

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. The internal controls and systems of AltaGas Income Trust (AltaGas or the Trust) are designed to provide reasonable assurance that the Trust's 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
February 25, 2009

(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
February 25, 2009

Auditors' Report

TO THE UNITHOLDERS OF ALTAGAS INCOME TRUST

We have audited the consolidated balance sheets of AltaGas Income Trust as at December 31, 2008 and 2007 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, 2008 and 2007 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 24, 2009
Calgary, Canada

CONSOLIDATED BALANCE SHEETS

As at December 31

(\$ thousands)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,304	\$ 12,451
Accounts receivable	220,280	191,879
Inventory	775	130
Customer deposits	24,017	24,369
Risk management (note 14)	118,166	52,308
Other current assets	7,705	9,714
	389,247	290,851
Capital assets (note 4)	1,436,686	682,322
Energy arrangements, contracts and relationships (note 5)	138,913	95,716
Goodwill (note 6)	143,840	18,260
Risk management (note 14)	37,131	21,056
Long-term investments and other assets (note 7)	17,744	64,509
	\$ 2,163,561	\$ 1,172,714
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 198,232	\$ 177,802
Distributions payable to unitholders	12,943	10,167
Short-term debt (note 8)	4,493	3,551
Current portion of long-term debt (note 9)	1,363	1,234
Customer deposits	24,017	24,369
Deferred revenue	2,777	1,718
Risk management (note 14)	82,832	46,345
Other current liabilities	21,927	9,321
	348,584	274,507
Long-term debt (note 9)	559,412	215,949
Asset retirement obligations (note 11)	41,708	18,811
Future income taxes (note 12)	211,256	58,229
Risk management (note 14)	22,644	17,582
Convertible debentures (note 10)	16,682	–
Other long-term liabilities	5,833	2,948
	1,206,119	588,026
Unitholders' equity (notes 15, 16 and 17)	957,442	584,688
	\$ 2,163,561	\$ 1,172,714

Commitments and contingency (notes 8, 9, 14, 19, 21 and 26)

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"

(signed) "Robert B. Hodgins"

DAVID W. CORNHILL

Director

ROBERT B. HODGINS

Director

CONSOLIDATED STATEMENTS OF INCOME AND ACCUMULATED EARNINGS

For the years ended December 31

(\$ thousands except per unit amounts)

	2008	2007
REVENUE		
Operating	\$ 1,803,928	\$ 1,422,242
Unrealized gain on risk management (note 14)	10,986	1,115
Other	1,881	5,037
	1,816,795	1,428,394
EXPENSES		
Cost of sales	\$ 1,340,318	\$ 1,104,399
Operating and administrative	220,131	150,297
Amortization:		
Capital assets	57,075	39,477
Energy arrangements, contracts and relationships	9,903	7,614
	1,627,427	1,301,787
Interest expense (notes 8, 9 and 14)		
Short-term debt	2,632	491
Long-term debt	24,767	11,394
	161,969	114,722
Income before income taxes		
	161,969	114,722
Income tax expense (recovery) (note 12)		
Current income tax	2,328	297
Future income tax	(3,930)	5,631
	163,571	108,794
Net income	163,571	108,794
Accumulated earnings, beginning of year	510,412	401,618
Accumulated earnings, end of year	\$ 673,983	\$ 510,412
Net income per unit (note 18)		
Basic	\$ 2.38	\$ 1.90
Diluted	\$ 2.36	\$ 1.89
Weighted average number of units outstanding (thousands) (notes 16 and 18)		
Basic	68,813	57,382
Diluted	69,704	57,420

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

For the years ended December 31

(\$ thousands)

	2008	2007
Net income	\$ 163,571	\$ 108,794
Other comprehensive income (loss), net of tax		
Unrealized net gain on available-for-sale financial assets	–	17,902
Unrealized net gain on derivatives designated as cash flow hedges	20,560	7,051
Reclassification of available-for-sale financial assets as a result of business acquisition	(17,873)	–
Reclassification to net income of net gain on derivatives designated as cash flow hedges pertaining to prior periods	1,686	4,850
	4,373	29,803
Comprehensive income	\$ 167,944	\$ 138,597
Accumulated other comprehensive income, beginning of year	\$ 27,169	\$ –
Adjustment resulting from adoption of new financial instrument accounting standards	–	(2,634)
Other comprehensive income, net of tax	4,373	29,803
Accumulated other comprehensive income, end of year	\$ 31,542	\$ 27,169

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

(\$ thousands)

	2008	2007
Cash from operations		
Net income	\$ 163,571	\$ 108,794
Items not involving cash:		
Amortization	66,978	47,091
Accretion of asset retirement obligations (note 11)	2,302	1,474
Unit-based compensation	387	553
Future income tax expense (recovery) (note 12)	(3,930)	5,631
(Gain) loss on sale of assets (notes 24 and 25)	(2,045)	57
Equity income	(1,388)	(2,274)
Distributions from equity investments	291	1,490
Unrealized gain on risk management (note 14)	(10,986)	(1,115)
Goodwill impairment (note 6)	100	-
Other	1,801	1,199
Asset retirement obligations settled (note 11)	(744)	(346)
Net change in non-cash working capital (note 20)	(10,891)	20,725
	205,446	183,279
Investing activities		
Increase (decrease) in customer deposits	352	(8,065)
Decrease in note receivable	6,500	5,100
Acquisition of capital assets	(143,928)	(65,065)
Disposition of capital assets	15,618	9,759
Acquisition of long-term investments and other assets	(311,493)	(5,567)
Disposition of long-term investments and other assets	-	412
	(432,951)	(63,426)
Financing activities		
Increase in short-term debt	942	3,551
Net issuance (repayment) of revolving long-term debt	233,985	(146,708)
Issuance of long-term debt	-	100,000
Repayment of long-term debt	(5,792)	(1,204)
Distributions to unitholders	(144,348)	(118,061)
Net proceeds from issuance of units	144,071	41,794
Net proceeds from issuance of warrants (note 15)	4,500	-
	233,358	(120,628)
Change in cash and cash equivalents	5,853	(775)
Cash and cash equivalents, beginning of year	12,451	13,226
Cash and cash equivalents, end of year	\$ 18,304	\$ 12,451

See accompanying notes to the Consolidated Financial Statements.

notes to the consolidated financial statements

(Tabular amounts and amounts in footnotes to tables are 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.

Changes In Accounting Policies

Effective January 1, 2008 the Trust adopted the new Canadian Institute of Chartered Accountants (CICA) Handbook accounting requirements for Section 1535 “Capital Disclosures”, Section 3031 “Inventories”, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”. In accordance with the transitional provisions for these new standards, these policies were adopted prospectively without restatement of prior periods.

Capital Disclosures

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, which has been provided in note 13.

Inventories

Inventory consists of materials and supplies and natural gas liquids (NGL) product held for sale. All inventories are valued at the lower of cost and net realizable value. Cost is assigned using a weighted average cost formula. The adoption of this standard did not have a material impact on the Consolidated Financial Statements of the Trust.

Financial Instruments

CICA Handbook Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation” replace Section 3861 “Financial Instruments – Disclosure and Presentation” effective January 1, 2008 for the Trust. Section 3862 requires the disclosure of information to allow users to evaluate the significance of the financial instruments on the entity’s financial position and performance and the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The additional information to comply with these standards is disclosed in note 14.

Significant Accounting Policies

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.

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.

Extraction and Transmission (E&T)

Extraction and transmission assets	15 – 40 years
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Field Gathering and Processing (FG&P)

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

Energy Services

Energy services assets	19 years
Other assets	1 – 7 years

Power Generation

Assets under capital lease	10 years
Power generation assets	20 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 Arrangements, Contracts, Relationships and Amortization

Energy 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
E&T contracts	10 – 20 years

AltaGas owns 50 percent of two Sundance B PPAs through its interest in the ASTC Power Partnership (ASTC). ASTC is committed to purchasing all of the power from the two 353-MW capacity Sundance B generating units. The investment in the PPAs and the corresponding revenue and expenses thereunder are recorded on a proportionate basis. Acquisition of 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 based on target generator availability.

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., PremStar Energy Canada Ltd. (re-named AltaGas Energy Limited Partnership subsequent to acquisition), 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.

The E&T contracts were acquired through the acquisition of Taylor NGL Limited Partnership (Taylor) and are recorded at fair value and amortized on a straight-line basis over the average expected life of the contracts.

Financial Instruments

All financial instruments, including derivatives, are included on the Consolidated Balance Sheets 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 does not have any held-to-maturity financial instruments. 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 other comprehensive income (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 separately 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 not 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 Consolidated Balance Sheets at fair value. The Trust used January 1, 2003 as the transition date for identifying embedded derivatives. The Trust has not identified any embedded derivatives that need to be recorded as separate derivatives.

Hedges

As part of its asset and liability management, the Trust uses derivatives to reduce its exposure to commodity price, interest rate 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 effective portion of changes in the fair value of cash flow hedges is recognized in OCI. Ineffective portions and amounts excluded from effectiveness testing of hedges are included in income. 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 is likely not to occur. The Trust has hedged certain future cash flows over a range of periods to a maximum of nine 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, the Trust presents separately in its unitholders' equity note the changes for each of its components of unitholders' equity. 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 standard.

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 Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income.

Revenue Recognition

The E&T segment recognizes extraction revenue at the time the product or service is delivered and transmission revenue is recorded as the services are rendered. The FG&P segment recognizes revenue as the services are rendered. The Energy Services segment recognizes revenue at the time the product or service is delivered. The Power Generation segment recognizes revenue based on target generator availability in accordance with the Sundance B PPAs and at the time the product or service is delivered for all other power generation.

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 Consolidated Balance Sheets. 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 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.

Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign-currency are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenues and expenses are converted at the average exchange rate applicable to the period. Any foreign exchange gain or loss resulting from the translation is recognized in operating and administrative expenses.

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 Post-Retirement Benefits

The cost of defined benefit pension plans and post-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 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 12.9 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 its income that is not paid or payable to the unitholders is taxable in a particular 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 22, 2007 the Specified Investment Flow-through (SIFT) tax received royal assent, creating a new tax to be applied to distributions from certain income trusts and partnerships, including AltaGas, effective January 1, 2011. On December 14, 2007 reduced tax rates were enacted and are 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 were anticipated to reverse after January 1, 2011, the Trust had recorded a SIFT future income tax expense and future income tax liability for the year ended December 31, 2007. This non-cash expense had no immediate impact on cash flows. Temporary differences occur when the book carrying value of AltaGas' assets and liabilities for accounting purposes differs from the amounts attributed to these same assets and liabilities for tax purposes. A tax rate of nil was applied to any temporary differences reversing before 2011.

In 2008 the partnership in which the temporary differences for SIFT tax purposes resided were moved under an operating subsidiary, with the result the SIFT future tax liability was replaced by a future tax liability at corporate tax rates.

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 and restructuring within the Trust. 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 book carrying value and the 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. GAAP requires these future income tax liabilities to be recognized in the Consolidated Financial Statements.

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 period. 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 plus the trust units issuable on conversion of outstanding convertible debentures and warrants. Diluted net income is increased by the interest on the convertible debentures and decreased by the accretion on the convertible debentures.

Use of Estimates and Measurement Uncertainty

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Key areas where management has made complex or subjective judgments, when matters that are inherently uncertain include but are not limited to; amortization; asset impairment; litigation; environmental and asset retirement obligations; financial instruments; pensions plans 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 Consolidated Financial Statements of future periods.

Convertible Debentures

Convertible debentures are recorded at fair value upon acquisition, less the amount attributed to the conversion feature, which is included as part of unitholders' equity. The difference between the fair value and the principal amount is charged to income on an effective yield basis.

Warrants

Warrants are recorded at fair value, deemed to be the gross proceeds upon issue, and are included as part of unitholders' equity.

Future Accounting Changes

Section 3064 "Goodwill and Intangible Assets"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the new CICA Handbook Section 3064 will replace Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets including internally generated intangible assets. This new section is effective for the Trust beginning January 1, 2009 and is not expected to have a material impact on the Consolidated Financial Statements.

Section 1582 "Business Combinations"

This section applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The new CICA Handbook Section 1582 will replace Section 1581 "Business Combinations" establishing standards for the accounting for a business combination that will more closely resemble those under International Financial Reporting Standards. Earlier adoption of this section is permitted. The section is not expected to have a material impact on the Consolidated Financial Statements.

Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests"

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, the new CICA Handbooks Section 1601 and Section 1602 will replace Section 1600 "Consolidated Financial Statements". These sections establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption of this section is permitted as of the beginning of a fiscal year. Management has not fully determined the impact of adopting this standard.

International Financial Reporting Standards (IFRS)

Canadian publicly-traded companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, for the financial years beginning on or after January 1, 2011. Effective January 1, 2011, AltaGas will adopt IFRS as the basis for preparing its consolidated financial statements. Financial results for the quarter ended March 31, 2011 shall be prepared on an IFRS basis, with comparative data on an IFRS basis, including an opening balance sheet, as at January 1, 2010. Management has not fully determined the impact of adopting IFRS on its financial statements; however, it should be noted that the current financial statements may be significantly different if presented in accordance with IFRS.

3. BUSINESS ACQUISITIONS

Acquisition of Taylor NGL Limited Partnership

On January 10, 2008 AltaGas Holding Limited Partnership No. 1 (AltaGas LP #1) acquired all of the outstanding limited partnership units of Taylor (other than the Taylor units already owned by AltaGas and its affiliates). Taylor participated in the energy business through ownership of NGL extraction plants, natural gas processing assets and two NGL 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 \$593.6 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 and convertible debentures of \$132.5 million and \$5.9 million in transaction costs. The value of the Trust units issued was determined based on the weighted average market price between two days preceding and 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 January 10, 2008. The 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		\$	23,156
Purchase price for the remaining 91.1% of Taylor units			
Cash consideration	\$	256,281	
Units		198,861	
Estimated transaction costs		5,884	
Equity portion of Taylor convertible debentures		2,127	463,153
Total consideration			\$ 486,309

Purchase price allocation for 100% of Taylor

Assets acquired			
Current assets	\$	30,584	
Capital assets		592,030	
Energy arrangements, contracts and relationships		53,100	
Goodwill (note 6)		125,680	
Long-term investments and other assets		4,640	806,034
Less liabilities assumed			
Current liabilities		27,549	
Long-term debt		110,423	
Convertible debentures		22,171	
Asset retirement obligations		18,741	
Future income taxes		135,320	
Future employee obligations		2,542	
Risk management		2,979	319,725
			\$ 486,309

At 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 was 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.

Acquisition of Power Projects Under Development

On July 31, 2008 AltaGas acquired NovaGreen Power Inc. (re-named AltaGas Renewable Energy Inc.) a wholly-owned subsidiary of NovaGold Resources Inc., for \$35 million on closing with an additional \$3.75 million on completion of certain conditions. AltaGas Renewable Energy Inc. is developing the Forrest Kerr run-of-river hydroelectric project in northwest B.C., which is expected to have capacity of 195 MW. AltaGas Renewable Energy Inc. is also pursuing three other development projects, all within the same region as Forrest Kerr with additional potential combined run-of-river hydroelectric capacity of approximately 130 MW.

On August 15, 2008 AltaGas acquired GreenWing Energy Management Ltd.'s 45 percent interest in GreenWing Energy Development Limited Partnership (re-named AltaGas Renewable Energy Limited Partnership) for \$12.3 million. As a result, the Trust now owns 100 percent of AltaGas Renewable Energy Limited Partnership. The portfolio of wind assets includes 600 MW in mature stage development and a planned future 900 MW in early-stage development.

4. CAPITAL ASSETS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Extraction and Transmission						
E&T assets	\$ 871,042	\$ (70,590)	\$ 800,452	\$ 255,810	\$ (46,078)	\$ 209,732
Field Gathering and Processing						
FG&P assets	619,465	(174,797)	444,668	569,944	(148,297)	421,647
Other assets	6,856	(3,434)	3,422	4,416	(2,161)	2,255
Energy Services						
Energy services assets	11,042	(1,173)	9,869	9,693	(896)	8,797
Other assets	935	(569)	366	2,018	(156)	1,862
Power Generation						
Capital lease (note 9)	13,798	(6,119)	7,679	13,798	(4,596)	9,202
Power generation assets	158,881	(72)	158,809	22,013	-	22,013
Corporate						
Other assets	25,485	(14,064)	11,421	19,230	(12,416)	6,814
	\$1,707,504	\$ (270,818)	\$1,436,686	\$ 896,922	\$ (214,600)	\$ 682,322

Interest capitalized on long-term capital construction projects for the year ended December 31, 2008 was \$3.2 million (2007 – \$0.8 million). At December 31, 2008 the Trust had spent approximately \$188.1 million (2007 – \$42.6 million) on capital projects under construction that were not yet subject to amortization.

In January 2008 the Trust completed the acquisition of Taylor (note 3), which resulted in the increase to the E&T and the FG&P assets.

5. ENERGY ARRANGEMENTS, CONTRACTS AND RELATIONSHIPS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Energy services E&T						
arrangements and contracts	\$ 168,171	\$ (46,228)	\$ 121,943	\$ 115,071	\$ (37,717)	\$ 77,354
Energy services relationships	20,892	(3,922)	16,970	20,892	(2,530)	18,362
	\$ 189,063	\$ (50,150)	\$ 138,913	\$ 135,963	\$ (40,247)	\$ 95,716

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

In January 2008 the Trust completed the acquisition of Taylor (note 3), which resulted in the majority of additions since December 31, 2007.

6. GOODWILL

	2008	2007
Balance, beginning of year	\$ 18,260	\$ 18,260
Acquisition (note 3)	125,680	-
Goodwill impairment	(100)	-
Balance, end of year	\$ 143,840	\$ 18,260

Through its annual goodwill impairment testing in 2008 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 \$0.1 million.

7. LONG-TERM INVESTMENTS AND OTHER ASSETS

	2008 ⁽¹⁾	2007
Equity accounted investments in publicly-traded entities	12,660	11,813
Cost accounted investments in publicly-traded entities	-	44,746
Equity accounted investments in private entities	4,366	-
Deferred development costs	-	7,242
Warrants	286	286
Other	432	422
	\$ 17,744	\$ 64,509

(1) Excludes the purchase of Taylor and power projects under development (note 3).

At December 31, 2008 the quoted market value of the holdings of publicly-traded entities was approximately \$7.7 million (December 31, 2007 – \$54.2 million).

The Trust accounts for its interests in AltaGas Utility Group Inc. (Utility Group) and Boston Bar Limited Partnership as equity investments.

At the date of acquisition, AltaGas accounted for its investment in Taylor as a financial instrument. 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 was included in AltaGas' Consolidated Financial Statements (note 3).

In 2006 the Trust formed the Bear Mountain Wind Limited Partnership (BMWLP) with Aeolis Wind Power Corporation and the AltaGas Renewable Energy Limited Partnership (ARELP) with GreenWing Energy Management Ltd. In 2007 the Trust acquired 100 percent ownership of BMWLP and in 2008 acquired 100 percent ownership of ARELP. Through BMWLP and ARELP, the Trust invested \$3.8 million in 2007 in the development of wind power projects. In 2008 construction began on BMWLP and deferred development costs were moved to capital assets and amortization will occur based on the expected period and pattern of benefit in compliance with the Trust's accounting policy.

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. At December 31, 2008 nil balance (December 31, 2007 – \$6.5 million) of the promissory note was included in other current assets.

8. SHORT-TERM DEBT

At December 31, 2008 the Trust held a \$50.0 million (December 31, 2007 – \$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, 2008 the Trust had no prime loans (December 31, 2007 – \$0.7 million) and letters of credit of \$2.8 million (December 31, 2007 – \$2.8 million) outstanding against the facility.

The prime lending rate at December 31, 2008 was 3.5 percent (December 31, 2007 – 6.0 percent).

9. LONG-TERM DEBT

	2008	2007
Credit facilities	\$ 353,000	\$ 8,000
Medium-term notes	200,000	200,000
Capital lease obligations	8,800	10,034
Other long-term debt	1,282	–
Unamortized deferred financing	(2,307)	(851)
	560,775	217,183
Less current portion	1,363	1,234
	\$ 559,412	\$ 215,949

Credit Facilities

At December 31, 2008 the Trust held a \$375.0 million (December 31, 2007 – \$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 have fees and interest at rates relevant to the nature of the draw. On September 30, 2007 AltaGas negotiated the extension of the maturity of this facility to September 30, 2010.

On March 31, 2008 the Trust negotiated a new \$250.0 million unsecured 18-month credit facility with a syndicate of Canadian chartered banks that matures on September 28, 2009 (see note 29 for description of replacement credit facility). Borrowings on the facility can be by way of prime loans, U.S. base rate loans, LIBOR loans or bankers' acceptances. Borrowings on the facility bear fees and interest rates relevant to the nature of the draw.

At December 31, 2008 the Trust had drawn \$353.0 million (December 31, 2007 – \$8.0 million) against the facilities. The average rate on the Trust's bankers' acceptances at December 31, 2008 was 3.1 percent (December 31, 2007 – 5.2 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 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.

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.

Letter of Credit Facility

At December 31, 2008 the Trust held a \$75.0 million (December 31, 2007 – \$75.0 million) unsecured three-year extendible revolving-term 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, 2008 the Trust had letters of credit of \$68.1 million (December 31, 2007 – \$61.7 million) outstanding against the extendible revolving-term letter of credit facility.

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 as follows, excluding the extended term option:

2009	\$	1,878
2010		1,878
2011		1,878
2012		1,878
2013		1,878
Thereafter		1,254
		10,644
Less imputed interest at 6.85%		1,844
Present value of minimum lease payments		8,800
Less current portion		1,316
	\$	7,484

Interest expense on capital leases was \$0.6 million in 2008 (2007 – \$0.7 million).

10. CONVERTIBLE DEBENTURES

On January 10, 2008 AltaGas assumed a principal amount of \$22.1 million of 5.85 percent convertible debentures through the acquisition of Taylor. The debentures mature on September 10, 2010, with interest payable semi-annually on September 10 and March 10 of each year. Prior to maturity, the debentures may be converted into trust units at the option of the holder at a conversion price of \$24.64 per trust unit.

The Trust may redeem the convertible debentures prior to September 10, 2009 in whole or in part at a price equal to their principal amount plus accrued and unpaid interest, if any, provided the current market price of the Trust units on the date notice is given is not less than 125 percent of the conversion price, subject to adjustment in certain events. After September 10, 2009 and prior to the convertible debentures' maturity, the Trust may redeem the convertible debentures at a price equal to their principal amount plus accrued and unpaid interest, if any. The Trust can elect to pay interest on the debentures by issuing trust units.

	2008
Balance, beginning of year	\$ -
Fair value of convertible debentures (note 3)	22,171
Accretion	(18)
Conversion to Trust units	(1,317)
Redeemed for cash	(4,154)
Balance, end of year	\$ 16,682

11. ASSET RETIREMENT OBLIGATIONS

	2008	2007
Balance, beginning of year	\$ 18,811	\$ 23,350
New obligations	18,741	423
Obligations settled	(744)	(346)
Obligations disposed	(219)	(4,006)
Revision in estimated cash flow	2,817	(2,084)
Accretion expense	2,302	1,474
Balance, end of year	\$ 41,708	\$ 18,811

AltaGas estimates the undiscounted cash required to settle the asset retirement obligations at December 31, 2008 was \$244.3 million (December 31, 2007 – \$52.4 million). The asset retirement obligations have been recorded in the Consolidated 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 2060. The majority of the costs are expected to be incurred between 2045 and 2060. No assets have been legally restricted for settlement of the estimated liability.

12. 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 22, 2007 the Specified Investment Flow-through (SIFT) tax received royal assent, creating a new tax to be applied to distributions from certain income trusts and partnerships, including AltaGas, effective January 1, 2011. Based on the amount of the Trust's temporary differences that were anticipated to reverse after January 1, 2011, the Trust recorded a future income tax expense of \$5.4 million (including \$0.1 million expense 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 related to temporary differences between the accounting and tax basis of AltaGas' assets and liabilities held in partnerships and had no immediate impact on cash flows. A tax rate of nil was applied to any temporary differences reversing before 2011.

In 2008 the partnership in which the temporary differences resided were moved under an operating subsidiary, with the result the Trust recorded a SIFT future tax expense of nil at December 31, 2008 and the SIFT future tax liability was replaced by a future tax liability at corporate tax rates.

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:

	2008	2007
Income before taxes – consolidated	\$ 161,969	\$ 114,722
Financial instruments – net	(10,986)	(1,115)
Income before financial instruments and taxes	150,983	113,607
Income from AltaGas Income Trust distributed to unitholders	(134,849)	(92,544)
Income before income taxes – operating subsidiaries	16,134	21,063
Statutory income tax rate (%)	29.50	32.12
Expected taxes at statutory rates	4,760	6,765
Add (deduct) the tax effect of:		
SIFT tax additions (reversal)	–	5,365
Financial instruments	3,357	1,561
Rate reductions applied to future income tax liabilities	(11,347)	(7,256)
Permanent differences between accounting and tax basis of assets and liabilities	373	294
Non-taxable portion of capital gains on disposition of assets and investments	–	(1,634)
Other	1,255	833
Income tax provision (recovery)		
Current	2,328	297
Future	(3,930)	266
Future SIFT	–	5,365
	\$ (1,602)	\$ 5,928
Effective income tax rate (%)	(0.99)	5.17

The amount shown on the Consolidated Balance Sheets as future income tax liabilities represents the net differences between the tax basis and book carrying values on the Trust's balance sheets at substantively enacted tax rates.

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

	2008	2007
Capital assets	\$ 162,680	\$ 31,101
Deferred debt charges	(60)	53
Unit issue costs	(679)	(635)
Partnerships	37,010	26,878
Deferred compensation	(3,890)	(2,092)
Financial instruments	16,260	2,973
Other	(65)	(49)
	\$ 211,256	\$ 58,229

13. CAPITAL DISCLOSURE

The Trust's objective for managing capital is to maintain its investment-grade credit ratings and allow the Trust to maximize the profitability of its existing assets and grow its energy infrastructure to create long-term value and enhance returns for its investors. The Trust considers unitholders' equity (including accumulated other comprehensive income), short-term and long-term debt (including current portion) less cash and cash equivalents to be part of its capital structure. The Trust's overall strategy remains unchanged from 2007.

The use of debt or equity funding is based on AltaGas' capital structure, which is determined by considering the norms and risks associated with each of its business segments. AltaGas' target debt-to-total capitalization ratio is 40 to 45 percent. The Trust's debt-to-total capitalization ratio as at December 31, 2008 was 37.8 percent (December 31, 2007 – 27.4 percent).

	2008	2007
Debt		
Short-term debt	\$ 4,493	\$ 3,551
Current portion of long-term debt	1,363	1,234
Long-term debt	559,412	215,949
Convertible debentures	16,682	–
	581,950	220,734
Unitholders' equity	957,442	584,688
Total capitalization	\$1,539,392	\$ 805,422
Debt-to-total capitalization ratio (%)	37.8	27.4

All of the borrowing facilities have financial tests and other covenants customary for the types of facilities which must be met at the end of each calendar quarter. The debt covenants are based on non-GAAP measures which cannot be recalculated from information provided in the Consolidated Financial Statements.

The following table summarizes the Trust's debt covenants for all credit facilities as at December 31, 2008:

Ratios ⁽¹⁾	Debt Covenant Requirements	AltaGas Ratios
Debt-to-capitalization	not greater than 60 percent	39.7%
Debt-to-EBITA	not greater than 3.5x	2.06x
EBITA-to-interest expense	not less than 2.5x	9.5x

(1) Debt covenant ratios are calculated in accordance with the credit facility agreements and will differ from management's internal calculation due to the definition of certain items in the credit facility agreements.

AltaGas has been in compliance with these covenants each quarter since the issuance of the facilities.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

In the course of normal operations the Trust purchases and sells natural gas, NGL 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.

Fair Values of Financial Instruments

At December 31, 2008 all derivatives, other than those that meet the expected purchase, sale or usage requirements exception, were carried on the Consolidated Balance Sheets at fair value. The fair value of power, natural gas and NGL derivatives was calculated using estimated forward prices from published sources for the relevant period. The calculation of fair value of the interest rate and foreign exchange derivatives used quoted market rates.

The fair value of long-term debt has been estimated based on discounted future interest and principal payments using estimated interest rates. The fair value of the convertible debentures was estimated using a Black Scholes model.

The carrying amount and fair values of the Trust's financial assets and liabilities were as follows:

Summary of Fair Values

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Held for trading				
Cash and cash equivalents ⁽¹⁾	\$ 18,304	\$ 18,304	\$ 12,451	\$ 12,451
Risk management derivatives ⁽²⁾	68,688	68,688	56,113	56,113
Cash flow hedges				
Risk management ⁽²⁾	86,608	86,608	17,251	17,251
Loans and receivables				
Accounts receivable and other assets ^{(1) (3)}	216,079	216,079	194,936	194,936
Customer deposits ⁽¹⁾	24,017	24,017	24,369	24,369
Available-for-sale				
Long-term investments and other assets (note 7)	–	–	44,746	44,746
	\$ 413,696	\$ 413,696	\$ 349,866	\$ 349,866
Financial liabilities				
Held for trading				
Risk management derivatives ⁽²⁾	\$ 64,281	\$ 64,281	\$ 59,711	\$ 59,711
Cash flow hedges				
Risk management ⁽²⁾	41,194	41,194	4,215	4,215
Other financial liabilities				
Accounts payable and other liabilities ^{(1) (4)}	216,502	216,502	185,943	185,943
Customer deposits ⁽¹⁾	24,017	24,017	24,369	24,369
Short-term debt	4,493	4,493	3,551	3,551
Long-term debt ⁽⁵⁾	563,082	550,971	218,033	208,036
Convertible debentures	16,682	16,334	–	–
	\$ 930,251	\$ 917,792	\$ 495,822	\$ 495,825

(1) Due to the nature and/or short maturity of these financial instruments the carrying amount approximates the fair value.

(2) Fair value is equal to the carrying value for derivatives and hedged items.

(3) Excludes income and sales tax of \$11,907 (December 31, 2007 – \$6,656).

(4) Excludes income and sales tax and deferred revenue of \$3,655 (December 31, 2007 – \$1,180).

(5) Includes current portion of long-term debt and excludes deferred financing costs of \$2,307 (December 31, 2007 – \$850).

Summary of Unrealized Gain (Loss) on Risk Management

	2008	2007
Natural gas	\$ 5,510	\$ 2,083
NGL	4,997	(590)
Power	(550)	(40)
Heat rate	(163)	188
Interest rate swaps	(4,896)	165
Foreign exchange	6,088	(691)
	\$ 10,986	\$ 1,115

Market Risk on Financial Instruments

The Trust is exposed to market risk and potential loss from changes in the values of financial instruments. AltaGas enters into financial derivative contracts to manage exposure to fluctuations in commodity prices, interest rates and foreign exchange rates.

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 2013.

The Trust had the following contracts outstanding:

December 31, 2008			Notional Volume (GJ)		
Derivative Instruments	Fixed Price (per GJ)	Period (months)	Sales	Purchases	Fair Value
Commodity forward	\$2.27 to \$10.49	1 – 59	77,195,070	–	\$ 27,209
Commodity forward	\$2.27 to \$10.73	1 – 59	–	77,195,070	\$ (24,720)

December 31, 2007			Notional Volume (GJ)		
Derivative Instruments	Fixed Price (per GJ)	Period (months)	Sales	Purchases	Fair Value
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

Natural Gas Liquids

The Trust entered into a series of swaps to lock in a portion of the volumes exposed to NGL frac spread.

The Trust had the following contracts outstanding:

December 31, 2008			Notional Volume		
Product	Fixed Price (per GJ)	Period (months)	Sales	Purchases	Fair Value
Propane	\$1.3800 to \$1.8000 US/gallon	1 – 24	36,330,000 gallons	–	\$ 40,016
Butane	\$1.6500 to \$2.3000 US/gallon	1 – 24	11,676,000 gallons	–	\$ 15,915
WTI	\$94.50 to \$144.65 US/Bbl	1 – 24	134,500 Bbls	–	\$ 9,531
USD swaps	\$0.9948 to \$1.0262	1 – 24	–	\$82,550	(17,749)
Natural gas	\$7.84 to \$9.93/GJ	1 – 24	–	5,451,000 GJ	\$ (11,509)

December 31, 2007			Notional Volume		
Product	Fixed Price (per GJ)	Period (months)	Sales	Purchases	Fair Value
Propane	\$1.2825 to \$1.4725 US/gallon	1 – 12	9,677,178 gallons	–	\$ (1,156)
Butane	\$1.4950 to \$1.7000 US/gallon	1 – 12	2,612,064 gallons	–	\$ (685)
WTI	\$83.20 to \$89.10 US/Bbl	1 – 12	27,489 Bbls	–	\$ (143)
USD	\$0.9268 to \$0.9820	1 – 12	–	\$13,972	(662)
Natural gas	\$6.455 to \$6.550/GJ	1 – 12	–	1,382,591 GJ	\$ 159

Power

Under the PPAs AltaGas has an obligation to buy power at agreed terms and prices to December 31, 2020. The Trust sells the power to the Alberta Electric System Operator at 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, 2008 the Trust had no intention to terminate any contracts prior to maturity.

The Trust had no commodity forward contracts on electrical power outstanding at December 31, 2008.

December 31, 2007	Fixed Price (per MWh)	Period (months)	Notional Volume (MWh)		Fair Value
			Sales	Purchases	
Derivative Instruments					
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 had the following commodity swaps and collars outstanding:

December 31, 2008	Fixed Price (per MWh)	Period (months)	Notional Volume (MWh)		Fair Value
			Sales	Purchases	
Derivative Instruments					
Swaps and collars	\$60.50 to \$88.00	1 – 24	2,595,105	–	\$ 734
Swaps and collars	\$56.50 to \$75.75	1 – 108	–	259,520	\$ 5,207

December 31, 2007	Fixed Price (per MWh)	Period (months)	Notional Volume (MWh)		Fair Value
			Sales	Purchases	
Derivative Instruments					
Swaps and collars	\$65.00 to \$88.00	1 – 24	1,626,624	–	\$ 10,932
Swaps and collars	\$56.50	1 – 120	–	263,016	\$ 3,339

The Trust had the following heat rate hedges outstanding:

December 31, 2008	Fixed price (per GJ MWh)	Period (months)	Notional Volume (GJ or MWh)		Fair Value
			Sales	Purchases	
Derivative Instruments					
Natural gas (per GJ)	\$6.07	1	–	14,700	\$ (5)
Power (per MWh)	\$107.50 to \$195.50	1	1,225	–	\$ 29

December 31, 2007	Fixed price (per GJ MWh)	Period (months)	Notional Volume (GJ or MWh)		Fair Value
			Sales	Purchases	
Derivative Instruments					
Natural gas (per GJ)	\$6.08 to \$6.17	1	–	79,050	\$ 18
Power (per MWh)	\$89.00 to \$138.00	1	6,510	–	\$ 170

Interest Rate Risk Management

To hedge against the effects 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. The Trust's target is to have approximately 70 to 75 percent of its debt at fixed interest rates.

The Trust had the following interest rate swaps outstanding:

December 31, 2008	Weighted Average Interest Rate	Period (months)	Notional Quantity	Fair Value
Swaps	3.746%	1 – 15	\$ 205,000	\$ (4,814)

December 31, 2007	Weighted Average Interest Rate	Period (months)	Notional Quantity	Fair Value
Swaps	3.56%	2 – 15	\$ 25,000	\$ 165

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 forwards, swaps and options for U.S. dollars (USD) and euros (EUR).

The Trust had the following contracts outstanding:

December 31, 2008	Fixed Price	Period (months)	Notional Quantity	Fair Value
Swaps (USD)	\$1.0164 to \$1.2925	1 – 21	\$ 3,273	\$ 539
Forwards and options (EUR) ⁽¹⁾	\$1.470 – \$1.5350	4 – 9	€ 62,700	\$ 12,651

December 31, 2007	Fixed Price	Period (months)	Notional Quantity	Fair Value
Swaps (USD)	\$0.9765 to \$1.0882	1 – 5	\$ 995	\$ (41)
Forwards and options (EUR) ⁽¹⁾	\$1.42 to \$1.4436	1 – 3	€ 11,900	\$ 326

(1) Related to the supply and installation agreement with Enercon GmbH to supply and install wind turbines for the Bear Mountain Wind Project. Obligations are denominated in euros.

Bond Forward

The Trust extended its anticipation of issuing a five-year \$100 million MTN to the second or third quarter of 2009 due to current market conditions. To partially hedge against the risk of rising interest rates, the Trust rolled forward a \$50 million bond forward contract with a Canadian chartered bank in December 2008, to lock in a five-year Government of Canada bond yield of approximately 3.28 percent. At December 31, 2008 the bond forward hedge had a negative fair market value position of \$3.2 million.

Sensitivity Analysis

The sensitivity analysis is estimated based on the notional volumes of each commodity, interest rate swap and foreign exchange contracts outstanding, taking into consideration future income tax impact.

The following table illustrates potential effects of changes in relevant risk variables on AltaGas' net income and OCI for contracts in place at December 31, 2008:

Factor Share	Increase or Decrease ⁽¹⁾	Increase or Decrease in Net Income	Increase or Decrease in OCI
Alberta electricity average pool prices	\$ 2/MWh	2	\$ 3,443
Natural gas spot price (AECO)	\$ 1/GJ	1,672	–
NGL frac spread:			
Propane	\$ 5/Bbl	–	3,079
Butane	\$ 5/Bbl	8	981
WTI	\$ 5/Bbl	7	472
Natural gas to replace heat value of NGL	\$ 1/GJ	–	3,882
Foreign exchange (USD only)	1%	–	569
Interest rate swaps	25 bps	513	–
Bond forward	25 bps	–	125
Foreign exchange	1%	207	\$ 238

(1) Estimated increase or decrease to forward prices or curves.

Credit Risk on Financial Instruments

Credit risk results from the possibility that a counterparty to a financial instrument fails to fulfill its obligations in accordance with the terms of the contract.

AltaGas' credit policy details the parameters used to grant, measure, monitor and report on credit provided to counterparties. AltaGas minimizes counterparty risk by conducting credit reviews on counterparties in order to establish specific credit limits on clients, both prior to providing products or services and on a recurring basis. In addition, most contracts include credit mitigation clauses which allow AltaGas to obtain financial or performance assurances from counterparties under certain circumstances. AltaGas provides an allowance for doubtful accounts in the normal course of its business.

The Trust's maximum credit exposure consists primarily of the carrying value of the non-derivative financial assets and the fair value of derivative financial assets. At December 31, 2008 AltaGas had an exposure to the Bank of Montreal in the amount of \$36.2 million related to derivatives representing a concentration of credit risk; however the risk of default is considered minimal. AltaGas had an exposure to Utility Group in the amount of \$16.9 million representing a concentration of credit risk with a single counterparty in the gas business. Risk in relation to Utility Group is minimized by the nature of Utility Group's business as Utility Group is able to recover the cost of gas from its customers under utility regulation in Alberta.

Accounts Receivable Past Due or Impaired

The Trust had the following past due and impaired receivables:

December 31, 2008	Accounts Receivable	2008	Receivables Past Due, Impaired	Less Than 30 Days	Receivables Past Due, Not Impaired, By Period		
					31 to 60 Days	61 to 90 Days	Over 90 Days
	Trade receivable	\$ 213,959	\$ 1,908	\$ 193,012	\$ 9,887	\$ 3,029	\$ 6,123
	Other receivable	8,229	–	7,672	–	194	363
	Allowance for credit losses	(1,908)	(1,908)	–	–	–	–
		\$ 220,280	\$ –	\$ 200,684	\$ 9,887	\$ 3,223	\$ 6,486

Allowance for credit losses

Allowance for credit losses, beginning of year	\$ 1,765
Impairment expense	143
Allowance for credit losses, end of year	\$ 1,908

Liquidity Risk on Financial Instruments

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. The Trust manages this risk through its extensive budgeting and monitoring process to ensure it has sufficient cash and credit facilities to meet its obligations. The Trust's objective is to maintain its investment-grade ratings to ensure it has access to debt and equity funding as required (note 13).

At December 31, 2008 the Trust had the following contractual maturities with respect to non-derivative financial liabilities:

	Total	Payments Due by Period				
		2009	2010	2011	2012	Thereafter
Short-term debt	\$ 4,493	\$ 4,493	\$ –	\$ –	\$ –	\$ –
Long-term debt ⁽¹⁾⁽²⁾⁽³⁾	563,082	101,925	354,878	1,878	101,878	2,523
Convertible debentures	16,682	–	16,682	–	–	–
	\$ 584,257	\$ 106,418	\$ 371,560	\$ 1,878	\$ 101,878	\$ 2,523

(1) Comprising operating loans, MTN's and capital lease obligations excluding deferred financing costs (note 9).

(2) Includes current portion of long-term debt.

(3) See note 29 for description of the new credit facility replacing the current facility maturing in September 2009.

15. UNITHOLDERS' EQUITY

December 31	2008	2007
Unitholders' capital (note 16)	\$ 850,992	\$ 505,544
Contributed surplus (note 17)	4,261	3,875
Accumulated earnings	673,983	510,412
Convertible debentures	1,600	-
Warrants	4,500	-
Accumulated dividends	(41,114)	(41,114)
Accumulated unitholders' distributions declared ⁽¹⁾	(538,227)	(391,103)
Distributions of common shares of Utility Group	(29,848)	(29,848)
Transition adjustment resulting from adopting new financial instruments accounting standards	(247)	(247)
Accumulated other comprehensive income	31,542	27,169
	\$ 957,442	\$ 584,688

(1) Accumulated unitholders' distributions paid by the Trust as at December 31, 2008 were \$525.3 million (as at December 31, 2007 - \$380.9 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.

16. 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, 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		
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

Trust Units Issued and Outstanding	Number of Units	Amount
December 31, 2007	56,057,438	\$ 493,866
Units issued for cash on exercise of options	2,150	55
Units issued under DRIP ⁽¹⁾	1,635,937	34,612
Units issued for exchangeable units	60,890	859
Units issued on business acquisition	7,553,174	194,645
Units issued on conversion of convertible debentures	53,439	1,843
Units issued on public offering (net of \$5.2 million of issuance costs)	4,398,750	110,077
December 31, 2008	69,761,778	\$ 835,957

Exchangeable Units Issued and Outstanding	Number of Units	Amount
December 31, 2007 issued by AltaGas LP #1	2,040,456	\$ 11,678
AltaGas LP #1 units redeemed for Trust units	(60,890)	(859)
Units issued on business acquisition	163,607	4,216
December 31, 2008	2,143,173	15,035
Issued and outstanding at December 31, 2008	71,904,951	\$ 850,992

(1) Distribution Reinvestment and Optional Unit Purchase Plan.

Years ended December 31	2008	2007
Weighted Average Units Outstanding ⁽¹⁾		
Number of units – basic	68,812,654	57,382,209
Dilutive equity instruments ⁽²⁾	890,744	37,632
Number of units – diluted	69,703,398	57,419,841

(1) Includes exchangeable units.

(2) Includes options, convertible debentures and warrants.

The Trust has an employee unit option plan under which employees and directors are eligible to receive grants. At December 31, 2008, 10 percent of units outstanding were reserved for issuance under the plan. To December 31, 2008 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, 2008 outstanding options were exercisable at various dates within the next ten years. As at December 31, 2008 the unexpensed fair value of unit option compensation cost associated with future periods was \$0.6 million (December 31, 2007 - \$0.7 million).

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

	Options Outstanding			
	2008		2007	
	Number of Options	Exercise Price ⁽¹⁾	Number of Options	Exercise Price ⁽¹⁾
Unit options outstanding, beginning of year	1,310,400	\$ 26.36	923,550	\$ 27.23
Granted	1,882,250	16.84	548,500	25.31
Exercised	(2,150)	17.17	(3,400)	20.06
Expired	(218,250)	26.42	(158,250)	27.94
Unit options outstanding, end of year	2,972,250	\$ 20.33	1,310,400	\$ 26.36
Unit options exercisable, end of year	602,326	\$ 25.91	331,425	\$ 25.50

(1) Weighted average.

The following table summarizes the employee unit option plan as at December 31, 2008:

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Exercise Price	Average Remaining Contractual Life	Number Exercisable	Exercise Price
\$5.00 - 7.00	9,000	\$ 6.10	1.45	9,000	\$ 6.10
\$7.01 - 15.50	1,406,500	14.16	9.83	27,500	11.21
\$15.51 - 25.08	739,750	24.13	8.69	155,159	24.03
\$25.09 - 29.50	817,000	27.68	7.89	410,667	28.04
	2,972,250	\$ 20.33	8.99	602,326	\$ 25.91

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:

	2008	2007
Risk-free interest rate (%)	3.43	3.29
Expected life (years)	10	10
Expected volatility (%)	23.81	21.71
Annual distribution per unit (\$)	2.10	2.04

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 2008 in respect of this plan was \$5.5 million (2007 – \$5.1 million). In 2008 phantom units were awarded to all employees. As at December 31, 2008 the unexpensed fair value of unit-based compensation costs associated with future periods was \$18.4 million (December 31, 2007 – \$14.2 million).

17. CONTRIBUTED SURPLUS

	2008	2007
Balance, beginning of year	\$ 3,875	\$ 3,322
Amortization of unit options	431	617
Exercise of unit options	(18)	(18)
Cancellation of unit options	(27)	(46)
Balance, end of year	\$ 4,261	\$ 3,875

18. INCOME PER UNIT

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

	2008	2007
Numerator:		
Numerator for basic income per unit	\$ 163,571	\$ 108,794
Numerator for diluted income per unit	\$ 164,567	\$ 108,794
Denominator:		
Weighted-average number of units	68,813	57,382
Dilutive equity instruments ⁽¹⁾	891	38
Denominator for diluted income per unit	69,704	57,420
Basic income per unit	\$ 2.38	\$ 1.90
Diluted income per unit	\$ 2.36	\$ 1.89

(1) Includes options, convertible debentures and warrants.

19. COMMITMENTS

Future minimum lease payments under operating leases for office space, office equipment, and automotive equipment at December 31, 2008 are estimated as follows:

2009	\$ 4,866
2010	4,629
2011	4,295
2012	3,566
2013	531
	\$ 17,887

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 an agreement to purchase natural gas from specific reserves for \$0.05/Mcf for the life of the reserves. The production from these reserves was 1,239 Mcf/d in 2008 (2007 – 1,039 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 Park. The Trust has an obligation to pay approximately \$100 million before the installation is complete. The Trust has also entered into other supply agreements to pay approximately \$25 million for equipment and construction costs associated with the Bear Mountain Wind Park.

20. 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:

Years ended December 31	2008	2007
Accounts receivable ⁽¹⁾	\$ 4,803	\$ 32,654
Inventory	(645)	(69)
Other current assets ⁽²⁾	(4,491)	6,065
Accounts payable and accrued liabilities ⁽¹⁾	(7,878)	(23,080)
Customer deposits	(352)	8,065
Deferred revenue	1,059	930
Other current liabilities	12,606	(1,661)
	5,102	22,904
Add back: increase in capital costs payable	(15,993)	(2,179)
Net change in non-cash working capital related to operations	\$ (10,891)	\$ 20,725

(1) Specific line items may not agree to the net change in Consolidated Balance Sheet due to acquisition (note 3).

(2) Excludes note receivable of \$6.5 million included in investing activities.

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

Years ended December 31	2008	2007
Interest paid	\$ 24,023	\$ 12,078
Income taxes paid	\$ 2,577	\$ 181

21. PENSION PLANS AND POST-RETIREMENT 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 \$1.7 million for the year ended December 31, 2008 (2007 - \$1.4 million).

Defined Benefit Plans

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

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

Plan contributions for Parts II, III and IV of the Salaried Employees' Pension Plan in 2008 and 2007 were made in accordance with an actuarial valuation for funding purposes as at September 30, 2005 based upon a report dated March 29, 2006. An actuarial valuation was performed as of September 30, 2008 which revealed an increase in contribution requirements. A valuation report outlining these contributions will be filed with regulators prior to March 30, 2009. Any additional required contributions in respect of the period from October 1, 2008 to December 31, 2008 as a result of the September 30, 2008 valuation will be remitted to the Trust in 2009.

As at December 31, 2008 the accrued benefit obligation of the Trust for this plan was \$1.9 million (December 31, 2007 – \$1.9 million). At December 31, 2008 the plan had an accrued benefit liability recognized in the Consolidated Financial Statements of \$10,000 (December 31, 2007 – \$0.3 million).

During 2008 the Trust assumed two defined benefit pension plans with the acquisition of Taylor. These plans are in relation to the unionized employees at the Younger Extraction Plant (Younger) and certain employees at the Harmattan Complex (Harmattan). AltaGas adjusted the actuarial liability of these plans to follow the same assumptions used under its existing pension plans. Plan contributions for the Younger pension plan and Harmattan pension plan during 2008 were made in accordance with an actuarial valuation for funding purposes as at December 31, 2006 and December 31, 2007 respectively. As at December 31, 2008 the accrued benefit obligation of the Trust for these plans was \$7.7 million. At December 31, 2008 these plans had an accrued benefit liability recognized in the Consolidated Financial Statements of \$1.1 million.

For the year ended December 31, 2008 the net pension cost for all defined benefit plans was \$0.4 million (2007 – net pension recovery of \$15,000).

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, 2008 the accrued benefit obligation of the Trust for this plan was \$3.6 million (December 31, 2007 – \$3.0 million). At December 31, 2008 the plan had an accrued benefit liability recognized in the financial statements of \$3.7 million (December 31, 2007 – \$1.9 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, 2008 the net pension expense was \$1.7 million (2007 – \$1.0 million).

The following table summarizes the details of the defined benefit plans, including the SERP:

	2008	2007
Accrued benefit obligation		
Balance, beginning of year ⁽¹⁾	\$ 15,122	\$ 4,079
Actuarial gain	(3,588)	(73)
Current service cost	1,575	738
Member contributions	102	-
Past service cost	294	-
Interest cost	844	240
Benefits paid	(1,203)	(83)
Balance, end of year	13,146	4,901
Plan assets		
Fair value, beginning of year ⁽¹⁾	9,931	1,729
Actual loss on plan assets	(1,538)	(71)
Employer contributions	1,471	11
Member contributions	102	-
Benefits paid	(1,203)	(83)
Fair value, end of year	8,763	1,586
Funded deficit		
Unamortized past service costs	(810)	778
Unamortized net actuarial loss	389	330
Accrued benefit liability recognized in the financial statements	\$ (4,804)	\$ (2,207)
	2008	2007
Significant actuarial assumptions used as at December 31		
Discount rate (%)	7.25	5.50
Expected long-term rate of return on plan assets (%)	6.75 – 7.25	6.00 – 6.75
Rate of compensation increase (%)	3.50 – 4.00	3.50 – 4.00
Average remaining service life of active employees (years)	12.9	9.8
Net benefit plan expense for the year		
Current service cost and expenses	\$ 1,575	\$ 739
Interest cost	844	240
Actual loss on plan assets	1,538	71
Actuarial gain on accrued benefit obligation	(3,588)	(73)
Costs arising in the year	369	977
Differences between costs arising in the year and costs recognized in the year in respect of:		
Actuarial gain (loss) on plan assets	(2,197)	(188)
Actuarial gain on accrued benefit obligation	3,588	84
Amortization of past service costs	371	77
Net periodic benefit plan costs recognized	\$ 2,131	\$ 950

(1) Includes the Younger and Harmattan plans acquired in the acquisition of Taylor.

The assets are invested under balanced fund mandates with a broad mix of fixed income, Canadian equity and foreign equity investments. The collective investment mixes for the plans are as follows as at December 31, 2008:

	Percentage of Plan Assets
Cash and short-term equivalents	10.97%
Canadian equities	26.58%
Foreign equities	27.61%
Fixed income	34.84%
	100.00%

Post-Retirement Benefits

During 2008 the Trust assumed two post retirement benefit plans with the acquisition of Taylor for the unionized employees at Younger and Harmattan. Benefits provided to retired employees are limited to the payment of life insurance and health insurance premiums.

As at December 31, 2008 the accrued benefit obligation of the Trust for these plans was \$0.6 million. At December 31, 2008 the plan had an accrued benefit liability recognized in the financial statements of \$0.8 million. For the year ended December 31, 2008 the net benefit cost for these plans was \$0.1 million.

22. 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:

Years ended December 31	2008	2007
Fees for administration, management and other services paid by:		
Utility Group to the Trust	\$ 219	\$ 29
The Trust to Utility Group	\$ 4	\$ 445
Natural gas sales by the Trust to Utility Group subsidiaries	\$ 96,457	\$ 83,370
Fees for operating services paid by Utility Group subsidiaries	\$ 427	\$ 341
Transportation services provided by Utility Group subsidiaries	\$ 491	\$ 477
Office space and furniture rental payments made by the Trust to a corporation owned by an employee	\$ 88	\$ 85

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, 2008 was \$16.9 million (December 31, 2007 – \$13.5 million) due to the Trust from related parties. Included in accounts payable at December 31, 2008 was \$1,000 (December 31, 2007 – \$50,000) 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.

23. JOINT VENTURES

The Trust's proportionate interest in its joint venture arrangements is summarized in the table below:

	2008	2007
Proportionate share of operating income for the years ended December 31		
Revenues	\$ 468,588	\$ 201,124
Expenses	361,238	131,220
	\$ 107,350	\$ 69,904
Proportionate share of net assets at December 31		
Current assets	\$ 19,223	\$ 33,135
Capital assets	274,437	91,238
Energy services arrangements, contracts and relationships	69,674	75,483
Long-term investments and other assets	-	3,643
Current liabilities	(18,887)	(32,780)
	\$ 344,447	\$ 170,719
Proportionate share of cash flows for years ended December 31		
Operating activities	\$ 122,494	\$ 79,959
Investing activities	(213,783)	(571)
Financing activities	91,289	(79,388)
	-	-

24. GAIN ON SALE OF ASSETS

During 2008 AltaGas sold a power project that was under development for \$6.6 million. The sale of assets resulted in a pre-tax gain of \$1.4 million.

25. NON-MONETARY TRANSACTION

During 2008 AltaGas exchanged 50 percent interest in one of its natural gas processing facilities for 15.5 percent interest in a similar facility in which the remaining 84.5 percent was primarily owned by the Trust. The fair value of \$1.1 million was determined based on the estimated cash flows of the asset acquired. The exchange of assets resulted in a pre-tax gain of \$0.1 million.

26. CONTINGENT LIABILITY

The Sundance B facility experienced an outage in mid December 2008 related to the failure of an induced draft fan. The failure reduced power outage by 50 percent. The facility operator has notified AltaGas that under the PPA it believes this event is a force majeure due to the High Impact Low Probability nature of the event. The impact of this event being a force majeure to AltaGas could be up to a \$7.0 million charge to operating income, which comprises \$1.5 million for 2008 and the remainder for 2009.

AltaGas management does not consider this to be a force majeure event. Mechanical failure has historically been treated as a maintenance issue, rather than a force majeure event. Management believes that the event is not a force majeure and accordingly has not recorded a charge to operating income.

27. COMPARATIVE FIGURES

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

28. 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. The majority of the transactions among the reporting segments are recorded at the market price of the commodities and the remainder are at the exchange amount. The following describes the Trust's five reporting segments:

- Extraction and Transmission (E&T)**
 - NGL processing and extraction plants and transmission pipelines to transport natural gas and NGLs;
- Field Gathering and Processing (FG&P)**
 - Natural gas gathering lines and processing facilities;
- Energy Services**
 - Energy consulting and sale of natural gas and electricity;
- Power Generation**
 - Coal-fired and gas-fired power output under power purchase arrangements and other agreements, gas-fired power plants, wind and run-of-river power projects under development; 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 contracts.

The following tables show the composition by segment:

For the year ended December 31, 2008	E&T	FG&P	Energy Services	Gas Subtotal	Power Generation	Corporate	Intersegment Elimination	Total
Revenue	\$ 430,132	\$154,402	\$1,058,653	\$1,643,187	\$223,510	\$ 1,882	\$ (62,770)	\$1,805,809
Unrealized gain on risk management	–	–	–	–	–	10,986	–	10,986
Cost of sales	(253,910)	(10,558)	(1,044,521)	(1,308,989)	(94,518)	–	63,189	(1,340,318)
Operating and administrative	(65,164)	(95,353)	(12,713)	(173,230)	(3,715)	(42,767)	(419)	(220,131)
Amortization	(27,214)	(28,071)	(2,021)	(57,306)	(7,436)	(2,236)	–	(66,978)
Interest expense	–	–	–	–	–	(27,399)	–	(27,399)
Income (loss) before income taxes	\$ 83,844	\$ 20,420	\$ (602)	\$ 103,662	\$117,841	\$ (59,534)	–	\$ 161,969
Net additions (reductions) to:								
Capital assets ⁽¹⁾	\$ 610,886	\$ 53,695	\$ 266	\$ 664,847	\$136,523	\$ 6,592	–	\$ 807,962
Energy service arrangements, contracts and relationships	\$ 53,100	–	–	\$ 53,100	–	–	–	\$ 53,100
Long-term investment and other assets ⁽²⁾	–	–	–	–	\$ 713	\$ (47,479)	–	\$ (46,766)
Goodwill	\$ 143,725	\$ 115	–	\$ 143,840	–	–	–	\$ 143,840
Segmented assets	\$1,038,581	\$530,855	\$ 138,899	\$1,708,335	\$268,474	\$186,752	–	\$2,163,561

(1) Includes non-cash transactions of \$679,652.

(2) Includes non-cash transactions of \$358,259.

For the year ended December 31, 2007	E&T	FG&P	Energy Services	Gas Subtotal	Power Generation	Corporate	Intersegment Elimination	Total
Revenue	\$142,938	\$135,105	\$1,022,506	\$1,300,549	\$182,535	\$5,037	\$(60,842)	\$1,427,279
Unrealized gain on risk management	-	-	-	-	-	1,115	-	1,115
Cost of sales	(75,495)	(7,655)	(1,001,599)	(1,084,749)	(78,373)	-	58,723	(1,104,399)
Operating and administrative	(20,300)	(83,344)	(15,576)	(119,220)	(2,035)	(31,161)	2,119	(150,297)
Amortization	(8,055)	(25,901)	(3,307)	(37,263)	(7,488)	(2,340)	-	(47,091)
Interest expense	-	-	-	-	-	(11,885)	-	(11,885)
Income (loss) before income taxes	\$39,088	\$18,205	\$2,024	\$59,317	\$94,639	\$(39,234)	-	\$114,722
Net additions (reductions) to:								
Capital assets ⁽¹⁾	\$4,672	\$13,213	\$(20,457)	\$(2,572)	\$22,013	\$2,349	-	\$21,790
Long-term investment and other assets ⁽²⁾	-	-	-	-	\$(530)	\$18,396	-	\$17,866
Goodwill	\$18,045	\$215	-	\$18,260	-	-	-	\$18,260
Segmented assets	\$241,198	\$507,876	\$124,702	\$864,924	\$151,401	\$147,537	-	\$1,172,714

(1) Includes non-cash transactions of \$33,516.

(2) Includes non-cash transactions of \$12,711.

29. SUBSEQUENT EVENTS

Acquisition of Glenridge Wind Development Project

On January 7, 2009 AltaGas acquired the Glenridge wind development project for \$2.2 million. The development assets are located near Medicine Hat, Alberta and are expected to provide AltaGas with the potential to develop approximately 100 MW of wind power generation.

Financing

On January 27, 2009 AltaGas entered into an agreement with a syndicate of underwriters, co led by TD Securities Inc. and Clarus Securities Inc. under which the underwriters agreed to purchase from AltaGas and sell to the public 6,100,000 trust units at a purchase price of \$16.50 per unit. On February 10, 2009 AltaGas announced the closing of the offering resulting in gross proceeds of approximately \$100 million. The net proceeds from the offering will be used to reduce indebtedness. The offering forms part of a comprehensive debt and equity financing plan which includes the equity offering as well as a new syndicated revolving and term credit facility. The new facility replaces the Trust's \$250 million, 18-month credit facility expiring in September 2009.

Investment in Magma Energy Corp.

On January 15, 2009 AltaGas invested \$10 million to acquire approximately a five percent equity position in Magma Energy Corp. (Magma), a private company focused on the exploration, development and operation of geothermal energy projects. AltaGas also received the right to acquire a direct interest in certain future geothermal projects developed or acquired by Magma. Magma currently owns and operates an 8-MW geothermal energy plant in Nevada as well as a portfolio of geothermal exploration and development projects in the western United States, Argentina, Chile, Nicaragua and Peru.