Consolidated Balance Sheets

(condensed and unaudited)

As at *($ millions)*		**March 31, 2016**		December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**8.5**	$	293.4
Accounts receivable, net of allowances		**263.7**		333.3
Inventory *(note 5)*		**151.5**		204.0
Restricted cash holdings from customers		**4.4**		5.4
Regulatory assets		**10.4**		4.3
Risk management assets *(note 9)*		**56.1**		50.4
Prepaid expenses and other current assets		**44.5**		48.3
Assets held for sale *(note 4)*		**—**		98.7
		539.1		1,037.8
Property, plant and equipment		**6,560.0**		6,597.9
Intangible assets		**700.2**		735.1
Goodwill *(note 6)*		**839.5**		877.3
Regulatory assets		**320.3**		333.3
Risk management assets *(note 9)*		**29.7**		23.5
Deferred income taxes		**2.8**		4.5
Restricted cash holdings from customers		**9.7**		12.5
Long-term investments and other assets		**82.1**		64.3
Investments accounted for by equity method *(note 4)*		**476.0**		413.3
	$	**9,559.4**	$	10,099.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**321.8**	$	383.1
Dividends payable		**24.3**		24.1
Short-term debt		**36.2**		130.7
Current portion of long-term debt *(notes 7 and 9)*		**210.4**		287.5
Customer deposits		**27.9**		41.0
Regulatory liabilities		**19.4**		21.3
Risk management liabilities *(note 9)*		**36.7**		33.5
Other current liabilities		**17.7**		17.8
Liabilities associated with assets held for sale *(note 4)*		**—**		8.7
		694.4		947.7
Long-term debt *(notes 7 and 9)*		**3,581.8**		3,732.4
Asset retirement obligations		**78.1**		67.9
Deferred income taxes		**598.8**		621.7
Regulatory liabilities		**159.5**		167.6
Risk management liabilities *(note 9)*		**13.8**		15.7
Other long-term liabilities		**204.0**		206.7
Future employee obligations *(note 14)*		**133.6**		136.9
	$	**5,464.0**	$	5,896.6

As at *($ millions)*		**March 31, 2016**		December 31, 2015
Shareholders' equity				
Common shares, no par values, unlimited shares authorized; 2016 - 147.3 million and 2015 - 146.3 million issued and outstanding *(note 10)*	**$**	**3,196.8**	$	3,168.1
Preferred shares *(note 10)*		**985.1**		985.1
Contributed surplus		**17.0**		16.7
Accumulated deficit		**(452.8)**		(435.4)
Accumulated other comprehensive income (AOCI) *(note 8)*		**313.5**		433.5
Total shareholders' equity		**4,059.6**		4,168.0
Non-controlling interests		**35.8**		34.9
Total equity		**4,095.4**		4,202.9
	$	**9,559.4**	$	10,099.5

Commitments and contingencies (notes 12 and 13).
Subsequent events (note 19).

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Income

(condensed and unaudited)

For the three months ended March 31 *($ millions except per share amounts)*		**2016**		2015
REVENUE				
Sales	**$**	**38.8**	$	132.9
Services		**182.0**		170.7
Regulated operations		**380.8**		427.4
Unrealized gains on risk management contracts *(note 9)*		**8.9**		13.3
		610.5		744.3
EXPENSES				
Cost of sales, exclusive of items shown separately		**288.7**		433.1
Operating and administrative		**131.6**		117.2
Accretion expenses		**2.8**		2.7
Depreciation and amortization		**68.4**		49.9
		491.5		602.9
Loss from equity investments *(notes 4 and 12)*		**(10.7)**		(5.7)
Other income *(note 4)*		**4.4**		1.8
Foreign exchange gain (loss)		**(0.6)**		1.2
Interest expense				
Short-term debt		**(0.1)**		(0.4)
Long-term debt		**(36.0)**		(29.4)
Income before income taxes		**76.0**		108.9
Income tax expense (recovery) *(notes 4 and 15)*				
Current		**10.0**		11.9
Deferred		**(4.1)**		18.5
Net income after taxes		**70.1**		78.5
Net income applicable to non-controlling interests		**2.8**		2.1
Net income applicable to controlling interests		**67.3**		76.4
Preferred share dividends		**(12.0)**		(10.2)
Net income applicable to common shares	**$**	**55.3**	**$**	66.2
Net income per common share *(note 11)*				
Basic	**$**	**0.38**	$	0.49
Diluted	**$**	**0.38**	$	0.49
Weighted average number of common shares outstanding (millions) *(note 11)*				
Basic		**146.8**		134.3
Diluted		**147.2**		135.8

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss)

(condensed and unaudited)

For the three months ended March 31 *($ millions)*		**2016**		2015
Net income after taxes	**$**	**70.1**	$	78.5
Other comprehensive income (loss), net of taxes				
Gain (loss) on foreign currency translation		**(177.3)**		167.2
Unrealized gain (loss) on net investment hedge		**51.1**		(35.4)
Unrealized losses on cash flow hedges		**—**		(1.8)
Reclassification of gains on cash flow hedges to net income		**—**		(6.0)
Reclassification of actuarial losses and prior service costs on defined benefit and PRB plans to net income		**0.1**		0.6
Unrealized gain (loss) on available-for-sale assets		**3.2**		(12.6)
Other comprehensive income from equity investees		**2.9**		4.1
Total other comprehensive income (loss) (OCI), net of taxes		**(120.0)**		116.1
Comprehensive income (loss) attributable to controlling interests and non-controlling interests, net of taxes	**$**	**(49.9)**	$	194.6
Comprehensive income (loss) attributable to:				
Non-controlling interests	**$**	**2.8**	$	2.1
Controlling interests		**(52.7)**		192.5
	$	**(49.9)**	$	194.6

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Equity

(condensed and unaudited)

For the three months ended March 31 *($ millions)*		**2016**		2015
Common shares *(note 10)*				
Balance, beginning of period	**$**	**3,168.1**	$	2,759.9
Shares issued for cash on exercise of options		**1.9**		4.7
Shares issued under DRIP [(1)]		**26.8**		21.0
Balance, end of period	**$**	**3,196.8**	$	2,785.6
Preferred shares *(note 10)*				
Balance, beginning of period	**$**	**985.1**	$	788.4
Balance, end of period	**$**	**985.1**	$	788.4
Contributed surplus				
Balance, beginning of period	**$**	**16.7**	$	14.9
Share options expense		**0.5**		0.7
Exercise of share options		**(0.1)**		(0.2)
Forfeiture of share options		**(0.1)**		(0.1)
Balance, end of period	**$**	**17.0**	$	15.3
Accumulated deficit				
Balance, beginning of period	**$**	**(435.4)**	$	(185.2)
Net income applicable to controlling interests		**67.3**		76.4
Common share dividends		**(72.7)**		(59.4)
Preferred share dividends		**(12.0)**		(10.2)
Balance, end of period	**$**	**(452.8)**	$	(178.4)
AOCI (*note 8*)				
Balance, beginning of period	**$**	**433.5**	$	163.1
Other comprehensive income (loss)		**(120.0)**		116.1
Balance, end of period	**$**	**313.5**	$	279.2
Total shareholders' equity	**$**	**4,059.6**	$	3,690.1
Non-controlling interests				
Balance, beginning of period	**$**	**34.9**	$	33.1
Net income applicable to non-controlling interests		**2.8**		2.1
Distribution by subsidiaries to non-controlling interests		**(1.9)**		(1.4)
Balance, end of period		**35.8**		33.8
Total equity	**$**	**4,095.4**	$	3,723.9

(1) Dividend Reinvestment and Optional Share Purchase Plan.

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(condensed and unaudited)

For the three months ended March 31 *($ millions)*		**2016**		2015
Cash from operations				
Net income after taxes	**$**	**70.1**	$	78.5
Items not involving cash:				
Depreciation and amortization		**68.4**		49.9
Accretion expenses		**2.8**		2.7
Share-based compensation *(note 10)*		**0.4**		0.7
Deferred income tax expense (recovery) *(notes 4 and 15)*		**(4.1)**		18.5
Gain on sale of assets *(note 4)*		**(4.1)**		—
Loss from equity investments *(notes 4 and 12)*		**10.7**		5.7
Unrealized gain on risk management contracts *(note 9)*		**(8.9)**		(13.3)
Loss (gain) on long-term investments		**0.2**		(0.3)
Other		**0.7**		2.1
Asset retirement obligations settled		**(1.2)**		(0.5)
Contributions to equity investments, net of distributions		**(5.9)**		(4.3)
Changes in operating assets and liabilities *(note 16)*		**9.0**		63.2
	$	**138.1**	$	202.9
Investing activities				
Business acquisitions, net of cash acquired *(note 3)*		**(21.0)**		(32.0)
Acquisition of property, plant and equipment		**(153.2)**		(114.8)
Acquisition of intangible assets		**(0.9)**		(9.3)
Contributions to equity investments		**(6.6)**		(5.8)
Change in restricted cash holdings from customers		**0.7**		1.0
Proceeds from disposition of assets, net of transaction costs *(note 4)*		**29.2**		—
	$	**(151.8)**	**$**	(160.9)
Financing activities				
Net issuance (repayment) of short-term debt		**(87.1)**		(76.3)
Issuance of long-term debt, net of debt issuance costs		**281.9**		—
Repayment of long-term debt		**(407.5)**		(3.8)
Dividends - common shares		**(72.5)**		(59.4)
Dividends - preferred shares		**(13.1)**		(10.2)
Distributions to non-controlling interest		**(1.9)**		(1.4)
Net proceeds from shares issued on exercise of options		**1.8**		4.3
Net proceeds from issuance of common shares		**26.8**		21.0
	$	**(271.6)**	$	(125.8)
Change in cash and cash equivalents		**(285.3)**		(83.8)
Effect of exchange rate changes on cash and cash equivalents		**0.4**		3.5
Cash and cash equivalents, beginning of period		**293.4**		371.0
Cash and cash equivalents, end of period	**$**	**8.5**	$	290.7

See accompanying notes to the Consolidated Financial Statements.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(Tabular amounts and amounts in footnotes to tables are in millions of Canadian dollars unless otherwise indicated.)

1. ORGANIZATION AND OVERVIEW OF BUSINESS

The businesses of AltaGas Ltd. (AltaGas or the Corporation) are operated by AltaGas and a number of its subsidiaries including, without limitation, AltaGas Extraction and Transmission Limited Partnership, AltaGas Pipeline Partnership, AltaGas Processing Partnership, Harmattan Gas Processing Limited Partnership, AltaGas Utilities Inc. (AUI), Heritage Gas Limited (Heritage Gas), Pacific Northern Gas Ltd. (PNG), Coast Mountain Hydro Limited Partnership, AltaGas Services (U.S.) Inc., Blythe Energy Inc. (Blythe), AltaGas San Joaquin Energy Inc., and SEMCO Energy Inc. (SEMCO). SEMCO conducts its Michigan natural gas distribution business under the name SEMCO Energy Gas Company (SEMCO Gas) and its Alaska natural gas distribution business under the name ENSTAR Natural Gas Company (ENSTAR).

AltaGas, a Canadian corporation, is a North American diversified energy infrastructure business with a focus on owning and operating assets to provide clean and affordable energy to its customers. AltaGas has three business segments: Gas, Power and Utilities.

AltaGas' Gas segment serves producers in the Western Canada Sedimentary Basin (WCSB) and includes natural gas gathering and processing, natural gas liquids (NGL) extraction and separation, gas transmission, gas storage and natural gas marketing, and the one-third ownership investment, through AltaGas Idemitsu Joint Venture Limited Partnership (AIJVLP), in Petrogas Energy Corp. (Petrogas).

The Power segment includes 1,688 MW of generating capacity from natural gas-fired, wind, biomass and hydro assets in Canada and the United States, along with an additional 1,253 MW of assets under development.

The Utilities segment is predominantly comprised of natural gas distribution rate regulated utilities in Canada and the United States. The utilities are generally allowed the opportunity to earn regulated returns that provide for recovery of costs and a return on, and of, capital from the regulator-approved capital investment base.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These unaudited condensed interim Consolidated Financial Statements have been prepared by management in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP). As a result, these condensed interim Consolidated Financial Statements do not include all of the information and disclosures required in the annual Consolidated Financial Statements and should be read in conjunction with the Corporation's 2015 annual audited Consolidated Financial Statements prepared in accordance with U.S. GAAP. In management's opinion, the condensed interim Consolidated Financial Statements include all adjustments that are all of a recurring nature and necessary to present fairly the financial position of the Corporation.

Pursuant to National Instrument 52-107, "Acceptable Accounting Principles and Auditing Standards" (NI 52-107), U.S. GAAP reporting is generally permitted by Canadian securities laws for companies subject to reporting obligations under U.S. securities laws. However, given that AltaGas is not subject to such reporting obligations and could not therefore rely on the provisions of NI 52-107 to that effect, AltaGas sought and obtained exemptive relief by the securities regulators in Alberta and Ontario to permit it to prepare its financial statements in accordance with U.S. GAAP. The exemption will terminate on or after the earlier of January 1, 2019, the date to which AltaGas ceases to have activities subject to rate regulation, or the effective date prescribed for a mandatory application of International Financial Reporting Standard for rate-regulated accounting.

PRINCIPLES OF CONSOLIDATION

These unaudited condensed interim Consolidated Financial Statements of AltaGas include the accounts of the Corporation and all of its wholly-owned subsidiaries, and its interest in various partnerships and joint ventures where AltaGas has an undivided interest in the assets and liabilities of the joint venture or partnership. Investments in unconsolidated companies that AltaGas has significant influence over, but not control, are accounted for using the equity method.

Transactions between and amongst AltaGas and its wholly-owned subsidiaries, and the proportionate interests in joint ventures or partnerships are eliminated on consolidation as required by U.S. GAAP. Where there is a party with a non-controlling interest in a subsidiary that AltaGas controls, that non-controlling interest is reflected as “Non-controlling interests” in the Consolidated Financial Statements. The non-controlling interests in net income (or loss) of consolidated subsidiaries is shown as an allocation of the consolidated net income and is presented separately in "Net income applicable to non-controlling interests".

USE OF ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of Consolidated Financial Statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the period. Key areas where management has made complex or subjective judgments, when matters are inherently uncertain, include but are not limited to: depreciation and amortization expense, asset retirement obligations, long-lived and intangible assets impairment assessment, fair value of financial instruments, income taxes, employee future benefits, contingencies, share-based compensation, and regulatory assets and liabilities. Certain estimates are necessary for the regulatory environment in which AltaGas' subsidiaries or affiliates operate, which often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions or other regulatory proceedings. By their nature, these estimates are subject to measurement uncertainty and may impact the Consolidated Financial Statements of future periods.

SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, these condensed interim Consolidated Financial Statements have been prepared following the same accounting policies and methods as those used in preparing the Corporation's 2015 annual audited Consolidated Financial Statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2016, AltaGas adopted the following Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU):

- ASU No. 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period”, which requires a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The adoption of this ASU did not have a material impact on AltaGas' consolidated financial statements;

- ASU No. 2015-01 “Income Statement – Extraordinary and Unusual Items”, which eliminates the concept of extraordinary items. The adoption of this ASU did not have a material impact on AltaGas' consolidated financial statements; and

- ASU No. 2015-02 “Consolidation: Amendments to Consolidation Analysis”. The amendments in this ASU affect all reporting entities that are required to evaluate whether certain legal entities should be consolidated. The amendments a) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; b) eliminate the presumption that a general partner should consolidate a limited partnership; c) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and d) provide a scope exception from consolidation guidance for reporting entities with interests in certain legal entities (i.e. money market and other investment funds). The adoption of this ASU did not have a material impact on AltaGas' consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING PRINCIPLES

In May 2014, FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". The core principle of the amendments in this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments specify various disclosure requirements that would enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, FASB issued ASU No. 2016-08 "Revenue from Contracts with Customers: Principal versus Agent Consideration". The amendments in this ASU clarify the implementation guidance on the principal versus agent considerations in the new revenue recognition standard. The new revenue recognition standard will be effective for annual and interim periods beginning on or after December 15, 2017. FASB permits adoption of the standard as early as the original effective date of December 15, 2016. Early adoption prior to that date would not be permitted. AltaGas commenced a process for the adoption of the ASU and the impact on AltaGas' consolidated financial statements is under assessment.

In January 2016, FASB issued ASU No. 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities" which revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Upon adoption, entities will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. The guidance on equity securities without readily determinable fair value will be applied prospectively to all equity investments that exist as of the date of adoption of the standard. AltaGas is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02 "Leases", which requires lessees to recognize on the balance sheet a right-of-use asset and a lease liability for all leases with lease terms greater than 12 months. Lessor accounting remains substantially unchanged. The ASU also requires additional disclosures regarding leasing arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. AltaGas is currently evaluating the impact of adopting this ASU on its consolidated financial statements. The adoption of this ASU is not expected to have a material impact on AltaGas' consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-05 "Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships". The amendments in this ASU apply to all entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument. This ASU clarifies that a change in the counterparty does not require de-designation of that hedging relationship. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. An entity has an option to apply for amendments in this ASU on either a prospective basis or a modified retrospective basis. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on AltaGas' consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-06 "Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments". The amendments in this ASU clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this ASU is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. An entity should apply the amendment in this ASU on a modified retrospective basis, early adoption is also permitted. The adoption of this ASU is not expected to have a material impact on AltaGas' consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-07 "Equity Method and Joint Ventures Investments: Simplifying the Transition to the Equity Method of Accounting". The amendments in this ASU eliminate the requirement to retrospectively apply the equity method as a result of an increase in the level of ownership interest or degree of influence. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in level of ownership interest or degree of influence. Early adoption is permitted.

In March 2016, FASB issued ASU No. 2016-09 "Stock Compensation: Improvements to Employee Share-Based Payment Accounting". The amendments in this ASU focuses on simplifying several areas of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory withholding requirements, as well as the classification on the statement of cash flow. The amendments in this ASU are effective for fiscal periods beginning after December 15, 2016, and interim periods within those fiscal periods. Early adoption is permitted. AltaGas is currently assessing the impact of this ASU on its consolidated financial statements.

3. ACQUISITIONS

GWF Energy Holdings LLC (San Joaquin Facilities)

On November 30, 2015 AltaGas completed the acquisition of GWF Energy Holdings LLC, which holds a portfolio of three natural gas-fired electrical generation facilities in northern California totaling 523 MW, for approximately US$642 million before working capital adjustments. Subsequent to the acquisition, GWF Energy Holdings LLC and the other entities acquired were restructured ultimately resulting in the sole successor being AltaGas San Joaquin Energy Inc. For the three months ended March 31, 2016, transaction costs, such as legal, accounting, valuation and other professional fees of $1.5 million before taxes were incurred and included in the Consolidated Statement of Income, within "Operating and administrative expenses". Acquisition costs of $3.3 million before taxes have been incurred on the acquisition to date. Below is the provisional purchase price allocation, representing the consideration paid and the fair value of the net assets acquired as at November 30, 2015, using an exchange rate of 1.3333 to convert US dollars to Canadian dollars.

Cash consideration	$	882.4
Total consideration	$	882.4
Fair value of net assets acquired		
Current assets	$	31.5
Property, plant and equipment		591.2
Intangible assets		355.4
Current liabilities		(11.3)
Deferred income taxes		(84.4)
	$	882.4

The consolidated results for the three months ended March 31, 2016 incorporate the results of operations from the San Joaquin Facilities. If the acquisition had occurred on January 1, 2015, revenues and pre-tax income would have increased by approximately $29.3 million (US$23.6 million) and $23.7 million (US$19.1 million), respectively, for the three months ended March 31, 2015.

Edmonton Ethane Extract Plant (EEEP)

Effective January 1, 2016, AltaGas acquired the remaining 51 percent interest in EEEP for cash consideration of approximately $21 million, increasing its ownership interest to 100 percent. AltaGas accounted for the acquisition as a business combination achieved in stages and remeasured the previously held 49 percent interest in EEEP at fair value on the acquisition date using the discounted cash flow approach. The significant inputs include contracted cash flows for the facility, forecasted commodity prices, and projected operating costs based on historical pattern. No gain or loss was recorded as a result of the remeasurement. Upon the acquisition of control, AltaGas began consolidating the results of EEEP. Prior to the acquisition, AltaGas proportionately consolidated the 49 percent interest in EEEP.

Below is the provisional purchase price allocation of the estimated fair values of the net assets acquired as at the acquisition date:

Fair value of net assets acquired		
Property, plant and equipment	$	67.1
Asset retirement obligations		(15.0)
Deferred income taxes		(3.3)
	$	48.8

The total estimated fair value of $48.8 million included $21.0 million of cash paid to acquire the remaining 51 percent interest and $27.8 million related to the previously held interest.

The consolidated results for the three months ended March 31, 2016 incorporate the results of operations from the additional ownership interest in EEEP. If the acquisition of the additional interest had occurred on January 1, 2015, changes to revenues and pre-tax income for the three months ended March 31, 2015 would have been nominal.

4. ASSETS HELD FOR SALE

As at		**March 31, 2016**		December 31, 2015
Assets held for sale				
Property, plant and equipment	**$**	**—**	$	97.7
Intangible assets		**—**		1.0
	$	**—**	$	98.7
Liabilities associated with assets held for sale				
Asset retirement obligations	**$**	**—**	$	8.7
	$	**—**	$	8.7

On February 29, 2016, AltaGas completed the disposition of certain non-core natural gas gathering and processing assets in the Gas segment to Tidewater Midstream and Infrastructure Ltd. (Tidewater) for total gross consideration of $30 million in cash and approximately 43.7 million of common shares of Tidewater. The assets were located primarily in central and north central Alberta and totaled approximately 490 Mmcf/d of gross licensed natural gas processing capacity. AltaGas recognized a pre-tax gain on disposition of $4.0 million in the Consolidated Statement of Income under the line item “Other income” for the three months ended March 31, 2016. In addition, AltaGas recorded a tax recovery of $10.4 million related to the asset sale for the three months ended March 31, 2016.

AltaGas accounted for its investment in Tidewater using the equity method. On March 22, 2016 Tidewater closed a public offering and issued a total of 57.5 million common shares (including shares issued pursuant to the over-allotment option, which was exercised in full) and as a result, AltaGas’ interest in Tidewater decreased from 19.9 percent to approximately 15.8 percent. A pre-tax dilution loss of approximately $0.7 million was recognized for the three months ended March 31, 2016.

5. INVENTORY

As at		March 31, 2016		December 31, 2015
Natural gas held in storage	$	115.6	$	166.0
Other inventory		35.9		38.0
	$	151.5	$	204.0

6. GOODWILL

As at		March 31, 2016		December 31, 2015
Balance, beginning of period	$	877.3	$	785.1
Provision on assets		—		(5.1)
Foreign exchange translation		(37.8)		97.3
	$	839.5	$	877.3

7. LONG-TERM DEBT

As at	Maturity date		March 31, 2016		December 31, 2015
Credit facilities					
$1,400 million unsecured extendible revolving[(a)]	15-Dec-2019	**$**	**785.3**	$	689.9
Medium-term notes (MTNs)					
$200 million Senior unsecured - 5.49 percent	27-Mar-2017		**200.0**		200.0
$175 million Senior unsecured - 4.60 percent	15-Jan-2018		**175.0**		175.0
$200 million Senior unsecured - 4.55 percent	17-Jan-2019		**200.0**		200.0
$200 million Senior unsecured - 4.07 percent	1-Jun-2020		**200.0**		200.0
$350 million Senior unsecured - 3.72 percent	28-Sep-2021		**350.0**		350.0
$300 million Senior unsecured - 3.57 percent	12-Jun-2023		**300.0**		300.0
$200 million Senior unsecured - 4.40 percent	15-Mar-2024		**200.0**		200.0
$300 million Senior unsecured - 3.84 percent	15-Jan-2025		**299.9**		299.9
$100 million Senior unsecured - 5.16 percent	13-Jan-2044		**100.0**		100.0
$300 million Senior unsecured - 4.50 percent	15-Aug-2044		**299.8**		299.8
US$200 million Senior unsecured - floating[(b)]	24-Mar-2016		**—**		276.8
US$125 million Senior unsecured - floating[(c)]	17-Apr-2017		**162.1**		173.0
SEMCO long-term debt					
US$300 million SEMCO Senior secured - 5.15 percent[(d)]	21-Apr-2020		**389.1**		415.2
US$82 million CINGSA Senior secured - 4.48 percent [(e)]	2-Mar-2032		**97.2**		107.0
Debenture notes					
PNG RoyNat Debenture - 3.38 percent[(f)]	15-Sep-2017		**8.3**		8.6
PNG 2018 Series Debenture - 8.75 percent[(f)]	15-Nov-2018		**9.0**		9.0
PNG 2025 Series Debenture - 9.30 percent[(f)]	18-Jul-2025		**14.0**		14.0
PNG 2027 Series Debenture - 6.90 percent[(f)]	2-Dec-2027		**15.0**		15.0
Loan from Province of Nova Scotia [(g)]	31-Jul-2017		**1.1**		1.1
CINGSA capital lease - 3.50 percent	1-May-2040		**0.6**		0.6
CINGSA capital lease - 4.48 percent	4-Jun-2068		**0.2**		0.2
		$	**3,806.6**	$	4,035.1
Less debt issuance costs			**(14.4)**		(15.2)
			3,792.2		4,019.9
Less current portion			**(210.4)**		(287.5)
		$	**3,581.8**	$	3,732.4

(a) Borrowings on the facility can be by way of prime loans, U.S. base-rate loans, LIBOR loans, bankers' acceptances or letters of credit. Borrowings on the facility have fees and interest at rates relevant to the nature of the draw made.

(b) The notes carry a floating rate coupon of three months LIBOR plus 0.72 percent.

(c) The notes carry a floating rate coupon of three months LIBOR plus 0.85 percent.

(d) Collateral for the US$ MTNs is certain SEMCO assets.

(e) Collateral for the CINGSA Senior secured loan is certain CINGSA assets. Alaska Storage Holding Company, LLC, a subsidiary in which AltaGas has a controlling interest, is the non-recourse guarantor of this loan.

(f) Collateral for the Secured Debentures consists of a specific first mortgage on substantially all of PNG's property, plant and equipment, and gas purchase and gas sales contracts, and a first floating charge on other property, assets and undertakings.

(g) The loan is non-interest bearing and, if certain prescribed revenue targets are achieved, interest will immediately begin to accumulate on a prospective basis at a rate of 6 percent per annum. In July 2011, Heritage Gas elected to repay the loan in five equal installments beginning July 31, 2012. Heritage Gas may also elect to fully repay the loan at any time with no penalty.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME

($ millions)	Available-for-sale	Cash flow hedges	Defined benefit pension and PRB plans	Hedge net investments	Translation foreign operations	AOCI Investee	Total
Opening balance, January 1, 2016	**$ (2.4)**	**$ —**	**$ (9.6)**	**$ (169.6)**	**$ 610.5**	**$ 4.6**	**$ 433.5**
OCI before reclassification	**3.7**	**—**	**—**	**61.6**	**(177.3)**	**2.9**	**(109.1)**
Amounts reclassified from OCI	**—**	**—**	**0.2**	**—**	**—**	**—**	**0.2**
Current period OCI (pre-tax)	**3.7**	**—**	**0.2**	**61.6**	**(177.3)**	**2.9**	**(108.9)**
Income tax on amounts retained in AOCI	**(0.5)**	**—**	**—**	**(10.5)**	**—**	**—**	**(11.0)**
Income tax on amounts reclassified to earnings	**—**	**—**	**(0.1)**	**—**	**—**	**—**	**(0.1)**
Net current period OCI	**3.2**	**—**	**0.1**	**51.1**	**(177.3)**	**2.9**	**(120.0)**
Ending balance, March 31, 2016	**$ 0.8**	**$ —**	**$ (9.5)**	**$ (118.5)**	**$ 433.2**	**$ 7.5**	**$ 313.5**
Opening balance, January 1, 2015	$ (12.0)	$ 13.3	$ (9.6)	$ (70.9)	$ 242.3	$ —	$ 163.1
OCI before reclassification	(14.4)	(2.4)	—	(40.5)	167.2	4.1	114.0
Amounts reclassified from OCI	—	(8.0)	0.9	—	—	—	(7.1)
Current period OCI (pre-tax)	(14.4)	(10.4)	0.9	(40.5)	167.2	4.1	106.9
Income tax on amounts retained in AOCI	1.8	0.6	—	5.1	—	—	7.5
Income tax on amounts reclassified to earnings	—	2.0	(0.3)	—	—	—	1.7
Net current period OCI	(12.6)	(7.8)	0.6	(35.4)	167.2	4.1	116.1
Ending balance, March 31, 2015	$ (24.6)	$ 5.5	$ (9.0)	$ (106.3)	$ 409.5	$ 4.1	$ 279.2

Reclassification From Accumulated Other Comprehensive Income

AOCI components reclassified	Income statement line item	Three months ended March 31 **2016**	2015
Cash flow hedges - commodity contracts			
Commodity contracts - NGL (realized effective portion)	Service revenue	**$ —**	$ (3.9)
Commodity contracts - NGL (discontinuation of hedge accounting)	Unrealized gains on risk management contracts	**—**	(4.1)
Defined benefit pension plans	Operating and administrative expense	**0.2**	0.9
	Total before income taxes	**0.2**	(7.1)
Deferred income taxes	Income tax expenses – deferred	**(0.1)**	1.7
		$ 0.1	$ (5.4)

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, risk management contracts, accounts payable and accrued liabilities, dividends payable, short-term and long-term debt and certain current and long-term liabilities.

Fair Value Hierarchy

AltaGas categorizes its financial assets and financial liabilities into one of three levels based on fair value measurements and inputs used to determine the fair value.

Level 1 - fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Fair values are based on direct observations of transactions involving the same assets or liabilities and no assumptions are used. Included in this category are publicly traded shares valued at the closing price as at the balance sheet date.

Level 2 - fair values are determined based on valuation models and techniques where inputs other than quoted prices included within level 1 are observable for the asset or liability either directly or indirectly. AltaGas uses over-the-counter derivative instruments to manage fluctuations in commodity prices, interest rates, and foreign exchange rates. AltaGas estimates forward prices based on published sources adjusted for factors specific to the asset or liability, including basis and location differentials, discount rates, currency exchange, and interest rate yield curves. The forward curves used to mark-to-market these derivative instruments are vetted against public sources.

Level 3 - fair values are based on inputs for the asset or liability that are not based on observable market data. AltaGas uses valuation techniques when observable market data is not available.

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments:

Cash and cash equivalents, Accounts receivable, Accounts payable, Short-term debt and Dividends payable - the carrying amounts approximate fair value because of the short maturity of these instruments.

Current portion of long-term debt, Long-term debt and Other long-term liabilities - the fair value of these liabilities has been estimated based on discounted future interest and principal payments using the current market interest rates of instruments with similar terms.

Risk management assets and liabilities - the fair values of power and natural gas derivatives were calculated using discounted cash flow analysis based upon forward prices from published sources for the relevant period. The fair value of foreign exchange derivatives was calculated using quoted market rates.

	March 31, 2016				
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Financial assets					
Cash and cash equivalents	**$ 8.5**	**$ 8.5**	**$ —**	**$ —**	**$ 8.5**
Risk management assets - current	**56.1**	**—**	**56.1**	**—**	**56.1**
Risk management assets - non-current	**29.7**	**—**	**29.7**	**—**	**29.7**
Long-term investments and other assets [(a)]	**27.5**	**27.5**	**—**	**—**	**27.5**
	$ 121.8	**$ 36.0**	**$ 85.8**	**$ —**	**$ 121.8**
Financial liabilities					
Risk management liabilities - current	**$ 36.7**	**$ —**	**$ 36.7**	**$ —**	**$ 36.7**
Risk management liabilities - non-current	**13.8**	**—**	**13.8**	**—**	**13.8**
Current portion of long-term debt	**210.4**	**—**	**214.9**	**—**	**214.9**
Long-term debt	**3,581.8**	**—**	**3,627.6**	**—**	**3,627.6**
Other current liabilities [(b)]	**10.9**	**—**	**10.9**	**—**	**10.9**
Other long-term liabilities [(b)]	**153.0**	**—**	**146.1**	**—**	**146.1**
	$ 4,006.6	**$ —**	**$ 4,050.0**	**$ —**	**$ 4,050.0**

(a) Excludes non-financial assets.

(b) Excludes non-financial liabilities.

	December 31, 2015				
	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial assets					
Cash and cash equivalents	$ 293.4	$ 293.4	$ —	$ —	$ 293.4
Risk management assets - current	50.4	—	50.4	—	50.4
Risk management assets - non-current	23.5	—	23.5	—	23.5
Long-term investments and other assets [a]	24.0	24.0	—	—	24.0
	$ 391.3	$ 317.4	$ 73.9	$ —	$ 391.3
Financial liabilities					
Risk management liabilities - current	$ 33.5	$ —	$ 33.5	$ —	$ 33.5
Risk management liabilities - non-current	15.7	—	15.7	—	15.7
Current portion of long-term debt	287.5	—	286.2	—	286.2
Long-term debt	3,732.4	—	3,787.5	—	3,787.5
Other current liabilities [b]	11.0	—	11.0	—	11.0
Other long-term liabilities [b]	151.2	—	144.9	—	144.9
	$ 4,231.3	$ —	$ 4,278.8	$ —	$ 4,278.8

(a) Excludes non-financial assets.

(b) Excludes non-financial liabilities.

Summary of Unrealized Gains (Losses) on Risk Management Contracts Recognized in Net Income

Three months ended March 31	**2016**	2015
Natural gas	**$ (0.9)**	$ 1.5
Storage optimization	**(2.4)**	(0.9)
NGL frac spread	**—**	3.4
Power	**12.1**	9.3
Heat rate	**—**	(0.3)
Foreign exchange	**(0.1)**	0.2
Embedded derivative	**0.2**	0.1
	$ 8.9	$ 13.3

Offsetting of Derivative Assets and Derivative Liabilities

Certain AltaGas risk management contracts are subject to master netting arrangements that create a legally enforceable right to offset by counterparty the related financial assets and financial liabilities.

	March 31, 2016		
Risk management assets [(a)]	**Gross amounts of recognized assets/liabilities**	**Gross amounts offset in balance sheet**	**Net amounts presented in balance sheet**
Natural gas	**$ 41.8**	**$ (1.4)**	**$ 40.4**
Storage optimization	**0.2**	**—**	**0.2**
Power	**45.8**	**(0.6)**	**45.2**
Foreign exchange	**2.0**	**(2.0)**	**—**
	$ 89.8	**$ (4.0)**	**$ 85.8**
Risk management liabilities [(b)]			
Natural gas	**$ 39.4**	**$ (1.4)**	**$ 38.0**
Storage optimization	**0.1**	**—**	**0.1**
Power	**12.3**	**(0.6)**	**11.7**
Foreign exchange	**2.7**	**(2.0)**	**0.7**
	$ 54.5	**$ (4.0)**	**$ 50.5**

(a) Net amount of risk management assets on the Balance Sheet is comprised of risk management assets (current) balance of $56.1 million and risk management assets (non-current) balance of $29.7 million.

(b) Net amount of risk management liabilities on the Balance Sheet is comprised of risk management liabilities (current) balance of $36.7 million and risk management liabilities (non-current) balance of $13.8 million.

	December 31, 2015		
Risk management assets [(a)]	Gross amounts of recognized assets/liabilities	Gross amounts offset in balance sheet	Net amounts presented in balance sheet
Natural gas	$ 40.1	$ (1.9)	$ 38.2
Storage optimization	3.0	(0.5)	2.5
Power	34.0	(0.9)	33.1
Heat rate	0.1	—	0.1
Foreign exchange	2.2	(2.2)	—
	$ 79.4	$ (5.5)	$ 73.9
Risk management liabilities [(b)]			
Natural gas	$ 37.0	$ (1.9)	$ 35.1
Storage optimization	0.5	(0.5)	—
Power	14.5	(0.9)	13.6
Foreign exchange	2.7	(2.2)	0.5
	$ 54.7	$ (5.5)	$ 49.2

(a) Net amount of risk management assets on the Balance Sheet is comprised of risk management assets (current) balance of $50.4 million and risk management assets (non-current) balance of $23.5 million.

(b) Net amount of risk management liabilities on the Balance Sheet is comprised of risk management liabilities (current) balance of $33.5 million and risk management liabilities (non-current) balance of $15.7 million.

10. SHAREHOLDERS' EQUITY

Authorization

AltaGas is authorized to issue an unlimited number of voting common shares. AltaGas is also authorized to issue preferred shares not to exceed 50 percent of the voting rights attached to the issued and outstanding common shares.

Dividend Reinvestment Plan (DRIP)

AltaGas has adopted a Dividend Reinvestment and Optional Common Share Purchase Plan for holders of common shares (the Plan).

The Plan, as may be amended from time to time, provides eligible holders of common shares with the opportunity to reinvest the cash dividends paid by AltaGas on their common shares towards the purchase of new common shares at a 5 percent discount to the average market price (as defined below) of the common shares on the applicable dividend payment date (the dividend reinvestment component of the Plan). The Plan also provides shareholders who are enrolled in the dividend reinvestment component of the Plan with the opportunity to purchase new common shares at the average market price (with no discount) on the applicable dividend payment date (the optional cash payment component of the Plan). Each of the components of the Plan is subject to prorating and other limitations on availability of new common shares in certain events. The "average market price", in respect of a particular dividend payment date, refers to the arithmetic average (calculated to four decimal places) of the daily volume weighted average trading prices of common shares on the Toronto Stock Exchange for the trading days on which at least one board lot of common shares is traded during the 10 business days immediately preceding the applicable dividend payment date. Such trading prices will be appropriately adjusted for certain capital changes (including common share subdivisions, common share consolidations, certain rights offerings and certain dividends). Shareholders resident outside of Canada are not entitled to participate in the Plan.

Common Shares Issued and Outstanding	Number of shares		Amount
January 1, 2015	133,941,749	$	2,759.9
Shares issued on public offering	8,760,000		287.9
Shares issued for cash on exercise of options	834,268		20.8
Deferred taxes on share issuance cost	—		3.3
Shares issued under DRIP	2,745,230		96.2
December 31, 2015	146,281,247		3,168.1
Shares issued for cash on exercise of options	74,250		1.9
Shares issued under DRIP	913,344		26.8
Issued and outstanding at March 31, 2016	**147,268,841**	**$**	**3,196.8**

Preferred Shares

Preferred Shares Series A Issued and Outstanding	Number of shares		Amount
January 1, 2015	8,000,000	$	195.9
Shares converted to Series B	(2,488,780)		(60.9)
December 31, 2015	5,511,220		135.0
Issued and outstanding at March 31, 2016	**5,511,220**	**$**	**135.0**

Preferred Shares Series B Issued and Outstanding	Number of shares		Amount
January 1, 2015	—	$	—
Shares issued on conversion from Series A	2,488,780		60.9
December 31, 2015	2,488,780		60.9
Issued and outstanding at March 31, 2016	**2,488,780**	**$**	**60.9**

Preferred Shares Series C Issued and Outstanding	Number of shares		Amount
January 1, 2015	8,000,000	$	200.6
December 31, 2015	8,000,000		200.6
Issued and outstanding at March 31, 2016	**8,000,000**	**$**	**200.6**

Preferred Shares Series E Issued and Outstanding	Number of shares		Amount
January 1, 2015	8,000,000	$	195.8
December 31, 2015	8,000,000		195.8
Issued and outstanding at March 31, 2016	**8,000,000**	**$**	**195.8**

Preferred Shares Series G Issued and Outstanding	Number of shares		Amount
January 1, 2015	8,000,000	$	196.1
December 31, 2015	8,000,000		196.1
Issued and outstanding at March 31, 2016	**8,000,000**	**$**	**196.1**

Preferred Shares Series I Issued and Outstanding	Number of shares		Amount
January 1, 2015	—	$	—
Shares issued	8,000,000		200.0
Share issuance costs, net of taxes	—		(3.3)
December 31, 2015	8,000,000		196.7
Issued and outstanding at March 31, 2016	**8,000,000**	**$**	**196.7**

Share Option Plan

AltaGas has an employee share option plan under which employees and directors are eligible to receive grants. As at March 31, 2016, 10,255,373 shares were reserved for issuance under the plan. As at March 31, 2016, options granted under the plan have a term between six and ten years until expiry and vest no longer than over a four-year period.

As at March 31, 2016, unexpensed fair value of share option compensation cost associated with future periods was $2.2 million (December 31, 2015 - $2.7 million).

The following table summarizes information about the Corporation's share options:

As at	**March 31 2016**			December 31, 2015		
	Options outstanding			Options outstanding		
	Number of options		**Exercise price(a)**	Number of options		Exercise price(a)
Share options outstanding, beginning of period	**4,559,261**	**$**	**32.02**	5,123,655	$	30.28
Granted	**31,500**		**30.90**	470,000		36.94
Exercised	**(74,250)**		**22.89**	(834,268)		22.93
Expired	**(21,500)**		**33.06**	(19,125)		41.67
Forfeited	**(23,500)**		**34.42**	(181,001)		36.88
Share options outstanding, end of period	**4,471,511**	**$**	**32.14**	4,559,261	$	32.02
Share options exercisable, end of period	**2,962,821**	**$**	**29.03**	3,009,946	$	28.71

(a) Weighted average.

As at March 31, 2016, the aggregate intrinsic value of the total options exercisable was $16.6 million (December 31, 2015 - $12.0 million), the total intrinsic value of options outstanding was $17.5 million (December 31, 2015 – $12.2 million) and the total intrinsic value of options exercised was $0.7 million (December 31, 2015 - $12.0 million).

The following table summarizes the employee share option plan as at March 31, 2016:

	Options outstanding			Options exercisable	
	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable	Weighted average exercise price
$14.24 to $18.00	208,500	$ 15.21	3.04	208,500	$ 15.21
$18.01 to $25.08	632,750	21.43	4.10	632,750	21.43
$25.09 to $50.89	3,630,261	34.98	5.19	2,121,571	32.65
	4,471,511	**$ 32.14**	**4.94**	**2,962,821**	**$ 29.03**

Medium Term Incentive Plan (MTIP)

AltaGas' MTIP for employees and executive officers includes two types of awards: restricted units (RUs) and performance units (PUs). Both RUs and PUs have vesting periods between 36 to 44 months from the grant date. Both RUs and PUs are valued based on the dividends declared during the vesting period and the weighted average share price of AltaGas' common shares multiplied by the units outstanding at the end of the vesting period. Upon vesting, the RUs and PUs are paid in cash or at the election of AltaGas, its equivalent in common shares purchased from the market. The PUs are also subject to a performance multiplier ranging from 0 to 2 dependent on the Corporation's performance relative to performance targets agreed between the Corporation and the employees.

Performance and Restricted Units	**March 31, 2016**	December 31, 2015
(number of units)		
Balance, beginning of period	**409,037**	282,817
Granted	**7,131**	196,770
Vested and paid out	**(47,828)**	(71,883)
Forfeited	**(4,363)**	(7,133)
Units in lieu of dividends	**9,540**	8,466
Outstanding, end of period	**373,517**	409,037

For the three months ended March 31, 2016, the compensation expense recorded for the MTIP was $1.4 million (2015 - $1.4 million). As at March 31, 2016, the unrecognized compensation expense relating to the remaining vesting period was $12.5 million (December 31, 2015 - $12.6 million) and is expected to be recognized over the vesting period.

11. NET INCOME PER COMMON SHARE

The following table summarizes the computation of net income per common share:

Three months ended March 31	**2016**	2015
Numerator:		
Net income applicable to controlling interests	**$ 67.3**	$ 76.4
Less: Preferred share dividends	**(12.0)**	(10.2)
Net income per common share	**$ 55.3**	$ 66.2
Denominator:		
(millions)		
Weighted average number of common shares outstanding	**146.8**	134.3
Dilutive equity instruments[(a)]	**0.4**	1.5
Weighted average number of common shares outstanding - diluted	**147.2**	135.8
Basic net income per common share	**$ 0.38**	$ 0.49
Diluted net income per common share	**$ 0.38**	$ 0.49

(a) Includes all options that have a strike price lower than the market share price of AltaGas' common shares as at March 31, 2016 and 2015.

For three months ended March 31, 2016, 2.3 million of share options, (2015 - 0.8 million) were excluded from the diluted net income per share calculation as their effects were anti-dilutive.

12. SUNDANCE B POWER PURCHASE ARRANGEMENTS

In the first quarter of 2016, ASTC Power Partnership (ASTC) exercised its right to terminate the Sundance B PPAs effective March 8, 2016 pursuant to the change in law provisions of the Sundance B PPAs as a result of recent changes in law regarding the Alberta Specified Gas Emitters Regulation. Upon the termination of the Sundance B PPAs, AltaGas recognized a pre-tax provision of $4.0 million on its investment in ASTC to settle the working capital deficiency.

Under the Balancing Pool Regulation, the Balancing Pool is required to conduct an investigation into the termination and this process is ongoing. If the Balancing Pool disputes the termination claim, AltaGas may be required to refund the Balancing Pool for its share of the net PPA costs incurred from March 8, 2016 to when the matter is resolved. As at March 31, 2016, no accrual has been recognized but AltaGas estimates that the possible range of its share of the net PPA costs is between $nil and $2.7 million from March 8 to March 31, 2016.

13. COMMITMENTS AND CONTINGENCIES

Commitments

AltaGas has long-term natural gas purchase arrangements, service agreements, power purchase agreements, and operating leases for office space, office equipment and automobile equipment, all of which are transacted at market prices and in the normal course of business.

AltaGas enters into contracts to purchase natural gas and natural gas transportation and storage services from various suppliers for its utilities. These contracts, which have expiration dates that range from 2016 to 2021, are used to ensure that there is an adequate supply of natural gas to meet the needs of customers and to minimize exposure to market price fluctuations.

In 2014, AltaGas' Blythe facility entered into a Long-Term Service Agreement with Siemens to complete various upgrade and maintenance services on the Combustion Turbines at the Blythe facility over 116,000 EOH/CT, or 20 years, whichever comes first. As at March 31, 2016, approximately $210.0 million is expected to be paid over the next 18 years, of which $53.6 million is expected to be paid over the next five years.

In 2009, AltaGas entered into a 20-year storage contract at the Dawn Hub in southwest Ontario. AltaGas is obligated to pay approximately $3.5 million per annum over the term of the contract for storage services.

In 2007, AltaGas entered into a service and maintenance agreement with Enercon GmbH for the wind turbines for Bear Mountain. AltaGas has an obligation to pay a minimum of $11.3 million over the next 6 years, of which $9.4 million is payable in the next five years.

Guarantees

On October 2014, Heritage Gas Limited, a wholly-owned subsidiary of AltaGas, entered into a throughput contract with the third party owners of the transportation facility for the use of their pipelines in the U.S. and Canada. The contract will commence at completion of the construction of the pipelines and it will expire 15 years thereafter. AltaGas has two guarantees outstanding that total US $91.7 million to stand by all payment obligations under the transportation agreement.

Contingencies

AltaGas is participating in a proceeding underway before the Alberta Utilities Commission (AUC) regarding factors that form the basis for certain transmission charges paid by Alberta generators. On January 20, 2015, the AUC released a decision concerning the complaints regarding the ISO Transmission Loss Factor Rule and Loss Factor Methodology used for the power distribution in Alberta. The AUC will proceed to determine the relief and remedies to be granted in accordance with its findings and conclusions regarding its authority and jurisdiction made in its decision. AltaGas is one of the respondents to the complaint and it has assessed that it may incur additional payments for transmission charges, but the timing and amount, or range of amounts, required to settle the claim cannot be estimated and, accordingly, no accrual of the loss contingency was recognized as at March 31, 2016.

14. PENSION PLANS AND RETIREE BENEFITS

The costs of the defined benefit and post-retirement benefit plans are based on management's estimate of the future rate of return on the fair value of pension plan assets, salary escalations, mortality rates and other factors affecting the payment of future benefits.

The net pension expense by plan for the period was as follows:

	Three months ended March 31, 2016					
	Canada		**United States**		**Total**	
	Defined Benefit	**Post-retirement Benefits**	**Defined Benefit**	**Post-retirement Benefits**	**Defined Benefit**	**Post-retirement Benefits**
Current service cost	**$ 1.7**	**$ 0.2**	**$ 1.9**	**$ 0.5**	**$ 3.6**	**$ 0.7**
Interest cost	**1.4**	**0.2**	**3.1**	**1.0**	**4.5**	**1.2**
Expected return on plan assets	**(1.3)**	**—**	**(3.9)**	**(1.2)**	**(5.2)**	**(1.2)**
Amortization of net actuarial loss	**0.2**	**—**	**—**	**—**	**0.2**	**—**
Amortization of regulatory asset	**0.3**	**—**	**1.6**	**0.2**	**1.9**	**0.2**
Net benefit cost recognized	**$ 2.3**	**$ 0.4**	**$ 2.7**	**$ 0.5**	**$ 5.0**	**$ 0.9**

	Three months ended March 31, 2015					
	Canada		United States		Total	
	Defined Benefit	Post-retirement Benefits	Defined Benefit	Post-retirement Benefits	Defined Benefit	Post-retirement Benefits
Current service cost	$ 1.7	$ 0.2	$ 1.9	$ 0.5	$ 3.6	$ 0.7
Interest cost	1.3	0.1	2.6	0.8	3.9	0.9
Expected return on plan assets	(1.3)	—	(3.6)	(1.1)	(4.9)	(1.1)
Amortization of net actuarial loss	0.5	—	—	—	0.5	—
Amortization of regulatory asset	0.4	—	1.0	0.2	1.4	0.2
Net benefit cost recognized	$ 2.6	$ 0.3	$ 1.9	$ 0.4	$ 4.5	$ 0.7

15. INCOME TAX EXPENSE

The effective income tax rates for the three months ended March 31, 2016 was 7.8 percent (2015 – 27.9 percent). The decrease in the effective tax rate in 2016 was mainly due to the tax recovery related to the sale of assets to Tidewater as discussed under Note 4 as well as a tax recovery of $2.6 million related to a previous impairment charge becoming tax deductible in the current quarter.

16. SUPPLEMENTAL CASH FLOW INFORMATION

The following table details the changes in operating assets and liabilities from operating activities:

Three months ended March 31	**2016**	2015
Source (use) of cash:		
Accounts receivable	**$ 55.2**	$ 2.5
Inventory	**36.1**	87.3
Other current assets	**—**	9.9
Regulatory assets (current)	**(6.2)**	4.3
Accounts payable and accrued liabilities	**(51.4)**	(22.5)
Customer deposits	**(11.1)**	(14.4)
Regulatory liabilities (current)	**(0.6)**	7.6
Other current liabilities	**(2.8)**	(10.5)
Other operating assets and liabilities	**(10.2)**	(1.0)
Changes in operating assets and liabilities	**$ 9.0**	$ 63.2

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

Three months ended March 31	**2016**	2015
Interest paid (net of capitalized interest)	**$ 47.8**	$ 37.3
Income taxes paid	**$ 12.4**	$ 8.8

17. SEASONALITY

The utility business is highly seasonal with the majority of natural gas deliveries occurring during the winter heating season. Gas sales increase during the winter resulting in stronger first and fourth quarter results and weaker second and third quarters.

The power generation at the run-of-river hydro-facilities Forrest Kerr, Volcano Creek, and McLymont Creek occurs substantially from mid second quarter through mid fourth quarter, resulting in weaker results in the first and fourth quarters.

18. SEGMENTED INFORMATION

AltaGas owns and operates a portfolio of assets and services used to move energy from the source to the end-user. The following describes the Corporation's four reporting segments:

Gas	– NGL processing and extraction plants; – transmission pipelines to transport natural gas and NGL; – natural gas gathering lines and field processing facilities; – purchase and sale of natural gas, including to commercial and industrial users; – natural gas storage facilities; – liquefied petroleum gas (LPG) development projects; and – equity investment in a North American entity engaged in the marketing, storage and distribution of NGL, drilling fluids, crude oil and condensate diluents.
Power	– natural gas-fired, wind, biomass and hydro power generation assets, whereby outputs are generally sold under long term power purchase agreements, both operational and under development; and – sale of power to commercial and industrial users in Alberta.
Utilities	– rate-regulated natural gas distribution assets in Michigan, Alaska, Alberta, British Columbia and Nova Scotia; and – rate-regulated natural gas storage in Michigan and Alaska.
Corporate	– the cost of providing corporate services, financing and general corporate overhead, investments in public and private entities, corporate assets, financing other segments and the effects of changes in the fair value of risk management contracts.

The following tables show the composition by segment:

	Three months ended March 31, 2016					
	Gas	**Power**	**Utilities**	**Corporate**	**Intersegment Elimination[(a)]**	**Total**
Revenue	**$ 238.9**	**$ 122.8**	**$ 384.0**	**$ 1.8**	**$ (145.9)**	**$ 601.6**
Unrealized gains on risk management	**—**	**—**	**—**	**8.9**	**—**	**8.9**
Cost of sales	**(163.8)**	**(47.9)**	**(219.5)**	**—**	**142.5**	**(288.7)**
Operating and administrative	**(41.9)**	**(26.0)**	**(57.3)**	**(9.9)**	**3.5**	**(131.6)**
Accretion expenses	**(1.0)**	**(1.8)**	**—**	**—**	**—**	**(2.8)**
Depreciation and amortization	**(15.0)**	**(27.3)**	**(22.4)**	**(3.7)**	**—**	**(68.4)**
Income (loss) from equity investments	**0.7**	**(12.0)**	**0.6**	**—**	**—**	**(10.7)**
Other income (loss)	**4.0**	**—**	**0.2**	**0.3**	**(0.1)**	**4.4**
Foreign exchange loss	**—**	**—**	**—**	**(0.6)**	**—**	**(0.6)**
Interest expense	**—**	**—**	**—**	**(36.1)**	**—**	**(36.1)**
Income (loss) before income taxes	**$ 21.9**	**$ 7.8**	**$ 85.6**	**$ (39.3)**	**$ —**	**$ 76.0**
Net additions (reductions) to:						
Property, plant and equipment[(b)]	**$ 51.8**	**$ 11.2**	**$ 16.1**	**$ 0.8**	**$ —**	**$ 79.9**
Intangible assets	**$ 0.2**	**$ 0.1**	**$ 0.2**	**$ 0.3**	**$ —**	**$ 0.8**

(a) Intersegment transactions are recorded at market value.

(b) Net additions to property, plant, and equipment, and intangible assets may not agree to changes reflected in Consolidated Balance Sheets due to classification of business acquisition and foreign exchange changes on U.S. assets.

	Three months ended March 31, 2015					
	Gas	Power	Utilities	Corporate	Intersegment Elimination[(a)]	Total
Revenue	$ 284.7	$ 110.2	$ 430.8	$ —	$ (94.7)	$ 731.0
Unrealized gains on risk management	—	—	—	13.3	—	13.3
Cost of sales	(194.4)	(60.4)	(271.2)	—	92.9	(433.1)
Operating and administrative	(42.6)	(13.8)	(56.5)	(6.1)	1.8	(117.2)
Accretion expenses	(0.9)	(1.8)	—	—	—	(2.7)
Depreciation and amortization	(15.2)	(14.6)	(18.5)	(1.6)	—	(49.9)
Income (loss) from equity investments	(2.0)	(4.5)	0.8	—	—	(5.7)
Other income	—	—	0.5	1.3	—	1.8
Foreign exchange gain	—	—	—	1.2	—	1.2
Interest expense	—	—	—	(29.8)	—	(29.8)
Income (loss) before income taxes	$ 29.6	$ 15.1	$ 85.9	$ (21.7)	$ —	$ 108.9
Net additions (reductions) to:						
Property, plant and equipment[(b)]	$ 21.6	$ 65.0	$ 22.9	$ 0.4	$ —	$ 109.9
Intangible assets	$ 0.1	$ 9.2	$ 0.4	$ 5.8	$ —	$ 15.5

(a) Intersegment transactions are recorded at market value.

(b) Net additions to property, plant, and equipment, and intangible assets may not agree to changes reflected in Consolidated Balance Sheets due to classification of business acquisition and foreign exchange changes on U.S. assets.

The following table shows goodwill and total assets by segment:

	Gas	Power	Utilities	Corporate	Total
As at March 31, 2016					
Goodwill	**$ 156.3**	**$ —**	**$ 683.2**	**$ —**	**$ 839.5**
Segmented assets	**$ 2,543.0**	**$ 3,443.3**	**$ 3,357.0**	**$ 216.1**	**$ 9,559.4**
As at December 31, 2015					
Goodwill	$ 156.3	$ —	$ 721.0	$ —	$ 877.3
Segmented assets	$ 2,449.0	$ 3,579.9	$ 3,576.7	$ 493.9	$ 10,099.5

19. SUBSEQUENT EVENTS

Subsequent events have been reviewed through April 20, 2016, the date these unaudited condensed interim consolidated financial statements were issued.

On April 7, 2016, AltaGas issued $350 million of senior unsecured medium-term notes. The notes carry a coupon rate of 4.12 percent and will mature on April 7, 2026.

Supplementary Quarterly Operating Information

(unaudited)

	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
OPERATING HIGHLIGHTS					
GAS					
Total inlet gas processed (Mmcf/d)(1)	**1,222**	1,298	1,293	1,123	1,498
Extraction volumes (Bbls/d)(1) (2)	**64,408**	65,465	30,241	49,288	73,293
Frac spread - realized ($/Bbl)(1) (3)	**8.22**	15.55	34.58	20.58	11.43
Frac spread - average spot price ($/Bbl)(1)(4)	**8.22**	5.06	11.11	2.51	3.72
POWER					
Renewable power sold (GWh)	**142**	310	487	342	161
Conventional power sold (GWh)	**698**	1,264	1,210	945	989
Average Alberta realized power price ($/MWh)(1)	**35.00**	33.83	38.80	48.16	45.42
Alberta Power Pool average spot price ($/MWh)(1)	**18.00**	21.19	26.09	57.22	29.02
Renewable capacity factor (%)	**10.5**	30.2	57.5	39.6	14.7
Contracted conventional availability factor (%)	**97.6**	99.1	99.5	91.2	96.9
UTILITIES					
Canadian utilities					
Natural gas deliveries - end-use (PJ)(5)	**12.3**	10.2	3.3	5.2	13.0
Natural gas deliveries - transportation (PJ)(5)	**1.8**	1.9	1.6	1.5	1.9
U.S. utilities					
Natural gas deliveries end use (Bcf) (5)	**28.2**	20.2	5.9	10.0	32.1
Natural gas deliveries transportation (Bcf) (5)	**14.2**	13.5	10.5	10.0	13.7
Service sites(6)	**570,681**	568,751	562,301	560,755	564,173
Degree day variance from normal - AUI (%)(7)	**(18.5)**	(10.0)	3.9	(9.7)	(11.3)
Degree day variance from normal - Heritage Gas (%)(7)	**(6.9)**	(8.0)	(42.0)	14.7	15.7
Degree day variance from normal - SEMCO Gas (%)(8)	**(8.5)**	(20.4)	(28.4)	(1.7)	16.4
Degree day variance from normal - ENSTAR (%)(8)	**(21.0)**	(6.1)	(9.6)	(17.4)	(8.0)

(1) Average for the period.

(2) Includes Harmattan NGL processed on behalf of customers.

(3) Realized frac spread or NGL margin, expressed in dollars per barrel of NGL, is derived from sales recorded by the segment during the period for frac exposed volumes plus the settlement value of frac hedges settled in the period less extraction premiums, divided by the total frac exposed volumes produced during the period.

(4) Average spot frac spread or NGL margin, expressed in dollars per barrel of NGL, is indicative of the average sales price that AltaGas receives for propane, butane and condensate less extraction premiums, divided by the respective frac exposed volumes for the period.

(5) Petajoule (PJ) is one million gigajoules (GJ). Bcf is one billion cubic feet.

(6) Service sites reflect all of the service sites of AUI, PNG, Heritage Gas and U.S. utilities, including transportation and non-regulated business lines.

(7) A degree day for AUI and Heritage Gas is the cumulative extent to which the daily mean temperature falls below 15 degrees Celsius at AUI and 18 degrees Celsius at Heritage Gas. Normal degree days are based on a 20-year rolling average. Positive variances from normal lead to increased delivery volumes from normal expectations. Degree day variances do not materially affect the results of PNG as the BCUC has approved a rate stabilization mechanism for its residential and small commercial customers.

(8) A degree day for U.S. utilities is a measure of coldness, determined daily as the number of degrees the average temperature during the day in question is below 65 degrees Fahrenheit. Degree days for a particular period are determined by adding the degree days incurred during each day of the period. Normal degree days for a particular period are the average of degree days during the prior 15 years for SEMCO Energy Gas Company and during the prior 10 years for ENSTAR.

Other Information

DEFINITIONS

Bbls/d	barrels per day
Bcf	billion cubic feet
GJ	gigajoule
GWh	gigawatt-hour
Mcf	thousand cubic feet
Mmcf/d	million cubic feet per day
MW	megawatt
MWh	megawatt-hour
PJ	petajoule
MMBTU	million British thermal unit

ABOUT ALTAGAS

AltaGas is an energy infrastructure business with a focus on natural gas, power and regulated utilities. The Corporation creates value by acquiring, growing and optimizing its energy infrastructure, including a focus on clean energy sources. For more information visit: www.altagas.ca.

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