

energy to **LEAD**

MESSAGE TO UNITHOLDERS

AltaGas is an integrated business with energy to grow. In 2006 we again experienced the benefits of our focus on key financial metrics as the Trust delivered its 13th consecutive net income record.

During the fourth quarter our 2006 net income surpassed the \$100 million threshold. For us, it's the latest success on a business journey that has seen AltaGas grow earnings more than 150-fold since its launch in 1994.

We have repeatedly demonstrated our ability to manage and grow this integrated business at both the top line – revenues – and the bottom line – earnings. Last year was no exception. Net income for the full year was \$115 million, or \$2.06 per unit, a year-over-year increase of 27 percent. Funds from operations were \$162 million or \$2.92 per unit, annual growth of 25 percent. Return on equity was 22.7 percent, up from 18.4 percent in 2005. AltaGas' enterprise value reached \$1.7 billion at year-end.

We are in business for the long term. Our four business segments are strong, competitive and growing. In pursuing our core activities, we drive expansion of our operations and earnings. The business segments interlink and integrate to form a single enterprise that is more than the sum of its parts, with internal business flow of more than \$350 million per year. By commodity, this amounts to almost 275 gigawatt-hours of electricity and 94 billion cubic feet of natural gas per year.



David W. Cornhill,
*Chairman, President and
Chief Executive Officer*

2006 – GROWTH AND PERFORMANCE

AltaGas has come a long way since 1994 when we started with a team of 20 people, two short-term contracts, a tiny asset base and \$37,000 in equity. Yet, significantly, we were profitable in our first year. By establishing and following sound business principles based on key financial metrics, we have succeeded in increasing net income ever since. Every year has been a record year, and AltaGas has grown to 530 employees and more than \$1 billion in assets.

In 2006 the Trust delivered solid performance across the board. Three of four business segments increased operating income by capitalizing on high power prices, historically high “frac” spreads (the difference in value between the natural gas liquids we extract from the natural gas stream and the price of natural gas) and lower interest rates. Operating income increased despite the expiration of the Genesee contract and the spin-out of the Natural Gas Distribution segment in late 2005. We acted on 12 growth opportunities of varying scale, including five expansions, four new developments and three small acquisitions. Capital expenditures totalled \$72 million.

The business segments' successes were achieved by pursuing growth in their core activities while carefully managing both opportunities and risks. For example,

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Power Generation capitalized on high electricity prices and strong demand for peaking power to drive its earnings growth. But the segment also hedged pricing on about two-thirds of its output, protecting and stabilizing its cash flows.

Extraction and Transmission, whose key strengths include long-term contracts and long-life assets, also grew in 2006. The segment's \$2.2 million expenditure on the enhanced ethane recovery project at the Edmonton Ethane Extraction Plant, boosted the ethane recovery factor to 90 percent and added 800 Bbls per day of marketable ethane to AltaGas, was achieved at high capital efficiency. This ensured the growth in volumes would be accretive to AltaGas' cash flow on a per unit basis.

Field Gathering and Processing, which operates in 29 natural gas-producing areas in western Canada, expanded its fleet of plants and its licensed capacity through \$53 million in growth capital investment. An excellent example of the way FG&P acts on growth opportunities came at Prairie River. By installing new skid-mounted compression, we added processing capacity and increased production months sooner than would normally be possible. FG&P's core business involves fee-for-services and, as a result, the segment is not significantly exposed to natural gas price volatility. The segment mitigated some of the rising costs affecting the whole energy industry by continuing to shift more contracts to an operating cost flowthrough basis.

For Energy Services, one of the main drivers of success is the segment's superb customer service as demonstrated by our 95 percent customer renewal rate. Satisfied customers

create a strong foundation for further growth. Commodity price volatility – like we are seeing today – actually drives this segment's business, because that's when consumers are most in need of impartial advice and sophisticated risk management, two of the things Energy Services does best.

Our energy to grow was reinforced in 2006 by our move into renewable power generation, through partnerships with two wind power developers, Aeolis Wind Power Corporation and GreenWing Energy Management Ltd. Renewable energy is a growing sector. It is also becoming a requirement in some North American jurisdictions. Renewable energy offers us the opportunity to diversify our power generation sources, to grow our asset base, and to extend the time horizon of our stable cash flows. Our first wind power development project, the Bear Mountain Wind Park in northeast B.C., is under development. We have signed a long-term energy purchase contract with BC Hydro, which will provide us with long-term cash flows from a creditworthy counterparty.

ALBERTA'S BOOM

Alberta's prolonged economic expansion has been demonstrably beneficial to businesses, the labour force and the province as a whole. It has also created cost pressures across the board and has challenged every business' ability to attract and retain employees.

We worked to meet these challenges and to limit cost increases. Positive measures included FG&P's continued move towards operating cost flowthrough contracts. On the human resources side, AltaGas has consistently been able to attract new people and we are seeing a labour force and management team of ever-higher quality.

Building and retaining such a great team stems in part from creating a positive work environment. Working at AltaGas is about far more than compensation. AltaGas is an intellectually challenging, socially responsible organization that offers opportunities for professional growth and career advancement in a great learning environment. We're

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continually working to recognize our people's accomplishments and enhance employee benefits. In 2006 we held our first employee family event at the AltaGas Cup show jumping competition at Spruce Meadows. We enhanced our vacation allowance in 2006 and we improved our pension program in the previous year. In 2006, for the fifth consecutive year, we earned a place from MediaCorp as one of Canada's Top 100 Employers.

CORPORATE MATTERS

We previously announced our intention to implement CEO/CFO certification. This has been a substantial undertaking in its estimated cost of \$3.5 million over two years and in the sustained efforts mounted by numerous staff in all our locations. We should see the dividends from more efficient processes and improved systems this year.

AltaGas already operated to high standards of financial reporting and control. The CEO/CFO certification process, which includes formalized procedures and written manuals, is driving our financial reporting and control processes and standards from a solid baseline up to best practices.

On January 15, 2007, I announced that I would remain as President and Chief Executive Officer of AltaGas and would continue to serve as Chairman of the Board of Directors. I also announced the appointment of Rick Alexander to Executive Vice President, Chief Operating Officer and Chief

Financial Officer and of David Wright to Executive Vice President, both effective January 16, 2007. Rick joined the Trust as Senior Vice President Finance and Chief Financial Officer on May 1, 2006, while David Wright is a new member of our team. Rick and David bring extensive experience to AltaGas and will position the Trust for further success.

Rick is responsible for the day-to-day operations of all AltaGas operating business segments, as well as all financial matters. David Wright is responsible for corporate strategy and business development activities, as well as other corporate functions.

I believe that AltaGas' senior executive team includes a strong balance of talents that will enable us to continue executing our growth strategy.

SAFETY, ENVIRONMENT, HEALTH AND COMMUNITY

Safety is our number one priority. With 220 employees and contractors in the field, there is nothing more important than ensuring our people get home safely after work. In 2006 AltaGas again became one of about 350 out of Alberta's more than 128,000 employers to receive a Workplace Alberta Work Safety award. We consistently earn high scores on our safety audits and continue to develop our safety programs and procedures.

AltaGas has always had a strong commitment to environmental responsibility. In 2006 we achieved further success in this crucial area. We maintained our Platinum Level status with the Canadian Association of Petroleum Producers' Stewardship program. In addition, the 22 Phase I Assessments we performed during 2006 will help to ensure that our 170 field facilities follow environmental best practices. We are fulfilling our responsibility and are currently reclaiming four former operating sites.

We have driven AltaGas forward and upward by focusing on key metrics: earnings, return on equity and cash flow. This doesn't change whether our business is organized as a trust or a corporation.

Last year brought a record level of giving to the United Way of Calgary and Area, with total employee and corporate donations of \$270,000, substantially more than in 2005. AltaGas received United Way Platinum status for the seventh consecutive year, signifying more than 90 percent employee participation.

We also continued our partnership with the Shock Trauma Air Rescue Society (STARS), involving a multi-year series of donations to support the acquisition of new helicopters and the extension of STARS' service range. In 2006 STARS opened its Grande Prairie base thanks in part to this funding commitment. The relationship with STARS benefits AltaGas' employees, as all of AltaGas' facilities have now been entered into the STARS Emergency Link Centre database, providing our field employees and their communities with life-saving air ambulances only a phone call away.

TAXATION OF INCOME TRUSTS

On October 31, 2006 the federal minister of finance announced a plan to subject existing income trusts to federal and provincial income tax effective in the 2011 tax year, a move adversely affecting the value of nearly all income trusts in the public markets.

The tax policy change has not changed our fundamental business strategy. AltaGas' vision for growth and financial

success was never built around being tax-advantaged, but around creating value over the long term. We have driven AltaGas forward and upward by focusing on key metrics: earnings, return on equity and cash flow. This doesn't change whether our business is organized as a trust or a corporation. As an investment today, AltaGas offers excellent value even when evaluated as a corporation and compared to its main corporate competitors. The tax policy change reinforces the benefits of financial discipline and our longstanding practice of not over-paying for acquired assets.

With that said, AltaGas intends to become more active in government relations and public communications. The regulatory and governmental landscape is changing, and not necessarily for the better. We will work for favourable changes to business regulations.

DISTRIBUTIONS

In 2006 funds from operations of \$2.92 per unit and cash distributions declared of just under \$2 per unit resulted in a payout ratio of 68 percent. AltaGas' level of distributions results from specific business principles. Our philosophy of long-term earnings growth mandates that earnings grow faster than distributions. Our financial discipline and growth focus mean that we maintain distributions at approximately 70 to 80 percent of funds from operations. This approach creates stability and sustainability of distributions while providing capital for the Trust to continue growing. Given our strong financial metrics and continued growth, we see no need to decrease distributions. In fact, we will continue to look for opportunities to increase distributions as our financial capacity grows along with our overall business.

AN INTEGRATED BUSINESS WITH ENERGY TO GROW

AltaGas' goals for 2007 are to grow our businesses, grow our asset base and enhance the performance of drivers that we control. We will grow where we see value and can add value.

Our philosophy of long-term earnings growth mandates that earnings grow faster than distributions.

Right now we see opportunities to deploy capital in each of our business segments and to benefit from AltaGas' integration. The key challenge is executing deployment of our available capital to generate the expected returns over the desired time-frame. As always, we are guided by our mandate to create long-term value for unitholders.

FG&P's growth will focus on moving westward with the trend in conventional natural gas drilling, servicing Alberta's future coalbed methane production, and increasing market share. FG&P can exploit the innate strengths in its business model, such as the flexibility of quickly moving skid-mounted equipment to capture new opportunities.

Alberta's electricity demand is growing by more than 200 megawatts per year, putting upward pressure on prices and creating opportunities for Power Generation. The segment will also look to participate in additional renewable power projects. Prospects for success are strengthened by our strategic partnerships with wind power developers. We will continue to use our strong risk management processes to protect cash flows and distributions amid volatile commodity prices.

E&T also has opportunities for financially accretive growth as it works to increase ownership interests where available, raise efficiencies at existing facilities and provide natural gas pipelines in response to industry demand. Energy Services has prospects for organic growth by adding customers, and for physical infrastructure additions such as gas storage capacity.

In sum, AltaGas is poised to grow. We have the financial, intellectual and physical capacities to make it happen. Our financial resources include roughly \$200 million in unutilized debt capacity and \$45 million of retained cash flow. We'll continue to optimize our debt to capitalization ratio, balancing returns for investors against financial risk management. We evaluate opportunities to ensure they meet our investment criteria and, when they do, we act quickly to capture value. Our integrated business, AltaGas, has energy to grow.

As always, I'm impressed by and grateful for the performance of the well over 500 AltaGas employees and contractors in the field and in our offices. Every one of you contributed to our successes including our \$100 million net income milestone. Thank you for another record year. You should be very proud of what you achieved.

Now, we can look forward together with optimism for AltaGas to continue delivering long-term, profitable and value-creating growth.

[Signed] "David W. Cornhill"

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Chairman, President and Chief Executive Officer