax by 2007 was applied to AltaGas' estimated future income taxes payable, reducing income in the fourth quarter by \$1.2 million or \$0.03 per share.
- Funds generated from operations increased 27 percent to \$90.2 million for the twelve months ended December 31, 2003 up from \$70.8 million for the same period in 2002. Funds generated from operations for the fourth quarter of 2003 were \$26.7 million, an increase of 19 percent when compared to \$22.4 million for the fourth quarter of 2002. These record cash flows were used to fund investment of \$60.7 million, dividends of \$17.3 million and reduce AltaGas' total debt by \$22.6 million in 2003. As a result of the debt reduction the Company's debt to total capitalization ratio decreased to 52 percent from 55 percent at December 31, 2002.
- AltaGas' share price closed at \$15.87 on December 31, 2003 up from \$9.59 at December 31, 2002. Including dividends of \$0.38 per share, the total return to shareholders for 2003 was 69.45 percent.
- The Board of Directors declared a dividend of \$0.11 per common and participating share to be paid on March 31, 2004 to shareholders of record as at March 19, 2004. The share price at closing on March 1, 2004 was \$19.90.
- On February 18, 2004 AltaGas announced that a Special Committee of Independent Directors was undertaking a review of whether to reorganize the business of AltaGas into an income trust.

"2003 was a strong year for AltaGas and marked the milestone of ten years of extraordinary growth", said Chairman and Chief Executive Officer David Cornhill. "We delivered record earnings and cash flow and grew our return on equity and return on investment. During the year, strategic investments continued to be made and partnerships forged that will provide growth in the future. Today, AltaGas is a strong company with high quality assets, a great track record, a proven strategy and a vast array of opportunities."

Mr. Cornhill, commenting on the undertaking to review whether to reorganize the business of AltaGas into an income trust, said, "At AltaGas we create value by investing in and being operationally excellent managers of energy infrastructure-based assets. The review that has been undertaken and any decision ultimately made regarding a reorganization of our business will not change that. The Board of Directors formed the Special Committee to ensure that any reorganization that might be proposed will be in the best interests of AltaGas and its shareholders, and will provide the best vehicle to further AltaGas' growth. The Special Committee expects to make a recommendation to the Board of Directors in the next few weeks with respect to the results of its review. Looking forward, I am confident that under any structure our next ten years will build on the strength of our first ten years."

During 2003, AltaGas captured several opportunities to augment cash flows and earnings. Net additions to capital assets for the twelve months ended December 31, 2003 were \$52.6 million, bringing AltaGas' total assets to \$919.3 million. AltaGas expanded its power business through the signing of the 100 megawatt Genesee energy strip contract that required no capital outlay but instead requires AltaGas to pay a competitively priced fixed monthly capacity charge. The Company advanced its natural gas distribution business with Heritage Gas, a Nova Scotia project in which AltaGas will invest approximately \$32.0 million over the next six years. AltaGas grew its Gathering and Processing segment with the acquisition of 19.2 percent of Taylor Natural Gas Liquids Partnership and continued its program of acquisition, construction and expansion projects. In the field gathering and processing component, net additions to capital assets were \$31.6 million in 2003. With capital assets of \$351.6 million in this component, AltaGas is well positioned to meet existing and future processing needs in the areas it serves through its existing capacity and with expansions of existing facilities. AltaGas continues to pursue opportunities for new area development in the field gathering and processing component and to expand its market position in all components of the midstream market place.

Net revenue for the Gathering and Processing segment was \$140.2 million for the year ended December 31, 2003 compared to \$99.6 million for the year ended December 31, 2002. Net revenue for the fourth quarter of 2003 was \$38.7 million compared to \$26.7 million for the same period in 2002. During the year growth was achieved in the transmission component primarily due to the December 2002 Suffield pipelines acquisition. In the field gathering and processing component, higher net revenue in 2003 was attributable to the Wabasca acquisition in December 2002 which included the addition of seven gathering and processing systems, expansions at existing facilities and strong natural gas throughput in the base business. In the extraction component, results grew substantially due to the commissioning of the Joffre ethane extraction plant in December 2002, and the completion of modifications to increase ethane production at the EnCana-operated extraction plant late in the third quarter of 2003.

In late 2002, AltaGas significantly expanded its transmission business with the acquisition of the Suffield system, adding 400 Mmcf/d of capacity. The successful integration of the Suffield system increased net revenue in this component 258 percent to \$26.1 million for the year ended December 31, 2003 from \$7.3 million in 2002. During the fourth quarter of 2003, net revenue in AltaGas' transmission component increased 189 percent to \$6.7 million from \$2.3 million during the same period in 2002. Total average transmission volumes increased to 348 Mmcf/d in 2003 from 70 Mmcf/d in 2002 and total average transmission volumes for the fourth quarter of 2003 were 403 Mmcf/d compared to 106 Mmcf/d for the fourth quarter of 2002.

In the field gathering and processing component, net revenue for 2003 reached \$105.4 million, a 22 percent increase over 2002 net revenue of \$86.1 million. In this component, AltaGas achieved capacity and throughput growth for the tenth consecutive year. During the fourth quarter of 2003, net revenue increased to \$29.0 million, a 28 percent increase over net revenue of \$22.6 million during the same period in 2002. On December 18, 2003, AltaGas announced its intention to acquire interests in two natural gas processing systems, Rainbow Lake and Mica Pouce Coupe, for approximately \$17.0 million. The Rainbow Lake gathering and processing system acquisition closed on December 22, 2003, and included a 100 percent interest in a 40 Mmcf/d sour natural gas processing facility and 130 kilometres of gathering pipelines located near the town of Rainbow Lake in northwestern Alberta. The facility is supported by extensive land dedications in an area with strong producer activity. The Mica Pouce Coupe acquisition which closed on January 30, 2004 included a 40.78 percent interest in

a 43 Mmcf/d sweet gas processing facility and approximately 70 kilometres of gathering pipeline located along the Alberta/BC border near the town of Dawson Creek.

Gross processing capacity at field gathering and processing facilities increased to 861 Mmcf/d at December 31, 2003 from 842 Mmcf/d at the end of 2002. Increases in capacity from acquisitions, construction projects and expansions at existing facilities throughout the year were partially offset by facility rationalizations. AltaGas typically acquires skid-mounted processing facilities that can be integrated with existing facilities. These mobile assets allow AltaGas to match quickly and efficiently the size of plant processing requirements to anticipated production volumes in an area. The ability to redeploy major equipment allows AltaGas to reduce operating costs and maximize return on capital invested.

Strong industry drilling activity in many of AltaGas' operating areas resulted in 324 new natural gas wells tied into AltaGas' field gathering and processing facilities in 2003 compared to 188 new wells tied-in during 2002. Volume additions from well tie-ins, in combination with throughput from facility acquisitions and expansions, more than offset normal natural gas production declines in 2003. Natural gas gathering and processing gross average throughput for the year ended December 31, 2003 increased to 520 Mmcf/d from 492 Mmcf/d for the year ended December 31, 2002. During the fourth quarter of 2003, natural gas gathering and processing gross average throughput was 523 Mmcf/d compared to 532 Mmcf/d for the fourth quarter of 2002. At some of AltaGas' field gathering and processing facilities where there is lower producer activity, the company continues to benefit from take-or-pay and capital and operating cost recovery contract provisions designed to minimize financial exposure to fluctuating throughput.

In AltaGas' extraction component, 2003 processed volumes almost doubled with average net production of 6,560 Bbls/d of ethane and natural gas liquids ("NGLs") compared to an average of 3,399 Bbls/d in 2002. As a result of the higher volumes, net revenue for the extraction component grew 74 percent in 2003, reaching \$10.8 million. The higher average production for 2003 is a result of the commissioning of the Joffre ethane extraction plant in December 2002, partially offset by the eight week shut-in of the EnCana-operated Empress extraction facility during the third quarter of 2003 to complete modifications to increase ethane production at that facility. Net revenue for the fourth quarter of 2003 was \$3.5 million, a 96 percent increase from \$1.8 million for the same period during 2002, as a result of both higher volumes and higher NGLs frac spreads. As a result of the modifications on the EnCana-operated Empress facility and the full quarter impact of the Joffre plant production, AltaGas' total average extraction volumes for the fourth quarter of 2003 increased to 8,182 Bbls/d from 3,802 Bbls/d for the same period in 2002.

During 2003, AltaGas delivered another year of solid performance in its Energy Services segment through disciplined management of the Company's power purchase arrangements. AltaGas reduces its exposure to electricity price volatility by using a balanced portfolio of contracts to lock in power margins to reduce pricing risk. AltaGas' hedging strategy targets balance between operating margin certainty and operational flexibility. In the Energy Services segment, net revenue for the year ended December 31, 2003 was \$49.6 million compared to \$44.2 million for the same period in 2002. Net revenue for the fourth quarter of 2003 was \$13.2 million compared to fourth quarter 2002 net revenue of \$14.6 million. During 2003, higher power volumes sold were partially offset by higher expenses in the power and gas services components, lower produced volumes from AltaGas' oil and gas properties and lower marketed volumes in the gas services component. In the fourth quarter of 2003, the impact of increased power volumes from Genesee sales were offset by higher transmission and interconnection charges from Sundance B as well as Alberta Electrical Service Administration Rate Rider C charges in the fourth quarter of 2003 instead of Rate Rider C credits as in the fourth quarter of 2002.

The average price AltaGas received from power sales in 2003 was \$47.03 per MWh, up 14 percent from the \$41.27 per MWh received in 2002. These prices compare to average Alberta Power Pool spot prices of \$62.98 per MWh and \$43.85 per MWh in 2003 and 2002, respectively. The average price AltaGas received from power sales in the fourth quarter of 2003 was \$46.97 per MWh up from \$46.45 per MWh in the fourth quarter of 2002. These prices compare to average Alberta Power Pool spot prices of \$54.78 per MWh and \$61.43 per MWh in the fourth quarters of 2003 and 2002, respectively. Adhering to its hedging strategy, AltaGas has sold a substantial portion of its power forward for 2004.

In the Natural Gas Distribution segment, net revenue for the year ended December 31, 2003 was \$30.5 million compared to \$28.9 million for the same period in 2002. Sales and transportation volumes for 2003 increased to 23.5 Bcf compared to 21.8 Bcf for 2002 despite slightly warmer weather during 2003. Higher volumes transported for producers and industrial end use customers contributed to the positive results for the year. During the fourth quarter of 2003, net revenue in the natural gas distribution segment was \$9.2 million compared to fourth quarter 2002 net revenue of \$8.5 million.

Heritage Gas Limited, of which AltaGas owns 24.9 percent, accepted on June 3, 2003 the natural gas distribution franchise to serve six counties in Nova Scotia for a period of 25 years. Later in the year, Heritage Gas acquired and constructed natural gas distribution facilities and took steps to begin operations as a natural gas distribution utility. Heritage Gas activated its natural gas distribution system on December 20, 2003 and served its first customer on December 23, 2003. In its first four years of development Heritage Gas expects to bring natural gas access to approximately 8,000 residential and business customers in Nova Scotia.

### Consolidated Financial Highlights

AltaGas adopted the new Canadian Institute of Chartered Accountants standard for accounting for asset retirement obligations. Under the new standard, the Corporation recognizes asset retirement obligations in the period in which they are incurred, if a reasonable estimate of a fair value can be determined. Concurrently, the Company adjusted its accumulated depreciation accounts to include the impact of including salvage values in the determination of its annual depreciation expense. Adoption resulted in a favorable impact on 2003 net income of \$0.8 million and \$0.02 per share.

(\$ millions)	Three months ended December 31		Year Ended December 31	
	2003	2002	2003	2002
Revenue	179.0	150.3 <sup>(4)</sup>	708.9	492.7 <sup>(4)</sup>
Net revenue <sup>(1)</sup>	61.0	48.8 <sup>(4)</sup>	219.9	169.9 <sup>(4)</sup>
EBITDA <sup>(2)</sup>	34.7	27.8 <sup>(4)</sup>	121.9	94.8 <sup>(4)</sup>
Net income	12.0	11.2 <sup>(4)</sup>	38.3	29.4 <sup>(4)</sup>
Funds generated from operations	26.7	22.4	90.2	70.8

  

Results per basic share (dollars except number of shares)	Three months ended December 31		Year Ended December 31	
	2003	2002	2003	2002
EBITDA <sup>(2)</sup>	0.76	0.62 <sup>(4)</sup>	2.68	2.24 <sup>(4)</sup>
Net income	0.26	0.25 <sup>(4)</sup>	0.84	0.70 <sup>(4)</sup>
Funds generated from operations	0.58	0.50	1.98	1.67
Dividends paid per share	0.11	0.08	0.38	0.28
Basic shares outstanding for the period (millions) <sup>(3)</sup>	45.7	45.2	45.5	42.3
Shares outstanding at period end (millions)	45.7	45.2	45.7	45.2

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

(1) Net revenue is gross revenue less the costs to purchase natural gas for resale and the costs to purchase power under power purchase based arrangements.

(2) Earnings before interest expense, income taxes, and amortization. EBITDA is provided to assist investors in determining the ability of AltaGas to generate funds from operations. This measure does not have any standardized meaning prescribed by generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

(3) Based on the weighted average number of shares outstanding for the period.

(4) 2002 includes a first quarter pre-tax gain of \$2.4 million from the sale of investments and a fourth quarter pre-tax loss of \$1.4 million.

## About AltaGas

AltaGas moves energy from its source to the end user, adding value through the process. The Company has over \$900 million in assets and a market capitalization of approximately \$900 million. Its steadily expanding asset base today includes natural gas gathering and processing facilities, interests in ethane and natural gas liquids extraction plants, and transmission pipelines. AltaGas distributes natural gas in Alberta through AltaGas Utilities Inc., in the Northwest Territories through the Ikhil Gas Project and in Nova Scotia through its interest in Heritage Gas Limited. The Company provides energy services to customers, including marketing of natural gas and natural gas liquids and sale of power from its power purchase arrangements.

AltaGas' common shares are listed on the Toronto Stock Exchange under the symbol ALA. The Company is included in the S&P/TSX Composite Index, S&P/TSX Smallcap Index and the S&P/TSX Capped Energy Index.

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When used in this press release, the words "anticipate," "estimate," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated in the forward-looking statements. These risks and uncertainties include operating performance, regulatory and environmental issues, weather and economic conditions, competition and financing availability. For additional information on these and other factors see the reports filed by AltaGas with Canadian securities regulators. AltaGas disclaims any intention or obligation to update or revise any forward looking information whether as result of new information or future events.

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## FOURTH QUARTER REPORT

INTERIM REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED DECEMBER 31, 2003

## RESULTS AT A GLANCE

	Three months ended		Year ended	
	December 31		December 31	
	2003	2002	2003	2002
Net income (millions of dollars)	12.0	11.2	38.3	29.4
Net income excluding net gains from sale of investments (millions of dollars)	12.0	12.4	38.3	28.8
Net income per share	0.26	0.25	0.84	0.70
Net income per share excluding net gains (losses) from sale of investments	0.26	0.27	0.84	0.68

Note: Per share amounts are based on the weighted average number of shares outstanding for the period or basic shares.

Net income excluding gains is provided to assist in determining normal income for ongoing operations.

Net income excluding net gains (losses) does not have any standardized meaning prescribed by Canadian generally accepted accounting principles.

Prior periods have been restated for the impacts of the adoption of CICA Handbook guidance on accounting for asset retirement obligations.

## MANAGEMENT'S DISCUSSION &amp; ANALYSIS

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and in conjunction with the audited consolidated financial statements and the Management's Discussion and Analysis contained in the Company's annual report for the year ended December 31, 2002.

## RESULTS OF OPERATIONS

## Consolidated Operations

(\$ millions)	Three months ended		Year ended	
	December 31		December 31	
	2003	2002	2003	2002 <sup>(1)</sup>
Revenue	179.0	150.3	708.9	492.7
Net revenue <sup>(2)</sup>	61.0	48.8	219.9	169.9
EBITDA <sup>(3)</sup>	34.7	27.8	121.9	94.8
Operating income	25.9	19.1	83.6	61.0

(1) 2002 includes a first quarter pre-tax net gain of \$2.4 million from the sale of investments and a fourth quarter pre-tax loss of \$1.4 million

(2) Net revenue is gross revenue less the costs to purchase natural gas for resale and the costs to purchase power under power purchase based arrangements.

(3) EBITDA (operating income plus amortization) is provided to assist in determining the ability of AltaGas to generate cash from operations. This measure does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

AltaGas' substantial growth continued to generate very strong operating and financial results in the fourth quarter and for the full year 2003. The growth is primarily driven by the late December 2002 acquisition of two natural gas transmission pipelines at Suffield, Alberta, higher contributions from the power component due to increased power prices and additional power sales associated with AltaGas' 100 megawatt Genesee energy contract, and to the start-up of the Joffre ethane extraction plant in late December 2002.

Revenue for the year ended December 31, 2003 rose 44 percent compared to the same period in 2002. For the three months ended December 31, 2003, revenue increased 19 percent compared to the three months ended December 31, 2002. The increases in revenue are primarily due to the higher prices received for natural gas and power sold in the Energy Services and Natural Gas Distribution segments and to the new volumes sold in the power component.

Net revenue increased 29 percent for full year 2003 and 25 percent for the fourth quarter of 2003 when compared to the same periods of 2002. In the extraction component and the Natural Gas Distribution and Energy Services segments, net revenue better reflects performance than revenue, as changes in the market price of natural gas and power affect both revenue and the cost of goods sold.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the year and three months ended December 31, 2003 rose 29 percent and 25 percent respectively compared to the same periods of 2002. The increases in EBITDA are less than those reported for net revenue on the basis of increased operating and general and administrative costs. Operating cost increases were driven by new costs related to the Wabasca and Suffield acquisitions as well as by higher repairs and maintenance and property tax costs in the current year and quarter. General and administrative costs are higher in the year and in the fourth quarter compared to the same periods in the prior year primarily due to increased staffing required to support the Corporation's growth.

AltaGas early adopted the new Canadian Institute of Chartered Accountants standard for accounting for asset retirement obligations. Under the new standard, the corporation recognizes asset retirement obligations in the period in which they are incurred, if a reasonable estimate of a fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is depreciated over the estimated useful life of the asset. The Company adjusted its accumulated depreciation accounts for the impact of including salvage values in the determination of its annual depreciation expense. Historically, the Company had excluded salvage values in the determination of an asset's depreciable value, effectively providing for any future estimated reclamation costs.

Amortization increased for the full year and fourth quarter of 2003 over the comparative periods of the prior year as a result of the increases in the capital base related to the Suffield and Wabasca acquisitions and the commissioning of the Joffre ethane extraction plant.

The net impact of these changes year over year and fourth quarter resulted in growth in operating income in 2003 over 2002 of 37 percent and 36 percent respectively. This growth was partially offset by higher interest costs, due to higher average debt levels and by higher income taxes in fourth quarter 2003 compared to fourth quarter 2002. The higher comparative income taxes in 2003 were driven by the Corporation's improved earnings, the impact on future income taxes of legislative changes related to large corporations tax and to favorable tax adjustments recorded in 2002.

Net income for the year ended December 31, 2003 was \$38.3 million or \$0.84 per share compared to \$29.4 million or \$0.70 per share for the year ended December 31, 2002. After tax net gains on the sale of investments included in 2002 were \$0.6 million or \$0.02 per share.

## Results by Operating Segment

AltaGas reports consolidated financial and operating results on the basis of three business segments: Gathering and Processing, Energy Services and Natural Gas Distribution. Gathering and Processing includes natural gas field gathering and processing facilities, ethane and natural gas liquids extraction plant interests and natural gas transmission pipelines. Energy Services includes power services, gas services, and oil and natural gas production. Natural Gas Distribution includes AltaGas' wholly-owned subsidiary AltaGas Utilities Inc., the Company's one-third interest in Inuvik Gas Ltd., a company that distributes natural gas within the Town of Inuvik and the Company's 24.9 percent ownership in Heritage Gas Limited, a company that commenced distribution of natural gas in Nova Scotia near the end of 2003.

## Gathering and Processing

### FINANCIAL RESULTS

(\$ millions)	Three months ended December 31		Year ended December 31	
	2003	2002	2003	2002
Revenue	42.6	29.2	156.7	106.1 <sup>(1)</sup>
Net revenue	38.7	26.7	140.2	99.6 <sup>(1)</sup>
Operating and administrative expenses	20.2	15.7	74.5	52.2
Amortization expense	5.1	5.1	23.6	19.2
Operating income	13.4	5.9	42.1	28.2 <sup>(1)</sup>

(1) 2002 includes a first quarter pre-tax gain of \$2.4 million and a fourth quarter pre-tax loss of \$1.4 million on the sale of investments.

Growth in the Gathering and Processing segment for the year ended December 31, 2003 compared to the same period in 2002 was primarily due to the late December 2002 acquisitions of the Suffield transmission pipelines and the Wabasca field gathering and processing facilities. The commissioning of the Joffre ethane extraction plant in late 2002, the increase in well tie-in activity over 2002 and a modification to increase ethane production capability at the EnCana operated extraction plant also contributed to the growth.

Revenue in this segment for the year and three months ended December 31, 2003 increased by 48 percent and 46 percent respectively when compared to the same periods in 2002. Net revenue, revenue minus the costs associated with the purchase of shrinkage gas at extraction facilities, increased by 41 percent for the year ended December 31, 2003 and 45 percent for the fourth quarter of 2003 compared to the same periods of 2002. The extraction component purchases natural gas to make up the heating value of natural gas liquids extracted (shrinkage).

Operating and administrative expenses increased 43 percent in 2003 and 29 percent for the fourth quarter of 2003 compared to the same periods of 2002 primarily due to operating costs associated with the Wabasca acquisition and expansions in the field gathering and processing component. For the full year 2003, increases in repairs and maintenance and increases in property taxes also contributed to higher operating and administrative expenses.

Amortization expense was higher for the year ended December 31, 2003 compared to the same period in 2002 primarily due to the late 2002 acquisitions and start up of the Joffre ethane extraction plant. In the fourth quarter of 2003, the Company's adoption of the new accounting standard for asset retirement obligations resulted in adjustments to depreciation expense. The impact of the change is accounted for as a retroactive restatement of prior periods and as such full year 2002 and fourth quarter 2002 information has been restated to conform to the reporting requirements.

### OPERATING STATISTICS

	Three months ended December 31		Year ended December 31	
	2003	2002	2003	2002
Field gathering and processing				
Capacity (gross Mmcf/d) <sup>(1)</sup>	861	842	861	842
Throughput (gross Mmcf/d) <sup>(2)</sup>	523	532	523	532
Throughput (gross average annual Mmcf/d)	520	492	520	492
Capacity utilization at quarter end (percent)	61	63	61	63
Average working interest (percent) <sup>(1)</sup>	90	88	90	88
Extraction				
Inlet capacity (Mmcf/d) <sup>(1)</sup>	349	349	349	349
Production (Bbls/d) <sup>(3)</sup>	8,182	3,802	6,560	3,399
Transmission volumes (Mmcf/d) <sup>(2) (4)</sup>	403	106	403	106

(1) As at December 31.

(2) Fourth quarter average.

(3) Average for the period.

(4) Excludes condensate pipeline volumes.

Average field gathering and processing throughput volumes decreased by two percent in the fourth quarter of 2003 compared to the fourth quarter of 2002. Increases from the acquisition of the Wabasca field gathering and processing facilities were offset by sharper declines at the Central Border operating area and reduced throughput associated with disposition of non-core processing assets. Increased well tie-in activity was partially offset by natural production declines and the impact of normal down time for repairs and maintenance on facilities. Processed volumes are expected to rise with the Rainbow Lake and Mica Pouce Coupe gathering and processing facility acquisitions completed at the end of the fourth quarter of 2003 and in the first quarter of 2004 respectively, combined with new well tie-ins and exploitation opportunities the Company is currently pursuing.

In the extraction component, average production was higher for the year and three month periods ending December 31, 2003 compared to the same periods of 2002 due to the start up of the Joffre ethane extraction plant in December 2002. Increased volumes resulting from the modifications made at the Empress EnCana extraction facility to increase ethane capability also contributed to the period over period increases.

Contract arrangements at AltaGas' extraction facilities provide for both fee for service and margin based revenue. A significant amount of the inlet volumes processed capture a fee for service and bear no commodity price risk. AltaGas monitors the price differential between the price received for the natural gas liquids (NGLs) extracted and the price paid for the natural gas purchased to make up the heating value of the NGLs extracted, after subtracting operating costs. If commodity prices make NGL extraction uneconomic, the NGLs may be reinjected or the facilities shut in.

Transmission volumes increased during the full year and three months ended December 31, 2003 compared to the full year and three months ended December 31, 2002 primarily due to the acquisition of the Suffield transmission pipeline in December 2002 which increased AltaGas' transmission capacity by 400 Mmcf/d.

Net additions to capital assets in the Gathering and Processing segment were \$33.3 million during the full year 2003, down from \$159.8 million in 2002. In 2003 \$24.1 million was invested in acquisitions and expansions, including approximately \$17.0 million for the Rainbow Lake and Mica Pouce Coupe facilities, \$2.9 million in the modifications at the Empress EnCana extraction plant and \$4.2 million for field gathering and processing expansions. The balance of \$9.2 million was spent to maintain throughput at existing field gathering and processing, extraction and transmission facilities and pipelines. In 2002, the Suffield and Wabasca investment of \$118.1 million accounted for the majority of the acquisition capital investment. The balance comprises the \$22.8 million invested at Joffre and the \$11.3 million spent to maintain throughput at existing field gathering and processing, extraction and transmission facilities and pipelines.

## Energy Services

### FINANCIAL RESULTS

(\$ millions)	Three months ended December 31		Year ended December 31	
	2003	2002	2003	2002
Revenue	<b>128.0</b>	112.4	<b>521.6</b>	355.9
Net revenue	<b>13.2</b>	14.6	<b>49.6</b>	44.2
Operating and administrative expenses	<b>2.3</b>	2.6	<b>8.3</b>	11.3
Amortization expense	<b>2.1</b>	2.2	<b>8.5</b>	8.9
Operating income	<b>8.8</b>	9.8	<b>32.8</b>	24.0

Revenue in the Energy Services segment increased 47 percent in full year 2003 and 14 percent in the fourth quarter of 2003 when compared to the same periods of 2002. The increases are driven by higher natural gas prices received in the gas services component and higher power prices received in the power services component in combination with the higher power sales volumes associated with the Genesee energy contract.

AltaGas reduces volatility in earnings associated with fluctuating power prices by locking in margins with forward sales using financial instruments. The Company entered the power business in late 2001 and started its program of hedging its power sales late in the first quarter of 2002.

Net revenue, gross revenue less the costs of the purchase of natural gas for resale and the costs to purchase power under power purchase based arrangements, was twelve percent higher for the full year 2003 compared to 2002 due to higher average power prices realized and the additional volumes sold as a result of the Genesee energy contract, offset by lower produced volumes in the oil and gas production component. Segment net revenue was down \$1.4 million in the fourth quarter of 2003 compared to the same quarter the prior year driven by lower produced volumes in the oil and gas component due to declines and lower marketed volumes in the gas services component based on lower contracted volumes. Power services net revenue for fourth quarter 2003 is \$0.1 million higher than fourth quarter 2002. The impact of increased volumes from Genesee sales was offset by higher transmission and interconnection charges for Sundance B as well as Alberta Electrical Services Administrator Rate Rider C charges in fourth quarter 2003 instead of Rate Rider C credits as in fourth quarter 2002.

The decrease in operating and administrative expenses and amortization in the segment for the full year and fourth quarter of 2003 compared to the full year and fourth quarter 2002 due to lower costs related to oil and gas production.

## OPERATING STATISTICS

	Three months ended		Year ended	
	December 31		December 31	
	2003	2002	2003	2002
Volume of power sold (thousands of MWh)	<b>873</b>	672	<b>3,266</b>	2,669
Average price received on the sale of power (\$/MWh) <sup>(1)</sup>	<b>46.97</b>	46.45	<b>47.03</b>	41.27
Alberta Power Pool average spot price (\$/MWh) <sup>(1)</sup>	<b>54.78</b>	61.43	<b>62.98</b>	43.85

(1) Average for the period.

Net additions to capital assets in the Energy Services segment were \$2.5 million during 2003 compared to \$1.5 million during 2002. The net additions to capital assets are largely development costs in the oil and natural gas production component.

## Natural Gas Distribution

The Natural Gas Distribution segment includes AltaGas Utilities Inc. (AUI), AltaGas' one-third interest in Inuvik Gas Ltd. and the Company's 24.9 percent ownership in Heritage Gas Limited (Heritage Gas).

## FINANCIAL RESULTS

(\$ millions)	Three months ended		Year ended	
	December 31		December 31	
	2003	2002	2003	2002
Revenue	<b>34.7</b>	34.0	<b>129.4</b>	94.3
Net revenue	<b>9.2</b>	8.5	<b>30.5</b>	28.9
Operating and administrative expenses	<b>3.9</b>	3.7	<b>15.6</b>	14.4
Amortization expense	<b>1.6</b>	1.4	<b>6.2</b>	5.7
Operating income	<b>3.7</b>	3.4	<b>8.7</b>	8.8

Higher natural gas prices in 2003 resulted in Natural Gas Distribution revenue increases in 2003 compared to 2002. Net revenue for the year ended December 31, 2003 increased compared to 2002 due to an increase in the number of service customers and increases in the cost of service. These increases were partially offset by warmer weather in 2003. AUI generates the majority of Natural Gas Distribution net revenue. AUI's net revenue is unaffected by changes in the cost of gas as the actual cost is permitted, subject to approval by the Alberta Energy and Utilities Board, to be passed through to the distribution customers.

Higher operating and administrative expenses in this segment in 2003 were related to increases in the cost of insurance and routine operating and maintenance activities.

On June 27, 2003 AUI filed a 2003/2004 General Rate Application with the AEUB proposing a negotiated settlement process for Phase 1 of this proceeding. In Phase 1 proceedings, the revenue requirements of the company are determined, while Phase 2 proceedings determine the rates that will be charged to each customer class. On July 29, 2003, the AEUB approved the commencement of negotiations with respect to all components of the Phase 1 portion except the 2004 rate of return on common equity and capital structure which will be determined in the Province of Alberta through a Generic Cost of Capital Proceeding. The negotiated settlement process will continue in the first half of 2004.

The public hearing portion of the Generic Cost of Capital proceeding was completed on January 16, 2004, reply argument from all parties is scheduled to be filed by April 5, 2004 and a decision is expected by the end of June 2004.

Heritage Gas was issued a license to operate and interim approval of a Schedule of Rates, Tolls and Charges by the Nova Scotia Utility and Review Board on December 19, 2003. A full General Tariff application for test years 2004 to 2008 will be filed in early 2004.

The natural gas distribution 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-fourths of annual gas distribution revenue, resulting in strong first and fourth quarter results and second and fourth quarters that show either small profits or losses.

## OPERATING STATISTICS <sup>(1)</sup>

	Three months ended		Year ended	
	December 31		December 31	
	2003	2002	2003	2002
Volume of natural gas distributed				
Sales (Bcf)	4.5	4.5	13.8	14.2
Transportation (Bcf)	3.0	2.0	9.7	7.6
Number of customers <sup>(2)</sup>	59,543	58,499	59,543	58,499
Degree day variance (percent) <sup>(3)</sup>	3.4	(7.4)	6.9	7.8

(1) AUI only.

(2) At December 31.

(3) Variance from 20-year average. Positive variances are favourable.

Net additions to capital assets in the Natural Gas Distribution segment were \$16.8 million during the year ended December 31, 2003 compared to \$3.7 million for the same period in 2002. Of the additions in 2003, \$4.3 million were related to costs associated with AUI's routine system betterment projects, new business development and construction of a pipeline in the Rainbow Lake area of Northern Alberta and \$2.3 million were for AltaGas' share of costs related to obtaining the franchise, acquiring pipeline and other assets for Heritage Gas. Included in 2003 net additions is a charge of \$10.2 million related to prior years' capital in aid of construction received for the replacement of defective piping. Net additions in 2002 of \$3.7 million were related to costs associated with AUI's routine system betterment projects and new business development.

In the second quarter of 2003, Heritage Gas accepted the distribution franchise to deliver natural gas to six counties in Nova Scotia. Heritage Gas distributed its first natural gas at the end of December, 2003. There was no material impact on operating results for 2003.

## CONSOLIDATED EXPENSES

(\$ millions)	Three months ended		Year ended	
	December 31		December 31	
	2003	2002	2003	2002
Interest	5.3	4.4	22.1	18.1
Income taxes	8.6	3.5	23.2	13.5

AltaGas' interest expense for the year ended December 31, 2003 increased 22 percent from the same period in 2002. The increase in interest in 2003 is primarily due to higher average debt balances during the year. The higher debt levels were primarily attributable to the debt of \$114.7 million incurred to fund the Wabasca field gathering and processing facilities and Suffield transmission pipeline acquisitions on December 19, 2002, offset by debt repayments from operating cash flows over the year.

Income tax expense for the year and fourth quarter ended December 31, 2003 increased from the same period in 2002 for a number of reasons, including higher net income before taxes, the effect of changes in federal income tax legislation of resource income and large corporations tax, the impact on future income taxes resulting from the adoption of new CICA Handbook requirements for asset retirement obligation accounting and the changes in the mix in the Company's income stream period over period and the associated tax rates attracted.

Higher income in the year accounts for sixty percent of the total increase in income tax expense for 2003 versus the prior year. A further twenty percent relates to regulatory changes wherein the resource allowance deduction and the large corporations tax are being phased out through 2007. The impacts of adopting the asset retirement obligation accounting accounted for seven percent of the difference. The remainder of the increase relates to the different businesses of the Corporation attracting different tax treatment, timing and rates.

The resource allowance deduction provided oil and gas industry participants a credit in calculating taxable income in place of non-deductible royalties paid on hydrocarbon production. Since 1997 AltaGas has benefited from the resource allowance deduction on its field gathering and processing business, a significant portion of its income, but pays no material royalties. Under the legislative changes, announced in June 2003, resource allowance is replaced by the deductibility of provincial or crown royalties and a reduction in the tax rates applicable to resource income. The federal income tax legislation changes also phase out large corporations tax (LCT) by 2007. AltaGas has credited large corporations tax payable against the federal surtax amounts otherwise payable. Based on anticipated future income levels and timing of reversal of temporary differences going forward, the effect on AltaGas was an increase in the Corporation's future income tax liability and a charge to future income tax expense in the current period.

Under asset retirement obligation accounting, AltaGas recorded an asset and a liability on its balance sheet, as well as adjusted accumulated depreciation to include salvage values in the depreciation calculation. The latter change increased the differential between the corporation's accounting and tax balance sheets, increasing the estimated future income tax liability and resulted in an increase in income tax expense in the current period.

The income of the Company is subject to a variety of tax rates and rate reductions currently and in the future. The consolidated income tax rate varies from quarter to quarter depending on the mix and the anticipated timing of the income stream being subject to taxation. AltaGas recorded in fourth quarter 2002 favorable one time adjustments to tax expense related to recording the full years impact of the anticipated timing.

## LIQUIDITY AND CAPITAL RESOURCES

Funds generated from operations for the year ended December 31, 2003 increased to \$90.2 million from \$70.8 million for the year ended December 31, 2002. The increases in 2003 are from the late 2002 gathering and processing acquisitions and the higher contribution from increased power sales in the Energy Services segment.

At December 31, 2003 AltaGas had total debt outstanding of \$396.9 million compared to \$419.5 million at December 31, 2002. The Company's debt to total capitalization ratio as at December 31, 2003 decreased to 52 percent from 55 percent at December 31, 2002. The improvement in the capitalization ratio from December 31, 2002 is due to the increase in cash generated from operations after net capital additions and payment of dividends being applied to debt repayment.

AltaGas had a working capital surplus of \$9.1 million at December 31, 2003 compared to working capital deficit of \$27.2 million at December 31, 2002. The change in working capital is primarily due to the repayment of AltaGas' \$50.0 million non-revolving bridge credit facility with a Canadian chartered bank during the second quarter of 2003.

AltaGas reduces financing costs and minimizes the effect of future interest rate movements on its cash flows through the use of interest rate swaps. The total amount of debt with variable interest rates that was fixed through interest rate swaps at December 31, 2003 was \$180.0 million. At December 31, 2003 interest rates had been fixed on approximately 71 percent of the Company's total debt, including the swaps and AltaGas' \$100.0 million of medium term notes.

AltaGas paid a quarterly dividend of \$0.11 per common share and participating share in the capital stock of the Company on December 31, 2003. Dividends of \$0.38 were paid during the year ended December 31, 2003 compared to \$0.28 paid during the year ended December 31, 2002. This increase in dividends is reflective of the strength and sustainability of AltaGas' earnings.

AltaGas implemented a Normal Course Issuer Bid through the facilities of The Toronto Stock Exchange on December 1, 2000, and renewed the bid in December 2001 and again on December 2, 2002 for an additional 12 months. From April 25, 2001 through December 31, 2003 no shares were purchased. The Normal Course Issuer Bid was not renewed in December 2003.

## **RISK MANAGEMENT**

With respect to continuing operations, the nature of AltaGas' risk exposure and the methods of managing risk remain substantially unchanged since December 31, 2002. AltaGas manages market and credit risk exposures in accordance with its corporate risk policies and position limits. The policies and limits are designed to mitigate the risk of significant loss. For further information on risks, refer to Management's Discussion and Analysis contained in AltaGas' 2002 Annual Report.

**CONSOLIDATED BALANCE SHEETS**

(Unaudited except for December 31, 2002)

(\$ thousands)	December 31 2003	December 31 2002 (Restated, note 1)
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts receivable	\$ 88,463	\$ 98,996
Inventory	1,879	3,770
Other	5,806	5,180
	<b>96,148</b>	<b>107,946</b>
<b>Capital assets</b>	<b>677,911</b>	<b>663,369</b>
<b>Energy services arrangements and contracts</b>	<b>101,035</b>	<b>107,030</b>
<b>Goodwill</b>	<b>18,860</b>	<b>18,860</b>
<b>Future income taxes</b>	<b>208</b>	<b>208</b>
<b>Investments and other assets</b>	<b>25,098</b>	<b>7,450</b>
	<b>\$ 919,260</b>	<b>\$ 904,863</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 74,726	\$ 77,165
Short-term debt	4,493	50,555
Other	7,857	7,397
	<b>87,076</b>	<b>135,117</b>
<b>Long-term debt</b>	<b>392,358</b>	<b>368,943</b>
<b>Asset retirement obligations</b>	<b>13,962</b>	<b>12,925</b>
<b>Future income taxes</b>	<b>62,537</b>	<b>49,332</b>
	<b>468,857</b>	<b>431,200</b>
<b>Shareholders' equity</b>		
Share capital (note 3)	268,040	264,290
Retained earnings	95,287	74,256
	<b>363,327</b>	<b>338,546</b>
	<b>\$ 919,260</b>	<b>\$ 904,863</b>

See accompanying notes to the consolidated financial statements

**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

(Unaudited except for the year ended December 31, 2002)

	Three months ended December 31		Year ended December 31	
	2003	2002	2003	2002
		(Restated, note 1)		(Restated, note 1)
(\$ thousands except per share amounts)				
<b>REVENUE</b>				
Operating	\$ 178,709	\$ 151,794	\$ 708,046	\$ 492,031
Other	240	(1,522)	838	625
	<b>178,949</b>	<b>150,272</b>	<b>708,884</b>	<b>492,656</b>
<b>EXPENSES</b>				
Cost of sales	117,953	101,555	489,027	322,782
Operating and administrative	26,241	20,900	97,991	75,010
Amortization	8,851	8,659	38,312	33,812
	<b>153,045</b>	<b>131,114</b>	<b>625,330</b>	<b>431,604</b>
<b>Operating income</b>	<b>25,904</b>	<b>19,158</b>	<b>83,554</b>	<b>61,052</b>
<b>Interest expense</b>	<b>5,351</b>	<b>4,421</b>	<b>22,072</b>	<b>18,148</b>
<b>Income before income taxes</b>	<b>20,553</b>	<b>14,737</b>	<b>61,482</b>	<b>42,904</b>
<b>Income taxes</b>	<b>8,562</b>	<b>3,538</b>	<b>23,159</b>	<b>13,462</b>
<b>Net income</b>	<b>11,991</b>	<b>11,199</b>	<b>38,323</b>	<b>29,442</b>
<b>Retained earnings, beginning of period</b>	<b>88,323</b>	<b>66,675</b>	<b>74,256</b>	<b>56,687</b>
<b>Dividends</b>	<b>(5,027)</b>	<b>(3,618)</b>	<b>(17,292)</b>	<b>(11,873)</b>
<b>Retained earnings, end of period</b>	<b>\$ 95,287</b>	<b>\$ 74,256</b>	<b>\$ 95,287</b>	<b>\$ 74,256</b>
<b>Net income per share (note 4)</b>				
Basic	\$ 0.26	\$ 0.25	\$ 0.84	\$ 0.70
Diluted	\$ 0.26	\$ 0.25	\$ 0.84	\$ 0.69

See accompanying notes to the consolidated financial statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited except for the year ended December 31, 2002)

(\$ thousands)	Three months ended December 31		Year ended December 31	
	2003	2002	2003	2002
		(Restated, note 1)		(Restated, note 1)
<b>Cash from operations</b>				
Net income	\$ 11,991	\$ 11,199	\$ 38,323	\$ 29,442
Items not involving cash:				
Amortization	8,851	8,659	38,312	33,812
Accretion of asset retirement obligations	238	224	920	831
Future income taxes	5,709	723	12,572	7,240
Loss (gain) on sale of assets and investments	(295)	1,445	(371)	(997)
Equity (income) loss	(227)	76	(719)	371
Other	444	39	1,139	111
Funds generated from operations	26,711	22,365	90,176	70,810
Decrease in deferred revenue and other	-	(1,406)	-	(1,150)
Net change in non-cash working capital	(11,370)	(3,566)	6,783	5,621
	15,341	17,393	96,959	75,281
<b>Investing Activities</b>				
Acquisition of capital assets	(23,284)	(126,969)	(43,780)	(158,742)
Disposition of capital assets	684	-	1,370	1,750
Acquisition of energy services arrangements and contracts	-	(25)	(25)	(789)
Repayment (advance) to related party (note 2)	29,000	-	-	-
Acquisition of investments and other assets	(7,904)	(768)	(19,568)	(2,145)
Disposition of investments and other assets	(180)	493	1,331	2,691
	(1,684)	(127,269)	(60,672)	(157,235)
<b>Financing Activities</b>				
Increase (decrease) in operating loans	(9,139)	112,936	(22,647)	35,632
Dividends	(5,027)	(3,618)	(17,292)	(11,873)
Net proceeds from issuance of common shares (note 3)	509	558	3,652	58,195
	(13,657)	109,876	(36,287)	81,954
<b>Change in cash</b>	-	-	-	-
<b>Cash, beginning of period</b>	-	-	-	-
<b>Cash, end of period</b>	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the consolidated financial statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited except for December 31, 2002)

(tabular amounts are in thousands of dollars except per share amounts and otherwise noted)

**NOTE 1. Summary of Significant Accounting Policies**

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The accounting policies applied are consistent with those outlined in the Company's annual consolidated financial statements for the fiscal year ended December 31, 2002. These consolidated financial statements for the year ending December 31, 2002 do not include all disclosures required in the annual financial statements, and should be read in conjunction with the audited consolidated financial statements included in AltaGas' 2002 Annual Report.

**Asset retirement obligations**

Effective January 1, 2003, AltaGas early adopted the new Canadian Institute of Chartered Accountants standard for accounting for asset retirement obligations. Under the new standard, the corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is increased due to the passage of time, with an offsetting charge to accretion expense in the income statement, over the estimated time period until settlement of the obligation and the asset is depreciated over the estimated useful life of the asset. Consequently with the adoption of this standard, the Company adjusted its accumulated amortization accounts for the impact of including salvage values in the determination of its annual amortization expense. Historically, the Company had excluded salvage values in the determination of an asset's amortizable value, effectively offsetting future estimated reclamation costs.

During 2003, AltaGas undertook to identify assets impacted by the new standard in each of its business segments.

In the Gathering and Processing and Energy Services segments, certain facilities must be dismantled and the sites reclaimed to meet Alberta Environmental Protection and Enhancement Act and regulations. The asset retirement liabilities are recognized when the obligations are measurable.

In the Natural Gas Distribution segment, AltaGas identified that assets have an indeterminate life and thus a future retirement obligation is not determinable.

The effect of this change in accounting policy was recorded retroactively with restatement of the prior periods. The effect of the adoption is presented below as increases (decreases) in the specific line items of the Consolidated Balance Sheet and the Consolidated Statement of Income.

<u>Consolidated Balance Sheet</u>	<u>2002</u>
Capital assets	\$ 9,553
Accumulated amortization	(6,113)
Asset retirement obligations	12,925
Previously recognized future site restoration costs	(807)
Future income taxes	1,262
<u>Opening retained earnings</u>	<u>1,530</u>

Consolidated Statement of Income	Three months ended December 31, 2002	Twelve months ended December 31, 2002
Opening and administrative	\$ 224	\$ 831
Amortization	(541)	(1,987)
Income Taxes	106	400

A reconciliation between the opening and closing asset retirement obligation balances is provided below:

<b>December 31, 2001</b>	\$ 9,855
New obligations in the period	1,979
Accretion	831
Other	260
<b>December 31, 2002</b>	\$ 12,925
New obligations in the period	127
Accretion	920
Other	(10)
<b>December 31, 2003</b>	\$ 13,962

AltaGas estimates the undiscounted amount of cash required to settle the asset retirement obligations is \$45.0 million (2002 - \$44.8 million). The asset retirement obligations have been recorded in the financial statements at estimated values discounted at rates between 8 percent and 8.5 percent and are expected to be incurred between 2010 and 2040. The majority of the costs are expected to be incurred between 2025 and 2035. No assets have been legally restricted for settlement of the liability.

## NOTE 2. Related Party Transactions

On April 23, 2003, AltaGas acquired 19.2 percent of the outstanding limited partnership units of Taylor NGL Limited Partnership ("Taylor") for \$9.4 million.

On September 4, 2003, the Company loaned \$29.0 million to the general partner of Taylor. The loan bears interest at prime plus one percent and was repaid on October 17, 2003.

On October 17, 2003, AltaGas purchased an additional 1,592,250 limited partnership units of Taylor for \$8.7 million. The purchase preserved AltaGas' 19.2 percent ownership of Taylor.

## NOTE 3. Share Capital

### Authorized:

- an unlimited number of common shares without nominal or par value.
- an unlimited number of preferred shares without nominal or par value.

### Common Shares Issued:

	Number of Shares	Amount
<b>December 31, 2002</b>	36,237,092	\$ 175,326
Issued for cash on exercise of options	471,752	3,652
Issued for compensation	8,000	98
<b>December 31, 2003</b>	<b>36,716,844</b>	<b>\$ 179,076</b>

**Preferred Participating Shares Issued:**

	Number of Shares	Amount
<b>December 31, 2002 and December 31, 2003</b>	<b>9,000,000</b>	<b>\$ 88,964</b>
<b>Total shares issued</b>	<b>45,716,844</b>	<b>\$ 268,040</b>

The Company has an employee stock option plan under which both employees and directors are eligible to receive grants. At December 31, 2003 3,800,000 common shares were reserved for issuance under the plan. To December 31, 2003 options granted under the plan generally had a term of ten years to expiry and vested no longer than over a four year period. Options outstanding under the plan have a weighted average exercise price of \$8.74 and a weighted average remaining contractual life of 7.21 years.

	Number of Options	Weighted Average Exercise Price
Stock options outstanding, December 31, 2002	1,670,676	\$ 7.66
Granted	400,638	11.76
Exercised	(471,752)	7.74
Cancelled	(93,200)	7.47
<b>Stock options outstanding, December 31, 2003</b>	<b>1,506,362</b>	<b>\$ 8.74</b>
<b>Exercisable December 31, 2003</b>	<b>622,974</b>	<b>\$ 9.57</b>

On June 7, 2002 AltaGas closed a public offering for 6,325,000 common shares at \$9.30 per share. Proceeds net of share issue costs were \$56.4 million.

The basic number of shares outstanding for the year ended December 31, 2003 was 45.5 million (December 31, 2002 - 42.3 million) and the diluted number of shares outstanding for the year ended December 31, 2003 was 45.9 million (December 31, 2002 - 42.6 million).

**NOTE 4. Segmented Information**

AltaGas is a midstream energy company with a portfolio of assets and services used to move energy from the source to the end-user. The Company has three reportable segments:

Gathering and Processing – natural gas gathering and processing, natural gas transmission, and ethane and natural gas liquids extraction.

Energy Services – power services, gas services and oil and natural gas production.

Natural Gas Distribution – natural gas distribution to end users and related services.

For the three months ended December 31, 2003	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment Elimination	Total
Revenue	\$ 42,579	\$ 127,944	\$ 34,744	\$ (26,318)	\$ 178,949
Cost of sales	(3,889)	(114,851)	(25,431)	26,218	(117,953)
Operating and administrative expenses	(20,208)	(2,120)	(4,013)	100	(26,241)
Amortization	(5,134)	(2,093)	(1,624)	–	(8,851)
Operating income	\$ 13,348	\$ 8,880	\$ 3,676	\$ –	\$ 25,904
Net additions to capital assets	\$ 21,761	\$ 987	\$ 11,011		\$ 33,759
Segment assets	\$ 614,401	\$ 165,759	\$ 139,100		\$ 919,260

For the year ended December 31, 2003	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment Elimination	Total
Revenue	\$ 156,711	\$ 521,590	\$ 129,434	\$ (98,851)	\$ 708,884
Cost of sales	(16,504)	(472,075)	(98,866)	98,418	(489,027)
Operating and administrative expenses	(74,598)	(8,189)	(15,637)	433	(97,991)
Amortization	(23,555)	(8,513)	(6,244)	-	(38,312)
Operating income	\$ 42,054	\$ 32,813	\$ 8,687	\$ -	\$ 83,554
Net additions to capital assets	\$ 33,316	\$ 2,514	\$ 16,796		\$ 52,626
Segment assets	\$ 614,401	\$ 165,759	\$ 139,100		\$ 919,260

For the three months ended December 31, 2002	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment Elimination	Total
Revenue	\$ 29,060	\$ 112,427	\$ 34,016	\$ (25,231)	\$ 150,272
Cost of sales	(2,423)	(97,903)	(25,523)	24,294	(101,555)
Operating and administrative expenses	(15,648)	(2,472)	(3,717)	937	(20,900)
Amortization	(5,031)	(2,198)	(1,430)	-	(8,659)
Operating income	\$ 5,958	\$ 9,854	\$ 3,346	\$ -	\$ 19,158
Net additions to capital assets	\$ 132,695	\$ (580)	\$ (888)		\$ 131,227
Segment assets	\$ 589,284	\$ 181,990	\$ 133,589		\$ 904,863

For the year ended December 31, 2002	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment Elimination	Total
Revenue	\$ 106,031	\$ 355,882	\$ 94,316	\$ (63,573)	\$ 492,656
Cost of sales	(6,460)	(311,664)	(65,463)	60,805	(322,782)
Operating and administrative expenses	(52,136)	(11,284)	(14,358)	2,768	(75,010)
Amortization	(19,187)	(8,914)	(5,711)	-	(33,812)
Operating income	\$ 28,248	\$ 24,020	\$ 8,784	\$ -	\$ 61,052
Net additions to capital assets	\$ 159,785	\$ 1,546	\$ 3,659		\$ 164,990
Segment assets	\$ 589,284	\$ 181,990	\$ 133,589		\$ 904,863

#### NOTE 5. Comparative Figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation. Prior periods have been restated for the impacts of the adoption of CICA Handbook Section on accounting for asset retirement obligations.

#### NOTE 6. Seasonality

The natural gas distribution 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 gas distribution revenue, resulting in strong first and fourth quarter results and second and third quarters that show either small profits or losses.

## OTHER INFORMATION

## FINANCIAL SUMMARY BY BUSINESS SEGMENT

(\$ millions except per share amounts)	Q4/03	Q3/03	Q2/03	Q1/03	Q4/02
<b>Revenue</b>					
Gathering and Processing					
Field gathering and processing	29.0	26.5	24.8	25.1	22.6 <sup>(1)</sup>
Extraction	7.4	5.9	5.7	8.3	4.3
Transmission	6.7	6.7	6.4	6.2	2.3
Intercomponent elimination	(0.5)	(0.9)	(0.5)	(0.1)	-
Energy Services	128.0	117.0	124.0	152.6	112.4
Natural Gas Distribution <sup>(2)</sup>	34.7	12.9	23.5	58.3	34.0
Intersegment elimination	(26.3)	(10.2)	(15.3)	(47.0)	(25.3)
	<b>179.0</b>	<b>157.9</b>	<b>168.6</b>	<b>203.4</b>	<b>150.3</b>
<b>Net revenue</b>					
Gathering and Processing					
Field gathering and processing	29.0	26.5	24.8	25.1	22.6 <sup>(1)</sup>
Extraction	3.5	2.1	2.3	2.9	1.8
Transmission	6.7	6.7	6.4	6.2	2.3
Intercomponent elimination	(0.5)	(0.9)	(0.5)	(0.1)	-
Energy Services	13.2	14.1	12.5	9.8	14.6
Natural Gas Distribution <sup>(2)</sup>	9.2	4.9	5.8	10.6	8.5
Intersegment elimination	(0.1)	(0.1)	(0.1)	(0.1)	(1.0)
	<b>61.0</b>	<b>53.3</b>	<b>51.2</b>	<b>54.4</b>	<b>48.8</b>
<b>Operating income</b>					
Gathering and Processing	13.4	10.1	9.0	9.6	5.9 <sup>(1)</sup>
Energy Services	8.8	9.6	8.3	6.1	9.8
Natural Gas Distribution <sup>(2)</sup>	3.7	(0.5)	0.3	5.2	3.4
	<b>25.9</b>	<b>19.2</b>	<b>17.6</b>	<b>20.9</b>	<b>19.1</b>

(1) Q4 2002 results include a loss of \$1.4 million on sale of investments.

(2) Q2 and Q3 2003 financial results and natural gas distributed (Bcf) reflect the normal lower seasonal demand for natural gas in the Natural Gas Distribution segment.

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

AltaGas adopted CICA Handbook guidelines on asset retirement obligations in 2003. Prior year information has been restated for the effect of this adoption.

## OPERATING SUMMARY BY BUSINESS SEGMENT

	Q4/03	Q3/03	Q2/03	Q1/03	Q4/02
<b>Gathering and Processing</b>					
Field gathering and processing					
Processing capacity (gross Mmcf/d) <sup>(1)</sup>	861	835	838	847	842
Processed throughput (gross Mmcf/d) <sup>(2)</sup>	523	514	510	535	532
Capacity utilization (percent) <sup>(1)</sup>	61	62	61	63	63
Average working interest (percent) <sup>(1)</sup>	90	88	88	88	88
Extraction					
Inlet capacity (Mmcf/d) <sup>(1)</sup>	349	349	349	349	349
Production (Bbls/d) <sup>(2)</sup>	8,182	5,440	6,195	6,416	3,802
Transmission					
Volumes (Mmcf/d) <sup>(2) (4)</sup>	403	347	321	319	106
<b>Energy Services</b>					
Volume of power sold (thousands of MWh)	873	872	861	660	672
Price received on the sale of power (\$/MWh) <sup>(2)</sup>	46.97	48.28	46.55	46.07	46.45
Average Alberta Power Pool prices (\$/MWh) <sup>(2)</sup>	54.78	62.39	50.88	83.85	61.43
<b>Natural Gas Distribution</b>					
Customers	59,543	58,941	58,671	58,700	58,499
Volume of natural gas distributed					
Sales (Bcf) <sup>(5)</sup>	4.5	1.3	2.1	5.9	4.5
Transportation (Bcf)	3.0	2.6	2.2	1.9	2.0
Degree day variance (percent) <sup>(5)</sup>	3.4	(5.9)	15.4	9.2	(7.4)

(1) At period end.

(2) Quarter average.

(3) Variance from 20-year average. Positive variances are favourable.

(4) Excludes condensate transmission volumes.

(5) Q2 and Q3 2003 financial results and natural gas distributed (Bcf) reflect the normal lower seasonal demand for natural gas in the Natural Gas Distribution segment.

## DIVIDENDS

On January 11, 2001 the Corporation declared its first quarterly cash dividend per fully paid common share and participating share in the capital stock of the Company, which was paid on March 31, 2001. No dividends were paid on any shares of AltaGas from the date of its incorporation to the end of December 2000. Dividend levels will be reviewed periodically by the Board of Directors giving consideration to AltaGas' growth-related initiatives, financial position, financing requirements, cash flow and other relevant factors. The following table summarizes AltaGas' dividend history.

(dollars)	2004	2003	2002	2001
First quarter	\$ 0.11	\$ 0.08	\$ 0.06	\$ 0.03
Second quarter	not declared	0.08	0.06	0.03
Third quarter	not declared	0.11	0.08	0.06
Fourth quarter	not declared	0.11	0.08	0.06
	\$ 0.11	\$ 0.38	\$ 0.28	\$ 0.18

## EARNINGS COVERAGE RATIO

The following table sets forth AltaGas Services Inc.'s earnings coverage ratio which is provided in connection with its continuous offering of Medium Term Notes. The financial ratio has been calculated based on Canadian generally accepted accounting principles.

	Twelve months ended	
	December 31 2003	December 31 2002
Earnings coverage on short and long term debt	3.8 x	3.4x

## DEFINITIONS

Bbls/d	barrels per day
Bcf	billion cubic feet
Mmcf/d	million cubic feet per day
MW	megawatt
MWh	megawatt-hour
Net revenue	gross revenue less the costs of the purchase of natural gas for resale and the costs to purchase power under power purchase arrangements

When used in this report, the words "outlook", "anticipate," "estimate," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated in the forward-looking statements. These risks and uncertainties include operating performance, regulatory and environmental issues, weather and economic conditions, competition and financing availability. For additional information on these and other factors see the reports filed by AltaGas with Canadian securities regulators. AltaGas disclaims any intention or obligation to update or revise any forward looking information whether as result of new information or future events.

