



ALTAGAS ANNOUNCES 7 PERCENT INCREASE IN MONTHLY DISTRIBUTION TO \$0.16 PER UNIT AND REPORTS ANOTHER STRONG QUARTER

CALGARY, August 10, 2005 (TSX: ALA.UN) AltaGas Income Trust (“AltaGas” or “the Trust”) today announced that the Board of Directors of AltaGas General Partner Inc., delegate of the Trustee, increased the Trust’s monthly cash distribution to \$0.16 per Trust unit and limited partnership unit (collectively Units) (\$1.92 per Unit annualized) from \$0.15 per Unit (\$1.80 per Unit annualized). Payable on September 15, 2005 to unitholders of record as of August 25, 2005, the distribution represents a 7 percent increase over the previous monthly distribution.

David Cornhill, Chairman and CEO of AltaGas, commented, “Our first year as an income trust was an outstanding success for AltaGas. Our quality assets and strong financial performance provide a solid foundation for predictable and sustainable cash flow. We are delighted to announce the increase in our distribution to unitholders.”

AltaGas reported strong second quarter earnings with a 35 percent increase in net income to \$19.1 million (\$0.35 per unit), compared to the second quarter of 2004 normalized for one-time costs related to the income trust conversion. For the first six months of the year, AltaGas had net income of \$46.7 million (\$0.87 per unit) compared to \$22.9 million (\$0.49 per unit) during the same period last year. AltaGas’ success in the second quarter was attributable to strong operating performance and contributions from acquisitions made in the latter half of 2004, as well as lower income taxes in the Trust structure, partially offset by a one-time after-tax charge of \$0.5 million related to its equity interest in Taylor NGL Limited Partnership (Taylor). The key drivers of the positive results in the first half of the year were the same as those for the quarter, in addition to the one-time, after-tax gain of \$7.9 million from AltaGas’ percentage ownership reduction in Taylor recorded in the first quarter.

HIGHLIGHTS

- Net income for the three months ended June 30, 2005 was \$19.1 million, up from \$11.9 million for the three months ended June 30, 2004
- For the first six months of 2005 net income was \$46.7 million, up from \$22.9 million for the same period in 2004
- Funds generated from operations were \$30.4 million for second quarter 2005, compared to \$24.0 million in the same period last year
- Funds generated from operations for the six months ended June 30, 2005 were \$61.5 million, up from \$46.1 million for the same period last year
- Distributable cash increased to \$27.9 million (\$0.52 per unit) in second quarter 2005, from \$23.0 million (\$0.49 per unit) in second quarter 2004
- Year-to-date distributable cash increased to \$57.6 million (\$1.07 per unit) from \$43.8 million (\$0.94 per unit) in the first six months of 2004
- On May 25, 2005, AltaGas announced that its Board of Directors had approved in principle the spin out of the natural gas distribution business of AltaGas as a public corporation separate from the Trust

and its subsidiaries. The spin out is expected to be completed by late third quarter or early fourth quarter 2005.

AltaGas will hold a teleconference today at 2:00 p.m. (Mountain)/ 4:00 p.m. (Eastern) to discuss the second quarter 2005 financial and operational results and other general issues and developments concerning the Trust. Members of the media, investment community and other interested parties may dial 416-640-4127 or toll free at 800-814-4861. No passcode is required.

Please note that the conference call will also be webcast. To listen, please connect here:

<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1174360>

Shortly after the conclusion of the call, a replay will be available by dialing 416-640-1917 or 877-289-8525. The pass code is 21130923 followed by the pound key. The replay will expire at midnight (Eastern) on August 17, 2005. The webcast will be archived for approximately one month.

ABOUT ALTAGAS

AltaGas moves energy from its source to the end user, adding value through the process. The Trust has consolidated assets totalling over \$1 billion and a market capitalization of approximately \$1.4 billion. Its steadily expanding asset base today includes natural gas gathering and processing facilities, interests in ethane and natural gas liquids extraction plants, and transmission pipelines. AltaGas distributes natural gas to Alberta customers through AltaGas Utilities Inc., to customers in the Northwest Territories through Inuvik Gas Ltd. and in Nova Scotia through its interest in Heritage Gas Limited. The Trust provides energy services to customers, including marketing of natural gas and natural gas liquids, sale of power from its power purchase arrangements and as a leading energy agency business, specializes in the procurement and supply of energy to end users.

AltaGas' Trust Units are listed on the Toronto Stock Exchange under the symbol ALA.UN. The Trust is included in the S&P/TSX Capped Income Trust Index and the S&P/TSX Capped Energy Trust Index.

When used in this news release, the words "anticipate," "estimate," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated in the forward looking statements. These risks and uncertainties include operating performance, regulatory and environmental issues, weather and economic conditions, competition and financing availability. For additional information on these and other factors see the reports filed by AltaGas with Canadian securities regulators. AltaGas disclaims any intention or obligation to update or revise any forward looking information whether as a result of new information or future event.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) of operations and unaudited interim consolidated financial statements presented herein report on a continuity-of-interest accounting basis which recognizes AltaGas Income Trust (AltaGas or the Trust) as the successor to AltaGas Services Inc. (ASI). This MD&A dated August 10, 2005 is a review of the results of operations and the liquidity and capital resources of the Trust. It should be read in conjunction with the accompanying unaudited consolidated financial statements of the Trust for the three and six month periods ended June 30, 2005 and the notes thereto and with the audited consolidated financial statements and MD&A contained in the Trust's annual report for the year ended December 31, 2004.

This MD&A contains forward-looking statements. When used in this MD&A the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Trust or an affiliate of the Trust, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Trust's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Trust's actual results, performance or achievements to vary from those described in this MD&A. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements included in this MD&A herein should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Trust does not intend, and does not assume any obligation, to update these forward-looking statements.

Additional information relating to AltaGas Income Trust can be found on its website at www.altagas.ca. The continuous disclosure materials of the Trust, including its annual MD&A and audited financial statements, Annual Information Form, Information Circular and Proxy Statement, material change reports and press releases issued by the Trust are also available through the Trust's website or directly through the SEDAR system at www.sedar.com.

ALTAGAS INCOME TRUST

On April 29, 2004 the securityholders of AltaGas Services Inc. (ASI) voted in favour of a plan of arrangement to reorganize the business into an open-ended investment trust effective May 1, 2004. For each common share of ASI, shareholders received either one unit of the Trust (trust unit) or one exchangeable unit of AltaGas Holding Limited Partnership No. 1 or AltaGas Holding Limited Partnership No. 2 (trust units and exchangeable units being collectively units). As a result of implementing the reorganization, the Trust now indirectly holds through its subsidiaries and partnerships all of the assets, liabilities and businesses formerly owned by AltaGas Services Inc. The material businesses are operated by AltaGas Ltd., AltaGas Operating Partnership, AltaGas Limited Partnership, AltaGas Power Holdings Partnership, AltaGas Pipelines Partnership and AltaGas Utilities Inc. (collectively the operating subsidiaries). The cash flows of the Trust are solely dependent on the results of the operating subsidiaries and are derived from interest earned on loans to the operating subsidiaries and from dividends or returns of capital from equity interests held within the trust structure.

AltaGas General Partner Inc., through its Board of Directors who are elected by the Trust at the direction of the holders of the units, manages or supervises the management of the business and affairs of the Trust. AltaGas Ltd. provides all management, administrative and operating services to the Trust and its subsidiaries.

DISTRIBUTIONS

AltaGas' distributions are determined giving consideration to the ongoing sustainable distributable cash flow as impacted by the consolidated net income, maintenance and growth capital and debt repayment requirements of the Trust.

The Trust pays cash distributions on the 15th day of each month, to unitholders of record on the 25th day of the previous month or in each case the following business day if the payment date or record date falls on a weekend or holiday.

Second quarter 2005 distributions declared were \$0.15 monthly, or \$0.45 per unit, amounting to \$24.3 million. During the second quarter of 2004 the Trust paid distributions of \$0.30 per unit, totaling \$6.9 million. On August 10, 2005 the Trust announced an increase in the monthly distribution per unit of \$0.01 to \$0.16 per unit. The following table summarizes AltaGas' dividend and distribution declaration history⁽¹⁾.

(dollars per unit)	2005	2004	2003	2002	2001
First quarter	\$ 0.45	\$ 0.11	\$ 0.08	\$ 0.06	\$ 0.03
Second quarter	0.45	0.30	0.08	0.06	0.03
Third quarter		0.45	0.11	0.08	0.06
Fourth quarter		0.45	0.11	0.08	0.06
	\$ 0.90	\$ 1.31	\$ 0.38	\$ 0.28	\$ 0.18

⁽¹⁾ Dividends were paid to shareholders from first quarter 2001 through first quarter 2004. The Trust conversion occurred in May 2004 and monthly distributions to unitholders began in May 2004.

AltaGas has Premium DistributionTM, Distribution Reinvestment and Optional Unit Purchase plans (DRIP) for eligible holders of trust units and exchangeable units of AltaGas Income Trust and AltaGas Holding Limited Partnership No. 1. DRIP participation generated \$6.8 million in new equity through the issuance of 291,214 trust units in the second quarter of 2005. Since the DRIP was introduced in May 2004 it has contributed a total of \$23.2 million of new equity as of June 30, 2005. Complete details on DRIP are available on the AltaGas website at www.altagas.ca.

CONSOLIDATED RESULTS

Consolidated Financial Results (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenue	321.1	175.4	670.1	368.9
Net revenue ⁽¹⁾	65.4	59.5	143.4	116.7
EBITDA ⁽¹⁾	34.1	27.8	80.4	59.0
Net income	19.1	11.9	46.7	22.9
Net additions to capital assets	9.7	6.2	8.6	20.5
Total assets	1,069.8	952.6	1,069.8	952.6
Long-term liabilities	303.6	418.1	303.6	418.1
Cash flows				
Funds generated from operations ⁽¹⁾	30.4	24.0	61.5	46.1
Distributable cash ⁽¹⁾⁽²⁾	27.9	23.0	57.6	43.8
Distributions ⁽³⁾	24.2	6.9	48.2	12.0
(\$ per unit)				
EBITDA	0.63	0.59	1.50	1.27
Net income	0.35	0.25	0.87	0.49
Cash flows				
Funds generated from operations ⁽¹⁾	0.56	0.51	1.15	0.98
Distributable cash ⁽¹⁾⁽²⁾	0.52	0.49	1.07	0.94
Distributions ⁽³⁾	0.45	0.30	0.90	0.41
Units outstanding (millions)				
Basic	53.8	47.2	53.6	46.6
End of period	54.0	51.2	54.0	51.2

⁽¹⁾ Non-GAAP financial measure. See discussion in the following section of this MD&A .

⁽²⁾ Based on cash from operations and is not impacted by investing and financing activities, consequently the first quarter of 2005 does not include proceeds of \$12.8 million from sale of units in Taylor NGL Limited Partnership

⁽³⁾ Distributions of \$0.15 per unit per month paid commencing June 2004 (declared in May) and dividends of \$0.11 per share paid in the first quarter of 2004.

Net income for the three and six month periods ended June 30, 2005 was \$19.1 million and \$46.7 million, respectively, compared to \$11.9 million and \$22.9 million for the same periods in 2004. The increases are mainly due to strong operating performance of acquisitions in the Gathering and Processing and Energy Services segments, as well as lower income taxes in the Trust structure, partially offset by a one-time loss of \$0.5 million resulting from its ownership interest in Taylor NGL Limited Partnership (Taylor). This one-time charge resulted from Taylor's June 29, 2005 management reorganization transaction, partially offset by a dilution gain recorded as a result of an equity issuance. Net income reported for second quarter 2004 included \$3.5 million before tax in costs related to the conversion to an income trust.

On a year-to-date basis, AltaGas' net income includes \$7.4 million of non-recurring items related to its investment in Taylor including gains of \$7.9 million reported in the first quarter of 2005 and losses reported in the second quarter described in the previous paragraph.

Funds generated from operations for the second quarter and first half of 2005 were \$30.4 million and \$61.5 million, respectively, compared to \$24.0 million and \$46.1 million for the same periods in 2004. The increases were mainly driven by higher net income for the periods.

Revenue for the three and six months ended June 30, 2005 increased 83 percent to \$321.1 million and 82 percent to \$670.1 million, respectively, from the same periods in 2004. In the extraction component and the Natural Gas Distribution and Energy Services segments, net revenue better reflects performance than does revenue as changes in the market prices of natural gas and power affect both revenue and cost of sales. Net revenue in the second quarter of 2005 was \$65.4 million, or \$5.9 million higher than the second quarter of 2004. For the first half of 2005 net revenue was \$143.4 million or \$26.7 million higher than the same period in 2004. The increase was primarily due to the acquisition of the Edmonton Ethane Extraction Plant (EEEP) and the PremStar businesses in the latter half of 2004.

Operating and administrative expenses for the second quarter and first half of 2005 were \$31.3 million and \$63.0 million, respectively, compared to \$31.7 million and \$57.7 million for the same periods in 2004. The increase in year-to-date operating and administrative expenses related primarily to increased costs from acquisitions completed in 2004.

Earnings before interest, taxes, depreciation and amortization (EBITDA) for the three months and six months ended June 30, 2005 increased 23 percent to \$34.1 million and 36 percent to \$80.4 million, respectively compared to the same periods in 2004.

Amortization expense for the second quarter and first half of 2005 increased 19 percent to \$12.1 million and 20 percent to \$24.2 million, respectively, compared to the same periods in 2004. The higher expense was due mainly to increases in the Trust's capital asset base from acquisitions and internal expansion projects.

Interest expense for the three and six months ended June 30, 2005 decreased to \$5.0 million and \$10.1 million, respectively, compared to \$5.3 million and \$10.9 million for the same periods in 2004. The decrease was primarily due to lower 2005 average debt balances resulting from the Trust's equity issue in June 2004 and higher funds generated from operations, partially offset by interest on a capital lease entered into in the third quarter of 2004 and higher average interest rates in 2005 when compared to 2004.

Income taxes for the second quarter of 2005 were \$2.5 million less than reported for the same period in the prior year as a result of AltaGas operating as a trust for the full three months in the second quarter in 2005, but only two months for the same period in 2004. For the first half of 2005 income taxes were \$5.6 million less than in the same period in 2004 also related to operating as a trust for the full six months ended June 30, 2005 and for only two months in the same period of 2004. AltaGas' consolidated income from corporations was taxable for the period January 1 through April 30, 2004. Once restructured as an income trust, corporate subsidiaries' taxable income is generally reduced to zero by interest payments to 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. As the Trust is entitled to deduct its administrative costs and distributions to unitholders and since in accordance with its Trust indenture it distributes all of its income to unitholders, the Trust is not expected to be liable for income taxes either currently or in the foreseeable future. Incorporated subsidiaries in AltaGas' Natural Gas Distribution segment, which operate as regulated businesses under Utility Board regulation, will continue to pay income tax.

NON-GAAP FINANCIAL MEASURES

AltaGas provides certain financial measures in this MD&A that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP). These non-GAAP financial measures may not be comparable to similar measures presented by other issuers.

The purpose of these financial measures and their reconciliation to GAAP financial measures are shown below. All of the measures have been calculated consistent with previous disclosures by AltaGas.

Net Revenue (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Net revenue	65.4	59.5	143.4	116.7
Add: Cost of sales	255.7	115.9	526.7	252.2
Revenue (GAAP financial measure)	321.1	175.4	670.1	368.9

In the Energy Services and Natural Gas Distribution segments and the extraction component, net revenue is a better measure of business performance than revenue as changes in the market price of natural gas and power purchased for resale affect both revenue and the cost of sales.

Operating Income (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Operating income	22.0	17.6	56.2	38.8
Add (deduct): Interest	(5.0)	(5.3)	(10.1)	(10.9)
Income taxes	2.1	(0.4)	0.6	(5.0)
Net income (GAAP financial measure)	19.1	11.9	46.7	22.9

AltaGas reports segmented operating income in the Notes to the Consolidated Financial Statements, since interest and income taxes are not allocated to business segments. Operating income is used to measure operating performance without reference to financing decisions and income tax impacts, which are not controlled at the operating management level.

EBITDA (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
EBITDA	34.1	27.8	80.4	59.0
Add (deduct): Amortization	(12.1)	(10.2)	(24.2)	(20.2)
Interest	(5.0)	(5.3)	(10.1)	(10.9)
Income taxes	2.1	(0.4)	0.6	(5.0)
Net income (GAAP financial measure)	19.1	11.9	46.7	22.9

EBITDA is provided to assist in evaluating AltaGas' ability to generate cash and to cover interest payments.

Net Income Before Gains on Reduction in Ownership Interest in Long-term Investments (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Net income before gains on reduction in ownership interest in long-term investments	18.9	12.0	38.6	22.9
Add (deduct): Gains (losses) on investment transactions	0.2 ⁽¹⁾	(0.1)	8.1 ⁽²⁾	-
Net income (GAAP financial measure)	19.1	11.9	46.7	22.9

(1) After-tax gain on equity investment.

(2) After-tax gain on Taylor transactions resulting from sale of Taylor units and dilution gain.

Net income before gains on reduction in ownership interest in long-term investments is provided to assist in evaluating AltaGas' net income without reference to the non-recurring gains from changes in ownership interests in long-term investments or as a result of investee capital issuances and dispositions.

Funds Generated from Operations (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Funds generated from operations	30.4	24.0	61.5	46.1
Add (deduct): Net change in non-cash working capital and other	1.5	0.9	(13.4)	3.0
Cash from operations (GAAP financial measure)	31.9	24.9	48.1	49.1

Funds generated from operations is provided to assist in determining AltaGas' ability to generate cash from operations after interest and taxes, without regard to changes in the Trust's non-cash working capital in the period.

Distributable Cash (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Distributable cash flow	27.9	23.0	57.6	43.8
Add (deduct): Maintenance capital expenditures	2.5	1.0	3.9	2.3
Net change in non-cash working capital and other	1.5	0.9	(13.4)	3.0
Cash from operations (GAAP financial measure)	31.9	24.9	48.1	49.1

The Trust's calculation of distributable cash flow may differ from similar calculations used by comparable entities. Distributable cash is a main performance measure used by management and investors to evaluate the performance of the Trust and its operating subsidiaries.

In the first quarter of 2005, AltaGas sold 1.4 million units of Taylor for proceeds of \$12.8 million. As the Trust's distributable cash is based on cash from operations net of the change in non-cash working capital and maintenance capital expenditures, it is not impacted by changes to cash resulting from investing or financing activities and hence does not include the proceeds from the sale of Taylor units.

RESULTS OF OPERATIONS BY SEGMENT

AltaGas reports consolidated financial and operating results to the operating income level on the basis of three business segments: Gathering and Processing, Energy Services and Natural Gas Distribution.

Operating Income (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Gathering and Processing	9.7	7.2	29.7	19.2
Energy Services	12.0	10.0	21.0	15.3
Natural Gas Distribution	0.3	0.4	5.5	4.3
	22.0	17.6	56.2	38.8

GATHERING AND PROCESSING

The Gathering and Processing segment includes the field gathering and processing, extraction, and transmission components, as well as AltaGas' investments in businesses ancillary to the gathering and processing business.

Financial Results (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenue	73.5	45.9	156.4	90.6
Net revenue	43.5	38.8	97.3	76.6
Operating and administrative expense	26.5	25.1	53.0	44.6
Amortization expense	7.3	6.5	14.6	12.8
Operating income	9.7	7.2	29.7	19.2

Operating Statistics	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Field gathering and processing				
Capacity (Mmcf/d) ⁽¹⁾	916	906	916	906
Throughput (gross Mmcf/d) ⁽²⁾	561	563	560	562
Capacity utilization (percent) ⁽¹⁾	62	62	61	62
Average working interest (percent) ⁽¹⁾	89	89	89	89
Extraction				
Inlet capacity (Mmcf/d) ⁽¹⁾	539	349	539	349
Production (Bbls/d) ⁽²⁾	18,883	9,337	19,987	9,678
Transmission volumes (Mmcf/d) ⁽²⁾⁽³⁾	434	415	432	405

⁽¹⁾ As at June 30

⁽²⁾ Average for the period

⁽³⁾ Excludes condensate pipeline volumes

The Gathering and Processing segment generated revenue for the second quarter and first half of 2005 of \$73.5 million and \$156.4 million, respectively, representing increases of 60 percent and 73 percent when compared to the same periods in 2004.

In the Gathering and Processing segment, net revenue for the three and six month periods ended June 30, 2005 was \$43.5 million and \$97.3 million, respectively, compared to \$38.8 million and \$76.6 million for the same periods in 2004.

Heavy rains and severe weather conditions experienced in Alberta during the month of June had no material impact on the second quarter 2005 Gathering and Processing segment results.

Operating income in Gathering and Processing for the quarter and first half was \$9.7 million and \$29.7 million, respectively, compared to \$7.2 million and \$19.2 million for the same periods in 2004. The increases were driven by the acquisition in extraction and strong operational performance in field gathering and processing, partially offset by \$0.6 million in pre-tax non-recurring losses resulting from AltaGas' ownership interest in Taylor. The increase in the first half of 2005 also included the impact of AltaGas' disposition of 1.4 million units of Taylor in the first quarter of the year, which resulted in a pre-tax gain of \$4.8 million and reduced its ownership interest to 4.0 million units or 14 percent. AltaGas also recorded a dilution gain in the first quarter of 2005 when Taylor offered partnership units for sale in a public offering in which AltaGas did not participate, resulting in a reduction in AltaGas' ownership interest in Taylor to less than 10 percent and a pre-tax dilution gain of \$4.4 million.

In the field gathering and processing component, net revenue for the three and six month periods ended June 30, 2005 was \$30.6 million and \$60.5 million, respectively, compared to \$28.4 million and \$55.0 million for the same periods in 2004. The non-recurring loss related to Taylor recorded in the second quarter 2005 is reported in this component. A combination of AltaGas' contracting practices, strong operational performance and flexibility offset the wet weather and normal second quarter declines from road bans and winter breakup resulting in volumes that were down only slightly from the second quarter of 2004.

During the second quarter, AltaGas continued its program of internal expansion in the field gathering and processing component, initiating projects in Marten Creek, Kirkpatrick Lake, Mundare and Prairie River. These development projects are supported by producer commitments designed to minimize AltaGas' financial exposure to potential throughput declines.

In the extraction component, higher volumes processed resulted in net revenue for the three and six month periods ended June 30, 2005 of \$6.8 million and \$13.9 million, respectively, compared to \$3.6 million and \$7.1 million for the same periods in 2004. Average ethane and NGL volumes extracted for the second quarter and first half of 2005 more than doubled, reaching 18,883 and 19,987 Bbls/d, respectively, compared to the same periods in 2004. Volume and net revenue increases in 2005 were mainly due to the acquisition of a 48 2/3 percent interest in EEEP in late August 2004.

Gross invested capital in the Gathering and Processing segment was \$7.2 million for the second quarter and \$10.8 million (before disposition of non-core assets and the Taylor units) for the six months ended June 30, 2005 compared to \$1.1 million for the second quarter of 2004 and \$15.3 million for the six months ended June 30, 2004.

Gathering and Processing Outlook

For the remainder of 2005 natural gas prices are expected to remain strong and continue to drive high levels of drilling activity in AltaGas' catchment areas.

The full-year impact of the EEEP acquisition combined with the realization of value chain synergies with other components of the Trust are expected to provide stronger financial results in the extraction component in 2005.

Capital expenditures in the Gathering and Processing segment for the remainder of the year are expected to be in excess of \$20 million, with the majority of the spending to occur in the field gathering and processing component.

ENERGY SERVICES

The Energy Services segment includes the power services and gas services components. This segment also includes the results of the oil and gas production component. AltaGas is not in the business of exploration and development of natural gas reserves; however, associated with certain of its facility acquisitions, AltaGas has accumulated a portfolio of oil and natural gas reserves that it continues to hold and produce.

Financial Results	Three months ended		Six months ended	
	June 30		June 30	
(\$ millions)	2005	2004	2005	2004
Revenue	270.3	124.1	553.9	257.5
Net revenue	19.6	14.6	36.1	24.4
Operating and administrative expense	4.8	2.5	9.5	4.9
Amortization expense	2.8	2.1	5.6	4.2
Operating income	12.0	10.0	21.0	15.3

Operating Statistics	Three months ended		Six months ended	
	June 30		June 30	
	2005	2004	2005	2004
Power services				
Volume of power sold (thousands of MWh)	860	862	1,711	1,725
Average price received on the sale of power (\$/MWh)	50.37	49.88	48.81	47.83
Alberta Power Pool average spot price (\$/MWh)	51.46	60.07	48.68	54.43
Gas services				
Retail energy services contracts ⁽¹⁾	446	-	446	-
Average wholesale volumes marketed (GJ/d)	301,416	136,489	321,732	154,543

⁽¹⁾ Active retail energy service contracts at the end of the reporting period

Net revenue in the Energy Services segment for the three and six months ended June 30, 2005 was \$19.6 million and \$36.1 million, respectively, compared to \$14.6 million and \$24.4 million for the same periods in 2004. The increase was mainly due to an acquisition in the gas services component in October 2004, combined with increased margins in the power services component.

Net revenue from the power services component for the quarter and first half of the year ended June 30, 2005 was \$14.3 million and \$24.6 million, representing increases of 10 percent and 19 percent, respectively, compared to the same periods in 2004. The increases can largely be attributed to lower transmission costs resulting from lower rates, lower power pool prices and lower generation.

AltaGas reduces its exposure to power price volatility by locking in prices on a substantial portion of its power supply. This is done by entering into forward contracts with terms ranging from one month to three years. The average prices received for power sales and the average Alberta Power Pool spot prices for the three and six months ended June 30, 2005 are provided in the above table.

The gas services component's net revenue for the three and six months ended June 30, 2005 was \$3.5 million and \$7.6 million, compared to \$nil and \$0.3 million for the same periods in 2004. The increase was driven by service fees earned by the PremStar businesses.

Energy Services Outlook

The Energy Services segment outlook for 2005 remains positive. The power services component is expected to continue to benefit from disciplined price hedging, with a significant portion of its power supply sales for the remainder of the year locked in at higher average prices than in the prior year. In the gas services component, PremStar continues to generate cash flow and earnings in line with expectations and is achieving high rates of customer contract renewals in the ECNG retail services business.

NATURAL GAS DISTRIBUTION

The Natural Gas Distribution segment includes AltaGas Utilities Inc. (AUI), AltaGas' one-third interest in Inuvik Gas Ltd. and its 24.9 percent interest in Heritage Gas Limited (Heritage).

Financial Results (\$ millions)	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenue	22.0	20.6	68.4	68.7
Net revenue	6.9	6.2	18.7	15.9
Operating income	0.3	0.4	5.5	4.3

Operating Statistics⁽¹⁾	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Volume of natural gas distributed				
Sales (Bcf)	2.0	2.2	7.4	7.8
Transportation (Bcf)	2.4	2.6	4.9	5.6
Degree day variance (percent) ⁽²⁾	(4.2)	11.5	(2.4)	4.3
Number of customers ⁽³⁾	60,866	59,266	60,866	59,266

⁽¹⁾ AUI only

⁽²⁾ Variance from 20-year average. Positive variances are favourable.

⁽³⁾ At June 30

The natural gas distribution business is highly seasonal with the majority of natural gas deliveries occurring during the winter heating season. Gas sales during the winter typically account for approximately two-thirds of segment annual net revenue, resulting in strong first and fourth quarter results and second and third quarter results that show either small profits or losses.

For the second quarter and first half of 2005, net revenue in AltaGas' Natural Gas Distribution segment was \$6.9 million and \$18.7 million, respectively, compared to \$6.2 million and \$15.9 million for the same periods in 2004. The Natural Gas Distribution segment's results are driven mostly by changes in AUI's business. In the first quarter of 2004, AUI recorded negative revenue deficiency adjustments related to 2003 and 2004 to correct rates to those allowed in GRA filings that were lower than anticipated. In the first quarter of 2005, AUI recorded favourable adjustments to net revenue to reflect higher anticipated GRA rates for the 2005 year. Without these adjustments, the quarter-over-quarter and year-over-year differences would relate solely to differences in weather.

In December 2004 AUI filed a Phase 1 General Rate Application for 2005 and 2006. A hearing on the application was completed on July 20, 2005 and a decision on this phase is expected in the fourth quarter of 2005.

Heritage continues to expand service within the Dartmouth area and has commenced construction of facilities to serve customers in the town of Amherst.

Natural Gas Distribution Outlook

The outlook for the Natural Gas Distribution segment for 2005, given weather patterns consistent with the first half of the year, is to achieve results similar to those in the first half of the year. Heritage Gas will be investing capital in the build out to Amherst, but the 2005 results are not expected to be materially impacted.

Capital expenditures in the Natural Gas Distribution segment are expected to be in excess of \$5.0 million over the remainder of 2005 with the majority of the spending expected to be in AUI and Heritage.

On May 25, 2005 AltaGas announced that its Board of Directors had approved in principle the spin out of the natural gas distribution business of AltaGas as a public corporation separate from AltaGas Income Trust and its subsidiaries.

As part of the transaction it is anticipated that AltaGas unitholders will receive a distribution of shares of a newly formed corporation that would indirectly own the assets of the natural gas distribution business. The disposition is subject to various regulatory approvals and is expected to be completed by late third quarter or early fourth quarter 2005.

SUMMARY OF EIGHT MOST RECENTLY COMPLETED CONSOLIDATED QUARTERLY RESULTS

(\$ millions)	Q2-05	Q1-05	Q4-04	Q3-04	Q2-04	Q1-04	Q4-03 ⁽¹⁾	Q3-03 ⁽¹⁾
Net revenue	65.4	78.0	71.6	61.5	59.5	57.2	61.0	53.3
Operating income	22.0	34.2	29.4	23.4	17.6	21.2	25.9	19.2
Net income	19.1	27.6	25.8	17.1	11.9	11.0	12.0	9.3
(\$ per unit)								
Earnings								
Basic	0.35	0.52	0.49	0.33	0.25	0.24	0.26	0.20
Diluted	0.35	0.52	0.48	0.33	0.25	0.24	0.26	0.20
Dividends/distributions ⁽²⁾	0.45	0.45	0.45	0.45	0.30	0.11	0.11	0.11

⁽¹⁾ Prior periods have been restated for the impacts of the adoption of CICA Handbook guidance on accounting for asset retirement obligations.

⁽²⁾ The Trust pays a monthly distribution of \$0.15 per unit. The distributions for the second quarter of 2004 are for the period starting May 1, 2004, the effective date of the Trust. Prior to May 1, 2004 ASI paid quarterly dividends from the first quarter of 2001 through the first quarter of 2004.

Identifiable trends in AltaGas' business in the past eight quarters reflect the organization's growth, a favourable business environment and seasonality in the business.

The Natural Gas Distribution segment distributes natural gas primarily for heating purposes, and therefore reports higher net revenues in the first and fourth quarters, due to the high physical volumes of gas delivery during the winter heating season. Operating costs, on the other hand, are generally incurred uniformly over the year. This typically results in profitable first and fourth quarters and second and third quarter losses for the segment.

The conversion to a Trust was effective May 1, 2004. Operating performance improvements, acquisitions and a positive income tax impact resulting from the reorganization into a Trust helped AltaGas achieve period over period improvements in the results.

Operating performance improvements are driven by growth from internal expansion and investment in assets of the Trust. AltaGas invests capital in its portfolio of long-term operating assets to expand existing capacities and to increase operating efficiencies where possible.

Significant items which have impacted individual quarterly earnings were as follows:

- Fourth quarter 2003 net income was higher by approximately \$0.2 million as a result of the expansion of the Empress extraction facility completed late in the third quarter of 2003.
- Net income for the first quarter of 2004 included approximately \$0.4 million contributed from the Rainbow Lake gathering and processing facilities acquired in late 2003.

- Second quarter 2004 net income was unfavourably impacted by \$2.4 million in non-cash compensation expense recorded as the result of all outstanding unvested employee trust unit options vesting effective May 1, 2004 and by trust conversion costs of \$3.5 million partially offset by reduced income tax expense resulting from the conversion to a trust.
- Net income in the third quarter of 2004 reflected continuing trust conversion costs, with AltaGas recording \$0.9 million of trust conversion expenses for the quarter. During the quarter AltaGas also closed the acquisition of a 48 2/3 percent interest in EEEP from BP Canada Energy Resources Company adding \$0.4 million to net income.
- Fourth quarter 2004 net income included the results of the PremStar businesses, acquired on October 6, 2004, which increased net income by \$1.4 million for the quarter.
- Net income for the first quarter of 2005 was impacted by a \$7.9 million after-tax gain related to the change in the Trust's ownership interest in Taylor.

Second quarter 2005 results are discussed in detail in an earlier section of this MD&A.

CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants (CICA) issued Accounting guideline 15 (AcG-15) "Consolidation of Variable Interest Entities", which is effective for annual and interim reporting periods commencing after November 1, 2004. This guideline requires organizations to assess any entity in which it may have a variable interest to determine whether or not the assets, liabilities and results of the entities' activities should be reported on other than a consolidated basis. AltaGas' has determined there is no requirement for change to its reporting with regard to its interests in those entities reported in its consolidated financial statements.

On March 18, 2005 the CICA issued revised Emerging Issues Committee Abstract (EIC) 151 "Exchangeable Securities issued by Subsidiaries of Income Trusts". The EIC states that exchangeable securities issued by a subsidiary of an income trust should be reflected as either non-controlling interest or debt in the consolidated balance sheet unless they meet certain criteria. Exchangeable securities issued and outstanding by AltaGas Limited Partnership No. 1 at December 31, 2004 and June 30, 2005 meet the criteria for equity presentation and as a result, EIC 151 has no effect on AltaGas.

CRITICAL ACCOUNTING ESTIMATES

AltaGas' financial statements have been prepared in accordance with generally accepted accounting principles. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. AltaGas' critical accounting estimates continue to be amortization expense, asset retirement obligations and asset impairment assessment. For a full discussion of these critical accounting estimates, refer to the MD&A provided in AltaGas' 2004 Annual Report.

FINANCIAL INSTRUMENTS

AltaGas enters into financial derivative contracts such as swaps and collars to manage exposure to fluctuations in commodity prices and interest rates, particularly in the power services component and with respect to interest rates on debt. These contracts are designed as hedges and gains and losses relating to such contracts are deferred and recognized in the same period and financial statement category as the corresponding hedged transaction.

The most significant impact of these contracts on the 2005 financial performance of AltaGas has been to provide revenue stability in the power services component. Alberta Power Pool prices ranged from \$7.44 per MWh to \$497.58 per MWh in the second quarter of 2005. Through the use of financial hedges on the

portion of its 2005 power portfolio deemed optimal by management, AltaGas moderated the impact of this volatility on its business.

AltaGas reduces financing costs and minimizes the effect of future interest rate movements on its cash flows through the use of interest rate swaps. At June 30, 2005 the Trust had interest rates fixed through swap transactions with varying terms to maturity on \$185.0 million of its \$222.3 million total drawn bank debt. Including AltaGas' medium-term notes and capital leases, the rate has been fixed on 88 percent of AltaGas' total debt. The amount of fixed-rate debt was higher than the Trust's target of 70 to 75 percent of total debt due to the proceeds of the June 2004 equity offering being applied to floating rate debt.

INVESTED CAPITAL

During the second quarter of 2005, AltaGas invested \$9.9 million in capital assets, energy services arrangements, contracts and relationships and long-term investments, compared to \$3.2 million in the same period in 2004. For the six months ended June 30, 2005 the Trust invested \$15.9 million, compared to \$19.6 million for 2004. Net invested capital after the disposal of non-core assets and the Taylor disposition in the first quarter was \$0.7 million for the first half of 2005.

Invested capital by segment

For the three months ended June 30, 2005	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Additions, net of disposals:				
Capital assets	\$ 7.1	\$ 0.2	\$ 2.4	\$ 9.7
Energy service arrangements, contracts and relationships	-	-	-	-
Long-term investments and other assets	0.1	-	0.1	0.2
	\$ 7.2	\$ 0.2	\$ 2.5	\$ 9.9
<hr/>				
For the three months ended June 30, 2004	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Additions, net of disposals:				
Capital assets	\$ 4.3	\$ -	\$ 1.9	\$ 6.2
Energy service arrangements, contracts and relationships	-	-	-	-
Long-term investments and other assets	(3.2)	-	0.2	(3.0)
	\$ 1.1	\$ -	\$ 2.1	\$ 3.2

For the six months ended June 30, 2005	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Additions, net of disposals:				
Capital assets	\$ 3.6	\$ 0.7	\$ 4.3	\$ 8.6
Energy service arrangements, contracts and relationships	-	-	-	-
Long-term investments and other assets	(8.0)	-	0.1	(7.9)
	\$ (4.4)	\$ 0.7	\$ 4.4	\$ 0.7

For the six months ended June 30, 2004	Gathering and Processing	Energy Services	Natural Gas Distribution	Total
Additions, net of disposals:				
Capital assets	\$ 16.5	\$ 0.3	\$ 3.7	\$ 20.5
Energy service arrangements, contracts and relationships	-	-	-	-
Long-term investments and other assets	(1.2)	-	0.3	(0.9)
	\$ 15.3	\$ 0.3	\$ 4.0	\$ 19.6

AltaGas categorizes its net invested capital into maintenance, growth and administrative categories. Growth capital accounted for \$6.6 million in the second quarter of 2005, compared to \$1.2 million for the same quarter in 2004, which included Gathering and Processing facility acquisitions and expansions as well as expansions in the Natural Gas Distribution segment. Maintenance capital projects amounting to \$2.5 million in second quarter of 2005 and \$1.0 million for the same period of 2004 were undertaken mainly in the Gathering and Processing and Natural Gas Distribution segments to maintain the productive capability of the facilities and gathering and distribution systems. Administrative capital expenditures, including computer hardware and software projects, totaled \$0.8 million in the second quarter of 2005 compared to \$1.0 million for the same period in 2004.

Growth capital spending was \$10.5 million (before considering the impact of \$15.2 million in dispositions) in the first half of 2005, compared to \$15.4 million for the same period in 2004. Maintenance capital projects amounting to \$3.9 million in the first half of 2005 and \$2.3 million for the same period of 2004 were undertaken mainly in the Gathering and Processing and Natural Gas Distribution segments. Administrative capital expenditures, including computer hardware and software projects, totaled \$1.5 million in the first half of 2005 compared to \$1.9 million for the same period in 2004.

The composition of investing activity for the second quarter and first half of 2005 and 2004 are as follows:

Invested capital by activity

	For the three months ended June 30, 2005	Gathering and Processing	Energy Services	Natural Gas Distribution	Total			
Capital								
Maintenance	\$	1.2	\$	0.2	\$	1.1	\$	2.5
Growth		5.5		(0.1)		1.2		6.6
Administrative		0.5		0.1		0.2		0.8
	\$	7.2	\$	0.2	\$	2.5	\$	9.9

	For the three months ended June 30, 2004	Gathering and Processing	Energy Services	Natural Gas Distribution	Total			
Capital								
Maintenance	\$	0.7	\$	-	\$	0.3	\$	1.0
Growth		(0.4)		-		1.6		1.2
Administrative		0.8		-		0.2		1.0
	\$	1.1	\$	-	\$	2.1	\$	3.2

	For the six months ended June 30, 2005	Gathering and Processing	Energy Services	Natural Gas Distribution	Total			
Capital								
Maintenance	\$	1.8	\$	0.4	\$	1.7	\$	3.9
Growth		(7.3)		0.1		2.5		(4.7)
Administrative		1.1		0.2		0.2		1.5
	\$	(4.4)	\$	0.7	\$	4.4	\$	0.7

	For the six months ended June 30, 2004	Gathering and Processing	Energy Services	Natural Gas Distribution	Total			
Capital								
Maintenance	\$	1.2	\$	-	\$	1.1	\$	2.3
Growth		12.9		-		2.5		15.4
Administrative		1.2		0.3		0.4		1.9
	\$	15.3	\$	0.3	\$	4.0	\$	19.6

LIQUIDITY AND CAPITAL RESOURCES

The Trust believes that its access to debt and equity markets, unutilized bank credit facilities, funds generated from operations and funds generated from the Trust's Distribution Reinvestment and Premium Distribution™ programs will provide it with sufficient capital resources and liquidity to fund existing operations, future distributions, and certain acquisition and expansion opportunities in 2005. A description of the Trust's credit facilities can be found in Notes 9 and 10 to the consolidated financial statements included in the Trust's 2004 Annual Report.

On April 29, 2005 AltaGas announced that it had filed a Universal Shelf Prospectus with Canadian Securities Commissions pursuant to which AltaGas Income Trust may issue up to an aggregate of \$500 million of trust units and debt securities over a 25 month period. This filing will provide AltaGas with the flexibility to raise funds from the offering of trust units or debt securities through one or more methods of distribution when market conditions are appropriate. AltaGas plans to use the proceeds raised from any offerings to reduce outstanding indebtedness under the Trust's existing credit facilities and for general corporate purposes including the financing of acquisitions, other capital expenditures and investments.

Operating Activities

Funds generated from operations before changes in operating assets and liabilities were \$30.4 million and \$61.5 million for the three and six months ended June 30, 2005, respectively, compared with \$24.0 million and \$46.1 million for the same periods in 2004. The increases primarily reflected increased earnings compared to the second quarter and first half of 2004.

AltaGas had a working capital deficit of \$94.3 million at June 30, 2005, compared to a working capital deficit of \$106.5 million at December 31, 2004 and a working capital surplus of \$47.9 million at June 30, 2004. The primary driver for the change in working capital compared to June 30, 2004 was the reclassification on the balance sheet of AltaGas' \$100.0 million medium-term notes (MTNs) due October 4, 2005 to current portion of long-term debt.

Investing Activities

Cash used for investing activities for the quarter ended June 30, 2005 was \$8.8 million compared with \$6.3 million for the same period in 2004. This increase reflected decreased expenditures on capital assets in 2005 related to timing of capital projects.

Cash provided by investing activities for the first half of the year ended June 30, 2005 was \$5.1 million, compared to cash used for investing activities of \$24.6 million for the same period in 2004. The increase in cash from investing activities reflects decreased capital expenditures and proceeds on disposition of long-term investments and non-core capital assets.

Financing Activities

Cash used in financing activities was \$23.2 million and \$53.1 million for the three and six month periods ended June 30, 2005, respectively, compared to cash provided by financing activities of \$21.6 million and \$15.8 million for the same periods in 2004. The proceeds received on the issuance of units by AltaGas in June 2004 were offset by the repayment of long-term debt in the second quarter of 2005.

The use of debt or equity funding is based on AltaGas' capital structure determined by considering the norms and risks associated with each of its business components and segments. At June 30, 2005 AltaGas had total debt outstanding of \$339.2 million, down from \$359.5 million at December 31, 2004. AltaGas Operating Partnership had \$100.0 million in MTNs outstanding and AltaGas Holding Limited Partnership No.1 had access to prime loans, bankers' acceptances and letters of credit through bank lines totaling \$425.0 million. As at June 30, 2005 AltaGas Holding Limited Partnership No.1 had drawn bank debt of \$222.3 million and letters of credit outstanding of \$36.8 million. These two entities fund all operating subsidiaries. As an income trust, AltaGas targets a debt to total capitalization ratio of between 45 and 50 percent. The Trust's debt to total capitalization ratio as at June 30, 2005 decreased to 40.5 percent from 42.6 percent at December 31, 2004.

RISK FACTORS

Management has identified the primary risk factors that could potentially have a material impact on the financial results and operations of AltaGas. These risk factors are presented in the MD&A and AltaGas'

Annual Information Form for the year ended December 31, 2004. Management has determined that with respect to continuing operations, AltaGas' market, financial and counterparty risks remain substantially unchanged since December 31, 2004.

TRUST UNIT INFORMATION

Under the terms of the restructuring of AltaGas into an income trust effective May 1, 2004, ASI securityholders exchanged their shares in the company for trust units and eligible securityholders also received exchangeable units that are exchangeable into trust units on a one for one basis. The exchangeable units are not listed for trading on an exchange.

At July 29, 2005 the Trust had 52.0 million trust units and 2.1 million exchangeable units outstanding and a market capitalization of \$1.4 billion based on a closing trading price on July 29, 2005 of \$26.75 per trust unit. At July 29, 2005 there are 0.2 million options exercisable under the terms of the unit option plan.

OFF BALANCE SHEET ARRANGEMENTS

The Trust is not party to any contractual arrangement under which an unconsolidated entity may have any obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. The Trust has no obligation under derivative instruments, nor under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

CONTRACTUAL OBLIGATIONS

There have been no material changes to AltaGas' contractual obligations since December 31, 2004. For further information on these contractual obligations, refer to the MD&A in AltaGas' 2004 Annual Report.

SUBSEQUENT EVENTS

On July 1, 2005 AltaGas implemented a defined contribution pension plan for substantially all of its full-time employees not employed in AltaGas Utilities Inc. Under the plan AltaGas will make contributions to the plan monthly for both a base employee amount as well as matching up to certain thresholds of contributions made by employees.

UNITHOLDER LIMITED LIABILITY LEGISLATION

On July 1, 2004, the Income Trusts Liability Act (Alberta) came into force. It provides that a unitholder will not be, as a beneficiary, liable for any act, defaults, obligation or liability of the Trustee that arises after the particular provision of such legislation comes into force.

The AltaGas Income Trust indenture itself provides that no unitholder will be subject to any liability in connection with the Trust or its obligations and affairs or for any act or omission of the trustee of the Trust, provided that in the event that a court determines that unitholders are subject to such liabilities, the liabilities will be enforceable only against and will be satisfied out of the Trust's assets. The trust indenture also provides that contracts to which the Trust is a party should contain language restricting the liability of unitholders.

**ALTAGAS INCOME TRUST
CONSOLIDATED BALANCE SHEETS**

(\$ thousands)

	June 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,818	\$ 2,669
Accounts receivable	138,049	160,507
Inventory	398	250
Customer deposits	26,500	26,550
Other	6,813	4,845
	174,578	194,821
Capital assets	737,014	746,729
Energy services arrangements, contracts and relationships	109,491	113,102
Goodwill	18,860	18,860
Future income taxes	-	208
Long-term investments and other assets (note 3)	29,903	34,876
	\$1,069,846	\$1,108,596
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 118,927	\$ 144,594
Distributions payable to unitholders	8,104	7,979
Short-term debt	4,275	7,016
Current portion of long-term debt	101,036	101,001
Customer deposits	26,500	26,550
Other	10,077	14,193
	268,919	301,333
Long-term debt	233,903	251,462
Asset retirement obligations	15,970	16,122
Future income taxes	53,762	56,164
	303,635	323,748
Unitholders' equity (notes 4 and 5)	497,292	483,515
	\$1,069,846	\$1,108,596

See accompanying notes to the consolidated financial statements

ALTAGAS INCOME TRUST
CONSOLIDATED STATEMENTS OF INCOME AND ACCUMULATED EARNINGS
(unaudited)

(\$ thousands except per unit amounts)

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
REVENUE				
Operating	\$ 321,496	\$ 175,069	\$ 660,593	\$ 368,198
Gain on investments (note 3)	152	(142)	9,340	(43)
Other	(556)	474	143	765
	321,092	175,401	670,076	368,920
EXPENSES				
Cost of sales	255,684	115,924	526,688	252,253
Operating and administrative	31,293	31,668	63,010	57,716
Amortization	12,114	10,219	24,169	20,209
	299,091	157,811	613,867	330,178
Operating income	22,001	17,590	56,209	38,742
Interest expense				
Short-term debt	201	140	281	247
Long-term debt	4,808	5,195	9,785	10,623
Income before income taxes	16,992	12,255	46,143	27,872
Income taxes	(2,073)	366	(542)	4,944
Net income	19,065	11,889	46,685	22,928
Accumulated earnings, beginning of period	224,439	142,057	196,819	131,018
Accumulated earnings, end of period	\$ 243,504	\$ 153,946	\$ 243,504	\$153,946
Net income per unit (note 5)				
Basic	\$ 0.35	\$ 0.25	\$ 0.87	\$ 0.49
Diluted	\$ 0.35	\$ 0.25	\$ 0.87	\$ 0.48

See accompanying notes to the consolidated financial statements

ALTAGAS INCOME TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(\$ thousands)

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Cash from operations				
Net income	\$ 19,065	\$ 11,889	\$ 46,685	\$ 22,928
Items not involving cash:				
Amortization	12,114	10,219	24,169	20,209
Accretion of asset retirement obligations	321	378	641	561
Stock option compensation (note 5)	4	2,355	4	2,491
Future income taxes	(2,151)	(438)	(2,004)	84
(Gain) loss on sale of assets and investment transactions	(141)	(37)	(9,347)	40
Equity loss (income)	554	(502)	(127)	(955)
Distributions from equity investments	703	45	1,443	599
Other	(57)	110	67	174
Funds generated from operations	30,412	24,019	61,531	46,131
ARO costs incurred and other	-	-	(145)	-
Net change in non-cash working capital	1,510	927	(13,322)	2,988
	31,922	24,946	48,064	49,119
Investing activities				
Decrease in customer deposits	(1,679)	-	50	-
Acquisition of capital assets	(7,245)	(9,341)	(12,550)	(25,824)
Disposition of capital assets	199	-	5,030	-
Acquisition of energy services arrangements and contracts	-	-	-	(12)
Acquisition of long-term investments and other assets	(283)	(64)	(419)	(2,237)
Disposition of long-term investments and other assets	220	3,140	13,027	3,440
	(8,788)	(6,265)	5,138	(24,633)
Financing activities				
Decrease in short-term debt	(2,919)	(10,578)	(2,706)	(4,491)
Decrease in long-term debt	(3,536)	(42,725)	(17,559)	(51,352)
Dividends	-	-	-	(5,051)
Distributions to unitholders	(24,202)	(6,931)	(48,213)	(6,931)
Net proceeds from issuance of units and common shares (note 5)	7,479	81,814	15,425	83,600
	(23,178)	21,580	(53,053)	15,775
Change in cash and cash equivalents	(44)	40,261	149	40,261
Cash and cash equivalents, beginning of period	2,862	-	2,669	-
Cash and cash equivalents, end of period	\$ 2,818	\$ 40,261	\$ 2,818	\$ 40,261

See accompanying notes to the consolidated financial statements

ALTAGAS INCOME TRUST

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(tabular amounts in \$ thousands)

1. STRUCTURE OF ALTAGAS INCOME TRUST

AltaGas Income Trust (the Trust) is an unincorporated open-ended trust established under the laws of Canada, pursuant to a Declaration of Trust dated March 26, 2004. The Trust commenced operations on May 1, 2004 as successor to AltaGas Services Inc. (ASI) when it acquired all of the shares of ASI for consideration of trust units or exchangeable units on a one for one basis. These unaudited interim consolidated financial statements follow the continuity of interest basis of accounting whereby the Trust is considered a continuation of ASI. As a result, the comparative period figures are those of the Trust, while the results of operations include ASI's results for the period up to and including April 30, 2004 and the Trust's results of operations from May 1, 2004 to June 30, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles. The accounting policies applied are consistent with those outlined in the Trust's annual consolidated financial statements for the fiscal year ended December 31, 2004. These interim consolidated financial statements for the three and six months ended June 30, 2005 do not include all of the disclosures required in the annual financial statements, and should be read in conjunction with the audited consolidated financial statements included in the Trust's Annual Report.

3. GAIN ON INVESTMENTS

On February 7, 2005 the Trust sold 1.4 million partnership units of Taylor NGL Limited Partnership (Taylor) for proceeds of \$12.8 million, realizing a pre-tax gain of \$4.8 million. The sale reduced the Trust's ownership in Taylor to 4.0 million units or 14.0 percent.

On March 22, 2005 Taylor issued 13.0 million limited partnership units. AltaGas did not participate in this issue, which reduced the Trust's ownership in Taylor to 9.6 percent and resulted in a pre-tax dilution gain of \$4.4 million.

On April 4, 2005 AltaGas recognized a pre-tax gain of \$0.1 million resulting from a reorganization of an equity investee.

4. UNITHOLDERS' EQUITY

	June 30, 2005	December 31, 2004
Unitholders' capital (note 5)	\$ 402,063	\$ 386,638
Contributed surplus	2,827	2,823
Accumulated earnings	243,504	196,819
Accumulated dividends	(41,114)	(41,114)
Accumulated unitholders' distributions	(109,988)	(61,651)
	\$ 497,292	\$ 483,515

For the quarter ended June 30, 2005 \$nil (2004 - \$nil) of dividends and \$24.0 million (2004 - \$14.6 million) of distributions were paid by the Trust.

5. UNITHOLDERS' CAPITAL

Authorized

- 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 (LP1) class B limited partnership units, which are exchangeable into trust units on a one for one basis no later than May 1, 2014. 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 LP1 units outstanding fall below 750,000. After May 1, 2014 the exchange is at the option of the Trust.
- an unlimited number of AltaGas Holding Limited Partnership No. 2 (LP2) class B limited partnership units, which are exchangeable into trust units on a one for one basis no later than May 1, 2009. 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 LP2 units outstanding fall below 1,000,000. After May 1, 2009 the exchange is at the option of the Trust.

<i>Trust units issued and outstanding:</i>	Number of units	Amount
December 31, 2004	49,825,241	\$ 367,349
Units issued for cash on exercise of options	292,936	2,627
Units issued under distribution reinvestment program	557,590	12,798
Units issued for exchangeable units	1,223,651	7,003
June 30, 2005	51,899,418	389,777
<i>Exchangeable units issued and outstanding:</i>		
December 31, 2004	3,370,294	19,289
LP1 units redeemed for trust units	(1,223,651)	(7,003)
June 30, 2005	2,146,643	12,286
Issued and outstanding June 30, 2005	54,046,061	\$ 402,063

The Trust has an employee unit option plan under which both employees and directors are eligible to receive grants. At June 30, 2005 3.8 million units were reserved for issuance under the plan. To June 30, 2005 options granted under the plan, including those granted in the second quarter of 2005, generally had a term of ten years to expiry and vested no longer than over a four-year period. On May 1, 2004 subsequent to the establishment of the Trust, all options granted prior to that date were vested.

At June 30, 2005 outstanding options are exercisable at various dates to the year 2015 (2004 - 2014). Options outstanding under the plan have a weighted average exercise price of \$19.47 (2004 - \$9.61) and a weighted average remaining term of 9.40 years (2004 - 7.73 years). As at June 30, 2005 the unexpensed fair value of unit option compensation cost associated with future periods was \$0.1 million (June 30, 2004 - \$nil).

	Number of options	Weighted average exercise price
Unit options outstanding December 31, 2004	349,411	\$ 9.02
Granted	125,200	24.06
Exercised	(292,936)	8.94
Cancelled	(2,000)	23.80
Unit options outstanding June 30, 2005	179,675	\$ 19.47
Exercisable at June 30, 2005	56,475	\$ 9.43

The basic number of units outstanding for the six months ended June 30, 2005 was 53.6 million (June 30, 2004 – 46.6 million) and the diluted number of units outstanding for the six months ended June 30, 2005 was 53.7 million (June 30, 2004 – 47.4 million).

6. SEGMENTED INFORMATION

AltaGas is an integrated energy trust with a portfolio of assets and services used to move energy from the source to the end-user. Transactions between the reporting segments are recorded at fair value. The Trust has three reportable segments:

Gathering and Processing – natural gas gathering and processing, natural gas transmission, and ethane and natural gas liquids extraction.

Energy Services – power services, gas services and oil and natural gas production.

Natural Gas Distribution – natural gas distribution to end-users and related services.

For the three months ended June 30, 2005	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment elimination	Total
Revenue	\$ 73,467	\$ 270,312	\$ 22,011	\$ (44,698)	\$ 321,092
Cost of sales	(29,980)	(250,642)	(15,168)	40,106	(255,684)
Operating and administrative expenses	(26,444)	(4,836)	(4,605)	4,592	(31,293)
Amortization	(7,314)	(2,829)	(1,971)	-	(12,114)
Operating income	\$ 9,729	\$ 12,005	\$ 267	\$ -	\$ 22,001
Net additions to:					
Capital assets	\$ 7,116	\$ 187	\$ 2,399	\$ -	\$ 9,702
Energy Services arrangements, contracts and relationships	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term investments and other assets	\$ 94	\$ -	\$ 81	\$ -	\$ 175
Goodwill	\$ 18,860	\$ -	\$ -	\$ -	\$ 18,860
Segment assets	\$ 770,293	\$ 162,666	\$ 136,887	\$ -	\$ 1,069,846

For the three months ended June 30, 2004	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment elimination	Total
Revenue	\$ 45,952	\$ 124,092	\$ 20,519	\$ (15,162)	\$ 175,401
Cost of sales	(7,185)	(109,432)	(14,339)	15,032	(115,924)
Operating and administrative expenses	(25,063)	(2,581)	(4,154)	130	(31,668)
Amortization	(6,506)	(2,105)	(1,608)	-	(10,219)
Operating income	\$ 7,198	\$ 9,974	\$ 418	\$ -	\$ 17,590
Net additions to:					
Capital assets	\$ 4,347	\$ (40)	\$ 1,904	\$ -	\$ 6,211
Energy Services arrangements, contracts and relationships	\$ -	\$ (12)	\$ -	\$ -	\$ (12)
Long-term investments and other assets	\$ (3,209)	\$ -	\$ 242	\$ -	\$ (2,967)
Goodwill	\$ 18,860	\$ -	\$ -	\$ -	\$ 18,860
Segment assets	\$ 655,842	\$ 166,801	\$ 130,001	\$ -	\$ 952,644

For the six months ended June 30, 2005	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment elimination	Total
Revenue	\$ 156,415	\$ 553,868	\$ 68,385	\$ (108,592)	\$ 670,076
Cost of sales	(59,129)	(517,757)	(49,726)	99,924	(526,688)
Operating and administrative expenses	(52,997)	(9,455)	(9,226)	8,668	(63,010)
Amortization	(14,571)	(5,646)	(3,952)	-	(24,169)
Operating income	\$ 29,718	\$ 21,010	\$ 5,481	\$ -	\$ 56,209
Net additions to:					
Capital assets	\$ 3,574	\$ 702	\$ 4,302	\$ -	\$ 8,578
Energy Services arrangements, contracts and relationships	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term investments and other assets	\$ (7,991)	\$ -	\$ 115	\$ -	\$ (7,876)
Goodwill	\$ 18,860	\$ -	\$ -	\$ -	\$ 18,860
Segment assets	\$ 770,293	\$ 162,666	\$ 136,887	\$ -	\$ 1,069,846

For the six months ended June 30, 2004	Gathering and Processing	Energy Services	Natural Gas Distribution	Intersegment elimination	Total
Revenue	\$ 90,644	\$ 257,501	\$ 68,648	\$ (47,873)	\$ 368,920
Cost of sales	(14,085)	(233,081)	(52,726)	47,639	(252,253)
Operating and administrative expenses	(44,608)	(4,913)	(8,429)	234	(57,716)
Amortization	(12,782)	(4,237)	(3,190)	-	(20,209)
Operating income	\$ 19,169	\$ 15,270	\$ 4,303	\$ -	\$ 38,742
Net additions to:					
Capital assets	\$ 16,454	\$ 262	\$ 3,749	\$ -	\$ 20,465
Energy Services arrangements, contracts and relationships	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term investments and other assets	\$ (1,237)	\$ -	\$ 347	\$ -	\$ (890)
Goodwill	\$ 18,860	\$ -	\$ -	\$ -	\$ 18,860
Segment assets	\$ 655,842	\$ 166,801	\$ 130,001	\$ -	\$ 952,644

7. PENSION PLANS AND RETIREMENT BENEFITS

At June 30, 2005 substantially all full-time employees of the Trust's natural gas distribution subsidiary, AltaGas Utilities Inc., are members of one of two defined benefit non-contributory pension plans. AltaGas Utilities Inc. also has plans that provide other post-retirement benefits such as life insurance and health care.

The total post-retirement benefit cost recorded in the statement of income for the six months ended June 30, 2005 is \$0.5 million (2004 - \$0.6 million).

8. COMPARATIVE FIGURES

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

9. SEASONALITY

The natural gas distribution business is highly seasonal with the majority of natural gas deliveries occurring during the winter heating season. Gas sales during the winter typically account for approximately two-thirds of annual gas distribution revenue, resulting in strong first and fourth quarter results and second and third quarters that show either small profits or losses.

10. SUBSEQUENT EVENTS

On July 1, 2005 AltaGas implemented a defined contribution pension plan for substantially all remaining full-time employees not in the Trust's AltaGas Utilities Inc. subsidiary.

Under the plan AltaGas will contribute a base amount per employee as well as match employee contributions within established guidelines.

OTHER INFORMATION

FINANCIAL SUMMARY BY BUSINESS SEGMENT

(\$ millions)	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
Revenue					
Gathering and Processing					
Field gathering and processing	30.6	29.9	32.1	28.5	28.4
Extraction	36.8	36.3	36.8	16.9	10.8
Transmission	6.6	6.6	6.6	6.5	6.4
Other	0.0	10.5	1.2	0.8	0.8
Intercomponent elimination	(0.5)	(0.4)	(0.5)	(0.6)	(0.5)
Energy Services	270.3	283.6	248.3	124.6	124.1
Natural Gas Distribution ⁽¹⁾	22.0	46.4	41.9	14.0	20.6
Intersegment elimination	(44.7)	(63.9)	(54.6)	(12.2)	(15.2)
	321.1	349.0	311.8	178.5	175.4
Net revenue					
Gathering and Processing					
Field gathering and processing	30.6	29.9	32.1	28.5	28.4
Extraction	6.8	7.2	8.2	5.5	3.6
Transmission	6.6	6.6	6.6	6.5	6.4
Other	0.0	10.5	1.2	0.8	0.9
Intercomponent elimination	(0.5)	(0.4)	(0.5)	(0.6)	(0.5)
Energy Services	19.6	16.5	18.9	16.6	14.6
Natural Gas Distribution ⁽¹⁾	6.9	11.8	9.7	5.1	6.2
Intersegment elimination	(4.6)	(4.1)	(4.6)	(0.9)	(0.1)
	65.4	78.0	71.6	61.5	59.5
Operating income					
Gathering and Processing	9.7	20.0	14.1	12.1	7.2
Energy Services	12.0	9.0	11.4	11.6	10.0
Natural Gas Distribution ⁽¹⁾	0.3	5.2	3.9	(0.3)	0.4
	22.0	34.2	29.4	23.4	17.6

(1) Q2 and Q3 financial results reflect the normal lower seasonal demand for natural gas in the Natural Gas Distribution segment.

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

AltaGas adopted CICA Handbook guidelines on asset retirement obligations in 2003. Prior year information has been restated for the effect of this adoption.

OPERATING SUMMARY BY BUSINESS SEGMENT

	Q2/05	Q1/05	Q4/04	Q3/04	Q2/04
Gathering and Processing					
Field gathering and processing					
Processing capacity (gross Mmcf/d) ⁽¹⁾	916	901	913	906	906
Processed throughput (gross Mmcf/d) ⁽²⁾	561	558	558	552	563
Capacity utilization (percent) ⁽¹⁾	62	62	61	61	62
Average working interest (percent) ⁽¹⁾	89	90	90	89	89
Extraction					
Licensed inlet capacity (Mmcf/d) ⁽¹⁾	539	539	539	539	349
Production (Bbls/d) ⁽²⁾	18,883	21,103	21,244	13,054	9,337
Transmission volumes (Mmcf/d) ⁽²⁾⁽⁴⁾	434	429	432	417	415
Energy Services					
Power services					
Volume of power sold (thousands of MWh)	860	851	879	877	862
Price received on the sale of power (\$/MWh) ⁽²⁾	50.37	47.24	50.17	49.22	49.88
Average Alberta Power Pool prices (\$/MWh) ⁽²⁾	51.46	45.90	54.95	54.35	60.07
Gas services					
Retail energy contracts ⁽⁷⁾	446	449	427	-	-
Average wholesale volumes marketed (GJ/d) ⁽⁷⁾	301,416	342,275	243,671	144,160	136,489
Natural Gas Distribution ⁽⁵⁾					
Customers	60,866	60,638	60,430	60,048	59,266
Volume of natural gas distributed					
Sales (Bcf) ⁽⁶⁾	2.0	5.4	4.4	1.5	2.2
Transportation (Bcf)	2.4	2.5	2.8	2.6	2.6
Degree day variance (percent) ⁽³⁾	(4.2)	(1.8)	(4.4)	24.8	11.5

(1) At period end

(2) Quarter average

(3) Variance from 20-year average. Positive variances are favourable

(4) Excludes condensate transmission volumes

(5) Excludes Inuvik Gas and Heritage Gas operating statistics

(6) Q2 and Q3 natural gas distributed (Bcf) reflect the normal lower seasonal demand for natural gas in the Natural Gas Distribution segment

(7) Number of active service contracts end of period

DEFINITIONS

Bbls/d	barrels per day
Bcf	billion cubic feet
Mmcf/d	million cubic feet per day
MW	megawatt
MWh	megawatt-hour