

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 or 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 in this report.

(Signed) "David W. Cornhill"

DAVID W. CORNHILL
CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF
ALTAGAS GENERAL PARTNER INC., DELEGATE OF
THE TRUSTEE OF ALTAGAS INCOME TRUST

March 3, 2008

(Signed) "Deborah S. Stein"

DEBORAH S. STEIN
VICE PRESIDENT FINANCE AND CHIEF FINANCIAL OFFICER
OF ALTAGAS GENERAL PARTNER INC., DELEGATE OF
THE TRUSTEE OF ALTAGAS INCOME TRUST

March 3, 2008

Auditors' Report

TO THE UNITHOLDERS OF ALTAGAS INCOME TRUST

We have audited the consolidated balance sheets of AltaGas Income Trust as at December 31, 2007 and 2006 and the consolidated statements of income and accumulated earnings, comprehensive income and accumulated other comprehensive income 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, 2007 and 2006 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 26, 2008

Calgary, Canada

Consolidated Balance Sheets

As at December 31

(\$ thousands)

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,451	\$ 13,226
Accounts receivable	191,879	224,533
Inventory	130	61
Customer deposits	24,369	16,304
Risk management (note 12)	66,811	–
Other current assets	9,714	9,277
	305,354	263,401
Capital assets (notes 4 and 21)	682,322	677,941
Energy services arrangements, contracts and relationships (note 5)	95,716	103,330
Goodwill (note 6)	18,260	18,260
Risk management (note 12)	33,640	–
Long-term investments and other assets (note 7)	64,509	46,643
	\$ 1,199,801	\$ 1,109,575
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 177,802	\$ 200,882
Distributions payable to unitholders	10,167	9,588
Short-term debt (note 8)	655	–
Current portion of long-term debt (note 9)	1,234	1,147
Customer deposits	24,369	16,304
Deferred revenue	1,718	788
Risk management (note 12)	60,848	–
Other current liabilities	9,321	10,982
	286,114	239,691
Long-term debt (note 9)	218,845	264,340
Asset retirement obligations (note 10)	18,811	23,350
Future income taxes (note 11)	58,229	51,252
Risk management (note 12)	30,166	–
Other long-term liabilities	2,948	1,526
	615,113	580,159
Unitholders' equity (notes 13 and 14)	584,688	529,416
	\$ 1,199,801	\$ 1,109,575

Commitments (notes 8, 9, 12, 16 and 18)

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)

	2007	2006
Revenue		
Operating	\$ 1,422,242	\$ 1,358,189
Unrealized gains on risk management (note 12)	1,115	-
Other	5,037	4,415
	1,428,394	1,362,604
Expenses		
Cost of sales	1,104,399	1,043,691
Operating and administrative	150,297	145,788
Amortization:		
Capital assets	39,477	38,377
Energy services arrangements, contracts and relationships	7,614	7,484
Goodwill impairment (note 6)	-	600
	1,301,787	1,235,940
Operating income	126,607	126,664
Interest expense (notes 8, 9 and 12)		
Short-term debt	491	270
Long-term debt	11,394	13,012
Income before income taxes	114,722	113,382
Income tax expense (recovery) (note 11)	5,928	(1,129)
Net income	108,794	114,511
Accumulated earnings, beginning of year	401,618	287,107
Accumulated earnings, end of year	\$ 510,412	\$ 401,618
Net income per unit (note 15)		
Basic	\$ 1.90	\$ 2.06
Diluted	\$ 1.89	\$ 2.06
Weighted average number of units outstanding (thousands) (note 14)		
Basic	57,382	55,469
Diluted	57,420	55,516

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

For the year ended December 31

(\$ thousands)

2007

Net income	\$ 108,794
Other comprehensive income, net of tax (note 12)	
Unrealized net gains on available for sale financial assets	17,902
Unrealized net gains on derivatives designated as cash flow hedges	7,051
Reclassification to net income of net loss on derivatives designated as cash flow hedges pertaining to prior periods	4,850
	29,803
Comprehensive income	\$ 138,597
Accumulated other comprehensive income, beginning of year	–
Adjustment resulting from adoption of new financial instrument accounting standards (note 2)	(2,634)
Other comprehensive income, net of tax	29,803
Accumulated other comprehensive income, end of year	\$ 27,169

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31

(\$ thousands)

	2007	2006
Cash from operations		
Net income	\$ 108,794	\$ 114,511
Items not involving cash:		
Amortization	47,091	45,861
Accretion of asset retirement obligations (note 10)	1,474	1,430
Unit-based compensation (note 14)	553	482
Future income tax expense (recovery) (note 11)	5,631	(1,181)
Gain on sale of assets	57	-
Equity income	(2,274)	(3,967)
Distributions from equity investments	1,490	2,950
Goodwill impairment (note 6)	-	600
Unrealized gains on risk management (note 12)	(1,115)	-
Other	1,199	994
Funds from operations	162,900	161,680
Asset retirement obligations settled (note 10)	(346)	(560)
Net change in non-cash working capital (note 17)	20,725	(14,260)
	183,279	146,860
Investing activities		
Increase in customer deposits	(8,065)	(933)
Decrease in note receivable	5,100	-
Acquisition of capital assets	(65,065)	(73,042)
Disposition of capital assets	9,759	509
Disposition of energy services arrangements, contracts and relationships	-	36
Acquisition of long-term investments and other assets	(5,567)	(5,032)
Disposition of long-term investments and other assets	412	-
	(63,426)	(78,462)
Financing activities		
Increase (decrease) in short-term debt	655	(2,710)
Decrease in long-term debt	(45,016)	(829)
Distributions to unitholders	(118,061)	(109,954)
Net proceeds from issuance of units (note 14)	41,794	46,636
	(120,628)	(66,857)
Change in cash and cash equivalents	(775)	1,541
Cash and cash equivalents, beginning of year	13,226	11,685
Cash and cash equivalents, end of year	\$ 12,451	\$ 13,226

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).

2. Summary of Significant Accounting Policies

These Consolidated Financial Statements have been 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.

Until second quarter 2007 AltaGas accounted for its investment in Taylor NGL Limited Partnership (Taylor) using the equity method. Effective second quarter 2007 AltaGas ceased to exercise significant influence over Taylor and began accounting for its investment in Taylor using the cost method. As a result, the investment in Taylor was designated as available for sale and was measured at fair value with the changes in fair value recorded in Other comprehensive income (OCI) (see note 12).

Changes in Accounting Policies

Effective January 1, 2007 the Trust adopted the new CICA Handbook accounting requirements for Section 1506 "Accounting Changes"; Section 1530 "Comprehensive Income"; Section 3251 "Equity"; Section 3855 "Financial Instruments – Recognition and Measurement"; Section 3861 "Financial Instruments – Disclosure and Presentation"; and Section 3865 "Hedges". In accordance with the transitional provisions for these new standards, these policies were adopted prospectively without restatement of prior periods.

ACCOUNTING CHANGES

This section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this standard did not have a material impact on the Consolidated Financial Statements of the Trust.

FINANCIAL INSTRUMENTS

All financial instruments, including derivatives, are included on the balance sheet initially at fair value. The financial assets are classified as held for trading, held to maturity, loans and receivables, or available for sale. Financial liabilities are classified as held for trading or other financial liabilities. Subsequent measurement is determined by classification.

Held for trading financial assets and liabilities are entered into with the intention of generating a profit and consist of swaps, options and forwards. These financial instruments are initially accounted for at their fair value and changes to fair value are recorded in income. Held to maturity financial assets are accounted for at their amortized cost using the effective interest method. The Trust did not have any held to maturity financial instruments at December 31, 2007. Loans and receivables are accounted for at their amortized cost using the effective interest method. The available for sale classification includes non-derivative financial assets that are designated as available for sale or are not included in the other three classifications.

Available for sale instruments are initially accounted for at their fair value and changes to fair value are recorded through OCI. Income earned from these investments is included in Revenue.

Other financial liabilities not classified as held for trading are accounted for at their amortized cost, using the effective interest method.

Derivatives embedded in other financial instruments or contracts (the host instrument) are recorded as separate derivatives and are measured at fair value if the economic characteristics of the embedded derivative are not closely related to the host instrument, the terms of the embedded derivative are the same as those of a stand alone derivative and the total contract is not held for trading or accounted for at fair value. Changes in fair value are included in income. All derivatives, other than those that meet the expected purchase, sale or usage requirements exception, are carried on the balance sheet at fair value. The Trust used January 1, 2003 as the transition date for identifying embedded derivatives. The Trust did not identify any embedded derivatives requiring bifurcation.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Effective January 1, 2007 the Trust reclassified \$1.1 million of unamortized deferred financing costs from Other current assets and Long-term investments and other assets to Long-term debt as a result of adopting the new standards. The reclassification of transaction costs has no impact on earnings. Effective January 1, 2007 the Trust began amortizing these costs using the effective interest rate method. Previously, these costs were amortized on a straight-line basis over the life of the debt.

HEDGES

The new standard specifies the circumstances under which hedge accounting is permissible, how hedge accounting may be performed and where the impacts should be recorded. The standard introduces three specific types of hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in self-sustaining foreign operations.

As part of its asset and liability management, the Trust uses derivatives for hedging positions to reduce its exposure to commodity price and foreign exchange risk. The Trust designates certain derivatives as hedges and prepares documentation at the inception of the hedging contract. The Trust performs an assessment at inception and during the term of the contract to determine if the derivative used as a hedge is effective in offsetting the risks in the values or cash flows of the hedged item. All derivatives are initially recorded at fair value and adjusted to fair value at each reporting date.

The Trust uses cash flow hedges to reduce its exposure to fluctuations in interest rates and changes in commodity prices. The effective portion of changes in the value of cash flow hedges is recognized in Other comprehensive income. Ineffective portions and amounts excluded from effectiveness testing of hedges are included in income in the same financial category as the underlying transaction. Gains or losses from cash flow hedges that have been included in Accumulated other comprehensive income are included in net income when the underlying transaction has occurred or becomes probable of not occurring. The maximum length of time the Trust is hedging its exposure to variability in future cash flows is 10 years.

COMPREHENSIVE INCOME AND EQUITY

The Trust's financial statements include a Consolidated Statement of Comprehensive Income and Accumulated Other Comprehensive Income which consists of earnings and the effective portion of changes in unrealized gains and losses related to available for sale assets and cash flow hedges. In addition, as required by Section 3251, the Trust now presents separately in its Unitholders' equity note the changes for each of its components of Unitholders' equity. A new component, Accumulated other comprehensive income, and a one-time transition adjustment have been added to the Trust's Unitholders' equity as a result of the implementation of this new standard (see note 12).

NET EFFECT OF ACCOUNTING POLICY CHANGES

The net effect to the Trust's financial statements at January 1, 2007 resulting from the above mentioned changes in accounting policies is as follows:

Balance Sheet Account Affected

	Increase (Decrease)
Current assets – risk management	\$ 59,866
Other current assets	(451)
Non-current assets	47,942
Long-term investments and other assets	(793)
Current liabilities – risk management	69,618
Long-term debt	(1,082)
Long-term liabilities – risk management	48,359
Future income tax liability	(7,450)
Unitholders' equity – Transition amount on adoption of new accounting standards, net of tax	(247)
Unitholders' equity – Accumulated other comprehensive income, net of tax	(2,634)

The unrealized gains and losses included in the Transition amount and in Accumulated other comprehensive income were recorded net of income tax recoveries of \$4.6 million and \$2.9 million, respectively.

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.

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.

Field Gathering and Processing (FG&P)

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

Extraction and Transmission (E&T)

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

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 lease 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-megawatt (MW) capacity Sundance B generating units. The investment in the PPAs and the corresponding revenue and expenses thereunder 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 committed power is recorded when delivered.

The Genesee power purchase arrangement 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, and these 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 Canada Ltd. 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 and designated as available for sale. Available for sale assets are initially accounted for at their fair value with changes to fair value recorded through OCI.

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 the legal obligation is incurred and a reasonable estimate of 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 E&T segment, certain assets have an indeterminate life and thus a future retirement obligation is not recognized.

Revenue Recognition

In the FG&P segment, revenue is recorded as the services are rendered. In the Power Generation and Energy Services segments, revenue is recognized at the time the product or service is delivered. Within the E&T segment, extraction revenue is recognized at the time the product or service is delivered and transmission revenue is recorded as the services are rendered. Realized gains and losses from risk management activities related to commodity prices are recognized in the related segment revenues when the related sale occurs or when the underlying financial asset or financial liability is removed from the balance sheet. Unrealized gains and losses in respect of fair value changes to the Trust's risk management activities are recorded as revenue based on the related mark-to-market calculations at the end of the reporting period in the Corporate segment.

Transaction Costs Related to Financial Instruments

Transaction costs related to the acquisition of held for trading financial assets and liabilities and the Trust's revolving operating credit facility are expensed as incurred. For financial instruments classified as other than held for trading, transaction costs attributable to the acquisition or issue of the financial asset or liability are added to the initial carrying amount of the financial instrument and recognized in earnings using the effective interest method.

Recognition Date

AltaGas uses the settlement date for transactions. Any difference in value between the trade and settlement date for third-party transactions will be recognized on the balance sheet and in Net income or in OCI as appropriate.

Effective Interest Method

The Trust uses the effective interest method to calculate the amortized cost of a financial asset or liability and to allocate the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated cash flows associated with the instrument over the expected life of the financial instrument, or where appropriate a shorter period, to the net carrying amount of the financial asset or liability.

Unit-Based Compensation Plans

The Trust follows the fair value 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 of 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 period of the active members covered by the defined benefit pension plans is nine to 11 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. Prior to 2007 the Trust allocated all of its Canadian taxable income to the unitholders in accordance with its Trust indenture and met the requirements of the Income Tax Act (Canada) applicable to the Trust. Accordingly, no provision for Canadian income tax expense was made for the Trust.

On June 12, 2007 the Specified Investment Flow-through (SIFT) tax included in the Government of Canada's Bill C-52 received Third Reading and on June 22, 2007 it received Royal Assent, creating a new 31.5 percent tax to be applied to distributions from certain income trusts and partnerships, including AltaGas, effective January 1, 2011. With the rate of reduction enacted on December 14, 2007 the new tax is to be applied to distributions at the tax rates of 29.5 percent and 28.0 percent effective January 1, 2011 and 2012 respectively.

Based on the amount of the Trust's temporary differences that are anticipated to reverse after January 1, 2011, the Trust has recorded a future income tax expense and future income tax liability. This non-cash expense relates to temporary differences between the accounting and tax basis of AltaGas' assets and liabilities and has no immediate impact on cash flows. A tax rate of nil was applied to any temporary differences reversing before 2011.

The anticipated amount and timing of reversals of temporary differences will be dependent on the Trust's actual results, distributions and actual acquisition and disposition of assets and liabilities. As a result, a change in estimates or assumptions could materially affect the estimate of the future tax liability.

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.

Related Party Transactions

Transactions with related parties that are conducted in the normal course of operations and non-routine transactions 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 Canadian 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; financial instruments; 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.

Future Accounting Changes

SECTION 1535 "CAPITAL DISCLOSURES"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Trust's objectives, policies and processes for managing capital. This new section is effective for the Trust beginning January 1, 2008.

SECTION 3031 "INVENTORIES"

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008, the new CICA Handbook Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. This new section is effective for the Trust beginning January 1, 2008.

SECTION 3862 "FINANCIAL INSTRUMENTS – DISCLOSURES" AND SECTION 3863 – "FINANCIAL INSTRUMENTS – PRESENTATION"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Sections 3862 and 3863 will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These new sections are effective for the Trust beginning January 1, 2008.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In 2006 the Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements in Canada. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transition period with adoption required effective January 1, 2011. While AltaGas has begun assessing the adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Subsequent Events

Acquisition of Taylor NGL Limited Partnership

On January 10, 2008 AltaGas Holding Limited Partnership No. 1 acquired all of the outstanding limited partnership units of Taylor NGL Limited Partnership (other than the Taylor units already owned by AltaGas and its affiliates). Taylor participated in the energy business through ownership of natural gas liquids extraction plants, natural gas processing assets and two natural gas liquids pipelines. It also had an interest in a 7-MW run-of-river hydroelectric generation plant.

AltaGas offered Taylor unitholders \$11.20 in cash or 0.42 units of AltaGas per unit of Taylor, subject to maximum aggregate limits of \$245.0 million in cash and 8.0 million Trust units, including up to approximately 1.9 million exchangeable units. Prior to closing the acquisition, \$27.9 million of Taylor convertible debentures were redeemed, increasing Taylor units outstanding by 2.7 million. The aggregate purchase price was \$598.7 million, including \$256.3 million of cash and 7.7 million Trust units (including 0.2 million exchangeable units) valued at \$198.9 million for all the outstanding units not previously owned by AltaGas, assumed debt of \$132.5 million and approximately \$ 11 million in transaction costs. The value of the Trust units issued was determined based on the weighted average market price from two days preceding to two days subsequent to November 11, 2007, the date the offer had been agreed upon and announced.

The following table summarizes the total consideration and the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. Any final adjustments may significantly change the allocation of the purchase price and could affect the fair value assigned to assets and liabilities. The preliminary allocation of the purchase price is as follows:

Total consideration for 100% of Taylor:

Cost of 8.9% investment in Taylor originally owned by AltaGas		24,672
Purchase price for the remaining 91.1% of Taylor units		
Cash considerations	256,281	
Units	198,862	
Estimated transaction costs	11,000	
Equity portion of Taylor convertible debentures	2,127	468,270
Total consideration		\$ 492,942

Purchase price allocation for 100% of Taylor:

Assets acquired		
Current assets	30,739	
Capital assets	590,030	
Energy service arrangements, contracts and relationships	83,900	
Goodwill	108,191	
Long-term investments and other assets	4,640	817,500
Less Liabilities assumed		
Current liabilities	31,202	
Long-term debt	110,241	
Convertible debentures	22,171	
Asset retirement obligations	14,350	
Future income taxes	144,028	
Future employee obligations	2,542	
Risk management	24	324,558
		\$ 492,942

Until the date of acquisition, AltaGas accounted for its investment in Taylor using the cost method. As a result, the investment in Taylor was designated as available for sale and was measured at fair value with the changes in fair value recorded in OCI. As of January 10, 2008 Taylor will be included in AltaGas' Consolidated Financial Statements.

AltaGas drew on its available credit facility to finance the cash consideration of \$256.3 million for the Taylor acquisition. As of January 10, 2008, AltaGas had total debt of approximately \$610 million compared to \$220.7 million as at December 31, 2007.

Acquisition of Potential Hydroelectric Projects

On February 13, 2008 AltaGas acquired four potential run-of-river hydro projects ranging from 6.5 to 24 MW for \$4.5 million. The projects provide AltaGas with the potential to develop approximately 50 MW of hydroelectric generation in British Columbia. In exchange for the development assets, AltaGas issued 180,433 special warrants for AltaGas trust units valued at \$24.94 per special warrant to Plutonic Power Corporation. The special warrants automatically convert to AltaGas units on a one-for-one basis on January 1, 2010.

4. Capital Assets

	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Field Gathering and Processing						
Field gathering and processing assets	\$ 569,944	\$ (148,297)	\$ 421,647	\$ 558,411	\$ (128,643)	\$ 429,768
Other assets	4,416	(2,161)	2,255	2,860	(1,402)	1,458
Extraction and Transmission						
Extraction and transmission assets	255,810	(46,078)	209,732	250,933	(38,023)	212,910
Power Generation						
Capital lease (note 9)	13,798	(4,596)	9,202	13,798	(3,216)	10,582
Power generation assets	22,013	–	22,013	–	–	–
Energy Services						
Energy services assets	9,693	(896)	8,797	30,177	(15,250)	14,927
Other assets	2,018	(156)	1,862	1,990	(385)	1,605
Corporate						
Other assets	19,230	(12,416)	6,814	16,962	(10,271)	6,691
	\$ 896,922	\$ (214,600)	\$ 682,322	\$ 875,131	\$ (197,190)	\$ 677,941

Interest capitalized on long-term capital construction projects for the year ended December 31, 2007 was \$0.8 million (December 31, 2006 – \$nil). At December 31, 2007 the Trust had spent approximately \$42.6 million (December 31, 2006 – \$14.9 million) on capital projects under construction that were not yet subject to amortization.

5. Energy Services Arrangements, Contracts and Relationships

	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Energy services arrangements and contracts	\$ 115,071	\$ (37,717)	\$ 77,354	\$ 115,071	\$ (31,497)	\$ 83,574
Energy services relationships	20,892	(2,530)	18,362	20,892	(1,136)	19,756
	\$ 135,963	\$ (40,247)	\$ 95,716	\$ 135,963	\$ (32,633)	\$ 103,330

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

6. Goodwill

	2007	2006
Balance, beginning of year	\$ 18,260	\$ 18,860
Goodwill impairment	–	(600)
Balance, end of year	\$ 18,260	\$ 18,260

In 2006 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 reduced the carrying value by \$0.6 million.

7. Long-Term Investments and Other Assets

	2007	2006
Units of public trusts	\$ -	\$ 375
Equity accounted investments in public entities	11,813	40,071
Cost accounted investments in public entities	44,746	-
Deferred debt costs, net of amortization	-	759
Deferred development costs	7,242	4,332
Loans receivable – BMWLP	-	700
Warrants	286	-
Other	422	406
	\$ 64,509	\$ 46,643

At December 31, 2007 the quoted market value of the holdings of publicly traded entities was approximately \$54.2 million (December 31, 2006 – \$50.0 million).

The Trust accounts for its interests in AltaGas Utility Group Inc. (Utility Group) as an equity investment.

Until second quarter 2007 AltaGas accounted for its investment in Taylor using the equity method. Effective second quarter 2007 AltaGas ceased to exercise significant influence over Taylor and began accounting for its investment in Taylor using the cost method. As a result, the investment in Taylor is designated as available for sale and is measured at fair value with the changes in fair value recorded in OCI (see note 12).

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. In 2007 the Trust acquired 100 percent ownership of BMWLP. Through BMWLP and GEDLP, the Trust invested \$3.8 million (December 31, 2006 – \$4.3 million) in the development of wind power projects. Amortization of these deferred development costs will occur based on the expected period and pattern of benefit, beginning at the commencement of commercial operations.

In 2007 AltaGas sold Cedar Energy Partnership in exchange for a \$12 million promissory note and received 1 million warrants of the purchaser, each of which will allow AltaGas to subscribe for and purchase one fully paid and non-assessable common share in the capital of the purchaser for a three-year term ending June 1, 2010. The remaining \$6.5 million of the promissory note is included in Other current assets.

8. Short-Term Debt

At December 31, 2007 the Trust held a \$50.0 million (December 31, 2006 – \$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, 2007 the Trust had prime loans of \$0.7 million (December 31, 2006 – \$nil) and letters of credit of \$2.8 million (December 31, 2006 – \$3.0 million) outstanding against the facility.

The prime lending rate at December 31, 2007 was 6.0 percent (December 31, 2006 – 6.0 percent).

9. Long-Term Debt

	2007	2006
Operating loans	\$ 10,045	\$ 154,306
Capital lease obligations	10,034	11,181
Medium-term notes	200,000	100,000
	220,079	265,487
Less current portion	1,234	1,147
	\$ 218,845	\$ 264,340

Letter of Credit Facility

At December 31, 2007 the Trust held a \$75.0 million (December 31, 2006 – \$75.0 million) unsecured three-year extendible revolving letter of credit facility with a Canadian chartered bank maturing on September 30, 2010. AltaGas may borrow up to \$25.0 million by way of prime loans, U.S. base rate loans, LIBOR loans or bankers' acceptances on the letter of credit facility. Borrowings on the facility bear fees and interest at rates relevant to the nature of the draw made. At December 31, 2007 the Trust had letters of credit of \$61.7 million (December 31, 2006 – \$63.3 million) outstanding against the extendible revolving-term letter of credit facility.

Operating Loans

At December 31, 2007 the Trust held a \$300.0 million (December 31, 2006 – \$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, 2007 AltaGas negotiated the extension of the maturity date of this facility to September 30, 2010. On December 14, 2007 AltaGas negotiated minor amendments to the facility in order to facilitate the closing of the Taylor acquisition.

At December 31, 2007 the Trust had drawn \$10.0 million (December 31, 2006 – \$154.3 million) against the facility. The prime lending rate at December 31, 2007 was 6.0 percent (December 31, 2006 – 6.0 percent). The average rate on the Trust's bankers' acceptances at December 31, 2007 was 5.2 percent (December 31, 2006 – 5.0 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. On January 19, 2007 AltaGas issued a further \$100.0 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.

Capital Lease Obligation

On September 1, 2004 the Trust entered into a 10-year capital lease for 25 MW of gas-fired power peaking capacity with an option to extend the term for an additional 15 years. The lease has payment commitments over the next five years as follows:

2008	\$ 1,878
2009	1,878
2010	1,878
2011	1,878
2012	1,878
Thereafter	3,136
	12,526
Less imputed interest at 6.85%	2,492
Present value of minimum lease payments	10,034
Less current portion	1,234
	\$ 8,800

Interest expense on capital leases was \$0.7 million in 2007 (December 31, 2006 – \$0.8 million).

10. Asset Retirement Obligations

	2007	2006
Balance, beginning of year	\$ 23,350	\$ 16,982
New obligations	423	696
Obligations settled	(346)	(560)
Obligations disposed	(4,006)	–
Revision in estimated cash flow	(2,084)	4,802
Accretion expense	1,474	1,430
Balance, end of year	\$ 18,811	\$ 23,350

AltaGas estimates the undiscounted cash required to settle the asset retirement obligations at December 31, 2007 was \$52.4 million (December 31, 2006 – \$57.0 million). The asset retirement obligations have been recorded in the financial statements at estimated values discounted at rates between 5.6 percent and 8.3 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.

11. 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 June 12, 2007 the Specified Investment Flow-through (SIFT) tax included in the Government of Canada's Bill C-52 received Third Reading and on June 22, 2007 it received Royal Assent, creating a new 31.5 percent tax to be applied to distributions from certain income trusts and partnerships, including AltaGas, effective January 1, 2011. With the rate of reduction enacted on December 14, 2007 the new tax is to be applied to distributions at the tax rates of 29.5 percent and 28.0 percent effective January 1, 2011 and 2012 respectively.

Based on the amount of the Trust's temporary differences that are anticipated to reverse after January 1, 2011, the Trust has recorded a future income tax expense of \$5.4 million (including \$0.1 million in respect of financial instruments) and a future income tax liability in the same amount for the year ended December 31, 2007. This non-cash expense relates to temporary differences between the accounting and tax basis of AltaGas' assets and liabilities and has no immediate impact on cash flows. A tax rate of nil was applied to any temporary differences reversing before 2011.

The anticipated amount and timing of reversals of temporary differences will be dependent on the Trust's actual results, distributions and actual acquisition and disposition of assets and liabilities. As a result, a change in estimates or assumptions could materially affect the estimate of the future tax liability.

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.

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:

	2007	2006
Income before taxes – consolidated	\$ 114,722	\$ 113,382
Financial instruments – net	(1,115)	–
Income before financial instruments and taxes	113,607	113,382
Income from AltaGas Income Trust distributed to unitholders	(92,544)	(92,385)
Income before income taxes – operating subsidiaries	21,063	20,997
Statutory income tax rate (%)	32.12	34.49
Expected taxes at statutory rates	6,765	7,242
Add (deduct) the tax effect of:		
SIFT tax	5,365	–
Financial instruments	1,561	–
Resource allowance	–	(1,048)
Rate reductions applied to future income tax liabilities	(7,256)	(7,822)
Permanent differences between accounting and tax bases of assets and liabilities	294	166
Non-taxable portion of capital gains on disposition of assets and investments	(1,634)	–
Other	833	333
Income tax provision (recovery)		
Current	297	7
Future	266	(1,136)
Future SIFT	5,365	–
	\$ 5,928	\$ (1,129)
Effective income tax rate (%)	5.17	(1.00)

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 than 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 substantively 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 composed of the following:

	2007	2006
Capital assets	\$ 31,101	\$ 14,448
Deferred debt charges	53	(26)
Unit issue costs	(635)	(1,209)
Partnerships	26,878	41,522
Deferred compensation	(2,092)	(3,408)
Financial instruments	2,973	–
Other	(49)	(75)
	\$ 58,229	\$ 51,252

12. Financial Instruments and Financial Risk Management

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

At December 31, 2007 all derivatives, other than those that meet the expected purchase, sale or usage requirements exception, were carried on the balance sheet at fair value. The fair value of power and natural gas derivatives was calculated using estimated forward prices for the relevant period. The calculation of fair value of the interest rate derivatives used quoted market rates.

At December 31, 2007 the fair value of the Trust's assets and liabilities was as follows:

Summary of Fair Values	Current	Long-term	Total
Financial assets			
Held for trading	\$ 54,928	\$ 28,272	\$ 83,200
Available for sale	–	44,746	44,746
Loans and receivables	208,581	–	208,581
	263,509	73,018	336,527
Cash flow hedges	11,883	5,368	17,251
	\$ 275,392	\$ 78,386	\$ 353,778
Financial liabilities			
Held for trading	\$ 56,720	\$ 30,079	\$ 86,799
Other financial liabilities	168,479	213,608	382,087
	225,199	243,687	468,886
Cash flow hedges	4,128	87	4,215
	\$ 229,327	\$ 243,774	\$ 473,101

Unrealized Income

The impact on net income in 2007 from the adoption of the new financial instruments standards resulted in a \$1.1 million unrealized gain.

Other Comprehensive Income

As a part of its hedging program, the Trust uses certain derivative financial instruments to manage risks. An after-tax unrealized loss of \$4.8 million was reclassified to net income. Of the \$27.2 million gain deferred in Accumulated other comprehensive income (AOCI) at December 31, 2007, a \$5.4 million gain is expected to be reclassified to net income in the next 12 months.

The available for sale assets included in the balance sheet caption, Long-term investments and other assets are recognized at fair value, net of tax, in OCI.

Effective January 1, 2007 the Trust began offsetting long-term debt transaction costs against the associated debt and began amortizing these costs using the effective interest rate method. Previously these costs were amortized on a straight-line basis over the life of the debt instrument to which they pertained. There was no material effect on the Trust's financial statements as a result of this change in policy. The effective interest rate for the medium-term notes issued in 2005 and 2007 was 4.54 percent and 5.11 percent, respectively.

Commodity Price Risk Management

NATURAL GAS

The Trust purchases and sells natural gas to its customers. The fixed-price and market-price contracts for both the purchase and sale of natural gas extend to 2012.

At December 31, 2007 the Trust had the following contracts outstanding:

Derivative instruments	Fixed price (per GJ) ⁽¹⁾	Period (months)	Notional volume (GJ)		Fair value
			Sales	Purchases	
Commodity forward	\$2.16 to \$10.37	1 – 55	105,375,003	–	\$ (17,775)
Commodity forward	\$2.16 to \$10.37	1 – 55	–	105,375,003	\$ 14,754

⁽¹⁾ Certain of the contracts are indexed and as such a price range is not provided.

In 2007 an unrealized gain of \$2.0 million was recognized from the Trust's natural gas risk management activities.

NATURAL GAS LIQUIDS

The Trust entered into a series of swaps to lock in a portion of the margin exposed to natural gas liquids (NGL) frac spread.

At December 31, 2007 the Trust had the following contracts outstanding:

Product	Fixed price	Period (months)	Notional volume		Fair value
			Sales	Purchases	
Propane	\$1.2825 to 1.4725 US/gallon	1 – 12	9,677,178 gallon	–	\$ (1,156)
Normal butane	\$1.4950 to 1.7000 US/gallon	1 – 12	2,612,064 gallon	–	(685)
WTI	\$83.20 to 89.10 US/Bbl	1 – 12	27,489 Bbls	–	(143)
Natural gas	\$6.455 to 6.550/GJ	1 – 12	–	1,382,591 GJ	\$ 159

In 2007 the Trust recognized an unrealized loss of \$0.6 million from the Trust's NGL risk management activities.

POWER

Under the power purchase arrangements 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 market 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. Certain contracts met the expected purchase, sale or usage requirements exception and have not been included in risk management assets or liabilities. At December 31, 2007 the Trust had no intention to terminate any contracts prior to maturity.

At December 31, 2007 the Trust had the following contracts outstanding:

Derivative instruments	Fixed price (per MWh)	Period (months)	Notional volume (MWh)		Fair value
			Sales	Purchases	
Commodity forward	\$79.00 to \$80.60	1 – 3	2,160	–	\$ (28)
Commodity forward	\$63.25 to \$68.00	1 – 3	–	2,160	\$ 31

The Trust's power risk management activities from financial contracts not included in the hedging program had an unrealized loss of \$40,248.

At December 31, 2007 the Trust had the following commodity swaps and collars outstanding:

Derivative instruments	Fixed price (per MWh)	Period (months)	Notional volume (MWh)		Fair value
			Sales	Purchases	
Swaps and collars	\$65.00 to \$88.00	1 – 24	1,626,624	–	\$ 10,932
Swaps and collars	\$56.50 to \$56.50	1 – 120	–	263,016	\$ 3,339

At December 31, 2007 the Trust had the following heat rate hedges outstanding:

Derivative instruments	Fixed price (per GJ or MWh)	Period (months)	Notional volume (GJ or MWh)		Fair value
			Sales	Purchases	
Natural gas (per GJ)	\$6.08 to \$6.17	1	–	79,050	\$ 17,968
Power (per MWh)	\$89.00 to \$138.00	1	6,510	–	\$ 170,019

In 2007 an unrealized gain of \$0.2 million was recognized from the Trust's heat rate hedging activities.

Foreign Exchange Risk Management

To manage the risk of fluctuating cash flows due to variations in foreign exchange rates, the Trust enters into foreign exchange forward contracts. For 2007 the Trust's foreign exchange risk management activities had an unrealized loss of \$0.7 million.

Interest Rate Risk Management

To hedge against the effect of future interest rate movements, the Trust enters into interest rate swap agreements to fix the interest rate on a portion of its bankers' acceptances issued under credit facilities. In January 2007 the Trust unwound certain of these interest rate swaps as a result of the issue of \$100 million of medium-term notes and recorded a gain of \$0.4 million. In the third quarter the Trust terminated the hedge relationship on certain swap agreements resulting in an immaterial unrealized gain. The remaining interest rate swaps have an average remaining term of 2 to 15 months and a weighted average interest rate of 3.56 percent. The Trust's interest rate risk management activities resulted in an unrealized gain of \$0.2 million and fair market value position of \$0.2 million at December 31, 2007.

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, 2007 AltaGas did not have a significant concentration of credit risk with any single counterparty to financial instruments.

13. Unitholders' Equity

	2007	2006
Unitholders' capital (note 14)	\$ 505,544	\$ 463,750
Contributed surplus	3,875	3,322
Accumulated earnings	510,412	401,618
Accumulated dividends	(41,114)	(41,114)
Accumulated unitholders' distributions declared ⁽¹⁾	(391,103)	(272,464)
Distributions of common shares of Utility Group	(29,848)	(25,696)
Transition adjustment resulting from adopting new financial instruments accounting standards	(247)	–
Accumulated other comprehensive income	27,169	–
	\$ 584,688	\$ 529,416

⁽¹⁾ Accumulated unitholders' distributions paid by the Trust as at December 31, 2007 were \$380.9 million (as at December 31, 2006 – \$262.9 million).

In 2007 the holders of trust units of the Trust and holders of exchangeable partnership units of AltaGas Holding Limited Partnership No. 1 received one common share of Utility Group for every 100 trust or exchangeable units held on August 27, 2007. As part of the distribution plan, any unitholder allocated fewer than 50 common shares of Utility Group received cash. The number of common shares of Utility Group distributed to unitholders was 577,416, which reduced unitholders equity by \$4.2 million. This distribution resulted in a 27 percent reduction of the Trust's interest in Utility Group to 19.6 percent.

14. Unitholders' Capital

The Trust is authorized to issue:

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

Trust Units Issued and Outstanding:	Number	Amount
December 31, 2006	54,313,552	\$ 451,795
Units issued for cash on exercise of options	3,400	68
Units issued under DRIP ⁽¹⁾	1,692,128	41,726
Units issued for exchangeable units	48,358	277
December 31, 2007	56,057,438	493,866

Exchangeable Units Issued and Outstanding:	Number	Amount
December 31, 2006 issued by AltaGas LP #1	2,088,814	11,955
AltaGas LP #1 units redeemed for trust units	(48,358)	(277)
December 31, 2007	2,040,456	11,678
Issued and outstanding at December 31, 2007	58,097,894	\$ 505,544

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

The Trust has an employee unit option plan under which both employees and directors are eligible to receive grants. At December 31, 2007, 10 percent of units outstanding were reserved for issuance under the plan. To December 31, 2007 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, 2007 outstanding options were exercisable at various dates to the year 2017 (December 31, 2006 – 2016). Options outstanding under the plan have a weighted average exercise price of \$26.36 (December 31, 2006 – \$27.23) and a weighted average remaining term of 8.76 years (December 31, 2006 – 9.23 years). As at December 31, 2007 the unexpensed fair value of unit option compensation cost associated with future periods was \$0.7 million (December 31, 2006 – \$0.9 million).

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

	Options outstanding			
	2007		2006	
	Number of options	Exercise price ⁽¹⁾	Number of options	Exercise price ⁽¹⁾
Unit options outstanding, beginning of year	923,550	\$ 27.23	359,200	\$ 24.53
Granted	548,500	25.31	636,500	28.60
Exercised	(3,400)	20.06	(9,150)	13.93
Cancelled	(158,250)	27.94	(63,000)	27.53
Unit options outstanding, end of year	1,310,400	\$ 26.36	923,550	\$ 27.23
Unit options exercisable, end of year	331,425	\$ 25.50	106,513	\$ 20.48

⁽¹⁾ Weighted average.

A summary of the plan as at December 31, 2007:

	Options outstanding			Options exercisable	
	Number outstanding ⁽¹⁾	Exercise price ⁽²⁾	Remaining contractual life ⁽³⁾	Number exercisable ⁽¹⁾	Exercise price ⁽²⁾
\$5.00 – \$7.00	9,000	\$ 6.10	2.45	9,000	\$ 6.10
\$7.01 – \$15.50	28,500	10.26	5.15	28,500	10.26
\$15.51 – \$25.08	416,400	24.77	9.23	54,300	24.16
\$25.09 – \$29.50	856,500	27.86	8.72	239,625	28.35
	1,310,400	\$ 26.36	8.76	331,425	\$ 25.50

⁽¹⁾ As at December 31, 2007.

⁽²⁾ Weighted average.

⁽³⁾ Weighted average number of years.

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:

	2007	2006
Risk-free interest rate (%)	3.29	4.36
Expected lives (years)	10	10
Expected volatility (%)	21.71	20.89
Annual distribution per unit (\$)	2.04	1.981

Units Outstanding ⁽¹⁾	2007	2006
Number of units – basic ⁽²⁾	57,382,209	55,468,969
Dilutive stock options	37,632	47,216
Number of units – diluted ⁽²⁾	57,419,841	55,516,185

⁽¹⁾ Includes exchangeable units.

⁽²⁾ Weighted average.

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 2007 in respect of this plan was \$5.1 million (December 31, 2006 – \$6.7 million). As at December 31, 2007 the unexpensed fair value of unit-based compensation costs associated with future periods was \$14.2 million (December 31, 2006 – \$9.9 million).

15. Income Per Unit

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

	2007	2006
Numerator:		
Numerator for basic income per unit	\$ 108,794	\$ 114,511
Numerator for basic and diluted income per unit	\$ 108,794	\$ 114,511
Denominator:		
Weighted-average number of units	57,382	55,469
Dilutive unit options	38	47
Denominator for diluted income per unit	57,420	55,516
Basic income per unit	\$ 1.90	\$ 2.06
Diluted income per unit	\$ 1.89	\$ 2.06

16. Commitments

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

2008	\$ 3,887
2009	3,606
2010	3,181
2011	2,798
2012	2,499
	\$ 15,971

Under the terms of a 1997 long-term gas supply contract, the Trust is committed to supply natural gas for prices ranging from \$2.34/Mcf in 2007 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 December 2006 the Trust entered into a fixed-price contract with a third-party supplier to fix the price of the gas supply related to the commitment until its expiry 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 1,039 Mcf/d in 2007 (2006 – 1,321 Mcf/d).

In 2007 AltaGas entered into a supply and installation agreement with Enercon GmbH to supply and install wind turbines for the Bear Mountain Wind project. The Trust has an obligation to pay approximately \$144 million before the supply and installation is complete. The Trust has also entered into other supply agreements to pay approximately \$6 million for equipment and construction costs associated with the Bear Mountain Wind project.

17. 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:

	2007	2006
Accounts receivable	\$ 32,654	\$ (3,849)
Inventory	(69)	34
Other current assets	6,065	(4,856)
Accounts payable and accrued liabilities	(23,080)	(14,719)
Customer deposits	8,065	933
Deferred revenue	930	788
Other current liabilities	(1,661)	209
	22,904	(21,460)
Less decrease (increase) in capital costs payable	(2,179)	7,200
Net change in non-cash working capital related to operations	\$ 20,725	\$ (14,260)

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

	2007	2006
Interest paid	\$ 12,078	\$ 13,521
Income taxes paid	\$ 181	\$ 62

18. 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 \$1.4 million for the year ended December 31, 2007 (December 31, 2006 – \$1.3 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 then wholly owned subsidiary to 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.

Plan contributions for Parts II, III and IV of the Salaried Employees' Pension Plan in 2007 and 2006 were made in accordance with an actuarial valuation for funding purposes as at September 30, 2005 based upon a report dated March 29, 2006. As at December 31, 2007 the accrued benefit obligation of the Trust for this plan was \$1.9 million (December 31, 2006 – \$1.9 million). At December 31, 2007, the plan had an accrued benefit liability recognized in the financial statements of \$0.3 million (December 31, 2006 – \$0.3 million).

For the year ended December 31, 2007, the net pension cost was a recovery of \$15,000 (December 31, 2006 – recovery of \$11,000).

Supplemental Executive Retirement Plan (SERP)

Effective July 1, 2005 the Trust instituted a non-registered, defined benefit retirement plan which provides defined benefit pension benefits to eligible executives based on average earnings, years of service and age at retirement. As at December 31, 2007 the accrued benefit obligation of the Trust for this plan was \$3.0 million (December 31, 2006 – \$2.1 million). At December 31, 2007 the plan had an accrued benefit liability recognized in the financial statements of \$1.9 million (December 31, 2006 – \$1.0 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 year ended December 31, 2007 the net pension expense was \$1.0 million (December 31, 2006 – \$0.8 million).

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

	2007	2006
Accrued benefit obligation		
Balance, beginning of year	\$ 4,079	\$ 2,987
Net transfer in	–	165
Actuarial loss (gain)	(73)	96
Current service cost	738	657
Interest cost	240	174
Benefits paid	(83)	–
Balance, end of year	4,901	4,079
Plan assets		
Fair value, beginning of year	1,729	1,409
Net transfers in	–	164
Actual return (loss) on plan assets	(71)	144
Employer contributions	11	12
Benefits paid	(83)	–
Fair value, end of year	1,586	1,729
Funded deficit	(3,315)	(2,350)
Unamortized past service costs	778	855
Unamortized net actuarial loss	330	227
Accrued benefit asset (liability) recognized in the financial statements	\$ (2,207)	\$ (1,268)

	2007	2006
Significant actuarial assumptions used as at December 31		
Discount rate (%)	5.50	5.25 – 5.50
Expected long-term rate of return on plan assets (%)	6.00 – 6.75	6.00 – 6.75
Rate of compensation increase (%)	3.50 – 4.00	3.50 – 4.00
Average remaining service life of active employees (years)	9 – 11	9 – 12
Net benefit plan expense for the year		
Current service cost and expenses	\$ 739	\$ 657
Interest cost	240	174
Actual loss (return) on plan assets	71	(144)
Actuarial loss (gain)	(73)	96
Costs arising in the year	977	783
Differences between costs arising in the year and costs recognized in the year in respect of:		
Return on plan assets	(188)	49
Actuarial gains (loss)	84	(87)
Past service costs	77	77
Net periodic benefit plan costs recognized	\$ 950	\$ 822

19. 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 and are as follows:

	2007	2006
Fees for administration, management and other services paid by:		
Utility Group to the Trust	\$ 29	\$ 30
The Trust to Utility Group	\$ 445	\$ 1,001
Natural gas sales by the Trust to Utility Group subsidiaries	\$ 83,370	\$ 84,046
Fees for operating services paid by Utility Group subsidiaries	\$ 341	\$ 469
Transportation services provided by Utility Group subsidiaries	\$ 477	\$ 560
Office space and furniture rental payments made by the Trust to a corporation owned by an employee	\$ 85	\$ 83

The resulting amounts due from and to related parties are non-interest bearing and are related to transactions in the normal course of business.

Included in accounts receivable at December 31, 2007 was \$13.5 million (December 31, 2006 – \$13.8 million) due to the Trust from related parties. Included in accounts payable at December 31, 2007 is \$50,000 (December 31, 2006 – \$0.7 million) due from the Trust to related parties.

During 2007 AltaGas sold its 33.3335 percent interest in the Ikhil Joint Venture to Utility Group for \$9.0 million to execute the divestiture of non-core production assets.

20. Joint Ventures

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

	2007	2006
Proportionate share of operating income		
Revenues	\$ 201,124	\$ 234,243
Expenses	131,220	156,649
	\$ 69,904	\$ 77,594
Proportionate share of net assets		
Current assets	\$ 33,135	\$ 44,386
Capital assets	91,238	93,917
Energy services arrangements, contracts and relationships	75,483	81,292
Long-term investments and other assets	3,643	4,637
Current liabilities	(32,780)	(43,129)
	\$ 170,719	\$ 181,103
Proportionate share of cash flows		
Operating activities	\$ 79,959	\$ 83,367
Investing activities	(571)	(57,826)
Financing activities	(79,388)	(25,541)
	\$ -	\$ -

21. Disposition on Sale of Capital Assets

During 2007 AltaGas sold its 33.3335 percent interest in the Ikhil Joint Venture to Utility Group for cash, effective July 31, 2007 at the exchange amount of \$9.0 million. The gain on the sale was negligible. In 2007 AltaGas recorded a one-time gain of \$1.5 million from the sale of oil and natural gas production assets for non-monetary consideration totaling \$11.9 million including a promissory note of \$11.6 million. The disposition also resulted in the reduction in the asset retirement obligation by \$3.7 million.

22. 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 following describes the Trust's five reporting segments:

- Field Gathering and Processing** – natural gas gathering lines 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
- Corporate** – the costs of providing corporate services and general corporate overhead, investments in public and private entities, corporate assets and the effects of changes in the fair value of risk management assets and liabilities.

The following tables show the breakdown by segment:

For the year ended December 31, 2007	Field Gathering and Processing	Extraction and Transmission	Power Generation	Energy Services	Corporate	Intersegment elimination	Total
Revenue	\$ 135,105	\$ 142,938	\$ 182,535	\$ 1,022,506	\$ 5,037	\$ (60,842)	\$ 1,427,279
Unrealized gains (losses) on risk management	-	-	-	-	1,115	-	1,115
Cost of sales	(7,655)	(75,495)	(78,373)	(1,001,599)	-	58,723	(1,104,399)
Operating and administrative	(83,344)	(20,300)	(2,035)	(15,576)	(31,161)	2,119	(150,297)
Amortization	(25,901)	(8,055)	(7,488)	(3,307)	(2,340)	-	(47,091)
Operating income (loss)	\$ 18,205	\$ 39,088	\$ 94,639	\$ 2,024	\$ (27,349)	-	\$ 126,607
Operating income (loss) before unrealized gains (losses) on risk management	\$ 18,205	\$ 39,088	\$ 94,639	\$ 2,024	\$ (28,464)	-	\$ 125,492
Net additions (reductions) to:							
Capital assets	\$ 13,213	\$ 4,672	\$ 22,013	\$ (20,457)	\$ 2,349	-	\$ 21,790
Long-term investments and other assets	-	-	\$ (530)	-	\$ 18,396	-	\$ 17,866
Goodwill	\$ 215	\$ 18,045	-	-	-	-	\$ 18,260
Segment assets	\$ 507,876	\$ 241,198	\$ 151,401	\$ 124,702	\$ 174,624	-	\$ 1,199,801

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 (loss)	\$ 25,388	\$ 35,217	\$ 90,869	\$ 2,782	\$ (27,592)	-	\$ 126,664
Operating income (loss) before unrealized gains (losses) on risk management	\$ 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 service 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	\$ 528,636	\$ 258,480	\$ 140,427	\$ 131,907	\$ 50,125	-	\$ 1,109,575

23. Comparative Figures

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