



NEWS RELEASE

ALTAGAS UTILITY GROUP INC.

ANNOUNCES RECORD FIRST HALF 2009 RESULTS AND A QUARTERLY DIVIDEND OF \$0.05 PER SHARE

Calgary, Alberta (August 10, 2009) - - AltaGas Utility Group Inc. (Utility Group) (TSX: AUI) today announced that net income for the six months ended June 30, 2009 was \$5.7 million (six months ended June 30, 2008 - \$4.1 million) or \$0.71 per share (six months ended June 30, 2008 - \$0.51 per share), an increase of \$1.6 million. A dividend of \$0.05 per common share payable on October 15, 2009 to shareholders of record at the close of business on September 30, 2009 was also declared.

The \$1.6 million increase in 2009 net income compared to the first half of 2008 was primarily due to lower average interest rates on Utility Group's debt; 7.9 percent colder weather in Alberta; an average of 16 percent rate base growth at AltaGas Utilities Inc. and Heritage Gas Limited; and an increase in the price received for natural gas at the Ikhil Joint Venture.

For the three months ended June 30, 2009, Utility Group realized a net loss of \$4 thousand (three months ended June 30, 2008 - \$0.3 million or \$0.04 per share), an improvement of \$0.3 million. This improvement from the 2008 net loss was primarily due to lower average interest rates on Utility Group's debt; 8.6 percent colder weather in Alberta than last year; and an average of 15 percent rate base growth at AltaGas Utilities Inc. and Heritage Gas Limited. These improvements were partially offset by the comparative temporary timing difference on the recovery of cash income taxes through rates charged to customers in the second quarter of 2008.

"It is my pleasure to once again announce record results at Utility Group reflecting cold weather and strong rate base growth in our regulated utility operations" said Patricia Newson, President and Chief Executive Officer. "I thank the outstanding employees in our three natural gas distribution businesses for the ongoing safe reliable service to our customers."

Utility Group is a publicly traded company holding interests in AltaGas Utilities Inc., Heritage Gas Limited and Inuvik Gas Ltd. Combined, these regulated natural gas distribution businesses serve more than 71,000 customers in three areas of Canada through an infrastructure of over 20,000 kilometres of pipeline. Utility Group holds an interest in the Ikhil Joint Venture which produces and supplies natural gas in Inuvik, Northwest Territories. Utility Group pursues opportunities to invest in infrastructure-based utility and related businesses with long-term, stable returns.

FOR FURTHER INFORMATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of financial condition and results of operations dated August 7, 2009 is a review of the results of operations and the liquidity and capital resources of AltaGas Utility Group Inc. (Utility Group) for the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008. The MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements and notes thereto for the three and six months ended June 30, 2009 and the audited consolidated financial statements and MD&A contained in Utility Group's Annual Report for the year ended December 31, 2008.

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 Utility Group or an affiliate of Utility Group, are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among other things, business objectives, expected growth, results

of operations, performance, business projects and opportunities and financial results. 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 Utility Group's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties. Many factors could cause Utility Group's actual results, performance or achievements to vary from those described in this MD&A including, without limitation, changes in market, competition, governmental or regulatory developments, general economic conditions and other factors set out in Utility Group's public disclosure documents. These factors should not be construed as exhaustive. 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 accordingly such forward-looking statements included in, or incorporated by reference in this MD&A should not be unduly relied upon. Such statements speak only as of the date of this MD&A. Utility Group does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified as cautionary statements.

Additional information regarding Utility Group can be found on its website at www.altagasutilitygroup.com. The continuous disclosure materials of Utility Group, including its prospectus, MD&A and financial statements, Annual Information Form, Information Circular and Proxy Statement, material change reports and press releases issued by Utility Group are available through Utility Group's website or directly through the SEDAR system at www.sedar.com.

I. ALTAGAS UTILITY GROUP INC.

Utility Group was incorporated under the Canada Business Corporations Act as 6414958 Canada Limited on July 6, 2005, and changed its name to AltaGas Utility Group Inc. on July 28, 2005.

Through a series of transactions which closed on November 17, 2005, Utility Group listed on the Toronto Stock Exchange and acquired all of the outstanding shares of AltaGas Utility Holdings Inc. (AUHI). AUHI owns 100 percent of AltaGas Utilities Inc. (AUI), an indirect 24.9 percent share in Heritage Gas Limited (Heritage Gas) and a one-third share in Inuvik Gas Ltd. (Inuvik Gas).

On July 31, 2007, Utility Group acquired a 33.3335 percent interest in the Ikhil Joint Venture (Ikhil) through its wholly owned subsidiary Utility Group Facilities Inc. The investment in Ikhil is jointly controlled along with the other joint venture partners.

II. OVERVIEW OF THE BUSINESS AND STRATEGY

Utility Group owns and operates businesses that deliver and sell natural gas to end users, including regulated natural gas transmission and distribution facilities in Alberta, Nova Scotia and Northwest Territories, Canada and natural gas production and processing facilities in the Northwest Territories. Utility Group's earnings are highly seasonal, with revenues based primarily on the demand for space heating in the winter months, mainly from November to March. Costs, on the other hand, are generally incurred more uniformly throughout the year. As a result, Utility Group generates profits during the first and fourth quarters and net losses in the second and third quarters. Deviations in expected weather patterns can affect earnings as the actual volumes of natural gas delivered fluctuate accordingly. As well, volumes are affected by increases in the number of customers or changes in customer usage.

AUI and Heritage Gas operate in regulated marketplaces where they are allowed the opportunity to recover their costs and earn regulated rates of return on capital from the capital investment base. Return on rate base comprises a recovery of financing costs and a return on common equity that are approved by regulatory authorities. Inuvik Gas operates a natural gas distribution franchise in a light handed regulatory environment where delivery service and natural gas pricing are market based. Ikhil produces natural gas for sale under long term contracts based on the price of diesel fuel. These contracts are with the Northwest Territories Power Corporation (NWTPC) and Inuvik Gas.

Utility Group's strategy is to grow its existing business through infill and expansion of services within current franchise areas or, in the case of Heritage Gas, to develop new systems in new market areas. In addition, Utility Group actively pursues the prudent acquisition of other utility type infrastructure and related businesses in Canada. Utility Group's management team and Board of Directors have significant utility and infrastructure asset management, acquisition and capital markets experience. Utility Group believes this experience will ensure prudent management and financing of existing capital commitments to support the expansion of AUI's systems, the growth of the Heritage Gas system and new opportunities as they are identified.

III. FINANCIAL AND OPERATING RESULTS

Utility Group's financial information and the related discussion of financial results in the MD&A are for the three and six months ended June 30, 2009 and June 30, 2008.

Consolidated Financial Results <i>(\$ millions, except per share amounts or as otherwise noted)</i>	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenue	20.0	28.6	69.4	87.0
Net revenue ⁽¹⁾	11.3	9.8	27.3	25.7
Operating income ⁽¹⁾	1.5	0.6	7.9	7.7
Net income (loss)	(0.0)	(0.3)	5.7	4.1
Funds generated from operations ⁽¹⁾	2.5	1.6	10.7	7.8
Shares outstanding (thousands)				
Basic	8,114	8,190	8,114	8,190
Diluted	8,114	8,190	8,114	8,191
Net income (loss) per share - basic and diluted	\$ (0.00)	\$ (0.04)	\$ 0.71	\$ 0.51

(1) Non-GAAP financial measure: see discussion in "Non-GAAP Financial Measures" section of this MD&A.

Consolidated Financial Position <i>(\$ millions)</i>	June 30, 2009	December 31, 2008
Total assets	251.1	256.9
Long-term liabilities	150.5	142.3

1. Discussion of Consolidated Financial Results for the three months ended June 30, 2009

Net loss for the three months ended June 30, 2009 was \$4 thousand (three months ended June 30, 2008 - \$0.3 million) or \$0.00 per share (three months ended June 30, 2008 - \$0.04 per share), an improvement of \$0.3 million.

The reduction from the 2008 second quarter net loss was primarily due to lower average interest rates on Utility Group's debt; 8.6 percent colder weather in Alberta than last year, or 18.6 percent colder than normal; and an average of 15 percent rate base growth at AUI and Heritage Gas. These increases were partially offset by the temporary changes in timing of the recovery of cash income tax through rates charged to customers in the prior year. Utility Group expects this year-over-year variance from timing differences to create a loss in the third quarter of 2009 and to have fully reversed and be insignificant by the end of 2009. AUI will pay no cash income tax in 2009 compared to paying \$1.3 million of tax in 2008.

The following table outlines significant net loss impacts for the second quarter.

Net Loss Variance <i>(\$ millions)</i>	Three months ended June 30	
	2009	2008
Net loss from the comparable prior year period	(0.3)	(0.5)
Net loss lower due to:		
Decrease in short-term borrowing rates	0.5	-
Colder weather than previous period	0.2	-
Rate base growth	0.2	0.3
Other	0.2	0.2
	0.8	-
Net loss higher due to:		
Corporate and administrative costs	-	(0.3)
Timing of 2008 cash income tax expense and recovery	(0.8)	-
Net loss	(0.0)	(0.3)

An analysis of Utility Group's revenue and expenses by income statement item follows. Generally, rate regulated cost of service entities such as AUI and Heritage Gas collect operating and administrative, depreciation expenses and income taxes paid in the rates charged to customers, and therefore, changes in these costs should not impact the net income of Utility Group.

Utility Group generally records income tax each period based on the expected annual cash income tax expense. In 2009, cash taxes at AUI are expected to be nil due to income tax deductions available at AUI from its significant investment to upgrade its billing system software to make it Tariff Billing Code (TBC) compliant as required by the Alberta Utilities Commission (AUC). Consequently, as there is no cash income tax to be recovered from customers, revenue, net revenue and operating income will be lower than in 2008 when AUI included tax recoveries. For the three months ended June 30, 2009 Utility Group recorded \$1.0 million of income tax (three months ended June 30, 2008 - recovered \$0.2 million), primarily from Utility Group's corporate entity due to lower corporate borrowing costs compared to 2008.

Utility Group's revenue for the three months ended June 30, 2009 decreased by \$8.6 million or 30 percent to \$20.0 million (three months ended June 30, 2008 - \$28.6 million) mainly as a result of a decrease in the cost of natural gas. AUI's revenue of \$17.7 million comprised 89 percent of consolidated revenue (three months ended June 30, 2008 - \$26.1 million or 91 percent). Heritage Gas' revenue of \$1.5 million comprised eight percent of consolidated revenue (three months ended June 30, 2008 - \$1.7 million or six percent). Inuvik Gas and Ikhil revenues of \$0.8 million comprised three percent of second quarter 2009 consolidated revenue (three months ended June 30, 2008 - \$0.8 million or three percent).

For the three months ended June 30, 2009 Utility Group's net revenue grew by \$1.5 million or 15 percent to \$11.3 million (three months ended June 30, 2008 - \$9.8 million), after natural gas costs of \$8.7 million (three months ended June 30, 2008 - \$18.8 million). Net revenue at AUI was \$1.2 million higher in 2009 compared to 2008 driven by contributions to net revenue from 8.6 percent colder weather in Alberta in 2009 and a 15 percent growth in AUI's 2009 mid year rate base over 2008. This increase is partially offset by lower recoverable costs in 2009. In 2009, AUI is expecting to pay no current income tax, which reduces AUI's net revenue requirement when compared to 2008. Heritage Gas contributed

\$0.2 million of the quarter-over-quarter increase largely due to 31 percent growth in its average rate base. Inuvik Gas and Ikhil contributed \$0.1 million of the 2009 net revenue increase over 2008.

Operating and administrative expenses increased by 7 percent to \$7.7 million for the three months ended June 30, 2009 (three months ended June 30, 2008 - \$7.2 million), primarily due to general cost increases including pension expenses and increased staff costs to support business growth.

Depreciation, depletion and amortization expense increased 5 percent to \$2.1 million for the three months ended June 30, 2009 (three months ended June 30, 2008 - \$2.0 million) as a result of higher investment in 2008 and 2009 in property, plant and equipment at AUI and Heritage Gas.

Interest expense for the three months ended June 30, 2009 was \$0.5 million (three months ended June 30, 2008 - \$1.1 million), a period over period decrease of \$0.6 million or 55 percent. While the average debt outstanding during the second quarter of 2009 increased to \$117.3 million (three months ended June 30, 2008 - \$108.6 million), average borrowing costs in the second quarter of 1.1 percent were significantly lower than the 4.1 percent incurred in the second quarter of 2008. The increase in average debt funded the capital expansion projects in AUI's and Heritage Gas' franchise areas.

2. Discussion of Consolidated Financial Results for the six months ended June 30, 2009

Net income for the six months ended June 30, 2009 was \$5.7 million (six months ended June 30, 2008 - \$4.1 million) or \$0.71 per share (six months ended June 30, 2008 - \$0.51 per share), an increase of \$1.6 million.

The increase in net income was due to lower average interest rates on Utility Group's debt; 7.9 percent colder weather in Alberta than for the same period last year, or 12.3 percent colder than normal; rate base average growth of 16 percent at AUI and Heritage Gas; and an increase in the price received for natural gas at Ikhil. These increases were partially offset by higher unrecovered corporate administrative costs and other changes in the natural gas volume consumption at AUI. Excluding weather impacts, 2009 natural gas volume consumption was normal while 2008 benefited from higher than normal natural gas consumption levels resulting in 2008 net income being higher than expected.

The \$0.8 million temporary income tax benefit realized by Utility Group in the first quarter of 2009 reversed in the second quarter of 2009 due to timing of the recovery of cash income tax through rates charged to customers in the prior year. Utility Group expects this year-over-year temporary variance from timing differences to create a loss in the third quarter

of 2009 but to have fully reversed and be insignificant by the end of 2009. AUI will pay no cash income tax in 2009 compared to paying \$1.3 million of tax in 2008.

The following table outlines significant net income impacts for the first half of the year.

Net Income Variance <i>(\$ millions)</i>	Six months ended June 30	
	2009	2008
Net income from the comparable prior year period	4.1	3.2
Net income higher due to:		
Decrease in short-term borrowing rates	0.7	-
Colder weather than previous period	0.5	0.2
Rate base growth	0.5	0.5
Increase in natural gas price at Ikhil	0.2	-
Ikhil acquisition July 31, 2007	-	0.4
Increase in allowed return on equity in Alberta	-	0.1
	6.0	4.4
Net income lower due to:		
Corporate and administrative costs and other	(0.1)	(0.3)
2009 natural gas volume consumption normal while 2008 natural gas volume consumption higher than expected	(0.2)	-
	(0.3)	(0.3)
Net income	5.7	4.1

An analysis of Utility Group's revenue and expenses by income statement item follows. Generally, rate regulated cost of service entities such as AUI and Heritage Gas collect operating and administrative, depreciation expenses and income taxes paid in the rates charged to customers, and therefore, changes in these costs should not impact the net income of Utility Group.

Utility Group generally records income tax each period based on the expected annual cash income tax expense. In 2009, cash taxes at AUI are expected to be nil due to income tax deductions available at AUI from its significant investment to upgrade its billing system software to make it TBC compliant as required by the AUC. Consequently as there is no cash income tax to be recovered from customers, revenue, net revenue and operating income will be lower than in 2008 when AUI included tax recoveries. For the six months ended June 30, 2009 Utility Group recorded \$1.0 million of income tax (six months ended June 30, 2008 - \$1.1 million). Utility Group's current income tax was incurred primarily from Utility Group's corporate entity due to lower corporate borrowing costs compared to 2008.

Utility Group's revenue for the six months ended June 30, 2009 decreased by \$17.6 million or 20 percent to \$69.4 million (six months ended June 30, 2008 - \$87.0 million) mainly as a result of a decrease in the cost of natural gas. AUI's revenue of \$62.6 million comprised 90 percent of consolidated revenue (six months ended June 30, 2008 - \$81.0 million or 93 percent). Heritage Gas' revenue of \$4.7 million comprised seven percent of consolidated revenue (six months ended June 30, 2008 - \$4.0 million or five percent). Inuvik Gas and Ikhil revenues of \$2.1 million comprised three percent of the first six months of 2009 consolidated revenue (six months ended June 30, 2008 - \$2.0 million or two percent).

For the six months ended June 30, 2009 Utility Group's net revenue grew by \$1.6 million or 6 percent to \$27.3 million (six months ended June 30, 2008 - \$25.7 million), after natural gas costs of \$42.1 million (six months ended June 30,

2008 - 61.3 million). Net revenue at AUI was \$0.9 million higher in 2009 compared to 2008 driven by contributions to net revenue from 7.9 percent colder weather in Alberta in 2009 and a 15 percent growth in AUI's 2009 mid year rate base over 2008. The increase is partially offset by lower recoverable costs in 2009 and net revenue declines in 2009 from the consumption of natural gas in 2009 being normal while 2008 natural gas volume consumption was higher than expected.

In 2009, AUI is expecting to pay no current income tax, which reduces AUI's net revenue requirement when compared to 2008. Heritage Gas contributed \$0.5 million of the increase largely due to 32 percent growth in its average rate base. Inuvik Gas and Ikhil contributed \$0.2 million of the 2009 net revenue increase over 2008.

Operating and administrative expenses increased by 7 percent to \$15.1 million for the six months ended June 30, 2009 (six months ended June 30, 2008 - \$14.1 million), primarily due to general cost increases including pension expenses and increased staff costs to support business growth.

Depreciation, depletion and amortization expense increased 10 percent to \$4.3 million for the six months ended June 30, 2009 (six months ended June 30, 2008 - \$3.9 million) as a result of higher investment in 2008 and 2009 in property, plant and equipment at AUI and Heritage Gas.

Interest expense for the six months ended June 30, 2009 was \$1.2 million (six months ended June 30, 2008 - \$2.5 million), a period over period decrease of \$1.3 million or 52 percent. While the average debt outstanding during the first six months of 2009 increased to \$117.4 million (six months ended June 30, 2008 - \$107.5 million), average borrowing costs in the first six months of 2.0 percent were significantly lower than the 4.4 percent incurred in the comparable period of 2008. The increase in average debt funded the capital expansion projects in AUI's and Heritage Gas' franchise areas.

3. Business Operations

Natural Gas Distribution	June 30, 2009		June 30, 2008	
	Service Sites ⁽¹⁾	PJs ^{(2) (3)}	Service Sites ⁽¹⁾	PJs ^{(2) (3)}
Deliveries (PJ) ^{(1) (2)}				
AUI End-use	68,187	9.6	66,738	9.3
AUI Transportation	7	3.3	7	3.7
Heritage Gas	2,055	0.4	1,410	0.2
Inuvik Gas	887	0.1	824	0.1
	71,136	13.4	68,979	13.3

(1) Service sites reflect all of the service sites of AUI, Heritage Gas and Inuvik Gas.

(2) A petajoule (PJ) is 1 million gigajoules.

(3) Deliveries reflect Utility Group's 100 percent share in AUI and its proportionate share of Heritage Gas (24.9 percent) and Inuvik Gas (one-third).

AUI Degree Day Variance	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Degree day variance from normal (percent) ⁽¹⁾	18.6	10.8	12.3	4.6
Degree day variance from comparative period (percent) ⁽¹⁾	8.6	1.2	7.9	3.7

(1) Degree days relate to AUI's service area. A degree day is the cumulative extent to which the daily mean temperature falls below 15 degrees Celsius. Normal degree days are based on a 20-year rolling average. Positive variances from normal lead to increased delivery volumes from normal expectations.

Natural Gas Production	Three months ended June 30, 2009		Three months ended June 30, 2008 ¹	
	GJs⁽¹⁾	Mcf⁽²⁾	GJs ⁽¹⁾	Mcf ⁽²⁾
Ikhil production ⁽³⁾	43,284	40,950	44,843	42,425
Sold to Inuvik Gas	(20,452)	(19,349)	(18,614)	(17,610)
Sold to NWTPC	22,832	21,601	26,229	24,815

Natural Gas Production	Six months ended June 30, 2009		Six months ended June 30, 2008	
	GJ⁽¹⁾	Mcf⁽²⁾	GJs ⁽¹⁾	Mcf ⁽²⁾
Ikhil production ⁽³⁾	115,755	109,513	121,831	115,261
Sold to Inuvik Gas	(68,970)	(65,251)	(65,865)	(62,313)
Sold to NWTPC	46,785	44,262	55,966	52,948

(1) In Canada, the GJ, a metric measurement of heat energy, is considered the industry standard measurement for natural gas distribution deliveries.

(2) The imperial measure of natural gas volumes is the cubic foot, the measure most commonly used in the natural gas production industry to report volumes of reserves and production. Mcf stands for thousand cubic feet.

(3) Natural gas production reflects Utility Group's proportionate share (33.3335 percent) of Ikhil.

AUI

AUI's operating income for the first six months of 2009 was \$6.4 million (six months ended June 30, 2008 - \$6.2 million). The increase of \$0.2 million in operating income was driven by contributions to net revenue from 7.9 percent colder weather in Alberta in 2009 and a 15 percent growth in AUI's 2009 mid year rate base, partially offset by lower recoverable costs in 2009, primarily income taxes, and net revenue declines in 2009 from the consumption of natural gas in 2009 being normal while 2008 natural gas volume consumption was higher than expected.

AUI's market consists primarily of residential and small commercial consumers located in smaller population centres or rural areas of Alberta. AUI completed the period with 68,187 active service sites (six months ended June 30, 2008 - 66,738). In the six months ended June 30, 2009, the growth of AUI's service sites and business occurred through infill growth in established franchises. Infill growth demand for space and water heating fuel in AUI's franchise service areas continues to be concentrated in town distribution systems and relates to servicing new homes and commercial developments with natural gas. AUI serves almost all of the potential market in its existing service areas.

The majority of AUI's service site additions generally occur in the last half of the year as new customers take natural gas service prior to the winter season. AUI service site additions were 420 in the first six months of 2009; down from 684 for the same period of 2008. In the first six months of 2009, the economic slowdown in the Alberta economy resulted in fewer service site additions than 2008, which benefited from the carry over of 2007's exceptional growth. AUI expects

2009 service site additions will return to historical growth levels of approximately two percent.

Heritage Gas

For the six months ended June 30, 2009, Utility Group's share of Heritage Gas' operating income was \$1.5 million (six months ended June 30, 2008 - \$1.2 million). The growth in operating income is a function of the increased average rate base over the same period in 2008. Utility Group's proportion of Heritage Gas' average rate base for the six months ended June 30, 2009 was \$27.9 million (six months ended June 30, 2008 - \$21.2 million).

For the six months ended June 30, 2009, Heritage Gas' annualized natural gas volumes increased by 96,000 GJ's to 391,000 GJ's (six months ended June 30, 2008 - 295,000 GJ's) based on 74 residential (six months ended June 30, 2008 - 87) and 96 commercial (six months ended June 30, 2008 - 110) customers activated, including Oland Brewery on May 8, 2009. The demand for activations in 2008, the first year of natural gas access on the Halifax Peninsula, has leveled off as the system moves into its second year of service. During the remainder of 2009, Heritage Gas expects to activate several large commercial and government customers on the peninsula, including a number of high rise office and apartment buildings and the Victoria General Hospital. These activations will result in a larger proportion of the revenue requirement being provided by billings to customers.

Inuvik Gas and Ikhil

Inuvik Gas and Ikhil's operating income contributed \$1.0 million to Utility Group's results for the six months ended June 30, 2009 (six months ended June 30, 2008 - \$0.9 million). The increase is mainly due to a higher price received for natural gas sold to NWTPC. The price charged to NWTPC for natural gas is set on August 1 each year based on the price of diesel. On August 1, 2008, the price increased to \$15.21 per GJ from \$11.83 per GJ. The price is expected to decline below the 2007/2008 levels with the contracted price re-set effective August 1, 2009. In March 2009, Ikhil completed a work-over project on one of its two producing wells to optimize well and plant operations.

4. Regulatory Update

AUI

2007 General Tariff Application (GTA)

On June 6, 2008, AUI applied for a rate rider to recover the difference between the 2007 revenue requirement approved by the AUC and the 2007 revenue charged to customers. In the same application, AUI requested approval of interim 2007 rates based on the approved 2007 revenue requirement in lieu of filing a 2007 GTA Phase 2 application. On October 21, 2008 the AUC issued Decision 2008 - 103 that approved the 2007 deficiency rider at the interim rates as proposed to collect the 2007 revenue shortfall over four months beginning in November 2008.

2008/2009 GTA

On July 14, 2008, AUI filed Phase 1 of its 2008/2009 GTA, and updated it on October 10, 2008 and March 3, 2009. AUI is requesting AUC approval for a net rate base of \$115.1 million for 2008 and \$129.5 million for 2009. This increases AUI's 2007 approved net rate base of \$104.4 million by \$10.7 million in 2008 and by a total of \$25.1 million in 2009. AUI is also requesting approval of a revenue requirement, net of natural gas costs and third party transportation costs, of \$41.1 million for 2008 and \$45.2 million for 2009. These are increases of \$5.4 million and \$9.5 million in each of 2008 and 2009 respectively from AUI's 2007 approved revenue requirement of \$35.7 million. The public hearing for the application occurred in April and May 2009. A decision is expected in fall 2009.

On February 11, 2009, the AUC approved interim rates whereby, effective March 1, 2009, AUI will collect through rates billed to customers, approximately 50 percent or \$3.4 million of the 2009 revenue requirement in excess of the 2008 requirement as applied for in the 2008/2009 GTA. Prior to this increase, AUI was billing its customers interim rates based on those approved in the 2007 GTA. AUI is accumulating a revenue deficiency accrual for the difference between rates billed to customers and the applied-for revenue requirement.

On March 30, 2009, the AUC approved incremental interim rates whereby, effective May 1, 2009, AUI will collect through rates billed to customers, approximately 50 percent or \$2.9 million of the 2008 forecast revenue deficiency as applied-for in the 2008/2009 GTA. Prior to this increase, AUI was billing its customers interim rates based on those approved on February 11, 2009. AUI is accumulating a revenue deficiency accrual for the difference between rates billed to customers and the 2008 revenue requirement submission.

At June 30, 2009, AUI had a revenue deficiency accrual of \$7.0 million (six months ended June 30, 2008 - \$5.4 million) with respect to the 2008/2009 GTA.

Generic Cost of Capital

Since 2004, the AUC has set the rate of return on equity for all AUC regulated utilities through a formula based on the long term Canada bond yields. On April 12, 2008, the AUC initiated a review of the continued use of a generic cost of capital formula in determining the allowed rate of return on equity (GCC Proceeding). In June 2009, AUI was a participant in the GCC Proceeding hearing and in late 2009 it is expected that the AUC will decide on the method to be used to determine utilities' allowed rate of return on equity for 2009 and future years. The AUC has determined an interim placeholder for return on equity for 2009 of 8.75 percent on a deemed equity structure of 41 percent for AUI. As part of the GCC Proceeding, AUI has applied for an 11.00 percent return on equity, and a 54/46 debt to equity capital structure.

Heritage Gas

On February 12, 2009, the NSUARB issued its decision approving Heritage Gas' September 12, 2008 GTA application for rate increases from 2009 to 2011, and suspending recovery of depreciation expense for the period of 2009 to 2011. The suspension of depreciation expense in the determination of the revenue requirement will not impact net income for Heritage Gas, but will accelerate the recovery of Heritage Gas' Revenue Deficiency Account (RDA) balance. The suspended depreciation is expected to be recognized over the remaining life of the property, plant and equipment, beginning 2012. The following was confirmed by the NSUARB decision:

- Escalating tariffs and rates approved through December 31, 2011 superceding the previous 2.5 percent annual increases;
- Capital structure of 55 percent debt and 45 percent equity;
- Cost of debt of 8.75 percent;
- Rate of return on equity of 13.0 percent; and
- Indefinite use of the RDA with a forecast recovery in 2019.

The RDA is based on the difference between Heritage Gas' actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In Heritage Gas' current customer development stage, the actual revenue billed is less than the revenue required to earn the approved rates of return and therefore the RDA asset accumulates. The RDA is part of rate base, and earns a return of 13 percent on an equity portion of 45%. As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and the RDA will be drawn down. The NSUARB has granted permission to use the RDA until such time as it is drawn down to zero. Utility Group's proportionate share of the RDA balance at June 30, 2009 was \$7.3 million (December 31, 2008 - \$6.7 million).

5. Non-GAAP Financial Measures

Utility Group provides 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 corporations. The purpose of these financial measures and their reconciliation to GAAP financial measures is discussed below.

Net revenue	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<i>(\$ millions)</i>				
Net revenue	11.3	9.8	27.3	25.7
Add: Cost of natural gas	8.7	18.8	42.1	61.3
Revenue (GAAP financial measure)	20.0	28.6	69.4	87.0

Management believes that net revenue better reflects operating performance than does revenue as changes in the market price of natural gas purchased for resale affect both revenue and the cost of natural gas.

Operating income	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<i>(\$ millions)</i>				
Operating income	1.5	0.6	7.9	7.7
Deduct: Interest expense	0.5	1.1	1.2	2.5
Income taxes (recovery) ⁽¹⁾	1.0	(0.2)	1.0	1.1
Net income (loss) (GAAP financial measure)	(0.0)	(0.3)	5.7	4.1

(1) Income taxes consist of current and future income taxes.

Operating income is used by management to measure operating performance without reference to financing decisions and income tax impacts, which are not controlled by the operating businesses.

Funds generated from operations	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<i>(\$ millions)</i>				
Funds generated from operations	2.5	1.6	10.7	7.8
Net change in non-cash working capital	4.1	4.7	3.9	(4.5)
Cash from operations (GAAP financial measure)	6.6	6.3	14.6	3.3

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

6. Critical Accounting Estimates

Since a determination of the value of many assets, liabilities, revenues and expenses depends upon future events, the preparation of Utility Group's consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment by management. Management has discussed the development and selection of these critical accounting estimates with the Audit and Governance Committee of the Board of Directors and its independent auditors, who have reviewed and approved Utility Group's disclosure relating to critical accounting estimates in this MD&A.

Utility Group's significant accounting policies are described in the Notes to the audited consolidated financial statements of Utility Group for the year ended December 31, 2008. With respect to estimates, the most critical of these policies are those related to rate regulation, determination of pension and other employee benefits, amortization and depreciation expense, goodwill impairment assessment and asset retirement obligations. Actual results may differ from these estimates.

7. Changes in Accounting Policies

Effective January 1, 2009, Utility Group prospectively adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064 - Goodwill and Intangible Assets. This new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. As a result of adopting this section, Utility Group reclassified \$8.1 million of land rights, franchise consents, and computer software previously included in property, plant and equipment to intangible assets on January 1, 2009. Prior year comparative balances were also reclassified to conform to current year presentation.

Effective January 1, 2009, Utility Group prospectively adopted the changes to CICA Handbook Section 1100 - GAAP, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. As a result of adopting these changes, Utility Group reclassified \$16.3 million of reserves for future removal and site restoration costs previously netted against property, plant and equipment to non current regulatory liabilities on January 1, 2009. Prior year comparative balances were also reclassified to conform to current year presentation.

Effective January 1, 2009, Utility Group prospectively adopted the changes to CICA Handbook Section 3465 - Income Taxes, to require the recognition of future income tax liabilities and assets as well as corresponding regulatory assets or liabilities for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers. As a result of adopting these changes, Utility Group recognized \$10.9 million of previously unrecognized future income tax liabilities and an offsetting regulatory asset, a \$3.6 million change in estimate from the

\$8.4 million future income tax liability and \$1.1 million future income tax asset as reported in the first quarter of 2009. Prior year comparative balances were not affected as a result of the adoption of these changes.

8. Transactions with Related Parties

For the three months ended June 30, 2009 Utility Group purchased natural gas from AltaGas Income Trust (the Trust) for \$6.3 million (three months ended June 30, 2008 - \$16.0 million). Utility Group also incurred \$0.1 million (three months ended June 30, 2008 - \$0.1 million) for operating services and office space provided by the Trust. The Trust purchased transportation from Utility Group for \$0.1 million (three months ended June 30, 2008 - \$0.1 million).

For the six months ended June 30, 2009 Utility Group purchased natural gas from the Trust for \$36.2 million (six months ended June 30, 2008 - \$58.2 million). Utility Group also incurred \$0.2 million (six months ended June 30, 2008 - \$0.3 million) for operating services and office space provided by the Trust. The Trust purchased transportation from Utility Group for \$0.2 million (six months ended June 30, 2008 - \$0.2 million).

The Trust provided certain administrative and support services to Utility Group under an Administrative Service Agreement (ASA) that expired on June 30, 2009. Utility Group and the Trust negotiated a new ASA under which Utility Group will receive limited administrative and support services and office space until December 31, 2009.

9. Summary of Eight Recently Completed Quarters

The table below sets forth selected data from Utility Group's consolidated financial statements for the eight recently completed quarters ended June 30, 2009. This information should be read in conjunction with the consolidated financial statements for the year ended December 31, 2008 and related notes thereto as well as the MD&A for the year ended December 31, 2008.

	2009			2008			2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(\$ millions)</i>								
Net revenue ⁽¹⁾	11.3	16.0	14.5	9.0	9.8	15.9	13.1	7.6
Operating income (loss) ⁽¹⁾	1.5	6.4	4.6	(0.1)	0.6	7.1	4.5	(0.5)
Net income (loss)	(0.0)	5.7	2.8	(1.0)	(0.3)	4.4	2.5	(1.2)

	2009			2008			2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(\$ per share)</i>								
Net income (loss)								
Basic and diluted	(0.0)	0.71	0.35	(0.12)	(0.04)	0.54	0.31	(0.14)
Dividends declared	0.050	0.050	0.050	0.045	0.045	0.040	0.040	0.035

(1) Non-GAAP financial measure. See "Non-GAAP Financial Measures" section of this MD&A.

Utility Group's earnings are highly seasonal, as distribution revenues are primarily based on the demand for space heating in the winter months, mainly from November to March. Costs are generally incurred more uniformly over the year. This typically results in profitable first and fourth quarters and net losses in the second and third quarters. Earnings can be impacted by variations from normal weather resulting in delivered volumes that are different than anticipated as well as continued rate base growth and regulatory decisions. Increases in the number of customers or changes in customer usage are examples of other factors that might typically affect volumes.

IV. UTILITY GROUP'S FINANCIAL POSITION

The following table outlines the significant changes in the consolidated balance sheet of Utility Group at June 30, 2009 compared to December 31, 2008.

Balance Sheet Item <i>(\$ millions)</i>	Increase (decrease)	Explanation
Accounts receivable	(23.6)	Reduction reflects seasonally lower volumes of natural gas delivered and low natural gas prices at the end of the second quarter of 2009 compared to December 2008.
Intangible assets	3.1	Increase due to investment in Tariff Billing Code software at AUI
Regulatory assets	11.9	Increase mainly due to the regulatory asset associated with the recognition of future tax liability previously not recorded by rate regulated entities.
Accounts payable and accrued liabilities	(22.3)	Reduction reflects seasonally lower natural gas volumes purchased and lower natural gas prices at the end of the second quarter of 2009 compared to December 2008.
Future income tax liability	10.9	Increase mainly due to the recognition of future tax liabilities previously not recorded by rate regulated entities.

V. INVESTED CAPITAL

Utility Group categorizes its invested capital into new business, system betterment and natural gas supply and general plant and regulatory and other assets. The invested capital reflected in the following tables is the net cash invested.

Net Capital Invested <i>(\$ millions)</i>	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Invested capital:				
Property, plant and equipment	1.8	3.9	6.8	10.6
Intangible assets	2.0	0.2	3.3	0.2
Regulatory and other assets	0.4	0.6	0.8	2.1
	4.2	4.7	10.9	12.9
Contributions and disposals:				
Contributions in aid of construction	(0.6)	(0.7)	(0.9)	(2.3)
Investing activities	3.6	4.0	10.0	10.6

Net Capital Invested	Three months ended June 30		Six months ended June 30	
(\$ millions)	2009	2008	2009	2008
Invested capital:				
New business	1.7	2.7	6.0	7.1
System betterment and natural gas supply	0.2	0.5	0.9	1.8
General plant	1.9	0.9	3.2	1.9
Regulatory and other assets	0.4	0.6	0.8	2.1
	4.2	4.7	10.9	12.9
Contributions in aid of construction:				
New business	(0.6)	(0.7)	(0.9)	(2.0)
System betterment and natural gas supply	-	-	-	(0.3)
	(0.6)	(0.7)	(0.9)	(2.3)
Investing activities	3.6	4.0	10.0	10.6

During the three months ended June 30, 2009, net capital invested by Utility Group was \$3.6 million (three months ended June 30, 2008 - \$4.0 million). The significant investments included:

- \$3.2 million (three months ended June 30, 2008 - \$3.4 million) at AUJ which funded infill expansion primarily in the Leduc, as well as expansion in the smaller Athabasca and St. Paul franchise areas and \$1.3 million for TBC software;
- \$0.6 million (three months ended June 30, 2008 - \$0.7 million) at Heritage Gas which funded expansion primarily in Dartmouth and on the Halifax peninsula.

During the six months ended June 30, 2009, net capital invested by Utility Group was \$10.0 million (six months ended June 30, 2008 - \$10.6 million). The significant investments included:

- \$9.0 million (six months ended June 30, 2008 - \$9.8 million) at AUJ which funded infill expansion primarily in the Leduc, as well as expansion in the smaller Athabasca and St. Paul franchise areas and \$3.3 million for TBC software;
- \$0.9 million (six months ended June 30, 2008 - \$1.0 million) at Heritage Gas which funded expansion primarily in Dartmouth and on the Halifax peninsula;
- \$0.2 million (six months ended June 30, 2008 - \$nil) at Ikhil to fund operational optimization work over costs.

VI. LIQUIDITY AND CAPITAL RESOURCES

Cash Position	Three months ended June 30		Six months ended June 30	
<i>(\$ millions)</i>	2009	2008	2009	2008
Cash, beginning of period	0.1	0.8	0.5	0.8
Cash from operations	6.6	6.3	14.6	3.3
Investing activities	(3.6)	(4.0)	(10.0)	(10.6)
Financing activities	(2.5)	(2.5)	(4.5)	7.1
Cash, end of period	0.6	0.6	0.6	0.6

Cash from Operations

Cash provided from operations for the three months ended June 30, 2009 was \$6.6 million (three months ended June 30, 2008 - \$6.3 million) and \$14.6 million for the six months ended June 30, 2009 (six months ended June 30, 2008 - \$3.3 million). Utility Group's operating cash flows may fluctuate significantly during a period due to working capital changes driven by seasonality, weather, natural gas prices, collections from customers and regulatory lag. Significant working capital changes impacting the overall changes to cash from operations include the following:

Accounts Receivable

- June accounts receivable are usually lower than March accounts receivable due to normal, seasonally lower delivered volumes of natural gas. At June 2009, the effect of the seasonally lower volumes was compounded by a four percent lower purchase price for natural gas in June 2009 compared to March 2009. The AUI 2008/2009 GTA revenue deficiency accrued during the three month period in 2009 was \$1.2 million lower than the same period in 2008. The net collection of accounts receivable over the second quarter of 2009 contributed \$13.4 million (three months ended June 30, 2008 - \$13.9 million) to cash from operations.

- June accounts receivable are usually lower than December accounts receivable due to the normal seasonally lower delivered volumes of natural gas. At June 2009, the effect of the seasonally lower volumes was compounded by a 35 percent lower purchase price for natural gas in June 2009 compared to December 2008. The AUI 2008/2009 GTA revenue deficiency accrued during the six month period in 2009 was \$3.2 million lower than the same period in 2008. The net collection of accounts receivable over the first half of 2009 contributed \$23.6 million (six months ended June 30, 2008 - \$11.3 million) to cash from operations.

Accounts Payable

- June accounts payable are usually lower than March accounts payable due to normal seasonally lower purchased volumes of natural gas. At June 2009, the effect of seasonally lower volumes was compounded by a lower purchase price for natural gas in June 2009 compared to March 2009. The net payment of accounts payable over the three months ended June 30, 2009 reduced cash from operations by \$7.3 million (three months ended June 30, 2008 - \$8.3 million).

- June accounts payable are usually lower than December accounts payable due to normal seasonally lower purchased volumes of natural gas. At June 2009, the effect of the seasonally lower volumes was compounded by a lower purchase price for natural gas in June 2009 compared to December 2008. The net payment of accounts payable over the six months ended June 30, 2009 reduced cash from operations by \$22.3 million (six months ended June 30, 2008 - \$16.9 million).

Investing Activities

During the three months ended June 30, 2009, cash used in investing activities was \$3.6 million (three months ended June 30, 2008 - \$4.0 million). Cash invested in property, plant and equipment and intangible assets for the three months ended June 30, 2009 of \$3.8 million (three months ended June 30, 2008 - \$4.1 million) was partially offset by contributions in aid of construction of \$0.6 million (three months ended June 30, 2008 - \$0.7 million). Utility Group invested \$0.4 million (three months ended June 30, 2008 - \$0.6 million) in regulatory assets and investments and other assets.

During the six months ended June 30, 2009, cash used in investing activities was \$10.0 million (six months ended June 30, 2008 - \$10.6 million). Cash invested in property, plant and equipment and intangible assets for the six months ended June 30, 2009 of \$10.1 million (six months ended June 30, 2008 - \$10.8 million) was partially offset by contributions in aid of construction of \$0.9 million (six months ended June 30, 2008 - \$2.3 million). Utility Group invested \$0.8 million (six months ended June 30, 2008 - \$2.1 million) in regulatory assets and investments and other assets.

Refer to Section V. Invested Capital for Utility Group's invested capital discussion and analysis.

Financing Activities

During the three months ended June 30, 2009, cash used in financing activities was \$2.5 million (three months ended June 30, 2008 - \$2.4 million). Utility Group repaid \$2.2 million (three months ended June 30, 2008 - \$2.3 million) under its bank lines. Utility Group received \$0.1 million (three months ended June 30, 2008 - \$0.2 million) from customer deposits and other liabilities. Utility Group paid \$0.4 million, or \$0.05 per share, of dividends in the three months ended June 30, 2009 (three months ended June 30, 2008 - \$0.3 million or \$0.045 per share).

During the six months ended June 30, 2009, cash used in financing activities was \$4.5 million (six months ended June 30, 2008 - provided \$7.1 million). Utility Group repaid \$3.9 million (six months ended June 30, 2008 - drew \$7.5 million) under its bank lines. Utility Group received \$0.2 million (six months ended June 30, 2008 - \$0.2 million) from customer deposits and other liabilities. Utility Group paid \$0.8 million, or \$0.10 per share, of dividends in the six months ended June 30, 2009 (six months ended June 30, 2008 - \$0.6 million or \$0.085 per share). The \$11.5 million period-over-period change in financing was mainly a result of increased funds from operations in 2009 and changes in non cash working capital.

Capital Resources

Utility Group expects that funds from operations and undrawn capacity on bank lines are sufficient to fund its existing operations and meet its capital requirements. Acquisitions that require financing beyond existing lines would require new debt and equity capital. At this time, given the generally low risk credit profile of its utility businesses and its established banking relationships with its current syndicate and other banks, Utility Group expects that it will continue to have access

to its anticipated sources of liquidity. This access is evidenced by the July 10, 2009 increase in the demand operating facility from \$10.0 million to \$20.0 million. Utility Group also believes that, while costly, it will have access to both private

and public equity markets to fund accretive organic or acquisition growth. Any acquisition will, as is Utility Group's normal practice, be evaluated as to its accretive value to current shareholders given then current capital market conditions, and will only be entered into if it meets Utility Group's targets.

The use of debt or equity funding is based on maintaining Utility Group's capital structure in an operating range which is determined by considering the norms and risks associated with each of its businesses, its bank covenant and the capital structures deemed by the AUC and NSUARB for AUI and Heritage Gas. Utility Group targets to operate at a debt to total capitalization ratio range centered on approximately 60 percent. Utility Group's debt to total capitalization ratio as at June 30, 2009 was 60.0 percent (December 31, 2008 - 62.4 percent). The ratio has decreased since December 31, 2008 mainly due to cash from operations reducing debt balances.

Utility Group funds its long and short term borrowing requirements with credit facilities from a syndicate of Canadian chartered banks and from the Province of Nova Scotia.

Credit Facilities (\$ millions)	Drawn at June 30, 2009	Drawn at December 31, 2008
Demand operating credit facility	0.7	1.1
Revolving, term credit facility	117.2	120.7
Loan from Province of Nova Scotia ⁽¹⁾	1.0	1.0
	118.9	122.8

(1) The Province of Nova Scotia loan of \$5.6 million (Utility Group's share - \$1.4 million) is recorded at its fair value of \$4.1 million as at June 30, 2009 (Utility Group's share - \$1.0 million) compared to \$4.0 million (Utility Group's share - \$1.0 million) as at December 31, 2008.

Utility Group's banking arrangements are as follows:

- A demand operating credit facility with a Canadian chartered bank for \$10.0 million, under which prime rate loans, U.S. bank rate loans, letters of credit, bankers' acceptances and LIBOR loans may be drawn, repayable in full upon demand. On July 10, 2009, Utility Group increased this facility from \$10.0 million to \$20.0 million, coincident with the bank's re-pricing of the line from 2007 legacy spreads to current market spreads. New draws on this line are expected to cost approximately 225 basis points more than under its old terms. Draws against this facility as of June 30, 2009 were \$0.7 million (December 31, 2008 - \$1.1 million), letters of credit of \$1.4 million (December 31, 2008 - \$1.4 million) were issued under the facility.
- An extendible revolving credit facility with a syndicate of Canadian chartered banks for \$130.0 million under which prime rate loans, U.S. bank rate loans, letters of credit, bankers' acceptances or LIBOR loans may be drawn, repayable on November 17, 2010. At June 30, 2009 bankers' acceptances with short-term maturities of \$117.2 million (December 31, 2008 - \$120.7 million) were outstanding.

Utility Group has not been rated by any credit agencies, nor does Utility Group expect to be rated.

Each of the borrowing facilities have financial tests and other covenants customary for these types of facilities, which must be met at each quarter-end. At June 30, 2009, as at each quarter end since the facilities were established, Utility Group was in compliance with these covenants.

VII. SHARE CAPITAL

Capital Stock and Stock Options

	August 7, 2009	June 30, 2009	December 31, 2008
Common shares outstanding	8,113,905	8,113,905	8,114,405
Stock options outstanding	654,500	656,000	656,000

VIII. OFF-BALANCE-SHEET ARRANGEMENTS

Utility Group 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. Utility Group has

no obligation under derivative instruments or a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Utility Group, or engages in leasing, hedging or research and development services with Utility Group.

IX. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Utility Group maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under securities law is accumulated and communicated to management, including the President and Chief Executive Officer and the Vice President Controller and Corporate Secretary, as appropriate, to allow timely decisions regarding required disclosure.

Management of Utility Group is responsible for establishing and maintaining adequate internal controls over financial reporting. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial statement preparation and presentation. During the quarter ended June 30, 2009 there were no material changes to Utility Group's internal controls over financial reporting.

X. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board announced in 2008 that Canadian GAAP, as used by publicly accountable enterprises will fully converge with IFRS as issued by the International Accounting Standards Board (IASB). Utility Group will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011. Utility Group has selected January 1, 2011 as its adoption date.

The IASB currently has projects underway that may result in new IFRS pronouncements which differ from its current form. Accordingly, uncertainty remains as to the ultimate impact of IFRS on Utility Group.

Management of IFRS Implementation

Utility Group has established a steering committee and a formal project charter to manage the transition to IFRS reporting. Quarterly updates are provided by management to the Audit and Governance Committee of the Board of Directors. The implementation project consists of three phases:

- The scoping and impact analysis phase was completed in the third quarter of 2008 and identified potential differences between Utility Group's existing accounting and reporting policies from those under IFRS.
- The evaluation and design phase involves specification of changes required to existing accounting policies, information systems and business processes, an analysis of alternatives under IFRS and the development of draft IFRS consolidated financial statements. This phase began in the fourth quarter of 2008 and continues through 2009.
- The Implementation and review phase includes the implementation of specific changes to existing accounting policies to be IFRS-compliant. Additional training for directors, officers, management and employees along with changes to information systems and business processes, if necessary, will follow. This phase is planned for late 2009 into 2010.

IFRS Impacts

During the second quarter of 2008, Utility Group began assessing existing accounting policies and internal controls in relation to IFRS, and is systematically updating all accounting policies and internal controls for transition to IFRS.

Utility Group is currently assessing the impact of information systems and changes required under IFRS.

Management of Utility Group is responsible to ensure internal controls and disclosure controls are in place to provide a foundation for the selection, evaluation, review and approval of accounting and reporting policies for transition to IFRS.

Management of Utility Group is participating in IFRS industry focus groups regularly. IFRS training for applicable employees started in 2008 and will continue through 2009 and 2010 to ensure all affected directors, officers, management and employees understand the IFRS reporting framework. Currently, Utility Group is assessing the impact of IFRS conversion on banking covenants, future budgets and performance indicators and other business areas for transition to IFRS.

XI. RISKS AND UNCERTAINTIES

In the Canadian natural gas distribution business, where parties are subject to return on rate base regulation, rates are set to allow the regulated entity the opportunity to recover its costs and earn a reasonable return on a set capital structure. There is no guarantee that the entity will earn its allowed return because rates are set to cover future estimated costs and estimated demand is based on normal weather conditions. The entity's actual revenues may be more or less than forecast due to variations from normal weather, conservation and other factors which impact customer usage. Expenses and other revenues may also be higher or lower than forecast. Financial results for Utility Group are subject to a variety of risks including: regulation; franchise renewal; natural gas demand (including relating to weather, customer additions/mix, alternative energy sources and climate change); natural gas supply and production; environmental and safety; competition; physical plant; insurance; credit; contingencies; human resources; conflicts of interest; access to additional financing; and decommissioning, abandonment and reclamation costs.

Utility Group's ability to recover the actual costs of providing service and to earn the approved rates of return depends on achieving the forecasts established in the rate setting process. Utility Group manages its utility regulatory risk through a combination of skilled regulatory departments, relationships with regulators and proactive regulatory strategies. Utility Group reduces its other risks and uncertainties through a combination of insurance, internal controls and sound business practices.

XII. OUTLOOK

Utility Group's management anticipates growth in its operating businesses despite the weakened economic conditions in Canada and Alberta. Customer growth, strong rate base growth and low financing costs are expected to drive earnings through the remainder of 2009. Utility Group's management continues to expect that the operating businesses will perform according to the business plans approved by its Boards and proposed to its regulators.

AUI will continue to pursue growth in its existing franchise areas and is well positioned to capture opportunities arising in its service areas around Edmonton, Alberta. New service site installations in the six months ended June 30, 2009 were 420 compared to 692 in the same period in 2008. The slowdown in the economy is expected to continue to depress new housing starts and subdivision development for the remainder of 2009 compared to 2008. As a result of this retraction, Utility Group expects customer growth of approximately two percent in 2009, which is more typical of historical growth rates than was the 4.1 percent customer growth rate in 2008.

AUI's 2008/2009 GTA forecasts 2009 rate base growth of approximately 15 percent, the highest in AUI's recent history. This is due to the full year impact of capital investment from the prior year and anticipated 2009 capital spending on new business, system betterment and general plant. AUI has applied for capital approval to enhance information systems, including \$8.7 million to complete the upgrade of AUI's billing system to make it TBC compliant as required by the AUC. This project represents the largest individual capital expenditure in AUI's history and is expected to be completed and in rate base in 2009. As well this year, capital expenditures on system betterment projects will upgrade and reinforce AUI's natural gas distribution infrastructure to ensure that it continues to deliver safe, dependable service to customers and value to shareholders in current and future periods.

For the six months ended June 30, 2009, Heritage Gas' annualized natural gas volumes increased by 96,000 GJ's to 391,000 GJ's (six months ended June 30, 2008 - 295,000 GJ's) based on 170 new customers, a 13 percent reduction in new activations from 2008. The demand for activations in 2008, the first year of natural gas access on the Halifax Peninsula, has leveled off as the system moves into its second year of service. While the economic slowdown is expected to temper Heritage Gas' growth forecasts for the remainder of 2009, the higher cost of heating oil compared to natural gas and customer awareness of the environmental benefits of natural gas are expected to continue to support customer activations in 2009, including a number of high load customers on the Halifax Peninsula.

Management will continue to evaluate organic and acquisition opportunities on an ongoing basis, and will pursue capital spending that will provide accretive value to existing shareholders. This evaluation will include consideration of the rising cost of capital for both equity and debt instruments, and whether opportunities must be acted on immediately, or could

be delayed to future periods, while still meeting customer demand and maintaining a safe and dependable system.

ALTAGAS UTILITY GROUP INC.
CONSOLIDATED BALANCE SHEETS

(unaudited)

(\$ thousands)

As at	June 30 2009	December 31 2008
ASSETS		
Current assets		
Cash	\$ 632	\$ 519
Accounts receivable	12,752	36,359
Inventory	286	235
Regulatory assets (note 3)	222	535
Income and other taxes recoverable	1,672	1,049
Future income tax asset	523	14
Prepaid expenses and deferred charges	2,545	2,613
	18,632	41,324
Property, plant and equipment	167,540	165,835
Intangible assets (note 2)	11,225	8,107
Goodwill	31,575	31,575
Regulatory assets (note 3)	19,991	8,118
Future income tax asset	180	220
Investments and other assets	1,999	1,680
	\$ 251,142	\$ 256,859
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 728	\$ 1,055
Accounts payable and accrued liabilities (note 8)	16,247	38,508
Dividends payable	406	406
Income and other taxes payable	1,011	141
Future income tax liability	817	46
Regulatory liabilities (note 3)	2,568	889
	21,777	41,045
Long-term debt	118,219	121,730
Asset retirement obligations	231	222
Customer deposits and other liabilities	3,815	3,619
Future income tax liability	11,339	415
Regulatory liabilities (note 3)	16,864	16,266
	172,245	183,297
Shareholders' equity		
Share capital (note 4)	60,709	60,713
Contributed surplus (note 4)	1,098	933
Retained earnings	17,330	12,409
Accumulated other comprehensive loss	(240)	(493)
	78,897	73,562
	\$ 251,142	\$ 256,859

See accompanying notes to the interim consolidated financial statements

ALTAGAS UTILITY GROUP INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

(\$ thousands)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Common shares, beginning of period	\$ 60,709	\$ 61,278	\$ 60,713	\$ 61,278
Common shares purchased and cancelled (note 4)	-	-	(4)	-
Common shares, end of period	60,709	61,278	60,709	61,278
Contributed surplus, beginning of period	1,017	572	933	490
Contributed surplus on common shares purchased	-	-	2	-
Stock-based compensation (note 4)	81	12	163	94
Contributed surplus, end of period	1,098	584	1,098	584
Retained earnings, beginning of period	17,740	12,047	12,409	7,930
Net income (loss)	(4)	(305)	5,733	4,139
Dividends declared	(406)	(368)	(812)	(695)
Retained earnings, end of period	17,330	11,374	17,330	11,374
Accumulated other comprehensive loss, beginning of period	(683)	(29)	(493)	-
Unrealized gain (loss) on available-for-sale investment	443	(6)	253	(35)
Accumulated other comprehensive loss, end of period	(240)	(35)	(240)	(35)
Shareholders' equity	\$ 78,897	\$ 73,201	\$ 78,897	\$ 73,201

See accompanying notes to the interim consolidated financial statements

ALTAGAS UTILITY GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(unaudited)

(\$ thousands except per share amounts)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
REVENUE <i>(note 8)</i>	\$ 19,982	\$ 28,580	\$ 69,418	\$ 87,008
EXPENSES				
Cost of natural gas <i>(note 8)</i>	8,686	18,744	42,109	61,290
Operating and administrative <i>(note 8)</i>	7,694	7,223	15,127	14,065
Depreciation, depletion and amortization	2,108	1,973	4,271	3,925
	18,488	27,940	61,507	79,280
Operating income	1,494	640	7,911	7,728
Interest expense	503	1,152	1,218	2,493
Income (loss) before income taxes	991	(512)	6,693	5,235
Income taxes (recovery)				
Current income taxes	528	22	633	1,485
		(229)		
Future income taxes	467		327	(389)
	995	(207)	960	1,096
Net income (loss)	\$ (4)	\$ (305)	\$ 5,733	\$ 4,139
Net income (loss) per share				
Basic and diluted	\$ -	\$ (0.04)	\$ 0.71	\$ 0.51
Number of shares outstanding				
Basic	8,113,905	8,189,905	8,113,905	8,189,905
Diluted	8,113,905	8,189,905	8,113,905	8,190,604

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

(\$ thousands)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Net income (loss)	\$ (4)	\$ (305)	\$ 5,733	\$ 4,139
Other comprehensive gain (loss)				
Unrealized gain (loss) on available-for-sale investment, net of tax	443	(6)	253	(35)
Comprehensive income (loss)	\$ 439	\$ (311)	\$ 5,986	\$ 4,104

See accompanying notes to the interim consolidated financial statements

ALTAGAS UTILITY GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(\$ thousands)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
CASH FROM OPERATIONS				
Net income (loss)	\$ (4)	\$ (305)	\$ 5,733	\$ 4,139
Items not involving cash:				
Revenue deficiency accrual	(543)	(639)	(646)	(1,064)
Allowance for funds used during construction	(79)	(54)	(157)	(109)
Depreciation, depletion and amortization	2,108	1,973	4,271	3,925
Operating and administrative expense	351	590	703	693
Future income taxes	467	(229)	327	(389)
Recovery of future removal and site restoration costs	299	232	598	463
Other	(74)	12	(146)	94
Funds generated from operations	2,525	1,580	10,683	7,752
Net change in non-cash working capital <i>(note 7)</i>	4,129	4,721	3,913	(4,414)
	6,654	6,301	14,596	3,338
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(3,260)	(3,871)	(6,887)	(9,396)
Investment in intangible assets	(1,310)	(210)	(3,250)	(212)
Increase (decrease) in accounts payable related to property, plant and equipment and intangible assets <i>(note 7)</i>	781	(132)	(38)	(1,220)
	(3,789)	(4,213)	(10,175)	(10,828)
Contributions in aid of construction (net of accounts receivable) <i>(note 7)</i>	610	732	918	2,344
Proceeds on disposition of property, plant and equipment	-	40	11	40
Investment in regulatory assets and investments and other assets	(381)	(570)	(781)	(2,110)
	(3,560)	(4,011)	(10,027)	(10,554)
FINANCING ACTIVITIES				
Increase (decrease) in short-term debt	728	534	(327)	(632)
Increase (decrease) in long-term debt	(2,980)	(2,791)	(3,511)	8,165
Increase in customer deposits and other liabilities	120	162	196	212
Common shares purchased for cancellation <i>(note 4)</i>	-	-	(2)	-
Dividends paid	(406)	(328)	(812)	(655)
	(2,538)	(2,423)	(4,456)	7,090
Change in cash	556	(133)	113	(126)
Cash, beginning of period	76	754	519	747
Cash, end of period	\$ 632	\$ 621	\$ 632	\$ 621

See accompanying notes to the interim consolidated financial statements

AltaGas Utility Group Inc.
Selected Notes to the Consolidated Financial Statements
(Tabular amounts in thousands of dollars unless otherwise indicated)

1. STRUCTURE AND NATURE OF OPERATIONS

AltaGas Utility Group Inc. was incorporated with nominal capital under the *Canada Business Corporations Act* as 6414958 Canada Limited on July 6, 2005 and filed a certificate of amendment to change its name to AltaGas Utility Group Inc. (Utility Group) on July 28, 2005. Utility Group began active operations with the acquisition of all the issued and outstanding common shares of AltaGas Utility Holdings Inc. (AUHI) on November 17, 2005.

AUHI, through its ownership interests in AltaGas Utilities Inc. (AUI), AltaGas Utility Holdings (Nova Scotia) Inc. (AUH(NS)) and Inuvik Gas Ltd. (Inuvik Gas), holds interests in regulated natural gas distribution utility businesses operating in Alberta, Nova Scotia and the Northwest Territories, respectively. AUI and AUH(NS) are wholly owned subsidiaries of AUHI, while Inuvik Gas is one-third owned by AUHI. AUH(NS) owns a 24.9 percent interest in Heritage Gas Limited (Heritage Gas). The investments in Inuvik Gas and Heritage Gas are each jointly controlled by AUHI, along with their other shareholders.

On July 31, 2007 Utility Group acquired a 33.3335 percent interest in the Ikhil Joint Venture (Ikhil) through its wholly owned subsidiary Utility Group Facilities Inc. (Facilities). Ikhil is jointly controlled by Facilities and the other joint venture partners. Ikhil owns and operates two natural gas wells and gathering and processing facilities including a pipeline from the Ikhil gas field to the town of Inuvik, supplying Inuvik Gas and the Northwest Territories Power Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of Utility Group and all of its wholly owned subsidiaries and its proportionate interests in the jointly controlled investments in Heritage Gas, Inuvik Gas and Ikhil. Transactions amongst Utility Group, its wholly-owned subsidiaries and the proportionately consolidated entities are eliminated on consolidation.

These consolidated financial statements are prepared by management in Canadian dollars in accordance with Canadian generally accepted accounting principles (GAAP), including accounting policies for which guidance has been provided by regulations and recommendations of the Alberta Utilities Commission (AUC) and of the Nova Scotia Utility and Review Board (NSUARB). These consolidated financial statements 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 for the year ended December 31, 2008. The accounting policies applied in these consolidated financial statements are consistent with those outlined in Utility Group's annual financial statements, except as described below.

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

Changes in Accounting Policies

Effective January 1, 2009 Utility Group prospectively adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064 - Goodwill and Intangible Assets. This new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. As a result of adopting this section, Utility Group reclassified \$8.1 million of land rights, franchise consents, and computer software previously included in property, plant and equipment to intangible assets on January 1, 2009. Prior year comparative balances were also reclassified to conform to current year presentation.

Effective January 1, 2009 Utility Group prospectively adopted the changes to CICA Handbook Section 1100 GAAP pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. As a result of adopting these changes, Utility Group reclassified \$16.3 million of reserves for future removal and site restoration costs previously netted against property, plant and equipment to non-current regulatory liabilities on January 1, 2009. Prior year comparative balances were also reclassified to conform to current year presentation.

Effective January 1, 2009 Utility Group prospectively adopted the changes to CICA Handbook Section 3465 - Income Taxes, to require the recognition of future income tax liabilities and assets as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to future customers. As a result of adopting these changes, Utility Group recognized \$10.9 million of previously unrecognized future income tax liabilities and an offsetting regulatory asset, a \$3.6 million change in estimate from the \$8.4 million future income tax liability and \$1.1 million future income tax asset as reported in the first quarter of 2009. Prior year comparative balances were not affected as a result of the adoption of these changes.

Future Accounting Changes

In February 2008 the Canadian Accounting Standards Board announced that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Utility Group expects that the adoption of IFRS will impact accounting policies, financial reporting, information systems, and business processes. Utility Group is in the process of determining the impact of the transition to and adoption of IFRS on its financial statements.

Regulation

AUI and Heritage Gas engage in the delivery and sale of natural gas and are regulated by the AUC and the NSUARB, respectively. The AUC and NSUARB exercise statutory authority over matters such as tariffs, rates, construction, operations, financing, returns, accounting and certain contracts with customers. In order to recognize the economic effects of the actions and decisions of the AUC and NSUARB, the timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian GAAP for entities not subject to rate regulation.

Inuvik Gas is subject to light-handed regulation by the Northwest Territories Public Utilities Board (NWTPUB), whereby rates are set by Inuvik Gas based on a competitive market place. The NWTPUB is satisfied that competition for alternative fuel exists in Inuvik and that competition is sufficient to negate the need for full regulation. Inuvik Gas is required to file its rates, terms and conditions of service with the NWTPUB when they are revised. The NWTPUB can take action should any complaints be received and may review the affairs, earnings and accounts of Inuvik Gas as it deems necessary.

Utility Group records the impact of regulatory decisions in the period in which decisions are rendered. However, if in management's judgement a reasonable estimate can be made regarding the impact a pending decision will have on the current financial statements, an estimate will be recorded for the expected impact.

3. REGULATORY ASSETS AND LIABILITIES

	June 30, 2009	December 31, 2008
Regulatory assets - current		
Deferred CEO/CFO certification costs	\$ 157	\$ 314
Deferred cost of gas	65	221
	\$ 222	\$ 535
Regulatory assets - non current		
Deferred depreciation	\$ 318	\$ -
Deferred charges	138	134
Future recovery of other retirement benefits	1,348	1,291
Future recovery of income tax	10,848	-
Revenue deficiency account	7,339	6,693
	\$ 19,991	\$ 8,118
Regulatory liabilities - current		
Deferred property taxes	\$ 1,025	\$ 63
Deferred cost of gas	730	32
Deferred regulatory costs	813	794
	\$ 2,568	\$ 889
Regulatory liabilities - non current		
Future removal and site restoration costs	\$ 16,864	\$ 16,266

4. SHARE CAPITAL

Issued and Outstanding

	Number	Amount
Common shares - December 31, 2008	8,114,405	\$ 60,713
Shares purchased by Utility Group and cancelled	(500)	(4)
Common shares - June 30, 2009	8,113,905	\$ 60,709

Stock Option Plan

Utility Group has an employee share option plan under which employees and directors are eligible to receive grants. To June 30, 2009 options granted under the plan had a term of 10 years to expiry and vested no longer than over a four-year period. Stock options outstanding have a weighted-average remaining term of 8.12 years (December 31, 2008 - 8.61 years).

Stock option compensation expense charged to operating and administrative expense for the three month period ended June 30, 2009 was \$0.1 million (2008 - \$12 thousand), and for the six months ended June 30, 2009 was \$0.2 million (2008 - \$0.1 million), with a corresponding increase to contributed surplus.

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	656,000	\$ 6.57	473,500	\$ 7.12
Granted	-	-	268,500	5.77
Expired	-	-	(18,750)	7.15
Forfeited	-	-	(67,250)	6.95
Stock options outstanding, end of period	656,000	\$ 6.57	656,000	\$ 6.57
Exercisable at end of period	244,875	\$ 7.28	235,750	\$ 7.29

5. CAPITAL MANAGEMENT STRATEGY

Utility Group's objectives when managing capital are to efficiently manage its capital base to generate sustainable earnings to finance current operations while allowing for growth opportunities, and to maximize long-term shareholder value. The use of debt or equity funding is determined giving consideration to the norms and risks associated with each

of its businesses, capital structures deemed by the AUC and the NSUARB, and bank covenants.

Capital includes shareholders' equity, long-term debt, short-term debt, and cash. It is expected that Utility Group's funds from operations and undrawn capacity on existing bank lines will provide sufficient liquidity and capital resources to fund existing operations and the majority of its anticipated capital requirements. Should financing beyond existing lines be required, Utility Group reasonably expects it will have access to both debt and equity markets.

Debt-to-total capitalization is calculated as net debt divided by total capitalization. Net debt is defined as total short- and long-term debt, less cash. Total capitalization is defined as the sum of net debt and shareholders' equity.

The debt-to-total capitalization ratios at June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009	December 31, 2008
Debt	\$ 118,947	\$ 122,785
Less: cash	(632)	(519)
Net debt	\$ 118,315	\$ 122,266
Shareholders' equity	78,897	73,562
Total capitalization	\$ 197,212	\$ 195,828
Debt-to-total capitalization ratio (percent)	60.0	62.4

6. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Utility Group has pension plans which provide either defined benefit or defined contribution pension benefits for qualified employees. These pension plans are fully funded, partially funded, or unfunded.

Utility Group also provides post-employment benefits other than pensions for qualifying retired employees which are unfunded. Utility Group established a non-registered, defined benefit plan that provides pension benefits to eligible executives based on average earnings, years of service and age at retirement (supplemental executive retirement plan (SERP)). The expense recognized for these plans is as follows:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Defined benefit plan - AUI	\$ 386	\$ 272	\$ 772	\$ 545
Defined benefit plan - SERP	28	47	57	86
Defined contribution plan	13	12	25	24
Other benefit plans	45	46	90	92
	\$ 472	\$ 377	\$ 944	\$ 747

7. SUPPLEMENTAL CASH FLOW INFORMATION

Net Change in Non-Cash Working Capital

The net change in the following non-cash working capital items increased (reduced) cash flows from operations as follows:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Accounts receivable	\$ 13,409	\$ 13,872	\$ 23,607	\$ 11,347
Inventory, prepaid expenses and deferred charges	(1,375)	(133)	17	(1,718)
Accounts payable and accrued liabilities	(8,071)	(8,146)	(22,261)	(15,701)
Regulatory assets and liabilities	1,036	44	1,992	448
Income and other taxes recoverable	(90)	-	(623)	-
Income and other taxes payable	(209)	(724)	870	314
	4,700	4,913	3,602	(5,310)
Adjusted for:				
Change from accounts receivable and accounts payable related to contributions in aid of construction	210	(324)	273	(324)
Change from accounts payable related to property, plant and equipment and intangible assets	(781)	132	38	1,220
Net change in non-cash working capital related to operations	\$ 4,129	\$ 4,721	\$ 3,913	\$ (4,414)

Interest and Income Taxes Paid

The following cash payments were made during the period:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Interest paid	\$ 422	\$ 1,367	\$ 1,225	\$ 2,645
Income taxes paid	\$ 197	\$ 671	\$ 668	\$ 1,508

8. RELATED PARTY TRANSACTIONS

In the normal course of business, Utility Group and its affiliates transact with related parties. The following related party transactions were measured at their exchange amount:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Fees for administration, management, rent and other services paid by: Utility Group to AltaGas Income Trust (the Trust)	\$ 61	\$ 51	\$ 118	\$ 97
The Trust to AUI	\$ 1	\$ 1	\$ 2	\$ 2
Fees for operating services paid by AUI to the Trust	\$ 44	\$ 86	\$ 122	\$ 154
Transportation services provided by AUI to the Trust	\$ 114	\$ 122	\$ 231	\$ 242
Gas purchases for resale by AUI from the Trust	\$ 6,279	\$ 16,034	\$ 36,190	\$ 58,206

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 payable and accrued liabilities at June 30, 2009 are:

- \$0.9 million (\$16.9 million at December 31, 2008) due from AUI to the Trust; and
- \$56 thousand (\$34 thousand at December 31, 2008) due from Utility Group to the Trust.

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 revenue, resulting in strong first and fourth quarter results and losses in the second and third quarters.

10. SUBSEQUENT EVENT

On July 10, 2009 Utility Group increased its unsecured uncommitted demand operating credit facility with a Canadian chartered bank from \$10 million to \$20 million.

ABOUT ALTAGAS UTILITY GROUP INC.

AltaGas Utility Group Inc. is a publicly traded company holding interests in AltaGas Utilities Inc., Heritage Gas Limited and Inuvik Gas Ltd. Combined, these regulated natural gas distribution businesses serve more than 71,000 customers in three areas of Canada through an infrastructure of over 20,000 kilometres of pipelines. Utility Group intends to pursue opportunities to invest in infrastructure-based utility and related businesses with long-term, stable returns.

FOR FURTHER INFORMATION

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