



David W. Cornhill
Chairman and Chief Executive Officer

Letter to Unitholders

Financial discipline, profitable growth and diversification – that’s the way AltaGas does business.

In 2007 we clearly demonstrated the “Energy to Grow” that we had promised. We did what we said we would do, executing our strategy for balanced growth in our two businesses, natural gas and power. We continued to create long-term value for unitholders while maintaining the discipline and focus that got us where we are. AltaGas came out of 2007 with the momentum and ability to achieve what’s next: further growth in 2008 and beyond.

Our growth strategy is built upon several essential elements. In expanding our assets, the goal is to achieve balanced growth in the natural gas and power businesses while diversifying the cash flow-generating assets within and among our business segments. Diversification includes moving into renewable energy opportunities. As we implement our growth initiatives we will maintain financial discipline, including a strong balance sheet and investment-grade credit ratings. These elements are aimed at growing AltaGas’ net income and cash flows year by year, supporting sustainable cash distributions to our unitholders.

Last year we focused on carrying out our growth strategy. We made excellent progress in a number of areas, including:

- Initiating the acquisition of Taylor NGL Limited Partnership, a \$599 million transaction that provides additional growth opportunities while strengthening and diversifying AltaGas in its core businesses.
- Growth in renewable energy, including construction launch of the Bear Mountain Wind Park and initiating the acquisition of our first interest in run-of-river hydroelectric power generation.
- A move into natural gas storage, which will add cash flows and benefit from AltaGas’ energy services capabilities in Ontario.
- Continued growth in the natural gas and power businesses, adding 15 Mmcf/d of coal bed methane processing capacity, a 15 Mmcf/d natural gas gathering line and developing an additional 14.4 megawatts (MW) of peaking power capacity.
- Strong financial results, including:
 - Net income of \$109 million (\$1.90 per unit). Net of SIFT tax, net income was \$114 million (\$1.99 per unit).
 - Operating income of \$127 million, equalling the record set in 2006.
 - Funds from operations of \$163 million (\$2.84 per unit).
 - Return on equity of 19.8 percent, or 20.7 percent excluding the SIFT tax.
 - Cash distributions of \$2.065 per unit, reflecting the increase to monthly distributions made in September, while remaining within our recently lowered targeted payout range of 65 to 75 percent of funds from operations.
 - A strong balance sheet, maintaining the Trust’s investment-grade ratings and providing the financial flexibility to grow.

The Gas and Power Businesses

AltaGas' power business continued to grow as planned throughout 2007. Our major asset, the Sundance power purchase arrangements, continued to provide a growing cash flow stream that is substantially price-hedged. With power prices and demand strong in Alberta, we continued to realize value on our existing gas-fired peaking plants. And we will bring two new peaking plants into service early this year. Operating income from the power business increased by 4 percent year-over-year.

Results in the natural gas business reflected AltaGas' risk-mitigation strategy. Field activity in the upstream natural gas industry was dampened by price weakness and regulatory issues. However, by carefully building a business of offsetting segments, implementing contracts that flow operating costs through to customers, pursuing long-term contracts, carefully managing its balance sheet and cultivating a diversified opportunity base, AltaGas is able to maintain profitability throughout the commodity price cycle. Nowhere was this strategy better shown than in our gas business. Although overall gathering and processing throughput fell in 2007, lower natural gas prices and continued high oil prices drove higher fractionation spreads that increased profits in the extraction business. Some of our frac spread exposure was hedged at historically high prices, solidifying cash flows for the next year. With one segment balancing the other, our natural gas business results were down only 6 percent and were offset by the increase in 2007 power results. Through this coordination and balance between the segments, we continued to grow our core natural gas business.

Despite recent natural gas price weakness, we remain optimistic about the natural gas business in the Western Canada Sedimentary Basin. We're confident in the ingenuity of Western Canada's energy industry, which is applying bold thinking and creativity to generate new natural gas potential and maximize the basin's reserves. We foresee essentially steady production from Western Canada for many years, creating an environment in which AltaGas can thrive and grow.

Taylor Acquisition

Each of our business efforts in 2007 reflected and advanced our strategy for balanced growth. The largest transaction we undertook in 2007 was the acquisition of Taylor NGL Limited Partnership for \$599 million, excluding our pre-existing 9 percent ownership interest. With its strong 2007 performance, we paid approximately 10 times EBITDA for Taylor. AltaGas will benefit from continued high frac spreads,

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integration, and significant future growth opportunities resulting from the transaction.

Operationally, the Taylor acquisition adds low-risk, long-life complementary assets that make AltaGas increasingly diversified and balanced. The assets have rated economic lives extending as far as 2050 and in many cases are anchored by long-term contracts of up to 40 years, meeting AltaGas' high standards for long asset life and managed risk. These assets substantially increase cash flows in the Extraction

and Transmission segment, and provide improved balance across AltaGas' business segments.

Financially, the new assets are immediately accretive to AltaGas' cash flow per unit, add free cash flow (roughly, cash flow available for reinvestment) and are expected to be neutral to accretive to net income per unit in 2008. They also increase AltaGas' liquidity and access to capital; important factors as we plan our approach to the post-2010 income trust world.

Additional Growth

We undertook several other initiatives in 2007 that are aligned with our strategy for balanced growth.

We expanded our gas business in Ontario with the addition of natural gas storage, acquiring a 50 percent partnership position in a storage facility in Sarnia with a working capacity of 5.3 Bcf. Storage is a critical service required by natural gas liquids and petrochemical industries and Sarnia is a key location for these businesses. The project provides steady fee-for-service cash flows that minimize commodity price risk and is expected to be in service in mid-2009. By using the capabilities of the AltaGas Energy Services team in Chatham, Ontario, we can create additional value from this long-life asset. We are also pursuing further natural gas storage opportunities in Ontario and Michigan.

In the gas business we also constructed a new 10 Mmcf/d coal bed methane processing facility in the Horseshoe Canyon formation, acquired a 5 Mmcf/d coal bed methane processing facility in the Mannville formation, both in central Alberta, and acquired a 15 Mmcf/d natural gas gathering line.

In the power business, we began the installation of two additional peaking facilities with combined output of 14.4 MW. Peaking plants are small, natural gas-fired generators used to top up a region's electricity supply in times of maximum demand. The new plants are located at two of our existing field gathering and processing facilities, and all six of our peaking plants will be controlled from our Edmonton extraction

facility. This is an excellent and highly profitable demonstration of integrating our assets and services across our business segments to create additional value. The peaking power business uses existing assets as a base, and improves AltaGas' market presence, physical infrastructure and expertise. This business backstops our coal-fired Sundance power purchase arrangements and is also used to provide backup services to the Alberta power market.

Renewables

AltaGas' careful and deliberate move into renewable energy development is another compelling example of our balanced growth.

Renewable energy is helping diversify our power business by energy source and geographic location. With approximately 175 MW of run-of-river hydro and wind power generation under development or construction, we are evolving into a major renewable energy player, particularly in British Columbia.

December marked an important milestone, commencing construction of the Bear Mountain Wind Park. I'm proud of Bear Mountain. This \$190 million project will have the capacity to produce approximately 100 MW of clean, green power when it enters service in late 2009 - helping BC Hydro meet its commitment of 90 percent of new capacity generated from green sources. The gearless turbines that we ordered from Enercon are efficient, cost-effective and reliable. Bear Mountain will be B.C.'s first wind farm and its output will be sold to BC Hydro under a 25-year, indexed contract. We also own a 25 percent interest in a run-of-river hydroelectric project that generates 7 MW of clean, sustainable electricity backed by a long-term contract with BC Hydro. We have a pair of 40-year contracts with BC Hydro for two 10-MW run-of-river projects which should be in service in 2010, and in February 2008 we announced an additional four potential run-of-river projects totalling approximately 50 MW of capacity.

Financial Performance

The fundamental purpose in executing our growth strategy is to increase our net income and cash flows, and to create long-term value for unitholders. AltaGas had a fantastic year in 2006 with all-time record results, and I'm pleased that in 2007 we were able to meet that performance. Even more important was the way we achieved these results. Since 1994 we have worked to build a business that is viable and strong for the long term. We have a track record of 14 years of increasing cash flows. We focus on mitigating risks and securing long-term revenue streams to make cash flows stable and predictable. As we add new assets and new lines of business, we look for ways to mitigate downsides. We reduce cost

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exposure and throughput risks in the natural gas business, for example, by structuring services around flowthrough contracts. In extraction we gain exposure to frac spread upside but have downside protection for when these spreads are unfavourable. We underpin our power business with price hedges.

These were the basic, foundational measures selected when we began business. By using them to guide our performance, these measures have helped us create tremendous value over the years. Meanwhile, we added a further layer of risk-mitigation by structuring a diversified overall business, resilient to movements in individual segments. We have delivered on our goal of

securing long-term cash flows. Consequently, AltaGas has proven to be a good investment. We increased net income nearly six-fold from 2001 through 2006, and last year matched our record 2006 operating income. These strengths enabled AltaGas to increase its monthly distribution by 3 percent to \$0.175 per unit last September, while remaining within our recently lowered targeted payout range of 65 to 75 percent of funds from operations.

People, Safety and Community

People are a key focus at AltaGas - both our employees and those in the communities we operate. The quality of our workforce is one of the three key priorities in our strategic plan. I was pleased to see that in October, AltaGas was again recognized as one of Canada's top 100 employers. It was our sixth year in a row, something only one other organization in Calgary can match. This recognition not only allows us to benchmark ourselves within the business community, but it's a real competitive advantage in attracting the right people. By emphasizing

opportunity, challenge and competitive compensation, AltaGas aims to create a favourable work environment, thereby motivating high-quality people to join AltaGas and build careers here.

Our contributions in the communities where we live and operate are focused, carefully selected, and long term. We also provide support to a wide range of organizations on a smaller scale. Our long-term commitments enable us to have a major impact on our partner organizations, the people they support, our employees and the communities around our offices and field facilities. This thinking formed the basis of our five-year, \$300,000 commitment to the Alberta-based Shock Trauma Air Rescue Society (STARS) and our ongoing employee and organizational commitment to the United Way.

AltaGas' concern for employees and communities is a clear reflection of our number one core value, safety and environment. The potentially life-saving safety benefits are one reason for our involvement with STARS. Our financial support assisting STARS to acquire new air ambulance helicopters with extended range that can provide rapid response to people in need - including the approximately 350 individuals working at our field facilities in B.C., Alberta and Saskatchewan.

Last year we commenced another multi-year commitment, the sponsorship of Canada's national cross-country ski team. We feel an affinity to this sport's values of focus, discipline and long-term commitment to achieving a goal. These values fit our own culture, and we are pleased to make a four-year commitment totalling more than half a million dollars. These funds will help develop Canada's national cross-country ski team, including the hiring of additional coaches who will focus on building Canada's amateur talent to an internationally competitive level. This national sponsorship also creates coast-to-coast exposure of the AltaGas name, matching our coast-to-coast business presence.

Regulatory

AltaGas' confidence, capabilities, diversified businesses and financial strength provide many benefits, including positioning AltaGas to deal with changes to the fiscal and regulatory environment. New policies from the federal and provincial governments were imposed in 2007 that added higher levels of uncertainty, and created unsupportive impacts on businesses. Key provisions of the higher Alberta oil and natural gas royalties program, announced in general terms last fall and to be implemented in 2009, remain unknown. These questions are expected to continue impacting the energy-producing sector in 2008. Our natural gas producer customers need to know the rules in order to calculate costs and, in turn, to plan their capital programs effectively. Additionally, the provincial government's new policy demanding that industries decrease carbon dioxide emissions intensity, coupled with an as-yet incomplete plan for greenhouse gas credits, creates further uncertainty for Alberta business and all Canadians. It's imperative that governments of all levels provide regulatory clarity in these areas.

We have repeatedly stated that, having thrived as a corporation before our 2004 trust conversion and having a steady focus on the key financial metrics of net income and return on equity - as a leading corporation would - we are comfortable about returning to a corporate structure after 2010, should it make economic sense. AltaGas' business

growth, earnings record, distributions strength, comfortable payout ratio, strong balance sheet and tax pools to help shelter future earnings, leave us well-prepared for the post-2010 environment. When the time comes, we will take the path that is best for our unitholders.

What's NEXT

Our business is solid. Since inception just 14 years ago, AltaGas has grown through good vision, strong leadership, outstanding people, the right assets and focus, and investors who get it. We have become a regional energy infrastructure player with transcontinental business. Looking forward, we will continue to balance growth in gas and power. We will continue our focus on renewable energy, and will broaden our reach, both geographic and by fuel source, with investments such as natural gas storage and our significant and leading commitment to renewable energy developments in B.C. and other areas in Canada and the northern United States.

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We will remain guided by the core values that have developed AltaGas into what it is today - a market leader and proven innovator. Every asset we build or buy will meet our key criteria and must contribute to creating long-term value for unitholders, while maintaining or improving our risk profile, balance sheet strength and ability to grow net income, funds from operations and return on equity. AltaGas will continue to pursue its goal of growing net income faster than distributions.

Financially we are well-positioned to execute our strategy. With a strong balance sheet, access to credit, increasing free cash flow and a universal shelf prospectus for \$500 million in new equity or debt if needed, AltaGas has the resources to grow.

Finally, I would like to express my thanks to every AltaGas employee for their dedication and focus in carrying out AltaGas' strategy for balanced growth throughout 2007 and into 2008. I also welcome the employees and managers of Taylor to our team. The outstanding quality of today's AltaGas team gives me confidence that we will continue creating value for our unitholders tomorrow and well into the future.

On behalf of the Board of Directors,

(Signed) "David W. Cornhill"

David W. Cornhill
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

March 3, 2008