

MANAGEMENT'S RESPONSIBILITY FOR **FINANCIAL STATEMENTS**

Management recognizes that it is responsible for the preparation of the Consolidated Financial Statements and is satisfied that these statements have been prepared using Canadian generally accepted accounting principles and are within reasonable limits of materiality. Further, management is satisfied that the financial information contained in this annual report is consistent with that presented in the Consolidated Financial Statements. The internal controls and systems of AltaGas Income Trust (AltaGas of the Trust) are designed to provide reasonable assurance that its assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information. Independent auditors have been engaged by the Trust to examine the Consolidated Financial Statements. The Consolidated Financial Statements are approved by the Board of Directors after considering the recommendation of the Audit Committee. The Audit Committee of the Board of Directors is composed of directors who are not officers or employees. The Consolidated Financial Statements and MD&A are discussed and reviewed by the Audit Committee with management and the independent auditors before such information is approved by the Committee and recommended to the Board of Directors for approval. The Board of Directors, on the recommendation of the Audit Committee, has approved the Consolidated Financial Statements contained in this report.

(signed) "David W. Cornhill"

DAVID W. CORNHILL
*Chairman, President and
Chief Executive Officer of
AltaGas General Partner Inc.,
delegate of the Trustee of
AltaGas Income Trust*

March 8, 2007

(signed) "Richard M. Alexander"

RICHARD M. ALEXANDER
*Executive Vice President
Chief Operating Officer and
Chief Financial Officer of
AltaGas General Partner Inc.,
delegate of the Trustee of
AltaGas Income Trust*

March 8, 2007

AUDITORS' **REPORT**

TO THE UNITHOLDERS OF ALTAGAS INCOME TRUST

We have audited the consolidated balance sheets of AltaGas Income Trust as at December 31, 2006 and 2005 and the consolidated statements of income and accumulated earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of AltaGas Income Trust as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Ernst & Young LLP"

ERNST & YOUNG LLP
Chartered Accountants

February 23, 2007
Calgary, Canada

CONSOLIDATED BALANCE SHEETS

As at December 31 (\$ thousands)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,226	\$ 11,685
Accounts receivable	224,533	220,684
Inventory	61	95
Customer deposits	16,304	15,371
Other	9,277	4,421
	263,401	252,256
Capital assets (notes 3 and 8)	677,941	645,442
Energy services arrangements, contracts and relationships (note 4)	103,330	110,850
Goodwill (note 5)	18,260	18,860
Long-term investments and other assets (note 6)	46,643	40,921
	\$ 1,109,575	\$ 1,068,329
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 200,882	\$ 215,601
Distributions payable to unitholders	9,588	8,744
Short-term debt (note 7)	–	2,710
Current portion of long-term debt (note 8)	1,147	1,071
Customer deposits	16,304	15,371
Deferred revenue	788	–
Other current liabilities	10,982	10,773
	239,691	254,270
Long-term debt (note 8)	264,340	265,245
Asset retirement obligations (note 9)	23,350	16,982
Future income taxes (note 10)	51,252	52,433
Other long-term liabilities	1,526	813
	580,159	589,743
Unitholders' equity (notes 12 and 13)	529,416	478,586
	\$ 1,109,575	\$ 1,068,329

Commitments (notes 7, 8, 11, 14 and 16)

See accompanying notes to the Consolidated Financial Statements.

Approved by the Board of Directors of AltaGas General Partner Inc. on behalf of AltaGas Income Trust:

(signed) "David W. Cornhill"

DAVID W. CORNHILL
Director

(signed) "Robert B. Hodgins"

ROBERT B. HODGINS
Director

CONSOLIDATED STATEMENTS OF INCOME AND ACCUMULATED EARNINGS

For the years ended December 31 (\$ thousands except per unit amounts and number of units)

	2006	2005
REVENUE		
Operating	\$ 1,358,189	\$ 1,491,621
Other (note 19)	4,415	10,725
	1,362,604	1,502,346
EXPENSES		
Cost of sales	1,043,691	1,205,481
Operating and administrative	145,788	141,382
Amortization:		
Capital assets	38,377	40,886
Energy services arrangements, contracts and relationships	7,484	6,486
Goodwill impairment (note 5)	600	–
	1,235,940	1,394,235
Operating income	126,664	108,111
Interest expense (notes 7, 8 and 11)		
Short-term debt	270	576
Long-term debt	13,012	18,515
Income before income taxes	113,382	89,020
Income tax recovery (note 10)	(1,129)	(1,268)
Net income	114,511	90,288
Accumulated earnings, beginning of year	287,107	196,819
Accumulated earnings, end of year	\$ 401,618	\$ 287,107
Net income per unit (note 13)		
Basic	\$ 2.06	\$ 1.67
Diluted	\$ 2.06	\$ 1.67
Weighted average number of units outstanding (thousands) (note 13)		
Basic	55,469	54,011
Diluted	55,516	54,088

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (\$ thousands)	2006	2005
Cash from operations		
Net income	\$ 114,511	\$ 90,288
Items not involving cash:		
Amortization	45,861	47,372
Accretion of asset retirement obligations (note 9)	1,430	1,326
Unit-based compensation (note 13)	482	16
Future income tax recovery (note 10)	(1,181)	(3,364)
Gain on sale of assets and investment transactions (note 6)	–	(9,573)
Equity income	(3,967)	(1,141)
Distributions from equity investments	2,950	2,874
Goodwill impairment (note 5)	600	–
Other	994	1,240
Funds from operations	161,680	129,038
Asset retirement obligations settled (note 9)	(560)	(183)
Net change in non-cash working capital (note 15)	(14,260)	(16,545)
	146,860	112,310
Investing activities		
Decrease (increase) in customer deposits	(933)	1,547
Acquisition of capital assets	(73,042)	(53,965)
Disposition of capital assets	509	5,030
Acquisition of energy services arrangements, contracts and relationships	–	(3,868)
Disposition of energy services arrangements, contracts and relationships	36	–
Acquisition of long-term investments and other assets	(5,032)	(855)
Disposition of long-term investments and other assets (note 6)	–	13,027
Proceeds on spin-out of Natural Gas Distribution segment (note 20)	–	85,383
	(78,462)	46,299
Financing activities		
Decrease in short-term debt	(2,710)	(4,235)
Decrease in long-term debt	(829)	(86,217)
Distributions to unitholders	(109,954)	(99,249)
Net proceeds from issuance of units (note 13)	46,636	30,476
	(66,857)	(159,225)
Change in cash and cash equivalents	1,541	(616)
Cash and cash equivalents, beginning of year	11,685	12,301
Cash and cash equivalents, end of year	\$ 13,226	\$ 11,685

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of dollars unless otherwise indicated.)

1. STRUCTURE OF ALTAGAS INCOME TRUST

AltaGas Income Trust (AltaGas or the Trust) is an unincorporated open-ended investment trust governed by the laws of Alberta and created pursuant to a Declaration of Trust dated March 26, 2004. The Trust indirectly holds all of the assets, liabilities and businesses formerly held by AltaGas Services Inc. (ASI). Effective May 1, 2004 the business of ASI was reorganized pursuant to a Plan of Arrangement and holders of common shares of ASI received Trust units and/or AltaGas Holding Limited Partnership No. 1 (AltaGas LP #1) or AltaGas Holding Limited Partnership No. 2 (AltaGas LP #2) Class B limited partnership units (exchangeable units) in exchange for their common shares. ASI became an indirect subsidiary of the Trust and was amalgamated with a number of its subsidiaries to form AltaGas Ltd. The operational and financial results presented report on a continuity-of-interest accounting basis which recognizes the Trust as the successor to ASI.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Significant accounting policies are summarized below:

Basis of Presentation

These Consolidated Financial Statements include the accounts of AltaGas Income Trust and all of its wholly owned subsidiaries, and its proportionate interests in various partnerships and joint ventures. Transactions between the Trust and its wholly owned subsidiaries and the proportionate interests are eliminated on consolidation.

On November 17, 2005 AltaGas completed the spin-out of AltaGas Utility Group Inc. (Utility Group), as described in note 20. Prior to the spin-out, this business was owned by AltaGas. Subsequent to the spin-out AltaGas retained a 26.7 percent interest in the common shares of Utility Group. The revenue, expenses and cash flows of the Natural Gas Distribution (NGD) business were consolidated up to November 17, 2005. Subsequent to the completion of the spin-out, AltaGas accounts for its interest in Utility Group as an equity investment.

Business Combinations

All business combinations are accounted for using the purchase method. Under the purchase method assets and liabilities of the acquired entity are recorded at fair value. The excess of the purchase price over the fair value of the assets and liabilities acquired is recorded as goodwill.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments with original maturities of less than three months.

Inventory

Inventory consists of materials and supplies and is valued at the lower of average cost and replacement cost.

Customer Deposits

Cash deposited by customers under the terms of natural gas and power agency arrangements is invested in short-term deposits with a Canadian chartered bank. These funds are restricted and are not available for general use by the Trust. The corresponding liability is classified as customer deposits within current liabilities.

Capital Assets and Amortization

Capital assets are recorded at cost plus interest incurred during the construction period to finance long-term construction projects. Repairs and maintenance costs are expensed in the period incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Prior to the spin-out of the Trust's NGD business on November 17, 2005, the allowance for funds used during the construction of regulated natural gas distribution assets was capitalized at rates authorized by the regulatory authorities in Alberta and Nova Scotia. Contributions in aid of construction of natural gas distribution assets were deducted from the cost of acquiring capital assets, with subsequent amortization calculated on the net cost.

The Trust amortizes the cost of capital assets, net of salvage value, on a straight-line basis based on the estimated useful life of the assets, except for regulated natural gas distribution assets, where amortization was calculated on a straight-line basis at rates approved by the regulatory authority, and for energy services assets where AltaGas follows the full cost method of accounting for oil and natural gas exploration and development activities. Capitalized costs are accumulated and amortized to income on a unit-of-production basis over the estimated production life of proved reserves.

Field Gathering and Processing

Gathering and processing assets	15 – 25 years
Other assets	1 – 5 years

Extraction and Transmission

Extraction and transmission assets	15 – 40 years
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Power Generation

Assets under capital lease	10 years
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Energy Services

Energy services assets	unit of production
Other assets	1 – 5 years

Natural Gas Distribution

Natural gas distribution assets	0.9 – 25.7 percent
Other assets	3.1 – 57.9 percent

Corporate

Other assets	1 – 5 years
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Leases are classified as either capital or operating. Leases which transfer substantially all the benefits and risks of ownership of property to AltaGas are accounted for as capital leases. Assets under capital leases are accounted for as assets and are amortized on a straight-line basis over the lease term. The capital lease obligations reflect the present value of future lease payments. The finance element of the lease payments is charged to income over the term of the lease. Commitments to repay the principal amounts arising under capital lease obligations are included in current liabilities to the extent that the amount is repayable within one year; otherwise the principal is included as a long-term liability.

Energy Services Arrangements, Contracts, Relationships and Amortization

Energy services arrangements, contracts and relationships are recorded at cost, which was fair value at the time of purchase, and are amortized on a straight-line basis over their term or estimated useful life:

Sundance B Power Purchase Arrangements (PPAs)	19 years
Natural gas and power marketing contracts	18 – 49 months
Energy services relationships	15 years

AltaGas owns 50 percent of two Sundance B PPAs through its interest in the ASTC Power Partnership (ASTC). ASTC is committed to purchase all of the power from the two 353-MW capacity Sundance B generating units. The investment in the PPAs and the corresponding revenue and expenses are recorded on a proportionate basis. The Sundance B PPAs required a capital outlay to acquire. The Trust is obligated to make payments to the owners of the underlying generating units over the remaining terms of the PPAs to December 31, 2020. Such amounts are recorded as cost of sales as incurred. Revenue from the sale of the power is recorded when delivered.

The Genesee power purchase arrangement, or PPA, had the right to generating capacity at a regulated Alberta generating unit for a three-year period that ended March 31, 2006. This PPA required no capital outlay but included monthly capacity charges, which amounts were recorded as cost of sales. Revenue from the sale of the committed power was recorded when delivered.

The natural gas and power marketing contracts are the rights and obligations to buy and sell fixed volumes of natural gas and power at contracted prices. Revenue and expenses are recorded when product is delivered.

Energy services relationships were purchased along with substantially all of the assets and liabilities of iQ2 Power Corp. (iQ2), PremStar Energy Canada Ltd., ECNG Inc. and Energistics Group Inc. and are recorded at fair value and amortized on a straight-line basis commencing with the expiration of the related short-term marketing contracts over the 15-year expected useful life of the relationships.

Goodwill

Goodwill represents that portion of the purchase price on acquisition which was in excess of the fair value of the net assets acquired. Goodwill is not subject to amortization but is tested at least annually for impairment by comparing the fair value of the reporting unit with its book value. If the carrying value of the reporting unit exceeds fair value, the implied fair value of goodwill is determined. Any excess of the carrying value of goodwill over its implied fair value is recorded as an impairment charge to income.

Long-Term Investments and Other Assets

Investments in entities in which AltaGas has the ability to exercise significant influence are accounted for by the equity method. Other long-term investments are recorded at cost. Any impairment in value of an investment that is other than temporary is charged against income when determined.

Development Costs

The Trust expenses development costs as incurred unless such development costs meet certain criteria related to technical, market, and financial feasibility for capitalization. Development costs are examined annually to ensure capitalization criteria are still met. When the criteria that previously justified the deferral of costs are no longer met, the unamortized balance is taken as a charge to income in the period when this determination is made. Development costs are amortized based on the expected period and pattern of benefit, beginning at the commencement of commercial operations.

Asset Retirement Obligations

The Trust recognizes asset retirement obligations in the period in which an obligation is incurred and 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 asset and are depreciated over the estimated useful life of the asset. The liability is increased due to the passage of time over the estimated period until the settlement of the obligation, with a corresponding charge to operating and administrative expense in the income statement.

In the Extraction and Transmission (E&T) segment, certain assets have an indeterminate life and thus a retirement obligation is not recognized.

Derivative Instruments

AltaGas enters into financial derivative contracts such as swaps and collars to manage exposure to fluctuations in commodity prices and interest rates. These contracts are designated as hedges when the underlying risks of the hedged item and hedging instruments offset to manage the Trust's exposure. Gains and losses relating to such contracts are deferred and recognized in the same period and financial statement category as the corresponding hedged transaction. If financial derivative contracts cease to be effective as hedges or if the hedge relationship is terminated, any cumulative gains or losses arising prior to such time continue to be deferred over the period of the original hedged transaction and subsequent changes in the fair value of the derivative contracts are recognized as adjustments to income. The effectiveness of hedges is tested quarterly to ensure the correlation of the underlying risks. AltaGas enters into commodity derivative contracts for the future delivery of commodities at fixed prices. These contracts are not recognized in the financial statements until they are settled.

Revenue Recognition

In the Field Gathering and Processing (FG&P) segment and transmission business, revenue is recorded as the services are rendered. In the extraction business, Power Generation, Energy Services and NGD segments, revenue is recognized at the time the product or service is delivered.

Unit-Based Compensation Plans

The Trust follows the fair value based method of accounting for Trust unit options granted during the year. Unit options are valued at the date of the grant and recognized as compensation expense over the vesting period of the options. Consideration received by the Trust on exercise of the option rights is credited to unitholders' capital.

AltaGas has a Mid-Term Incentive Plan in which participants receive phantom units requiring settlement by cash payments. During the graded vesting period, compensation expense is recognized using the liability method and is recorded as operating and administrative expense over the vesting period. A change in value of the vested phantom units is recognized in the period the change occurs.

Pension Plans and Retiree Benefits

The cost of defined benefit pension and other retirement benefits is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. The current service cost of the benefit is the sum of the individual current service costs and the accrued benefit obligation is the sum of the accrued liabilities for all participants.

For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The cumulative net actuarial gain or loss at the beginning of the year in excess of 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service life of the active employees. The average remaining service periods of the active members covered by the defined benefit pension plans are nine to 12 years. Transitional obligations are being amortized on a straight-line basis over the remaining service life of active employees. Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining service life of active employees for the respective plan.

Income Taxes

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable on income in a particular taxation year that is not paid or payable to the unitholders in such taxation year. As the Trust allocates all of its Canadian taxable income to the unitholders in accordance with its Trust indenture and meets the requirements of the Income Tax Act (Canada) applicable to the Trust, no provision for Canadian income tax expense has been made for the Trust.

Income taxes are calculated in the subsidiary companies of the Trust using the liability method of tax accounting. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are anticipated to be in effect in the periods in which the differences are expected to be settled or realized.

Prior to the spin-out of Utility Group by the Trust on November 17, 2005, income taxes in the rate-regulated natural gas distribution subsidiaries were provided using the taxes payable method approved by the regulatory authorities. In accordance with regulated accounting, provision was made only for those income taxes currently payable and no future tax was recorded on the differences between the financial reporting and tax bases of assets and liabilities.

Related Party Transactions

Transactions with related parties that are conducted in the normal course of operations have been recorded at the exchange amount.

Per Unit Information

Basic net income per unit is calculated on the basis of the weighted average number of trust and exchangeable units outstanding during the year. Diluted net income per unit is calculated as if the proceeds obtained upon exercise of options were used to purchase units at the average market price during the period.

Use of Estimates and Measurement Uncertainty

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Key areas where management has made complex or subjective judgments, as a result of matters that are inherently uncertain, include among others, the fair value of certain assets including long-lived assets and goodwill; recoverability of investments; litigation; environmental and asset retirement obligations; pensions and other post-retirement benefits; unit-based compensation; and income taxes. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

Regulation

Until November 17, 2005 AltaGas Utilities Inc. (AUI) was wholly owned by AltaGas. AUI engages in the distribution and sale of natural gas in various communities in Alberta and is regulated by the Alberta Energy and Utilities Board (EUB). The EUB exercises statutory authority over matters such as rates, financing, accounting, construction and contracts with customers. In order to recognize the economic effect of the actions and decisions of the EUB, the timing of recognition of certain revenue and expenses may differ from that otherwise expected under GAAP for non rate-regulated entities.

3. CAPITAL ASSETS

	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Field Gathering and Processing						
Field gathering and processing assets	\$ 558,411	\$ (128,643)	\$ 429,768	\$ 496,284	\$ (106,082)	\$ 390,202
Other assets	2,860	(1,402)	1,458	2,692	(680)	2,012
Extraction and Transmission						
Extraction and transmission assets	250,933	(38,023)	212,910	246,615	(30,295)	216,320
Power Generation						
Capital lease (note 8)	13,798	(3,216)	10,582	13,798	(1,836)	11,962
Energy Services						
Energy services assets	30,177	(15,250)	14,927	28,886	(12,315)	16,570
Other assets	1,990	(385)	1,605	1,576	(280)	1,297
Corporate						
Other assets	16,962	(10,271)	6,691	14,774	(7,695)	7,079
	\$ 875,131	\$ (197,190)	\$ 677,941	\$ 804,625	\$ (159,183)	\$ 645,442

Interest capitalized on long-term capital construction projects for the year ended December 31, 2006 was \$nil (December 31, 2005 – \$nil). At December 31, 2006 the Trust had spent approximately \$14.9 million (December 31, 2005 – \$18.6 million) on capital projects under construction that were not yet subject to amortization.

4. ENERGY SERVICES ARRANGEMENTS, CONTRACTS AND RELATIONSHIPS

	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Energy services arrangements and contracts	\$ 115,071	\$ (31,497)	\$ 83,574	\$ 115,056	\$ (25,149)	\$ 89,907
Energy services relationships	20,892	(1,136)	19,756	20,943	–	20,943
	\$ 135,963	\$ (32,633)	\$ 103,330	\$ 135,999	\$ (25,149)	\$ 110,850

The amortization of the energy services relationships began in 2006 upon expiration of the corresponding short-term marketing contracts.

5. GOODWILL

	2006	2005
Balance, beginning of year	\$ 18,860	\$ 18,860
Goodwill impairment	(600)	–
Balance, end of year	\$ 18,260	\$ 18,860

Through its annual goodwill impairment testing AltaGas determined that the fair value of an investment in a business ancillary to the FG&P segment was less than the book value and recorded an impairment charge to goodwill of \$0.6 million in 2006.

6. LONG-TERM INVESTMENTS AND OTHER ASSETS

	2006	2005
Units of public trusts	\$ 375	\$ 375
Equity-accounted investments in public entities	40,071	39,098
Deferred debt costs, net of amortization	759	1,042
Deferred development costs	4,332	–
Loans receivable – BMWLP	700	–
Other	406	406
	\$ 46,643	\$ 40,921

At December 31, 2006 the quoted market value of the holdings of publicly traded entities was approximately \$50.0 million (December 31, 2005 – \$61.3 million).

The Trust accounts for its interests in Taylor NGL Limited Partnership (Taylor) and Utility Group as equity investments.

In 2006 the Trust formed the Bear Mountain Wind Limited Partnership (BMWLP) with Aeolis Wind Power Corporation and the GreenWing Energy Development Limited Partnership (GEDLP) with GreenWing Energy Management Ltd. Through these partnerships, which are proportionately consolidated, the Trust invested \$4.3 million (December 31, 2005 – \$nil) in the development of wind power projects. Amortization of these deferred development costs will occur over a five-year period at the commencement of commercial operations.

In 2006 AltaGas provided advances to BMWLP, consisting of an initial funding advance of \$0.2 million and a development fee loan of \$0.5 million, secured against the assets of the Partnership, bearing interest at Canadian prime and repayable together with interest accrued thereon upon the receipt of financing proceeds.

On December 31, 2005 a private investment held by the Trust was written down by \$0.6 million.

7. SHORT-TERM DEBT

At December 31, 2006 the Trust held a \$50.0 million (December 31, 2005 – \$50.0 million) unsecured demand revolving operating credit facility with a Canadian chartered bank. Draws on the facility bear interest at the lender's prime rate or at the bankers' acceptance rate plus a stamping fee. At December 31, 2006 the Trust had prime loans of \$nil (December 31, 2005 – \$2.7 million) and letters of credit of \$3.0 million (December 31, 2005 – \$6.9 million) outstanding against the facility.

Until September 31, 2005 the Trust held a \$75.0 million unsecured 364-day extendible revolving-term letter of credit facility. Effective September 30, 2005 this facility was amended into a three-year extendible revolving letter of credit facility (see note 8 for a description of the amended facility).

The prime lending rate at December 31, 2006 was 6.0 percent (December 31, 2005 – 5.0 percent).

8. LONG-TERM DEBT

	2006	2005
Operating loans	\$ 154,306	\$ 154,064
Capital lease obligations	11,181	12,252
Medium-term notes	100,000	100,000
	265,487	266,316
Less current portion	1,147	1,071
	\$ 264,340	\$ 265,245

Letter of Credit Facility

At December 31, 2006 the Trust held a \$75.0 million (December 31, 2005 – \$75.0 million) unsecured three-year extendible revolving letter of credit facility with a Canadian chartered bank maturing on September 30, 2009. 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 December 31, 2006 the Trust had letters of credit of \$63.3 million (December 31, 2005 – \$37.3 million) outstanding against the extendible revolving-term letter of credit facility.

Operating Loans

At December 31, 2006 the Trust held a \$300.0 million (December 31, 2005 – \$300.0 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 documentary credits. Borrowings on the facility bear fees and interest at rates relevant to the nature of the draw. On September 30, 2006 AltaGas negotiated the extension of the maturity date of this facility to September 30, 2009.

At December 31, 2006 the Trust had drawn \$154.3 million (December 31, 2005 – \$154.1 million) against the facility. The prime lending rate at December 31, 2006 was 6.0 percent (December 31, 2005 – 5.0 percent). The average rate on the Trust's bankers' acceptances at December 31, 2006 was 5.0 percent (December 31, 2005 – 4.19 percent).

Medium-Term Notes

On April 29, 2005 AltaGas filed a Universal Shelf Prospectus pursuant to which the Trust may issue up to an aggregate of \$500.0 million of Trust units and debt securities over a 25-month period. AltaGas filed a prospectus supplement on August 23, 2005 establishing AltaGas' medium-term note (MTN) program. 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. The proceeds of the issue were used to repay bank debt.

Capital Lease Obligation

On September 1, 2004 the Trust entered into a 10-year capital lease with an option to extend the term for an additional 15 years. The lease has payment commitments over the next five years as follows:

2007	\$ 1,878
2008	1,878
2009	1,878
2010	1,878
2011	1,878
Thereafter	5,014
	14,404
Less imputed interest at 6.85 percent	3,223
Present value of minimum lease payments	11,181
Less current portion	1,147
	\$ 10,034

Interest expense on capital leases was \$0.8 million in 2006 (December 31, 2005 – \$0.9 million).

9. ASSET RETIREMENT OBLIGATIONS

	2006	2005
Balance, beginning of year	\$ 16,982	\$ 16,122
New obligations	696	366
Obligations settled	(560)	(183)
Obligations disposed	–	(649)
Revision in estimated cash flow	4,802	–
Accretion expense	1,430	1,326
Balance, end of year	\$ 23,350	\$ 16,982

AltaGas estimates the undiscounted cash required to settle the asset retirement obligations at December 31, 2006 was \$57.0 million (December 31, 2005 – \$48.1 million). The asset retirement obligations have been recorded in the financial statements at estimated values discounted at rates between 5.6 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 estimated liability.

10. INCOME TAXES

Taxation of the Trust

Payments received by the Trust in the form of interest, distributions or other income from its subsidiaries are taxable income to the Trust. The Trust is entitled to deduct, for income tax purposes, its costs and its distributions to unitholders. Since it distributes all of its income to unitholders, the Trust is not expected to be liable for income taxes currently.

On October 31, 2006 the Government of Canada announced a proposal to tax income distributed by flowthrough entities, beginning in 2011. Draft legislation to implement this tax was released for comment on December 21, 2006. Management will adapt the Trust's corporate organizational strategies as the tax legislation evolves, with the goal of growing unitholder value.

Taxation of the Operating Subsidiaries

Incorporated operating subsidiaries of the Trust are subject to tax in the same manner as any other corporation. Operating subsidiaries are generally not expected to pay significant taxes either currently or in the foreseeable future under existing tax legislation. Prior to the spin-out of the NGD segment, subsidiaries of the Trust that operated under utility board regulation incurred and expensed income tax on income earned.

Consolidated Tax Position

The tax provision recorded in the Consolidated Financial Statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rates to income before tax as follows:

	2006	2005
Income before taxes – consolidated	\$ 113,382	\$ 89,020
Income from AltaGas Income Trust distributed to unitholders	(92,385)	(86,099)
Income before income taxes – operating subsidiaries	20,997	2,921
Statutory income tax rate (%)	34.49	37.62
Expected taxes at statutory rates	7,242	1,099
Add (deduct) the tax effect of:		
Resource allowance	(1,048)	(2,204)
Large Corporations Tax	–	1,063
Rate reductions applied to future income tax liabilities	(7,822)	(440)
Permanent differences between accounting and tax bases of assets and liabilities	166	(445)
Other	333	(341)
Income tax provision (recovery)		
Current	7	2,096
Future	(1,136)	(3,364)
	\$ (1,129)	\$ (1,268)
Effective income tax rate (%)	(1.00)	(1.42)

AltaGas' income taxes are calculated according to government tax laws and regulations which result in different values for certain assets and liabilities for income tax purposes from values recorded for financial statement purposes. The amount shown on the Consolidated Balance Sheets as future income tax liabilities represents the net differences between tax values and book carrying values on the operating subsidiaries' balance sheets at substantially enacted tax rates. GAAP requires these future income tax liabilities to be recognized in the Consolidated Financial Statements. In the case of AltaGas, these future income taxes are not expected to result in cash taxes being paid due to the expectation of continued future intercompany interest deductions at the operating subsidiary level.

As at December 31, future income taxes were comprised of the following:

	2006	2005
Capital assets	\$ 14,448	\$ 20,577
Deferred debt charges	(26)	37
Unit issue costs	(1,209)	(2,074)
Partnerships	41,522	33,980
Deferred compensation	(3,408)	–
Other	(75)	(87)
	\$ 51,252	\$ 52,433

11. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

In the course of normal operations, the Trust issues short and long-term debt, and purchases and sells natural gas and power commodities. These activities result in exposures to fluctuations in interest rates and commodity prices. The Trust uses financial derivative instruments that result in cash settlements to manage the price or cash flow risk arising from these activities. The Trust does not make use of derivative instruments for speculative purposes.

The fair values of financial derivatives have been estimated using year-end market rates. These fair values approximate the amount that the Trust would receive or pay if the instruments were closed out at these dates.

Commodity Price Risk Management

Under the PPAs, AltaGas has an obligation to buy power at agreed terms and prices to December 31, 2020. The Trust sells the power to the Alberta Electric System Operator at spot prices and uses swaps and collars to fix the prices over time on a portion of the volumes. AltaGas' strategy is to lock in margins to provide predictable earnings. At December 31, 2006 the Trust had no intention to terminate any contracts prior to maturity.

At December 31, the Trust had the following contracts outstanding:

Derivative Instruments	Fixed price (per MWh)	Period (months)	Notional volume (MWh)		Fair value
			Sales	Purchases	
2006					
Swaps and collars	\$65.00 to \$85.40	3 to 12	1,449,720	–	\$ (14,452)
Swaps and collars	\$52.50 to \$69.50	3 to 132	–	519,264	\$ 6,092
2005					
Swaps	\$52.00 to \$81.75	3 to 24	2,111,400	–	\$ (23,936)
Swaps	\$43.00 to \$78.00	12 to 144	–	322,146	\$ 273

Foreign Exchange Risk Management

To manage foreign exchange risk, the Trust enters into foreign exchange forward contracts. The estimated fair value of the foreign exchange forward contracts at December 31, 2006 was \$0.3 million (December 31, 2005 – \$(6,000)).

Interest Rate Risk Management

To hedge against the effect of future interest rate movements, the Trust enters into interest rate swap agreements (swaps) to fix the interest rate on a portion of its bankers' acceptances issued under credit facilities.

In November 2005 AltaGas discontinued hedge accounting for \$35.0 million in notional value swaps as a result of the maturity of the hedged bankers' acceptances. The swaps had an average remaining term of five to 10 months and a weighted average interest rate of 3.71 percent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At December 31, the Trust had the following contracts outstanding:

Interest Rate Swaps	Period (months)	Principal	Weighted average interest rate	Fair value
2006	1 to 27	\$ 145,000	3.76%	\$ 677
2005	5 to 39	\$ 185,000	3.75%	\$ 921

Credit Risk on Financial Instruments

Credit risk results from the possibility that a counterparty to a derivative in which the Trust has an unrealized gain fails to perform according to the terms of the contract.

Credit exposure is minimized by entering into transactions with creditworthy counterparties in accordance with established credit policies and practices. At December 31, 2006 AltaGas did not have a significant concentration of credit risk with any single counterparty to financial instruments.

12. UNITHOLDERS' EQUITY

	2006	2005
Unitholders' capital (note 13)	\$ 463,750	\$ 417,114
Contributed surplus	3,322	2,839
Accumulated earnings	401,618	287,107
Accumulated dividends	(41,114)	(41,114)
Accumulated unitholders' distributions declared ⁽¹⁾	(272,464)	(161,664)
Distribution of common shares of Utility Group (note 20)	(25,696)	(25,696)
	\$ 529,416	\$ 478,586

⁽¹⁾ Accumulated cash distributions paid by the Trust as at December 31, 2006 were \$262.9 million (as at December 31, 2005 – \$152.9 million).

13. 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 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 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 is 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. After May 1, 2009 the exchange is at the option of either the Trust or the unitholder.

Trust Units Issued and Outstanding:	Number	Amount
December 31, 2004	49,825,241	\$ 367,349
Units issued for cash on exercise of options	304,411	2,737
Units issued under DRIP ⁽¹⁾	1,147,640	27,739
Units issued for exchangeable units	1,228,222	7,029
December 31, 2005	52,505,514	404,854

Exchangeable Units Issued and Outstanding:		
December 31, 2004 issued by AltaGas LP #1	3,370,294	19,289
AltaGas LP #1 units redeemed for trust units	(1,228,222)	(7,029)
December 31, 2005	2,142,072	12,260
Issued and outstanding at December 31, 2005	54,647,586	417,114

Trust Units Issued and Outstanding:	Number	Amount
December 31, 2005	52,505,514	404,854
Units issued for cash on exercise of options	9,150	127
Units issued under DRIP ⁽¹⁾	1,745,630	46,509
Units issued for exchangeable units	53,258	305
December 31, 2006	54,313,552	451,795

Exchangeable Units Issued and Outstanding:		
December 31, 2005 issued by AltaGas LP #1	2,142,072	12,260
AltaGas LP #1 units redeemed for trust units	(53,258)	(305)
December 31, 2006	2,088,814	11,955
Issued and outstanding at December 31, 2006	56,402,366	\$ 463,750

⁽¹⁾ Premium Distribution™, Distribution Reinvestment and Optional Unit Purchase Plan.

The Trust has a unit option plan under which employees and directors are eligible to receive grants. At December 31, 2006, 10 percent of units outstanding were reserved for issuance under the plan. To December 31, 2006 options granted under the plan generally had a term of 10 years to expiry and vested no longer than over a four-year period.

At December 31, 2006 outstanding options are exercisable at various dates to the year 2016 (December 31, 2005 – 2015). Options outstanding under the plan have a weighted average exercise price of \$27.23 (December 31, 2005 – \$9.40) and a weighted average remaining term of 9.23 years (December 31, 2005 – 9.25 years). As at December 31, 2006 the unexpensed fair value of unit option compensation cost associated with future periods was \$0.9 million (December 31, 2005 – \$0.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Options outstanding	
	Number of options	Weighted average exercise price
Unit options outstanding at December 31, 2005	359,200	\$ 24.53
Granted	636,500	28.60
Exercised	(9,150)	13.93
Cancelled	(63,000)	27.53
Unit options outstanding at December 31, 2006	923,550	\$ 27.23
Exercisable at December 31, 2006	106,513	\$ 20.48

A summary of the plan at December 31, 2006:

	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2006	Weighted average exercise price	Weighted average remaining contractual life (years)	Number exercisable at December 31, 2006	Weighted average exercise price
\$5.00-\$7.00	9,500	\$ 6.15	3.43	9,500	\$ 6.15
\$7.01-\$15.50	29,000	10.35	6.17	29,000	10.35
\$15.51-\$25.08	116,550	24.14	8.30	27,888	24.09
\$25.09-\$29.15	768,500	28.60	9.56	40,125	28.68
	923,550	\$ 27.23	9.23	106,513	\$ 20.48

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	2006	2005
Risk-free interest rate (%)	4.36	4.07
Expected life (years)	10	10
Expected volatility (%)	20.89	17.68
Annual distribution per unit (\$)	1.981	1.85
Units Outstanding ⁽¹⁾	2006	2005
Weighted average number of units – basic	55,468,969	54,011,281
Effect of dilutive unit options	47,216	76,224
Weighted average number of units – diluted	55,516,185	54,087,505

⁽¹⁾ Includes exchangeable units.

In 2004 AltaGas implemented a unit-based compensation plan which awards phantom units to certain employees. 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 2006 in respect of this plan was \$6.7 million (December 31, 2005 – \$3.0 million). As at December 31, 2006 the unexpensed fair value of unit-based compensation costs associated with future periods was \$9.9 million (December 31, 2005 – \$7.5 million).

14. COMMITMENTS

Future minimum lease payments under operating leases for office space, office equipment, and automotive equipment are estimated as follows:

2007	\$	3,180
2008		3,233
2009		3,041
2010		2,845
2011		2,643
	\$	14,942

Under the terms of a 1997 long-term gas supply contract, the Trust is committed to supplying natural gas for prices ranging from \$2.28/Mcf in 2006 to \$2.40/Mcf by contract expiry in 2009. The Trust contracted with several producers to provide the volumes to fulfill this contract. In 1999, one of those producers defaulted on its obligation under its gas supply contract, resulting in the delivery commitment for 2,845 Mcf/d being assumed by the Trust. In 2006 the Trust entered into a contract with a supplier to provide these volumes at a fixed price. The fixed price contract expires in 2009.

In 1999 the Trust acquired a right to purchase natural gas from specific reserves for \$0.05/Mcf for the life of the reserves. The production from these reserves was 1,321 Mcf/d in 2006 (2005 – 1,333 Mcf/d).

The Trust entered into an energy contract with the Alberta Balancing Pool Administrator for the right and obligation to purchase power from 100 MW of power capacity at the EPCOR Generation Inc.-operated Genesee power plant for a three-year term commencing April 1, 2003. The Trust had an obligation to pay a competitively priced fixed monthly capacity charge for the power capacity under this PPA. The contract expired March 31, 2006.

15. 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:

	2006	2005
Accounts receivable	\$ (3,849)	\$ (60,177)
Inventory	34	155
Other current assets	(4,856)	424
Accounts payable and accrued liabilities	(14,719)	61,375
Customer deposits	933	(1,547)
Deferred revenue	788	–
Other current liabilities	209	(3,420)
	(21,460)	(3,190)
Less increase in working capital due to spin-out of Utility Group <i>(note 20)</i>	–	85
Less decrease (increase) in capital costs payable	7,200	(13,440)
Net change in non-cash working capital related to operations	\$ (14,260)	\$ (16,545)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2006	2005
Interest paid	\$ 13,521	\$ 17,829
Income taxes paid	\$ 62	\$ 1,321

16. PENSION PLANS AND RETIREE BENEFITS

Defined Contribution Plan

On July 1, 2005 AltaGas implemented a defined contribution (DC) pension plan for substantially all regular employees. The DC plan replaced the Group RRSP as AltaGas' primary employer-sponsored retirement arrangement.

The net pension expense recorded for the DC pension plan was \$1.3 million for the year ended December 31, 2006 (six months ended December 31, 2005 – \$0.6 million). The cost of the Group RRSP in 2005 prior to the implementation of the DC plan was \$0.4 million.

Defined Benefit Plans

Effective August 25, 2004 the liability for a defined benefit, non-contributory pension plan in respect of nine Trust employees for pre-AltaGas pensionable service was assumed under Part II of the Salaried Employees' Pension Plan as a result of an acquisition. No future service accrues under this plan.

Effective January 1, 2005 the plan was amended in respect of certain employees who transferred employment from AltaGas Utilities Inc., a wholly owned subsidiary of the Trust during most of 2005. Assets and liabilities were transferred to Parts III and IV of the Salaried Employees' Pension Plan for three such employees during 2006.

On November 17, 2005 AltaGas indirectly disposed of its interest in AltaGas Utilities Inc. (AUI) through the spin-out of Utility Group. Substantially all of the employees of this subsidiary were members of one of two defined benefit non-contributory pension plans. An accrued benefit asset of \$0.6 million, plan assets of \$14.2 million, and an accrued benefit obligation of \$16.1 million were transferred to Utility Group upon spin-out. The individual plans transferred to Utility Group had deficits on the Consolidated Balance Sheets of AltaGas. Part I of the Salaried Employees' Pension Plan had a deficit at the date of transfer of \$1.5 million and the Bargaining Unit Pension Plan had a deficit of \$0.3 million.

Effective with the spin-out of Utility Group on November 17, 2005 AltaGas has no obligations for retiree benefits other than pension and no current service costs in the registered defined benefit pension plan.

Plan contributions for Part I of the Salaried Employees' Pension Plan in 2005 were made in accordance with a 2002 report on the actuarial valuation for funding purposes. Plan contributions for Parts II, III and IV of the Salaried Employees' Pension Plan in 2006 were made in accordance with an actuarial valuation for funding purposes as at September 30, 2005 report dated March 29, 2006. At December 31, 2006 the accrued benefit obligation of the Trust for this plan was \$1.9 million (December 31, 2005 – \$1.7 million). At December 31, 2006, the plan had an accrued benefit liability of \$0.3 million (December 31, 2005 – \$0.3 million).

For the period ended December 31, 2006 the net pension expense was \$(11,000) (December 31, 2005 – \$0.8 million). The defined benefit plan expense in 2005 included expenses for the AUI plans up to November 17, 2005, the date of the spin-out of the NGD business.

Supplemental Executive Retirement Plan (SERP)

Effective July 1, 2005 the Trust instituted a non-registered, defined benefit retirement plan which provides defined pension benefits to eligible executives based on average earnings, years of service and age at retirement. At December 31, 2006 the accrued benefit obligation of the Trust for this plan was \$2.1 million (December 31, 2005 – \$1.3 million). At December 31, 2006, the plan had an accrued benefit liability of \$1.0 million (December 31, 2005 – \$0.1 million).

The SERP benefits will be paid from the general revenue of AltaGas as payments come due. Security will be provided for the SERP benefits through a letter of credit within a Retirement Compensation Arrangement Trust account.

For the period ended December 31, 2006, the net pension expense was \$0.8 million (December 31, 2005 – \$0.6 million).

The following table summarizes the details of the defined benefit plans:

	2006		2005
	Defined benefit pension plans	Defined benefit pension plans	Other benefit plans
Accrued benefit obligation			
Balance, beginning of year	\$ 2,987	\$ 13,670	\$ 1,224
Net transfer in	165	1,583	–
Actuarial loss	96	1,551	352
Current service cost	657	1,058	50
Past service cost	–	971	–
Interest cost	174	880	67
Benefits paid	–	(579)	(18)
Accrued benefit obligation transferred to Utility Group	–	(16,147)	(1,675)
Balance, end of year	4,079	2,987	–
Plan assets			
Fair value, beginning of year	1,409	12,784	–
Net transfers in	164	1,262	–
Actual return on plan assets	144	904	–
Employer contributions	12	1,209	18
Benefits paid	–	(579)	(18)
Plan assets transferred to Utility Group	–	(14,171)	–
Fair value, end of year	1,729	1,409	–
Funded status	(2,350)	(1,578)	–
Unamortized transitional obligation	–	377	305
Unamortized past service costs	855	1,042	–
Unamortized net actuarial loss	227	2,287	685
Accrued benefit asset (liability)	(1,268)	2,128	990
Accrued benefit asset transferred to Utility Group	–	(2,585)	(990)
Accrued benefit liability	\$ (1,268)	\$ (457)	\$ –

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2006		2005
	Defined benefit pension plans	Defined benefit pension plans	Other benefit plans
Significant actuarial assumptions used as at December 31			
Discount rate (%)	5.25 – 5.50	5.25 – 5.50	6.00
Expected long-term rate of return on plan assets (%)	6.00 – 6.75	6.50	n/a
Rate of compensation increase (%)	3.50 – 4.00	3.50 – 4.00	5.00
Average remaining service life of active employees (years)	9-12	13-14	16
Net benefit plan expense for the year			
Current service cost and expenses	\$ 657	\$ 1,058	\$ 50
Interest cost	174	880	67
Actual return on plan assets	(144)	(904)	–
Actuarial loss	96	1,551	352
Costs arising in the period	783	2,585	469
Differences between costs arising in the period and costs recognized in the period in respect of:			
Return on plan assets	49	72	–
Plan amendments	–	29	–
Actuarial gains	(87)	(1,299)	(340)
Past service costs	77	38	–
Transitional obligations	–	42	26
Net periodic benefit plan costs recognized	\$ 822	\$ 1,467	\$ 155

17. RELATED PARTY TRANSACTIONS

In the normal course of business, the Trust and its affiliates transact with related parties. These transactions are recorded at their exchange amounts.

	2006	2005
Fees for administration, management and other services paid by:		
Utility Group to the Trust	\$ 30	\$ 4
The Trust to Utility Group	\$ 1,001	\$ 52
Natural gas sales by the Trust to Utility Group	\$ 84,046	\$ 25,842
Fees for operating services paid by Utility Group to the Trust	\$ 469	\$ 117
Transportation services provided by Utility Group to the Trust	\$ 560	\$ 98
Office space and furniture rental payments made by the Trust to a corporation owned by an employee	\$ 83	\$ 82

Included in accounts receivable at December 31, 2006 is \$13.8 million (December 31, 2005 – \$21.0 million) due to the Trust from related parties. Included in accounts payable at December 31, 2006 is \$0.7 million (December 31, 2005 – \$0.2 million) due from the Trust to related parties.

18. JOINT VENTURES

The Trust's proportionate interest in its joint venture arrangements is summarized as follows:

	2006	2005
Proportionate share of operating income		
Revenues	\$ 234,243	\$ 303,165
Expenses	156,649	245,054
	\$ 77,594	\$ 58,111
Proportionate share of net assets		
Current assets	\$ 44,386	\$ 27,022
Capital assets	93,917	46,821
Energy services arrangements, contracts and relationships	81,292	87,085
Long-term investments and other assets	4,637	–
Current liabilities	(43,129)	(28,928)
	\$ 181,013	\$ 132,000
Proportionate share of cash flows		
Operating activities	\$ 83,367	\$ 60,079
Investing activities	(57,826)	(3,799)
Financing activities	(25,541)	(56,280)
	\$ –	\$ –

19. GAIN ON INVESTMENT

The Trust's investment in Taylor is accounted for using the equity method. On February 7, 2005 the Trust sold 1.4 million limited partnership units of Taylor for proceeds of \$12.8 million, realizing an after-tax gain of \$4.1 million. The sale reduced the Trust's ownership in Taylor to 4.0 million units, or 14.0 percent.

On March 22, 2005 Taylor issued 13.0 million limited partnership units. AltaGas did not participate in this issue, which reduced the Trust's ownership in Taylor to 9.5 percent and resulted in an after-tax dilution gain of \$3.8 million.

20. SPIN-OUT OF NATURAL GAS DISTRIBUTION BUSINESSES

On November 17, 2005 AltaGas completed the spin-out of its 100 percent-owned subsidiary Utility Group into a separate, publicly traded entity. Utility Group owns 100 percent of AUI, a one-third interest in Inuvik Gas Ltd. and a 24.9 percent interest in Heritage Gas Limited. Prior to the spin-out these entities comprised the NGD segment held by the Trust.

The spin-out of Utility Group was completed through a series of transactions. Holders of trust units of the Trust and holders of exchangeable partnership units of AltaGas LP #1 received one common share of Utility Group for every 13.9592 trust units or exchangeable units held on November 14, 2005. The number of common shares of Utility Group distributed to unitholders was 3,899,895 and reduced unitholders' equity by \$25.7 million. The Trust sold 1,716,000 common shares of Utility Group at \$7.50 per share for net proceeds of \$10.7 million. Utility Group completed an initial public offering of 390,000 common shares at \$7.50 per share for net proceeds of \$2.7 million. This offering resulted in a 1.3 percent reduction of the Trust's interest in Utility Group to 26.7 percent. The series of transactions executed to effect the spin-out resulted in a net after-tax loss to the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Trust of \$0.1 million. Concurrent with the spin-out, AltaGas settled amounts due from Utility Group and, together with the proceeds from the sale of Utility Group common shares, \$85.4 million was used to repay the Trust's bank debt.

Prior to the completion of the spin-out, Utility Group's assets and operations were consolidated as the NGD segment. Subsequent to the spin-out, the Trust holds 2,184,010 common shares of the 8,189,905 Utility Group shares issued and outstanding. From November 17, 2005 the Trust accounted for its interest in Utility Group as a long-term investment in Utility Group using the equity method with no restatement of prior periods.

The financial statement impact of the series of transactions completed to execute the spin-out reduced assets, liabilities and accumulated earnings of the Trust as follows:

Net Impact of Spin-Out

Current assets	\$	(28,586)
Non-current assets		(129,749)
Current liabilities		29,870
Other liabilities		3,483
Distributions to unitholders		25,696
	\$	(99,286)
<hr/>		
Increase in long-term investments and other assets	\$	13,903
Repayment of intercompany advances to Utility Group		74,709
Net proceeds on sale of shares		10,674
	\$	99,286

21. 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. Transactions among the reporting segments are recorded at fair value. The Trust currently has five reportable segments. For the period from January 1, 2005 to November 16, 2005, the operating and financial results reflect the consolidated revenue and expenses of the entities that formed the Natural Gas Distribution segment, which was spun out on November 17, 2005. The following describes the reporting segments:

- Field Gathering and Processing** – natural gas gathering pipelines and processing facilities;
- Extraction and Transmission** – ethane and natural gas liquids extraction plants and natural gas and condensate transmission pipelines;
- Power Generation** – coal-fired and gas-fired power output under power purchase arrangements and other agreements;
- Energy Services** – energy management and gas services for natural gas and electricity, and oil and natural gas production; and
- Corporate** – the costs of providing corporate services and investments in public and private entities, corporate assets and general corporate overhead.

The following tables show the composition by segment:

For the year ended December 31, 2006	Field Gathering and Processing	Extraction and Transmission	Power Generation	Energy Services	Corporate	Intersegment elimination	Total
Revenue	\$ 139,016	\$ 149,143	\$ 199,344	\$ 948,939	\$ 4,415	\$ (78,253)	\$ 1,362,604
Cost of sales	(9,381)	(85,888)	(99,761)	(924,249)	–	75,588	(1,043,691)
Operating and administrative	(80,068)	(20,305)	(1,332)	(17,060)	(29,688)	2,665	(145,788)
Amortization	(23,579)	(7,733)	(7,382)	(4,848)	(2,319)	–	(45,861)
Goodwill impairment	(600)	–	–	–	–	–	(600)
Operating income	\$ 25,388	\$ 35,217	\$ 90,869	\$ 2,782	\$ (27,592)	\$ –	\$ 126,664

Net additions (reductions) to:

Capital assets	\$ 62,295	\$ 4,319	\$ (28)	\$ 1,652	\$ 2,270	\$ –	\$ 70,508
Energy services arrangements, contracts and relationships	\$ –	\$ –	\$ –	\$ (36)	\$ –	\$ –	\$ (36)
Long-term investments and other assets	\$ –	\$ –	\$ 4,332	\$ –	\$ 1,390	\$ –	\$ 5,722
Goodwill	\$ 215	\$ 18,045	\$ –	\$ –	\$ –	\$ –	\$ 18,260
Segment assets	\$ 573,748	\$ 143,004	\$ 130,116	\$ 219,205	\$ 43,502	\$ –	\$ 1,109,575

For the year ended December 31, 2005	Field Gathering and Processing	Extraction and Transmission	Power Generation	Energy Services	Natural Gas Distribution	Corporate	Intersegment elimination	Total
Revenue	\$ 131,835	\$ 181,314	\$ 189,205	\$ 1,080,225	\$ 113,429	\$ 10,915	\$ (204,577)	\$ 1,502,346
Cost of sales	(11,693)	(123,319)	(131,363)	(1,056,764)	(84,444)	–	202,102	(1,205,481)
Operating and administrative	(75,390)	(20,055)	(1,834)	(14,758)	(15,988)	(15,832)	2,475	(141,382)
Amortization	(20,660)	(7,558)	(7,313)	(3,151)	(6,755)	(1,935)	–	(47,372)
Operating income	\$ 24,092	\$ 30,382	\$ 48,695	\$ 5,552	\$ 6,242	\$ (6,852)	\$ –	\$ 108,111

Net additions (reductions) to:

Capital assets	\$ 46,320	\$ 1,639	\$ –	\$ 1,384	\$ (192,157)	\$ 3,453	\$ –	\$ (139,361)
Energy services arrangements, contracts and relationships	\$ –	\$ –	\$ –	\$ 4,233	\$ –	\$ –	\$ –	\$ 4,233
Long-term investments and other assets	\$ –	\$ –	\$ –	\$ –	\$ (2,327)	\$ 8,372	\$ –	\$ 6,045
Goodwill	\$ 815	\$ 18,045	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 18,860
Segment assets	\$ 532,083	\$ 211,150	\$ 156,053	\$ 120,140	\$ –	\$ 48,903	\$ –	\$ 1,068,329

22. COMPARATIVE FIGURES

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

23. SUBSEQUENT EVENTS

On January 19, 2007 AltaGas issued \$100 million of senior unsecured MTNs. The notes carry a coupon rate of 5.07 percent and mature on January 19, 2012. The net proceeds were used to pay down existing bank indebtedness and for general corporate purposes.