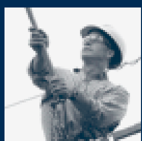
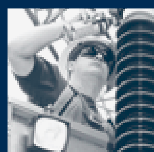
IT TAKES
HIGHLY SKILLED
TECHNICALLY COMPETENT
OPERATIONALLY EXCELLENT PEOPLE
TO MAKE OUR BUSINESS
LOOK SIMPLE

/ **ALTALINK ANNUAL REPORT** for the eight months ended December 31, 2004

SIMPLY RELIABLE, SIMPLY RESPONSIVE, SIMPLY SAFE.



IN 2004, ALTALINK WORKED ON 11,600 KILOMETRES OF TRANSMISSION LINES ALL AROUND ALBERTA. BY BEING GOOD AT WHAT WE DO, WE'RE ENSURING THAT OUR



PROVINCE'S TRANSMISSION GRID IS READY TO MEET THE NEEDS OF ALBERTANS.

LETTER TO STAKEHOLDERS

In many ways 2004 was a year of positioning AltaLink for the future – a year where we focused on improving reliability and readied ourselves for the work that lies ahead. While this document reports on only eight months of 2004, from April 30 to our new year end, December 31, we accomplished a great deal in those eight months. Our efforts were focused on three critical stakeholder groups: our employees; our customers and our investors.

What we say on the cover of this report says a lot about us. As a company, we work hard to make our business as simple and transparent to our customers as possible. We want the people of Alberta – that 85 per cent of the population who rely on us to get them electricity – to take us for granted. We want to ensure that when they flick the switch, they know the lights will come on. It should seem that simple.

But we know it's not quite that easy. In fact, it has been said that a transmission grid is one of the most complex machines in the world. Operating this sophisticated system takes people with years of training and decades of experience behind them. It is a challenging environment under any set of conditions, and arguably it has been even more challenging during these past few years as Alberta's demand for electricity has grown.

During 2004, we spent a lot of time talking with and listening to our people. We wanted to ensure that, as a company, we had the right structures in place to support the team. We deliberately focused on areas affecting our people, including leadership, compensation, how we work and project execution. Continually improving our company and its processes is what we are about. A key to that important process is listening and several messages are clear.

The first message is around quality. From the approximately 75 people who work in the field repairing and maintaining our transmission lines to the approximately 200 people who help keep the system running from our offices, we heard a lot about the high standards of performance they strive to meet and the pride they feel in doing the job right.

The second message is around efficiency. Like any company, we are in business to provide a service to customers, and AltaLink's customers are the people of Alberta. We know they want us to move electricity to them as cost effectively as possible and during the past two years our organization has been focused on streamlining operations and holding the line on costs. At the same time, Alberta's growth put more demands on the grid and our people. Our recent general tariff application (GTA) decision from our regulator, the Alberta Energy and Utilities Board (EUB), supported our request to hire more staff to meet the needs of Albertans, while remaining efficient.

The EUB's GTA decision also provides us greater certainty around our revenue streams for the next year and a half. In that decision, we received approval on our tariff for the period from May 1, 2004 through to December 31, 2006, enabling us to look forward and plan with confidence.

AT ALTALINK, WE BELIEVE IT'S IMPORTANT TO BE INVOLVED BEYOND OUR DAILY BUSINESS OPERATIONS IN THE COMMUNITIES IN WHICH WE OPERATE, AND THIS IS WHY WE ARE PARTICULARLY PROUD TO BE AN OFFICIAL CHAMPION OF ALBERTA 4-H SPONSOR THROUGH TO 2007. BOTH OF OUR ORGANIZATIONS HAVE STRONG RURAL ROOTS AND A LONGSTANDING HISTORY IN ALBERTA. ALTALINK AND ALBERTA 4-H SHARE A COMMON GOAL IN DEVELOPING LEADERSHIP EXCELLENCE AND LONG-TERM SOLUTIONS FOR THE NEEDS OF OUR CUSTOMERS AND COMMUNITIES.

Several initiatives during this past eight months were focused on our third message – better meeting the needs of our customers in the near and long term. Working closely with the Alberta Electric System Operator (AESO) to improve the way the electric industry works with customers, we began the introduction of a Customer Interface Process which will allow our larger customers – companies like Fortis, EnCana, Petro-Canada, and Terasen that take delivery of electricity directly off our transmission grid – to work directly with AltaLink. This will result in our new customer team and our engineers being able to hear the needs of these customers, and to address and solve their problems much more efficiently than we have been able to do in the past.

We also continued readying ourselves for the needed expansion of Alberta's transmission grid. Two primary factors are driving this requirement: our growing economy and the growth in population that has accompanied it. The Alberta grid has not seen any significant investment in upgrading or expansion in more than 20 years. The combination of age and increasing demand on our system has resulted in the grid

ALTALINK EMPLOYEES TAKE THE ROLE OF GOOD CORPORATE CITIZEN SERIOUSLY AND HAVE PROVEN THAT EXTRAORDINARY RESULTS CAN BE ACCOMPLISHED BY DETERMINED PEOPLE WORKING TOWARDS A COMMON GOAL AND A STRONGER COMMUNITY. OVER THE LAST THREE YEARS, ALTALINK EMPLOYEES HAVE ILLUSTRATED THIS THROUGH OUR ANNUAL POWERFUL GIVING CAMPAIGN, RAISING MORE THAN $325,000 FOR ALBERTA CHARITIES – A TREMENDOUS COMMITMENT TO GIVING FROM A COMPANY OF ONLY 275 PEOPLE.

becoming increasingly inefficient. As it stands today, the grid is straining to deliver the cost-effective, reliable transmission that Albertans need. While it seems like something of a contradiction, additional investment is required in order to allow the transmission grid to deliver lower cost electricity over the long term.

The need for the AESO's 500 kV Edmonton to Calgary transmission project has been approved by the EUB. This important project will have a significant impact on AltaLink over the next five years. AltaLink expects to play the lead role in building and maintaining this project. We understand how critical it is for Albertans. And we are ready to take on the construction of the 500 kV transmission line between Edmonton and Calgary.

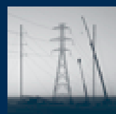
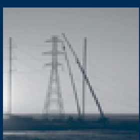
AltaLink also delivered solid financial performance in this eight-month stub year. We achieved revenue of $114.5 million and net income of $21.0 million (pre-tax) in eight months compared to 12-month revenue of $155.1 million and net income of $26.5 million (pre-tax) the previous year.

As I look back on this period, it was definitely eight months of intense activity. I am pleased with what we accomplished and am very proud of our team. I want to thank every employee for the time and effort they invested in our company last year.

We did some very good work in 2004 and I am excited about the future. I look forward to the opportunities and challenges that lie ahead.

On behalf of the Board of Directors,

Scott Thon, President and Chief Executive Officer
April 29, 2005

IN 2004, ALTALINK BECAME THE FIRST  TRANSMISSION COMPANY IN CANADA TO DEPLOY  TOWER SOLUTIONS' RAPID ASSEMBLY, EMERGENCY TOWER SYSTEM. THESE TOWERS PROVIDE ALTALINK WITH A NEW, INNOVATIVE TOOL TO QUICKLY RESTORE  POWER DURING EMERGENCY REPAIRS, ALL AT A LOWER OVERALL COST TO THE CUSTOMER.

FINANCIAL HIGHLIGHTS

	Year Ended December 31, 2004	Year Ended April 30, 2004
Total revenue	**114,482**	155,108
Net income for the year	**20,993**	26,509
Capital assets	**903,061**	871,292
Short-term debt	**144**	212
Long-term debt	**564,791**	544,150

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations of AltaLink, L.P. (the “Partnership”) should be read in conjunction with the Partnership’s audited financial statements for the eight-month stub year ended December 31, 2004. Certain amounts in prior years have been reclassified to enable comparison with the current year’s presentation.

Additional information relating to the Partnership, including the Partnership’s Annual Information Form, is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

The following discussion includes forward-looking statements regarding the business and anticipated financial performance or conditions of the Partnership. These statements involve known and unknown risks and relate to future events and financial performance, business strategy, plans and objectives of management for future operations and projected business results. In some cases, forward-looking statements can be identified by terms such as “may”, “will”, “expect”, “potential”, “enable”, “anticipate”, “plan”, “believe”, “continue”, “contemplate”, or other similar terminology. Forward-looking statements are subject to a number of uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements. Some of the factors that could cause such differences include legislative and regulatory developments that affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity, timing and extent of changes in prevailing interest rates, currency exchange rates, inflation levels and general economic conditions in geographic areas where the Partnership operates, results of financing efforts, changes in counterparty risk and the impact of accounting policies issued by Canadian standard setters.

The Partnership is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, users should not place undue reliance on these forward-looking statements.

OVERVIEW

The Partnership is an electricity transmission facility owner formed July 3, 2001, to acquire TransAlta Energy Corporation’s transmission business, and whose business is owning and operating regulated electricity transmission facilities in the province of Alberta. The Partnership is managed by its General Partner, AltaLink Management Ltd. (the “General Partner”) and has one Limited Partner, AltaLink Investments, L.P. (“AILP”). As a result of the acquisition of the transmission business in April 2002 for $829.1 million, the Partnership became the first independent transmission service provider in Canada, with more than 11,600 kilometres of transmission lines and approximately 260 substations that supply 85 per cent of the Alberta population. The Partnership also owns and operates the interconnection facilities which connect its network with the transmission system in British Columbia, allowing electricity to flow into and out of Alberta. The Partnership is regulated by the Alberta Energy and Utilities Board ("EUB"), and as such its tariff revenue, depreciation rates and other matters affecting the financial statements are determined by the EUB.

In the stub year ended December 31, 2004, the Partnership continued to focus on effectively operating and maintaining its existing transmission facilities, the core of its business. The Partnership invested approximately $30 million in the existing transmission system, directing attention to replacing assets at their end of life. The digital upgrade to the province-wide microwave communication network continued with completion scheduled for 2005. In addition in 2004, the company successfully implemented an upgrade to SAP, its core enterprise-wide software system, establishing a foundation on which to manage the Partnership's growing business.

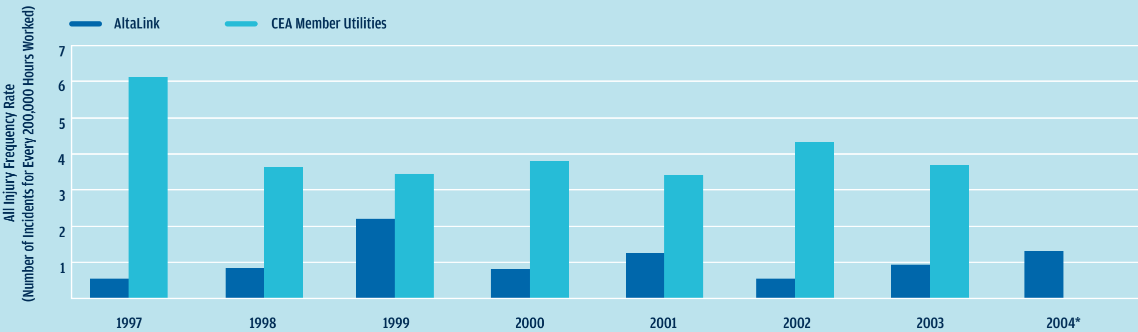
The 2004 stub year was a strong growth period for the Partnership. Approximately $35 million was invested in new facilities required to meet the growing needs of Alberta customers. More than 15 new projects were completed during this period with another 10 projects initiated and planned for completion in 2005. The Partnership completed, on schedule and on budget, the complex interconnection of Alberta's largest new coal-fired generation addition in approximately 10 years, the 450 MW Genesee 3 addition near Edmonton.

The Alberta Electric System Operator ("AESO") moved forward with its need applications to the EUB for two major transmission developments located in the Partnership's operating region – the southwest 240 kV expansion and the north-south corridor 500 kV expansion. The EUB is expected to issue decisions on these applications in 2005. If the applications are approved, the Partnership, working closely with the AESO, will begin the permit and license process to construct these facilities.

The Partnership remains committed to the safety of its employees, contractors and the public. The 2004 calendar year resulted in an exceptional safety performance with an all employee frequency rate ("AIFR") of only 1.28 for AltaLink employees and 0.99 including AltaLink contractors, top-quartile results in comparison to other CEA Transmission Member Utilities [see chart]. With increased construction activity drawing new players into the electricity industry, the Partnership will continue its focus on improving contractor safety management in 2005.

As the Partnership's transmission assets gradually age, maintaining reliability can be increasingly challenging. AltaLink continues to invest in its facilities to maintain reliability performance levels. In the 2004 calendar year and during the past two years, degrading outage duration trends were stabilized [see chart on following page]. The Partnership will continue to focus on investing prudently to maintain or improve current reliability performance levels.

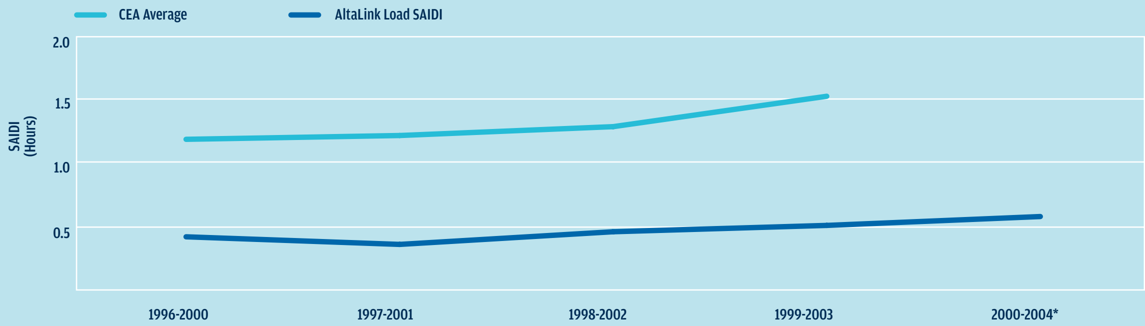
TREND FOR CEA TRANSMISSION MEMBER UTILITIES (Employees)



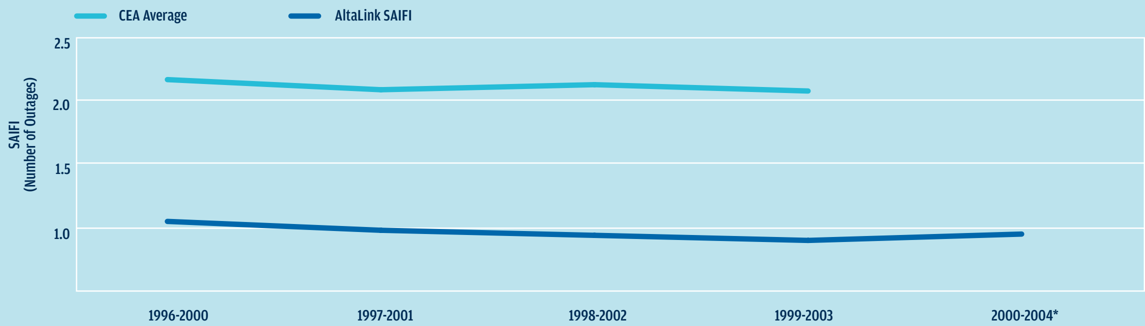
* CEA results for 2004 not available at time of publishing.

SAIDI and SAIFI are performance indicators that represent the reliability of the utility's overall system over a period of time. SAIDI (System Average Interruption Duration Index) is the indicator of the length of time that the power is out, whereas SAIFI (System Average Interruption Frequency Index) measures the number of times the power went out in a given year.

AVERAGE DELIVERY POINT INTERRUPTION DURATION



AVERAGE DELIVERY POINT INTERRUPTION FREQUENCY

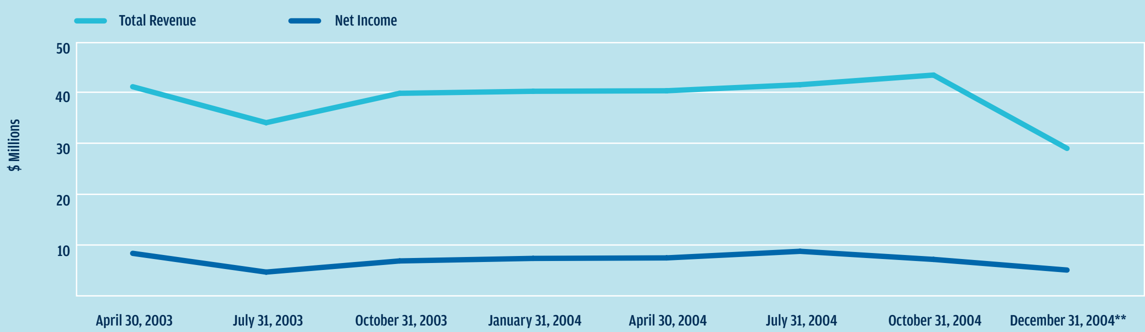


* CEA results for 2000 – 2004 not available at time of publishing.

OVERALL PERFORMANCE

The Partnership continued to deliver safe, reliable and cost-effective transmission service to the province while providing a stable investment for our shareholders during the eight-month stub year ended December 31, 2004.

QUARTERLY RESULTS OF OPERATIONS



** Total Revenue and Net Income results reflect a two-month quarter.

QUARTERLY RESULTS OF OPERATIONS

Quarterly Results of Operations

	Two-month Stub Period Dec. 31 2004	Oct. 31 2004	July 31 2004	Apr. 30 2004	Jan. 31 2004	Oct. 31 2003	July 31 2003	Apr. 30 2003
Total revenues ($ millions) [1]	**29.2**	**43.6**	**41.7**	**40.5**	40.4	40.0	34.2	41.3
Net income ($ millions) [1]	**5.0**	**7.2**	**8.8**	**7.5**	7.4	6.9	4.7	8.4
Net income per unit ($)	**0.015**	**0.022**	**0.027**	**0.022**	0.022	0.021	0.014	0.025
Number of units (thousands)	**331,904**	**331,904**	**331,904**	**331,904**	331,904	331,904	331,904	331,904

[1] Certain comparative figures have been reclassified to conform to the current period's presentation.

As a regulated entity, the Partnership applies to the EUB for rates on a forward test year basis. As such, the Partnership generally knows in advance what its tariff revenue, depreciation rates and other cost elements will be during a fiscal year. However, when the Partnership acquired the transmission business in May 2002, it did not have an approved final tariff in place and was receiving revenue under an interim tariff. In September 2002, the Partnership filed a General Tariff Application (GTA) with the EUB to have tariff revenues set for the fiscal years ending April 30, 2003, and April 30, 2004. The EUB rendered a preliminary decision on August 3, 2003 and the final decision was issued March 23, 2004. For the fiscal year ended April 30, 2003 management estimated what the approved tariff might be. Once a preliminary decision was received, the estimates were adjusted and the cumulative effect of the changes from April 30, 2003 were reflected in the period the decision was received. When the final decision was received, other adjustments were made as required.

Since April 30, 2004 the Partnership has received tariff revenue based upon an interim tariff. With the goal of receiving final rate decisions in advance of test periods, the Partnership filed a GTA to the EUB for approval of rates to the end of 2007.

SELECTED ANNUAL INFORMATION

Stub Year ended December 31, 2004 and Year ended April 30, 2004 and April 30, 2003

($ millions)	December 31, 2004	April 30, 2004	April 30, 2003
Total revenue	**114.5**	155.1	154.1
Net income	**21.0**	26.5	30.4
Net income per unit	**0.063**	0.080	0.092
Total assets	**1,144.8**	1,118.5	1,083.7
Total long-term financial liabilities	**750.4**	728.6	281.9
Distributions per unit	**0.028**	0.039	0.088

The stub year ended December 31, 2004 reflected eight months of operations for the Partnership. The increase in total assets reflects the Partnership's commitment to investing in infrastructure across Alberta. Our investments during the past three years connected new generators to the grid. The Partnership also connected new end-users to the grid, thereby supporting the continuing growth of Alberta's economy through the addition of new industry. Part of this investment also targeted maintaining and improving the reliability of Alberta's transmission system.

RESULTS OF OPERATIONS

Financial Highlights

Stub Year ended December 31, 2004 and Year ended April 30, 2004

($ millions)	December 31, 2004	April 30, 2004
Revenue	**114.5**	155.1
Operating expenses	**39.2**	54.6
Depreciation and accretion expenses	**33.8**	42.1
Interest and amortization of financing fees	**21.5**	32.3
Allowance for debt funds used during construction	**0.7**	0.2
Gain on the sale of assets	**0.3**	0.2
Net income	**21.0**	26.5

During the eight-month stub year, the Partnership operated on an interim tariff supplied by the EUB.

Higher tariff revenue of $6.0 million and the 2003 GTA adjustment in its entirety of $5.0 million resulting from the August 3, 2003 EUB decision contributed to higher revenue. This increase was offset by the eight-month stub year effect of $50 million and reduction in miscellaneous revenue of $3.6 million resulting in a decrease of $40.6 million compared to the year ended April 30, 2004.

An increase in salaries and benefits from higher staff levels of $1.1 million, expenses for the GTA hearings in October prorated for a full year increase of $2.1 million and increased insurance costs prorated for a full year of $1.3 million increased operating expense in the period. However, these increases were more than offset by the effect of the eight-month stub year effect of $14.1 million and the $4.4 million prorated reduction in defined contribution pension expense due to the effects of the GTA decision adjustment being reflected in the year ended April 30, 2004.

Lower depreciation rates ordered in the August 3, 2003 EUB decision were reflected in the April 30, 2004 year end resulting in a reduction in depreciation expense for that period. An increase in depreciable asset base from additions in the current period were more than offset by the effect of the shortened stub year resulting in depreciation expense being $8.3 million lower than the year ended April 30, 2004.

Interest and amortization of financing fees for the stub year ended December 31, 2004, was $10.8 million lower than the year ended April 30, 2004, due to the eight-month stub year.

BALANCE SHEET

The following table outlines the significant changes in the balance sheets between December 31, 2004 and April 30, 2004:

($ millions)	Increase (Decrease)	Explanation
Cash and cash equivalents	(2.3)	The decrease was primarily related to payment for capital assets additions, partially offset by cash generated from operations and financing activities.
Capital assets	31.8	The increase in capital assets year-over-year reflects the Partnership's investment in its infrastructure across Alberta after depreciation.
Accounts payable and accrued liabilities	(9.9)	The decrease was primarily related to the payment of linear, property and business taxes, and a reduction in accrued interest.
Long-term debt	20.6	The rise in long-term debt related to an increase in Banker's Acceptances, primarily associated with the funding of capital projects.

LIQUIDITY AND CAPITAL RESOURCES

The following table outlines the summary of cash flows:

Statements of Cash Flows

Stub Year ended December 31, 2004 and Year ended April 30, 2004

($ millions)	December 31, 2004	April 30, 2004
Cash, beginning of period	**2.3**	–
Cash provided by (used in):		
Operating activities	**45.4**	84.1
Investing activities	**(58.9)**	(84.3)
Financing activities	**11.2**	2.5
Cash, end of period	**–**	2.3

Sources of Liquidity and Capital Resources

The Partnership's primary sources of liquidity and capital resources are:

- Funds generated from operations;
- The issuance and sale of bonds;
- Bank financing; and
- Capital contributions from the Limited Partner.

Operating Activities

Cash from operating activities for the stub year ended December 31, 2004 was $45.4 million, a decrease of $38.7 million from $84.1 million for year ended April 30, 2004. The decrease in operating cash is primarily due to eight months in the stub year compared to 12 months in the year ended April 30, 2004. Cash from operations will not be sufficient for the Partnership to fund repayment of existing indebtedness when due or to meet anticipated liquidity, maintenance and other capital expenditure requirements. Therefore, the Partnership expects to incur new indebtedness or equity injections to meet these requirements in the foreseeable future.

Financing Activities

Net cash from financing activities for the stub year ended December 31, 2004 was an inflow of $11.2 million compared to $2.5 million for the year ended April 30, 2004, an increase of $8.7 million. Increased financing was required as a result of cash from operating activities being less than capital additions during the stub year.

Liquidity and Capital Resource Requirements

The Partnership's principal liquidity and capital resource requirements consist of:

- Payment of operating costs;
- Capital expenditures to maintain, improve and expand transmission assets;
- Servicing and repayment of debt;
- Distributions to partners; and
- Acquisitions and other investing activities.

Investing Activities

Net cash used in investing activities for the stub year ended December 31, 2004 was $58.9 million, compared to $84.3 million for the year ended April 30, 2004, a decrease of $25.4 million. The decreased capital expenditure was primarily due to an eight-month stub year end compared to 12 months in the year ended April 30, 2004. Capital expenditures were mainly associated with new transmission facilities, capital upgrades and replacements on existing transmission facilities, and expenditures on information technology.

Direct-assigned projects are transmission construction projects assigned to the Partnership by the Alberta Electric System Operator (AESO) dealing mainly with new growth on the Alberta transmission grid. Capital replacements and upgrade programs are projects and programs initiated by the Partnership to sustain and ensure that the transmission assets continue to function and operate in an efficient and reliable manner.

It is expected that capital expenditures will be financed by drawing on the bank facility, using some of the proceeds from potential future bond issues and from funds generated from operations.

Acquisitions and Other Investing Activities

The Partnership may pursue other acquisitions of electricity transmission assets in Alberta, although no specific material transactions are currently pending. In addition to potential acquisitions, the Partnership also has continuing capital expenditure programs that are part of its day-to-day operations. Management believes the Partnership will have access to sufficient sources of liquidity and capital resources, including debt financing or the issuance of additional equity, to carry out its plans.

Servicing and Repayment of Debt

As of December 31, 2004, the Partnership had outstanding debt (including capital lease obligations) of approximately $565 million. The Partnership expects to meet interest payments on outstanding indebtedness from internally generated funds, but relies on the proceeds from new indebtedness to be able to meet the principal obligations when due.

The Partnership manages interest rate risk by locking in interest rates for long periods through fixed-rate debt. Approximately 90 per cent of the Partnership's long-term debt facilities have maturities of 2008 and beyond.

Summary of Contractual Obligations and Other Commercial Commitments

Payments due for contractual obligations in each of the next five years and thereafter are:

($ millions)			Payments due by period		
Contractual obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Operating leases	6.8	1.1	2.1	1.8	1.8
Debt	565.0	0.1	54.0	100.3	410.6
Other	8.6	1.4	2.9	2.9	1.4
Total	580.4	2.6	59.0	105.0	413.8

The Partnership had letters of credit outstanding (under its bank facility) totaling $0.1 million as of December 31, 2004 (April 30, 2004 – $0.1 million). These letters of credit have not been drawn upon.

TRANSACTIONS WITH RELATED PARTIES

AltaLink Investment Management Ltd.

Subsequent to the year ended April 30, 2003, the Partnership amended its service agreement with AltaLink Investments, L.P. Rather than providing services directly to AltaLink Investments, L.P., the Partnership now provides these services through AltaLink Investment Management Ltd. which is AltaLink Investments, L.P.'s General Partner. As such, fees for these services are billed to AltaLink Investment Management Ltd. by the Partnership at exchange amounts, and AltaLink Investment Management Ltd. then recovers these costs from AltaLink Investments, L.P. During the eight months ended December 31, 2004 the Partnership provided consulting services to AltaLink Investment Management Ltd. in the amount of $0.2 million (year ended April 30, 2004 – $0.7 million).

AltaLink Management Ltd.

Pursuant to the terms of the Partnership Agreement, the General Partner provides administrative and operational services to the Partnership on a cost reimbursement basis. The employees that provide the administrative and operational services are employed by the General Partner and the Partnership has indemnified the General Partner for all expenses and liabilities associated therewith. Services are invoiced and settled on a semi-monthly basis. Operating and capital expenses included $17.5 million (year ended April 30, 2004 – $22.8 million) of salaries and benefits that have been invoiced from the General Partner for the eight months ended December 31, 2004 at exchange amounts. The Partnership agreement granted the General Partner a 0.01 per cent interest in the Partnership in consideration for acting as General Partner. For the eight months ended December 31, 2004 distributions of $0 million were paid to the General Partner (year ended April 30, 2004 –$0 million).

AltaLink Investments, L.P.

Included in miscellaneous revenue is $nil (April 30, 2004 – $0.1 million) for consulting services provided to AltaLink Investments, L.P. These services are recorded at exchange amounts. Included in interest expense is $3.4 million (April 30, 2004 – $6.8 million), which relates to the Series 3 Subordinated Bridge Bond payable to AltaLink Investments, L.P. For the eight months ended December 31, 2004 distributions of $9.3 million were paid to AltaLink Investments, L.P (April 30, 2004 – $12.8 million).

SNC-Lavalin Inc.

SNC-Lavalin Inc., a subsidiary of SNC-Lavalin Group Inc., provided consulting services in the amount of $0 million during the eight months ended December 31, 2004 and $0.1 million for the year ended April 30, 2004 in relation to the acquisition of the transmission assets and other operating activities. SNC-Lavalin Group Inc. is the parent of SNC-Lavalin Transmission Ltd. which is a 50 per cent owner of AltaLink Investments, L.P. These services were recorded at exchange amounts.

The Partnership and SNC-Lavalin Inc. are parties to an exclusive appointment of EPC/EPCM contractor agreement whereby the Partnership appointed SNC-Lavalin Inc. as the exclusive provider of engineering, procurement and construction services and related management services for capital upgrades to transmission facilities in Alberta. The exclusive appointment agreement is scheduled to terminate on April 30, 2012. During the eight months ended December 31, 2004 SNC-Lavalin ATP Inc., a subsidiary of SNC-Lavalin Inc., provided the above mentioned services for the construction of capital assets totaling $47.6 million (April 30, 2004 – $55.9 million). These amounts have been included in capital assets as at December 31, 2004. The Partnership received $0.1 million (April 30, 2004 – $0.1 million) in miscellaneous revenue from SNC-Lavalin ATP Inc. during the eight months ended December 31, 2004. These services were recorded at exchange amounts.

Macquarie North America Ltd.

Macquarie Essential Assets Partnership ("MEAP") is the sole shareholder of Macquarie Transmission Alberta Ltd., which owns, beneficially and of record, 15 per cent of AltaLink Investments, L.P. The general partner of MEAP is Macquarie Canadian Infrastructure Management Limited, a direct subsidiary of Macquarie North America Ltd. Macquarie North America Ltd. provided $0 million (April 30, 2004 – $2.2 million) in consulting and financial advisory services and operating expenses during the eight months ended December 31, 2004 of which $nil (April 30, 2004 – $2.2 million) was recorded as financing fees, and $0 million (April 30, 2003 – $0 million) was recorded as operating expenses. These services were recorded at exchange amounts.

Ontario Teachers' Pension Plan Board

Ontario Teachers' Pension Plan Board ("OTPPB") is the parent of OTPPB-TEP Inc., a 25 per cent owner of AltaLink Investments, L.P. Included in interest expense is $nil for the eight months ended December 31, 2004 and $6.3 million for the year ended April 30, 2004 which relates to Series 1 (redeemed June 5, 2003) and Series 2 (redeemed December 5, 2003) Senior Bridge Bonds payable to OTPPB.

Other

Amounts due from (to) related parties included in accounts receivable and accounts payable are:

($ millions)	December 31, 2004	April 30, 2004
AltaLink Investment Management Ltd.	$ 0.1	$ -
AltaLink Management Ltd.	0.3	0.4
AltaLink Investments, L.P.	(1.1)	(1.7)
SNC-Lavalin ATP Inc.	(13.8)	(7.2)

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of or requirements for capital resources. The Partnership has no such off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Partnership's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of contingencies because the determination of many of these amounts is dependent on future events. The Partnership bases its estimates and judgments on historical experience, current conditions and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities as well as identifying and assessing our accounting treatment with respect to commitments and contingencies. Actual results may differ from these estimates and judgments.

RISK UNCERTAINTIES

The Partnership and the transmission business are subject to a variety of risks and uncertainties that may have material and adverse effects, financial and otherwise, on the results of the Partnership's operations. As well, various risks are identified throughout the foregoing MD&A of Financial Condition and Results of Operations of the Partnership.

Regulatory Approvals

The Partnership is dependent upon decisions made by the EUB which approve the revenue requirement or tariff for the transmission business. The revenue tariffs are designed to permit the regulated transmission business a reasonable opportunity to recover costs incurred by the transmission business including a fair return on the equity of the owners. If the Partnership's actual costs exceed approved costs for any reason, the Partnership's financial performance will be adversely affected. Actual costs could exceed approved costs if, for example, the Partnership incurs operational, maintenance and administration costs above those included in the Partnership's approved revenue requirement, or if it incurs higher costs due to capital expenditures to upgrade or replace components in the existing system being at levels above those provided for in the EUB decisions, or if it incurs additional financing charges because of increased debt balances or changes in interest rates. To the extent that any costs are disallowed through the rates, it could have a material adverse affect on the Partnership's financial performance.

Capital Resources

The Partnership's financial position and performance could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and to repay maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on debt) will not be sufficient to fund the repayment of all existing debt when due and anticipated capital expenditures. The ability to arrange sufficient and cost-effective debt financing could be affected by numerous factors, including the regulatory environment in Alberta, the results of operations and financial position, conditions in the capital and bank credit markets, the ratings assigned to the Partnership by debt rating agencies, and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to the Partnership to fund such expenditures and repay existing debt. None of AILP, the General Partner or any owners of AILP or its general partner is obligated to provide further funding to the Partnership.

On August 11, 2004, the Partnership was notified by Standard and Poor's Ratings Services (S&P) that its "A-" credit rating was affirmed but the outlook was changed from stable to negative. The change in the outlook reflected the uncertainty surrounding the execution and timing of a planned retirement of debt at the Partnership's parent, AILP. On March 3, 2005, S&P notified the Partnership that its outlook was changed from negative to stable, reflecting the successful completion of the planned financial restructuring at the Partnership's parent, AILP.

On November 22, 2004, the Partnership was notified by Dominion Bond Rating Service (DBRS) that its rating on the Partnership's Senior Secured Bonds is downgraded to "A" and the trend is changed from Negative to Stable. In its release, DBRS confirmed that the Partnership's financial results were better than anticipated, however, it noted that the downgrade reflected the ongoing uncertainty and significant regulatory lag associated with the EUB's decisions, which contributed to lengthy time delays in reaching financial decisions by the Partnership's sponsors. DBRS stated that while regulatory risk remains one of the Partnership's key risks, the challenges associated with the timeliness of decisions and the uncertainty with respect to the type of financing that AILP will receive in the future are the key reasons for the downgrade.

RECENT DEVELOPMENTS

EUB Revenue Requirement

On March 23, 2004, the EUB released a decision finalizing the revenue requirement for the years ending April 30, 2003 and April 30, 2004. The EUB decision provided for, among other things, a rate of return of 9.4 per cent on a 34 per cent deemed common equity ratio. This decision approved the collection of only 75 per cent of deemed taxes in rates.

An important component of the revenue requirement for which the Partnership sought approval in its general rate application was the recovery of income taxes. As a Limited Partnership, the Partnership does not pay income taxes, but instead the tax consequences of its operations are borne by its partners on a pro rata basis based on their interest in the Partnership. The EUB disallowed the inclusion of deemed income taxes calculated in respect of the OTPPB affiliate which holds 25 per cent of the limited partnership units in AILP.

Following receipt of the EUB's initial decision disallowing the full collection of deemed income tax, the Partnership applied to the EUB for review and variance of its decision. The Partnership has also filed an application with the Alberta Court of Appeal seeking leave to appeal certain elements of the EUB decision. The Leave to Appeal was stayed pending the outcome of the EUB's review and variance process.

In March 2004, the EUB advised it would review its decision, with the scope of its consideration in the review being limited to (i) determining the correctness of the EUB's decision to deny an allowance in the Partnership's revenue requirement for income tax and large corporations tax related to OTPPB's investment in AILP and the Partnership, and (ii) whether the EUB erred in their derivation of the formula for the adjustment to deemed common equity when it determined the impact of the OTPPB income tax disallowance on the Partnership's equity ratio. On July 23, 2004, and again on September 13, 2004, the Partnership responded to requests for information on this matter. The Partnership submitted its final argument on November 26, 2004 to the EUB.

On February 16, 2005, the Partnership was notified that the EUB upheld its earlier decision in response to the Partnership's Review and Variance application, maintaining its denial of the Partnership's full collection of deemed income taxes. In its original decision, the EUB ruled against allowing the Partnership to collect 25 per cent of its deemed income tax in relation to one of its partners, OTPPB.

Change of Year End

The Partnership changed its fiscal year end from April 30 to December 31, effective December 31, 2004. The change of its fiscal year end was in response to a direction provided by the EUB to maintain its regulatory records on a calendar year end basis. The change allows the Partnership to align its fiscal year with its regulatory year.

General Tariff Application

The Partnership filed a GTA with the EUB on February 27, 2004, and subsequently amended the application on April 21, 2004, to apply for rates for the eight months ending December 31, 2004, and the years ending December 31, 2005, December 31, 2006, and December 31, 2007. This tariff application is based on traditional cost of service methodology. The final argument was filed with the EUB on December 13, 2004, and a decision from the EUB was received on March 12, 2005.

On March 11, 2004, the Partnership filed with the EUB for interim rates as the 2002-04 tariff expired at April 30, 2004. On June 2, 2004, the Partnership received a decision from the EUB for interim rates effective May 1, 2004.

On March 12, 2005, the Partnership received the 2004-2007 GTA, Decision 2005-019. This decision approved the Tariff Application for two years and eight months, covering the period of May 1, 2004 through December 31, 2006.

Generic Cost of Capital

The EUB conducted a generic cost of capital hearing for the purpose of considering a standardized approach to determine the rate of return on equity and capital structure for all the gas and electric utilities under its jurisdiction, including the Partnership. The oral hearing and written arguments concluded in April 2004 and the EUB issued a decision on July 2, 2004. Among other things, the EUB approved a 9.6 per cent rate of return on common equity for the Partnership for the period ended December 31, 2004. The decision also approved a 35 per cent deemed common equity ratio for the Partnership on the assumption that the disallowance of 25 per cent of deemed income taxes in an earlier decision of the EUB was continued. If the Partnership were to have a full income tax allowance included in its approved revenue requirement, the deemed common equity ratio for the Partnership would have been 33 per cent. The rate of return on common equity will be adjusted annually for the years 2005 to 2009. The adjustment is calculated as 75 per cent of the change in the yield of long-term Government of Canada bonds. It was further provided that if the adjustment exceeds ±2 per cent the EUB will consider undertaking a review of the formula. On November 30, 2004 the EUB released a decision that approved and set the 2005 return on common equity at 9.5 per cent consistent with the aforementioned adjustment formula.

On September 3, 2004, the Partnership filed a Capital Deferral Account Application with the EUB. The purpose of this application was to adjust for variations in the Partnership's revenue requirement caused by the differences arising from the actual versus forecast capital additions relating to direct assigned capital projects, with respect to the 2002-03 and 2003-04 periods. On January 17, 2005, the EUB set out a process to assess the Partnership's application. It is not possible to precisely determine the final adjustment amount that the Partnership will receive until the EUB renders a decision on this matter.

Edmonton to Calgary 500 kV Transmission Project

In May 2004, the Alberta Electric System Operator (AESO) filed a Need Application with the EUB requesting the approval for the enhancement of the North-South transmission system between Edmonton and Calgary. This work would include the construction of a new 500 kV transmission line from Genesee, west of Edmonton to Langdon, east of Calgary and the re-energizing of the Keephills, Ellerslie and Genesee (KEG) transmission line to 500 kV. The total estimated cost of the proposed enhancements is $340 million. If the Need Application, as filed, is approved by the EUB, it is expected that the AESO will direct assign the majority of the work, approximately $325 million, to the Partnership. The Partnership would then proceed to file separate Facility applications to the EUB outlining the technical, routing and cost details for the two projects. The hearing associated with this 500 kV transmission project concluded on January 18, 2005, with the presentation of oral arguments made by the stakeholders before the EUB.

Southwest Line Development

In March of 2004, the AESO filed a Need Application with the EUB requesting approval for the enhancement of the Southwest transmission system between Pincher Creek and North Lethbridge. The total project cost was estimated to be $77 million and was expected to be commissioned in April 2006. Subsequent to the hearing that ended July 12, 2004, the EUB requested the AESO to provide additional information regarding this project whereby the AESO complied and filed such information on November 4, 2004. At this point, it cannot be precisely determined when a decision with respect to this project can be expected. If the Need Application is approved as filed, it is expected that the AESO will direct assign the majority of the work to the Partnership.

MANAGEMENT'S REPORT

The financial statements of AltaLink, L.P. were prepared by management in accordance with Canadian generally accepted accounting principles. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. The Audit Committee, which consists of non-management Directors, has met with the external auditors and management in order to determine that management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the financial statements.

Scott Thon
President and Chief Executive Officer

Dimitrios (Jim) Leonidas
Executive Vice President and Chief Financial Officer

Calgary, Canada
March 24, 2005

AUDITORS' REPORT

To the Directors of the General Partner of AltaLink, L.P.:

We have audited the balance sheets of AltaLink, L.P. as at December 31, 2004 and April 30, 2004, and the statements of income and retained earnings (deficit), changes in partners' equity and cash flows for the eight months ended December 31, 2004 and the year ended April 30, 2004. These financial statements are the responsibility of AltaLink, L.P.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of AltaLink, L.P. as at December 31, 2004, and April 30, 2004, and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
March 24, 2005

BALANCE SHEETS

(in thousands of dollars)	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
ASSETS (note 6)		
Current		
Cash & cash equivalents	$ –	$ 2,303
Accounts receivable (notes 7 & 11)	16,465	17,064
Materials & supplies	900	963
Prepaid expenses & deposits	1,332	1,353
Regulatory asset (note 8)	209	928
	18,906	22,611
Capital assets (notes 3 & 5)	903,061	871,292
Deferred financing fees	6,575	7,408
Regulatory asset	3,224	3,551
Accrued benefit pension (note 10)	2,903	2,937
Materials & supplies	8,099	8,665
Goodwill	202,066	202,066
	$ 1,144,834	$ 1,118,530
LIABILITIES & PARTNERS' EQUITY		
Current		
Accounts payable & accrued liabilities (notes 7 & 11)	$ 28,298	$ 38,188
Other liabilities	410	208
Regulatory liabilities (note 8)	2,799	186
Short-term debt (notes 6 & 11)	144	212
	31,651	38,794
Accrued employment benefits liabilities	1,052	940
Other liabilities	1,940	1,179
Regulatory liabilities (notes 3 & 8)	128,416	129,522
Asset retirement obligations (note 3)	54,162	52,816
Long-term debt (notes 6 & 11)	564,791	544,150
	782,012	767,401
Commitments & contingencies (notes 4, 6, 8 & 12)		
Partners' equity		
Partners' capital	338,536	338,536
Retained earnings	24,286	12,593
	362,822	351,129
	$ 1,144,834	$ 1,118,530

See accompanying notes

Approved on behalf of the Board of Directors

David Tuer
Director

Pierre Anctil
Director

STATEMENTS OF INCOME AND RETAINED EARNINGS

(in thousands of dollars)	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
REVENUE		
Operating & miscellaneous revenue (notes 7 & 8)	$ 113,937	$ 154,886
Allowance for equity funds used during construction	545	222
	114,482	155,108
EXPENSES		
Operating (note 7)	39,164	54,570
Depreciation & accretion	33,789	42,138
	72,953	96,708
Interest & amortization of deferred financing fees on short-term debt (notes 6 & 7)	(4)	(6,108)
Interest & amortization of deferred financing fees on long-term debt (notes 6 & 7)	(21,495)	(26,178)
Allowance for debt funds used during construction	625	242
	20,655	26,356
Gain on the sale of assets	338	153
Net income for the period	20,993	26,509
Retained earnings (deficit), beginning of period	12,593	(1,066)
Distributions	(9,300)	(12,850)
Retained earnings, end of period	$ 24,286	$ 12,593

See accompanying notes

STATEMENT OF CHANGES IN PARTNERS' EQUITY

(in thousands of dollars)	Units	Limited Partner	General Partner	Total
Balance at April 30, 2003	331,904	$ 337,436	$ 34	$ 337,470
Net income for the period (restated note 3)	–	26,507	2	26,509
Distributions	–	(12,849)	(1)	(12,850)
Balance at April 30, 2004	331,904	351,094	35	351,129
Net income for the period	–	20,991	2	20,993
Distributions	–	(9,299)	(1)	(9,300)
Balance at December 31, 2004	**331,904**	**$ 362,786**	**$ 36**	**$ 362,822**

See accompanying notes

STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
OPERATING ACTIVITIES		
Net income for the period	$ 20,993	$ 26,509
Items not involving cash		
Depreciation, accretion & amortization of deferred financing fees	34,952	43,147
Allowance for funds used during construction	(1,170)	(464)
Gain on the sale of assets	(338)	(153)
Change in other non-cash items (note 13)	(1,557)	10,864
Funds generated in operations	52,880	79,903
Change in non-cash working capital items (note 13)	(7,436)	4,194
	45,444	84,097
INVESTING ACTIVITIES		
Additions to capital assets	(59,508)	(84,468)
Proceeds from the sale of assets	635	161
	(58,873)	(84,307)
FINANCING ACTIVITIES		
Decrease in lease obligation	(78)	(81)
Increase in debt	20,763	463,006
Repayment of debt	(164)	(440,454)
Distributions paid	(9,300)	(12,850)
Additions to deferred financing fees	(95)	(7,108)
	11,126	2,513
Net (decrease) increase in cash & cash equivalents	$ (2,303)	$ 2,303
Cash & cash equivalents, beginning of period	2,303	–
Cash & cash equivalents, end of period	$ –	$ 2,303
Cash interest paid during the period	$ 17,524	$ 20,888

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

Eight months ended December 31, 2004 and twelve months ended April 30, 2004 (in thousands of dollars)

1. NATURE OF OPERATIONS

AltaLink, L.P. (the "Partnership") was formed under the laws of the Province of Alberta on July 3, 2001, and is managed by the General Partner, AltaLink Management Ltd. (the "General Partner"). The Partnership has one limited partner, AltaLink Investments, L.P. The Partnership was formed to acquire and operate the electrical transmission assets from TransAlta Energy Corporation located in Alberta. These transmission assets were acquired on April 29, 2002. Although the General Partner holds legal title to the assets the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

The Partnership is an electricity transmission facility owner whose business is the ownership and operation of regulated electricity transmission facilities solely in the Province of Alberta. As a result of the acquisition of the transmission business in April 2002, the Partnership became the first independent transmission service provider in Canada. The Partnership operates approximately 11,600 kilometres of transmission lines and 260 substations that supply 85 per cent of the Alberta population. The Partnership also owns and operates the interconnection facilities which connect its network with the transmission system in British Columbia, and allows electricity to flow into and out of Alberta.

The Partnership changed its fiscal year-end from April 30 to December 31, effective December 31, 2004. The change of its fiscal year-end was in response to a direction provided by the Alberta Energy and Utilities Board ("EUB") to maintain its regulatory records on a calendar year-end basis. The change allows the Partnership to align its fiscal year with its regulatory year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis of Accounting

The financial statements of the Partnership have been prepared by management in accordance with Canadian generally accepted accounting principles. All amounts reported are in Canadian dollars unless otherwise stated. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment the Partnership operates within often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates.

The financial statements reflect the financial position and results of operations of the Partnership. The financial statements do not include all the assets, liabilities, revenues and expenses of the partners.

B) Regulation

The Partnership is regulated by the Alberta Energy and Utilities Board ("EUB"), the regulator, pursuant to the Electric Utilities Act (Alberta) ("EUA"), pursuant to Part 2 of the Public Utilities Board Act (Alberta), and pursuant to the Hydro and Electric Energy Act (Alberta). These acts and regulations cover matters such as tariffs, rates, construction, operations, financing and accounting. Pursuant to the EUA, the transmission of all electrical energy through the interconnected electric system in the province of Alberta is administered by an independent system operator, the Alberta Electric System Operator ("AESO").

The Partnership accounts for certain transactions in accordance with applicable regulation (regulatory accounting) when three criteria are met: the rates for regulated services or products provided to customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers; the regulated rates are designed to recover the cost of providing the services or products; and in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates are set at levels that will recover the cost that can be charged to and collected from customers. Under regulatory accounting, the timing of the Partnership's recognition of certain assets, liabilities, revenues and expenses may differ from that otherwise expected under Canadian generally accepted accounting principles for non-regulated businesses.

The Partnership operates under cost of service regulation as prescribed by the EUB. Earnings are determined on the basis of a rate of return on the rate base. The Partnership applies for tariff revenue based on estimated costs of service. Once the tariff is approved, it is not adjusted as a result of actual costs of service being different from that which was estimated, other than for certain prescribed costs.

Included in the tariff revenue, regulatory assets, and regulatory liabilities are provisions relating to self insurance and hearing costs, which are deferred and recorded in regulatory liabilities as the tariff is received. As the actual hearing costs and self insured losses are incurred, revenue is recognized in the same period, reducing the regulatory liability or increasing the regulatory asset.

As part of the acquisition of the transmission assets a pension asset has been recognized. For rate setting purposes pension expense recognition differs from that expected under Canadian generally accepted accounting principles for non-regulated businesses. In order to recognize the pension expense or income in these financial statements on the same basis as it is recovered through the rates charged to customers, a regulatory liability has been established which is equal to the pension asset recognized. This liability will be reduced or increased on the same basis as the pension asset is reduced or increased thus changing the pension expense or income under Canadian generally accepted accounting principles to the amount allowed for rate setting purposes.

For rate setting purposes, a separate pension liability exists which is included in regulatory liabilities and will be increased or reduced as funding of the pension plan differs from the pension income or expense which is allowed by the regulator to be included in rates.

When the EUB issues decisions affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received.

C) Cash and Cash Equivalents

Cash equivalents have been restricted to investments that are readily convertible into a known amount of cash and which have an original maturity of three months or less.

D) Materials and Supplies

Materials and supplies represent spare parts held for day-to-day operations and construction material held for internal construction and maintenance of capital assets. Those items representing construction material for capital assets are classified as long-term assets. The assets are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis, other than for major equipment which is determined on a specific item basis.

E) Capital Assets

Capital assets are carried at cost, which includes direct labour, materials and allocated overheads less depreciation. The Partnership capitalizes some major maintenance to capital assets, if these costs have been included in capital for regulatory purposes and are expected to be recovered within rates. Regulated operations capitalize an allowance for funds used during construction ("AFUDC") which represents the cost of debt and equity financing incurred during construction as approved by the EUB. AFUDC is a non-cash item that will be recovered in rates charged to customers over the service life of the assets, commencing with the asset's inclusion in the rate base.

Certain assets may be acquired or constructed with financial assistance in the form of non-refundable contributions from customers. These contributions are recorded as a reduction of the cost of property.

Regulated operations provide for depreciation on a straight-line basis with various rates ranging from 1.81% to 33.33% as approved by the EUB, based on depreciation studies prepared by the Partnership. The depreciation amounts approved by the EUB are based on the estimated useful lives of assets, and as such are also used by the Partnership as the depreciation amounts in the financial statements. Changes to depreciation rates approved by the EUB are accounted for on a prospective basis. The EUB approved rates are applied to the original historical capital costs reflected for the regulatory rate setting purposes.

When a regulated asset is retired or disposed of there is no gain or loss recorded in income, other than for land. Any difference between the cost of the asset and the accumulated depreciation is charged to the accumulated depreciation account for that asset. For regulatory purposes the net proceeds from the retirement or disposal of the asset adjusts the accumulated depreciation.

F) Deferred Financing Fees

Costs incurred to arrange debt financing are capitalized as deferred financing costs and are amortized on a straight-line basis over the period in which they are expected to be recovered through rates. Deferred financing costs that are not expected to be recovered through rates are amortized on a straight-line basis over the term of the related debt. The amortization of these charges is included as part of interest on debt.

G) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less any write down for impairment. A goodwill impairment has occurred when the carrying value of the reporting unit exceeds its fair value. An impairment loss is recognized to the extent that the carrying amount of the goodwill of a reporting unit exceeds its fair value. In the last quarter of each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value.

H) Employee Future Benefit Plans

The General Partner employs staff and provides administrative and operational services to the Partnership on a cost reimbursement basis. The Partnership bears all of the related expenses and also bears the risk and reward of any pension plans or other staff related programs which the General Partner establishes. The Partnership has indemnified the General Partner for all costs and liabilities associated with its employment of staff, including any pension liabilities. As such, the employee future benefit plans of the General Partner are reported as if they were provided by the Partnership even though the legal sponsor of the plans and employer of the staff is the General Partner.

All accrued obligations for employee future benefit plans, post-employment and post-retirement benefits are determined using the projected benefit method prorated on services. In valuing the cost of post-retirement benefits as well as the cost of pension benefits, the Partnership uses management's best estimate assumptions, except for the liability discount rate, where the Partnership uses the long-term market rate of high quality debt instruments at the measurement date. Current service costs are expensed in the period in which they are incurred. Cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets at the beginning of the fiscal year and unamortized past service costs are amortized over the expected average remaining service period of active employees receiving benefits under the plan. The Partnership uses quoted market values to value pension assets. When the recognition of a transfer of employees and employee related benefits gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement. Under regulatory accounting principles, the expense ultimately recognized in these financial statements is that which is recognized for rate setting purposes (note 2 B).

I) Taxes

As a Limited Partnership, the Partnership does not pay income taxes, but instead the tax consequences of its operations are borne by its partners on a pro rata basis based on their interest in the Partnership. Similarly, individual partners are responsible for Federal large corporation tax applicable to their respective interest in the Partnership. Accordingly, no tax expense is recognized in these financial statements.

J) Foreign Currency Translation

The Partnership's functional currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Revenues and expenses are translated at the exchange rate prevailing on the date of the transaction except for depreciation and amortization, which are translated at the exchange rate prevailing when the related assets were acquired. Gains and losses on translation are reflected in income when incurred.

K) Revenue Recognition

Revenues from rate-regulated operations are recognized on the accrual basis in accordance with rates and policies set by the regulator, and include an estimate of services provided but not yet billed.

Any revenue that has been received but not yet earned is classified as other liabilities in the financial statements.

L) Deferred Lease Inducements

Deferred lease inducements represent leasehold improvements paid for by the landlord. Deferred lease inducements are amortized on a straight-line basis over the periods of the leases, and the amortization is recorded as a reduction of rent expense.

3. CHANGE IN ACCOUNTING POLICY

Asset retirement obligations:

Prior to April 30, 2004, a provision was made for estimated costs of future removal, dismantlement, site restoration and abandonment (net of expected recoveries) for certain assets.

This provision was accrued on a straight-line basis over the estimated useful life of the asset with the related accrual charge included in the depreciation expense on the income statement.

On May 1, 2004, the Partnership adopted the recommendations of Section 3110 of the CICA Handbook, entitled "Asset Retirement Obligations." This section established standards that recognize and measure the fair value of liabilities associated with the retirement of tangible long-lived assets, and includes a corresponding increase to the carrying amount of the related assets. This corresponding increase is amortized to earnings in a systematic manner over the useful lives of the assets. The Partnership recognizes its statutory, contractual and legal obligations for asset retirements. The discounted present value of the liability accretes over time for changes in the present value, with the accretion expense included in depreciation.

Retirement obligations may apply to both the retirement of an entire facility, or to parts of the larger system. Interim retirement obligations are recognized in the latter circumstances when a component is retired prior to the retirement of the entire facility. Asset retirement obligations are recorded as a liability, with a corresponding increase to capital assets.

The Partnership analyzed the component parts of the system to determine whether it has legal obligations associated with the electrical power transmission system. The electrical power transmission system includes transmission lines, substations and telecom equipment.

Since the Partnership determined that there were no legal obligations associated with the interim retirement of electric substations and telecom sites, interim asset retirement obligations for these sites were not recognized. While there will be future retirement obligations associated with the final retirement of these assets, because the date of final removal cannot be reasonably determined no obligation has been recognized at this time.

The Partnership has determined that there are legal obligations associated with the interim retirement of the component parts of the transmission lines. The calculation of costs to dismantle and remove the component parts, including poles and towers, was estimated using historical information regarding the replacement and retirement of these types of assets.

No asset retirement obligation has been recognized for the final retirement and removal of the transmission lines as the date of the retirement, and therefore the fair value of the obligation, cannot be determined.

Amounts previously provided for future removal and site restoration costs were determined on the same basis as amounts included for these activities in previous transmission tariffs. The future removal and restoration costs recovered to date through tariffs in excess of the asset retirement obligations recorded under generally accepted accounting principles are accrued as a regulatory liability. As a result, there is no impact to net income or retained earnings from this change in accounting policy.

As of December 31, 2004, the estimated total undiscounted amount of interim asset retirement obligations was approximately $149.7 million. The obligations will be settled over the useful life of the assets, with the majority of the retirements estimated to occur between 2004 and 2040. A discount rate of 5.67% was used to calculate the carrying value of the asset retirement obligations. The effect of this change in accounting policy was recorded retroactively with restatement of prior periods.

The adjustments required to the April 30, 2004 balance sheet to implement this change are as follows:

	As previously reported	Adjustments	As restated
Capital assets	832,128	39,164	871,292
Regulatory liabilities	20,555	108,967	129,522
Provision for future removal and site restoration	122,619	(122,619)	–
Asset retirement obligations	–	52,816	52,816
Retained earnings	12,593	–	12,593

The adjustments to the income statement for the year ended April 30, 2004 to implement this change are as follows:

	As previously reported	Adjustments	As restated
Operating and miscellaneous revenue	154,020	866	154,886
Depreciation and accretion	41,272	866	42,138
Net income	26,509	–	26,509

A reconciliation between the opening and closing asset retirement obligations balance is provided below:

	December 31, 2004	April 30, 2004
Balance, beginning of period	$ 52,816	$ 49,983
Liabilities incurred in period	–	–
Liabilities settled in period	(642)	–
Accretion expense	1,988	2,833
Balance, end of period	$ 54,162	$ 52,816

4. CONTINGENCY

Altalink has been named as a party to an action commenced by the United Utility Workers Association and others, in respect of the use and control of pension funds acquired from TransAlta Utilities in connection with the purchase of TransAlta's transmission business. As the claim relates directly to actions taken by TransAlta prior to the acquisition of its transmission business by AltaLink, it is AltaLink's position that the claim constitutes an excluded liability order under AltaLink's agreement with TransAlta and AltaLink has provided notice to TransAlta of its intention to seek indemnification in respect there of from TransAlta.

5. CAPITAL ASSETS

					December 31, 2004
	Regulated Depreciation Rates %	Effective Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
Substations, transmission lines & telecontrol	2.75 – 3.27	4.13 – 5.19	$ 968,099	$ 120,641	$ 847,458
Division offices	2.41 – 10.00	2.34 – 9.67	17,166	1,924	15,242
Surface & mineral rights	1.81	3.92	14,734	1,432	13,302
Uninstalled meters & transformers	2.60	1.10	13,545	311	13,234
Vehicles	10.00	10.28	7,610	2,253	5,357
Capital leases	33.33	33.33	302	257	45
Other	4.29 – 22.22	4.35 – 21.03	27,061	6,375	20,686
Land	–	–	10,926	–	10,926
Customer contributions	4.11 – 5.68	3.47 – 11.80	(49,002)	(3,667)	(45,335)
			1,010,441	129,526	880,915
Assets under construction	–	–	22,146	–	22,146
			$ 1,032,587	$ 129,526	$ 903,061

	Regulated Depreciation Rates %	Effective Depreciation Rates %	Cost	Accumulated Depreciation	Net Book Value
					April 30, 2004
Substations, transmission lines & telecontrol	2.75 - 3.27	4.78 - 5.55	$ 910,689	$ 93,172	$ 817,517
Division offices	2.41 - 10.00	2.43 - 10.00	16,107	1,389	14,718
Surface & mineral rights	1.81	4.02	14,314	1,075	13,239
Uninstalled meters & transformers	2.60	1.07	12,636	250	12,386
Vehicles	10.00	12.57	7,054	1,613	5,441
Capital leases	33.33	33.33	302	190	112
Other	4.29 - 22.22	4.80 - 25.37	21,972	4,171	17,801
Land	-	-	11,163	-	11,163
Customer contributions	4.11 - 5.68	4.30 - 11.80	(36,361)	(2,729)	(33,632)
			957,876	99,131	880,915
Assets under construction	-	-	12,547	-	12,547
			$ 970,423	$ 99,131	$ 871,292

The total amount of AFUDC capitalized for the eight months ended December 31, 2004 was $1,170 and was $464 for the year ended April 30, 2004.

For rate setting purposes the capital assets number included in the rate base calculation are capital assets less the provision for future removal and site restoration, assets under construction and unamortized software.

6. DEBT

	Effective Interest rate	Maturing	**December 31, 2004**	April 30, 2004
Series 3	8.01%	2012	**$ 85,000**	$ 85,000
Series 03-1	5.07%	2008	**100,000**	100,000
Series 03-2	5.72%	2013	**326,202**	326,311
Capital lease obligations	19.8%	2006	**28**	108
Credit facility	3.58%	2007	**53,705**	32,943
Total debt			**564,935**	544,362
Less: short-term debt			**144**	212
Total long-term debt			**$ 564,791**	$ 544,150

A) Credit Facility

The maturity date of the $185,000 credit facility agreement was extended to May 6, 2007. The maturity date extends as the revolving period of the bank facility is renewed each year, subject to the consent of the facility provider. If the facility provider does not agree to an extension, no additional borrowings may be made under the credit agreement after May 6, 2005 and all amounts owing there under must be repaid by May 6, 2007. The facility may be used only for capital expenditures and general corporate purposes and cannot be drawn down for the purpose of refinancing existing indebtedness. The facility provides funding by way of prime rate loans, U.S. base rate loans, bankers' acceptances, LIBOR loans and letters of credit and prohibits the Partnership from granting security on its assets to other parties unless the same security is granted to the facility provider. As at December 31, 2004 there were $50,905 of Bankers' Acceptances and $2,800 bank overdraft outstanding on the credit facility (April 30, 2004 – $32,943 Bankers' Acceptances). Of the amounts outstanding as at December 31, 2004 $53,705 (April 30, 2004 – $32,943) has been classified as long-term debt because the Partnership has the ability to continue rolling the Banker's Acceptances maturity dates under the revolving bank credit facility which has a maturity date of May 6, 2007.

B) Letters of Credit

As at December 31, 2004 and April 30, 2004, the Partnership had letters of credit outstanding totaling $89.

C) Debt Facilities

Series 3

$85,000 Series 3 Subordinated Bond, due October 1, 2012. The interest rate is a fixed rate of 8%. Interest on the Series 3 Subordinated Bond is payable quarterly on August 1, November 1, February 1, and May 1. The Series 3 Subordinated Bond is unsecured. The payment of the principal and interest of the Series 3 Subordinated Bond are subordinated to all senior bonds. The Series 3 Subordinated Bond is payable to AltaLink Investments, L.P. which is the limited partner of the Partnership.

Series 03-1 and Series 03-2

$100,000 Series 03-1 Senior Bonds, due June 5, 2008. The coupon is fixed at a rate of 4.45%. $325,000 Series 03-2 Senior Bonds, due June 5, 2013. The coupon is fixed at a rate of 5.43%. Interest on the Series 03-1 and Series 03-2 Senior Bonds is payable in arrears semi-annually on June 5 and December 5. The Series 03-1 and Series 03-2 Senior Bonds rank equally with all present and future senior, secured indebtedness that are issued by the Partnership. The Series 03-1 Senior Bonds cannot be redeemed prior to June 5, 2008. The Series 03-2 Senior Bonds may be redeemed in whole or in part at the option of the Partnership at any time at a redemption price of the principal, any accrued and outstanding interest, and in some circumstances a premium.

Upon the signing of the amended and restated master trust indenture on June 5, 2003 between the Partnership, AltaLink Management Ltd., the Partnership's General Partner, and The Trust Company of Bank of Montreal, as trustee, the Partnership secured the obligations of the Series 2 Senior Bridge Bonds. Collateral for the Series 03-1 and Series 03-2 Senior Bonds, and the credit facility which consists of a first floating charge security interest on its current and future assets.

D) Interest Expense

During the eight months ended December 31, 2004 $nil (year ended April 30, 2004 was ($172)) of deferred financing fees had been amortized and included in interest expense on short-term debt. During the eight months ended December 31, 2004, $1,163 (year ended April 30, 2004 was $1,181) of deferred financing fees had been amortized and included in interest expense on long-term debt.

E) Principal Repayments

Maturing fiscal		
2005	$	144
2006		122
2007		53,833
2008		100,135
2009 and thereafter		410,701
	$	564,935

7. RELATED PARTY TRANSACTIONS

AltaLink Investment Management Ltd.

Subsequent to the year ended April 30, 2003, the Partnership amended its agreement to provide services to AltaLink Investments, L.P. Rather than providing services directly to AltaLink Investments, L.P, the Partnership now provides these services through AltaLink Investment Management Ltd. which is AltaLink Investments, L.P.'s General Partner. As such the fees for these services are billed to AltaLink Investment Management Ltd. by the Partnership at exchange amounts, and AltaLink Investment Management Ltd. then recovers these costs from AltaLink Investments, L.P. During the eight months ended December 31, 2004 the Partnership provided consulting services to AltaLink Investment Management Ltd. in the amount of $169 (year ended April 30, 2004 – $739). These services were recorded at exchange amounts.

AltaLink Management Ltd.

Pursuant to the terms of the Partnership Agreement, the General Partner provides administrative and operational services to the Partnership on a cost reimbursement basis. The employees that provide the administrative and operational services are employed by the General Partner and the Partnership has indemnified the General Partner for all expenses and liabilities associated therewith. Services are invoiced and settled on a semi-monthly basis. Operating and capital expenses included $17,475 (year ended April 30, 2004 – $22,762) of salaries and benefits that have been invoiced from the General Partner for the eight months ended December 31, 2004 at exchange amounts. The Partnership agreement granted the General Partner a 0.01% interest in the Partnership in consideration for acting as General Partner. For the eight months ended December 31, 2004 distributions of $1 were paid to the General Partner (year ended April 30, 2004 – $1).

AltaLink Investments, L.P.

Included in miscellaneous revenue is $nil (April 30, 2004 – $113) for consulting services provided to AltaLink Investments, L.P. These services have been recorded at exchange amounts. Included in interest expense is $3,418 (April 30, 2004 – $6,831), which relates to the Series 3 Subordinated Bridge Bond payable to AltaLink Investments, L.P [note 5]. For the eight months ended December 31, 2004 distributions of $9,299 were paid to AltaLink Investments, L.P (April 30, 2004 – $12,849).

SNC-Lavalin Inc.

SNC-Lavalin Inc., a subsidiary of SNC-Lavalin Group Inc., provided consulting services in the amount of $10 during the eight months ended December 31, 2004 and $149 for the year ended April 30, 2004 in relation to the acquisition of the transmission assets and other operating activities. SNC-Lavalin Group Inc. is the parent of SNC-Lavalin Transmission Ltd. which is a 50% owner of AltaLink Investments, L.P. These services were recorded at exchange amounts.

The Partnership and SNC-Lavalin Inc. are parties to an exclusive appointment of EPC/EPCM contractor agreement whereby the Partnership appointed SNC-Lavalin Inc. as the exclusive provider of engineering, procurement and construction services and related management services for capital upgrades to transmission facilities in Alberta. The exclusive appointment agreement is scheduled to terminate on April 30, 2012. During the eight months ended December 31, 2004 SNC-Lavalin ATP Inc., a subsidiary of SNC-Lavalin Inc., provided the above mentioned services for the construction of capital assets totaling $47,595 (April 30, 2004 – $55,898). These amounts have been included in capital assets as at December 31, 2004. The Partnership received $119 (April 30, 2004 – $83) in miscellaneous revenue from SNC-Lavalin ATP Inc. during the eight months ended December 31, 2004. These services were recorded at exchange amounts.

Macquarie North America Ltd.

Macquarie Essential Assets Partnership ("MEAP") is the sole shareholder of Macquarie Transmission Alberta Ltd., which owns, beneficially and of record, 15% of AltaLink Investments, L.P. The general partner of MEAP is Macquarie Canadian Infrastructure Management Limited, a direct subsidiary of Macquarie North America Ltd. Macquarie North America Ltd. provided $25 (April 30, 2004 – $2,212) in consulting and financial advisory services, as well as operating expenses during the eight months ended December 31, 2004 of which $nil (April 30, 2004 – $2,183) was recorded as financing fees, and $25 (April 30, 2003 – $29) was recorded as operating expenses. These services were recorded at exchange amounts.

Ontario Teachers' Pension Plan Board

Ontario Teachers' Pension Plan Board is the parent of OTPPB TEP Inc., a 25% owner of AltaLink Investments, L.P. Included in interest expense is $nil for the eight months ended December 31, 2004 and $6,266 for the year ended April 30, 2004 which relates to Series 1 (redeemed June 5, 2003) and Series 2 (redeemed December 5, 2003) Senior Bridge Bonds payable to Ontario Teachers' Pension Plan Board.

Other

Amounts due from (to) related parties included in accounts receivable and accounts payable are:

	December 31, 2004	April 30, 2004
AltaLink Investment Management Ltd.	$ 88	$ 15
AltaLink Management Ltd.	262	417
AltaLink Investments, L.P.	(1,133)	(1,672)
SNC-Lavalin Inc.	(13,797)	(7,242)

8. MEASUREMENT UNCERTAINTY

The Partnership filed a general tariff application with the EUB as of September 30, 2002 to finalize rates for the fiscal years ending April 30, 2003 and April 30, 2004. This tariff application is based on traditional cost of service methodology. On March 23, 2004 the Partnership received a final decision from the EUB on this application, and the effects of the decision were reflected in the financial statements for the year ended April 30, 2004.

Tariff revenue received from the Alberta Electric System Operator ("AESO") transmission administrator for the eight months ended December 31, 2004 has been calculated based on an interim tariff set by the EUB. On March 12, 2005, the partnership received Decision 2005-019. This decision approved the tariff application for two years and eight months covering the period of May 1, 2004 through December 31, 2006. The impact of this decision has not been reflected in the financial statements as the impact has not been determined.

9. PARTNERS' CAPITAL

The Partnership is authorized to issue an unlimited number of units. The units are voting and participate equally in profits, losses and capital distributions of the Partnership. The General Partner is not entitled to vote and any Limited Partner who is in default of payment of the subscription price for units shall not be entitled to vote in respect of any units.

Any units issued by the Partnership must be offered to the existing Limited Partner in proportion to its interest in the Partnership.

The 0.01% interest granted to the General Partner in consideration for acting as General Partner of the Partnership does not entitle the General Partner to units of the Partnership.

10. EMPLOYEE FUTURE BENEFITS

A) Description

The General Partner employs staff and provides administrative and operational services to the Partnership on a cost reimbursement basis. As part of the purchase of the transmission assets the Partnership assumed pension obligations in respect of the transmission employees. At the valuation date of April 30, 2002, pension assets to be transferred exceeded the related liabilities assumed. The pension obligation was transferred by the Partnership to the General Partner at the value of the pension surplus and the Partnership will be credited with any pension income and charged for any pension expense. The transfer resulted in a long-term pension asset being established in the Partnership which will be reduced through pension expense charges or increased by pension income. Any cash funding of the pension plan by the General Partner will be reimbursed by the Partnership. The Partnership has indemnified the General Partner for all costs and liabilities associated with its employment of staff, including any pension liabilities. As such the pension is reported as if it is held by the Partnership even though the legal plan sponsor and employer of the staff is the General Partner.

On October 31, 2003, the General Partner established a registered pension plan with defined benefit and defined contribution options covering substantially all of the employees of the General Partner, effective April 29, 2002. Only those members who at the date of the acquisition were covered by the defined benefit option under the TransAlta plan were allowed to continue in that option, and all other employees and any new employees are covered under the defined contribution option. The defined benefit provisions of the plan provide a final average pay type benefit. The defined contribution component is a 10% employer contribution plan. Effective May 1, 2004, the defined contribution component of the registered pension plan established by the General Partner changed from a 10% employer contribution plan, to an 8% employer, and 2% employee contribution plan and the defined benefit component was changed to require the employees to contribute 2% of eligible earnings. The latest actuarial valuation was done as at April 30, 2002. The effective date of the next required valuation for funding purposes is December 31, 2004.

Other accrued employment benefits include the health and dental coverage provided to some employees. In addition, the General Partner has a supplemental pension plan. Effective April 29, 2002, the supplemental pension plan was provided to those employees who exceed the Income Tax limits on maximum pension contributions. The supplemental pension plan is a defined contribution plan with 6% employer contributions, which is not registered. Membership in the supplemental pension plan is automatic once registered pension plan contributions have reached the maximum annual amount.

B) Costs Recognized

During the eight-month period ended December 31, 2004 the Partnership recorded regulatory pension and other post employment benefit expenses of $1,085 (year ended April, 2004 – $5,996). The regulatory pension expense is comprised of a defined contribution expense of $952 (year ended April 30, 2004 – $2,957), other post-employment benefits of $95 (year ended April 30, 2004 – $78) supplemental pension expense of $38 (year ended April 30, 2004 – $98), and the reversal of pension income of $nil (year ended April 30, 2004 – $2,863). The reversal of pension income for the year ended April 30, 2004 reflects the decision provided by the EUB on the general rate application.

			Eight months ended December 31, 2004
	Registered	Other	Total
Current service cost	$ 92	$ 39	$ 131
Interest cost on benefit obligation	202	43	245
Interest on pension fund assets	(360)	–	(360)
Actuarial obligation losses in the period	204	33	237
Plan amendments in the period	–	205	205
Difference between expected return and actual return on plan assets	56	–	56
Difference between actuarial gain recognized for the year and actual actuarial gain on accrued benefit obligation for the period	(160)	(34)	(194)
Difference between amortization of past service costs for the year and actual plan amendments for the period	–	(191)	(191)
Defined benefit expense	34	95	129
Regulatory adjustment to offset expense	(34)	–	(34)
Defined benefit expense recognized in financial statements	–	95	95
Defined contribution expense of registered pension plan	952	–	952
Supplemental pension expense	–	38	38
Net expense recognized in the financial statements	$ 952	$ 133	$ 1,085

Of the total defined contribution expense of $952 for December 31, 2004, $nil was taken out of the defined benefit surplus, $875 was cash contributed and the remaining $77 will be cash contributed next year.

	Fiscal year ended April 30, 2004		
	Registered	Other	Total
Current service cost	$ 133	$ 32	$ 165
Interest cost on benefit obligation	274	46	320
Interest on pension fund assets	(410)	–	(410)
Amortization of experience losses in excess of 10% corridor	74	–	74
Defined benefit expense	71	78	149
Regulatory adjustment to offset expense	(71)	–	(71)
Defined benefit expense recognized in financial statements	–	78	78
Defined contribution expense of registered pension plan	2,957	–	2,957
Reversal of prior year regulatory defined benefit pension income due to EUB decision	2,863	–	2,863
Supplemental pension expense	–	98	98
Net expense recognized in the financial statements	$ 5,820	$ 176	$ 5,996

From May 1, 2002 until September 15, 2003 the defined benefit surplus was used to fund the defined contributions for those employees that were part of the TransAlta pension plan who were transferred to the Partnership upon the acquisition of the transmission business. Subsequent to September 15, 2003 the defined contributions for those employees were cash contributed. From May 1, 2002 onwards, the defined contributions were cash contributed for the other employees who did not transfer from TransAlta. Of the total defined contribution expense of $2,957 for April 30, 2004, $1,397 was taken out of the defined benefit surplus, $1,398 was cash contributed and the remaining $162 will be cash contributed next year.

C) Status of Plans

	December 31, 2004		
	Registered	Other	Total
Fair value of plan assets	$ 6,895	$ –	$ 6,895
Accrued benefit obligation	5,210	1,090	6,300
Funded status-plan surplus (liability)	1,685	(1,090)	595
Unamortized past service costs	–	191	191
Unamortized actuarial (gains) losses	1,218	(38)	1,180
Total recognized in financial statements	$ 2,903	$ (937)	$ 1,966
Amortization period in years (EARSL)	7	10	–

		Registered		Other		April 30, 2004 Total
Fair value of plan assets	$	6,523	$	–	$	6,523
Accrued benefit obligation		4,701		770		5,471
Funded status-plan surplus (liability)		1,822		(770)		1,052
Unamortized net actuarial losses (gains)		1,115		(73)		1,042
Benefits paid		–		1		1
Total recognized in financial statements	$	2,937	$	(842)	$	2,095
Amortization period in years (EARSL)		7		10		–

D) Reconciliation of Plan Assets

		December 31, 2004 Registered		April 30, 2004 Registered
Fair value of plan assets, beginning of period	$	6,523	$	6,021
Transfers to defined contribution option		–		(198)
Employee defined benefit contributions		12		–
Experience gain adjustment		56		290
Actual return on plan assets (net of expenses)		304		410
Fair value of plan assets, end of period	$	6,895	$	6,523

As at December 31, 2004 the pension fund was invested in the following: 51% equities (April 30, 2004 – 49%), 39% bonds (April 30, 2004 – 41%) and 10% cash (April 30, 2004 – 10%).

E) Reconciliation of Accrued Benefit Obligations

		Registered		Other		December 31, 2004 Total
Accrued benefit obligation, beginning of period	$	4,701	$	770	$	5,471
Plan amendments in the period		–		205		205
Current service cost		92		39		131
Employee defined benefit contributions		12		–		12
Interest cost on benefit obligation		202		43		245
Experience loss		203		33		236
Accrued benefit obligation, end of period	$	5,210	$	1,090	$	6,300

					April 30, 2004
		Registered		Other	Total
Accrued benefit obligation, beginning of period	$	3,933	$	654	$ 4,587
Current service cost		133		32	165
Interest cost on benefit obligation		274		46	320
Experience loss		361		38	399
Accrued benefit obligation, end of period	$	4,701	$	770	$ 5,471

F) Assumptions

The significant actuarial assumptions utilized in measuring the Partnership's accrued benefit obligations were as follows:

	Eight months ended December 31, 2004	
	Registered %	Other %
Liability discount rate	**6.0**	**6.0**
Expected long-term rate of return on plan assets	**7.0**	**–**
Rate of compensation increase (exclusive of promotion increases)	**3.5**	**–**
Health care cost escalation [1]	**–**	**9.0**
Dental care cost escalation	**–**	**4.0**
Provincial healthcare premium escalation	**–**	**2.5**

		April 30, 2004
	Registered %	Other %
Liability discount rate	6.25	6.25
Expected long-term rate of return on plan assets	7.0	–
Rate of compensation increase (exclusive of promotion increases)	3.5	–
Health care cost escalation [2]	–	9.0
Dental care cost escalation	–	4.0
Provincial healthcare premium escalation	–	2.5

[1] The health care cost escalation used as an estimate is 9.0% as at December 31, 2004 with a decrease of 0.5% per year for eight years and 5.0% per year thereafter.

[2] The health care cost escalation used as an estimate is 9.0% as at April 30, 2004 with a decrease of 0.5% per year for eight years and 5.0% per year thereafter.

Sensitivity to changes in assumed health care cost trend rates are as follows:

	One percentage point increase	One percentage point decrease
Effect on total service and interest costs	$ 13	$ (11)
Effect on post-retirement benefit obligation	$ 145	$ (123)

11. FINANCIAL INSTRUMENTS

A) Fair Value of Financial Instruments

Cash and cash equivalents consist of amounts held in cash deposit accounts with a Canadian chartered bank. Due to the short-term nature of cash, the carrying values do not differ materially from the fair values. Cash earned an effective interest rate of 1.45% during the eight-month period ended December 31, 2004 and 2.38% during the year ended April 30, 2004.

Accounts receivable, accounts payable and accrued liabilities are short-term in nature and as such the carrying amounts are a reasonable estimate of the fair values of these items.

As at December 31, 2004 the fair values of the outstanding debt are as follows:

	December 31, 2004	April 30, 2004
Series 03-1 Senior Bonds	**$ 103,888**	$ 102,178
Series 03-2 Senior Bonds	**339,198**	333,517
Series 3 Subordinated Bond	**86,630**	88,620

Borrowings under the bank credit facility and the capital lease obligations are for short terms and are market rate based, thus carrying values approximate fair value.

B) Concentrations of Credit Risk

The Partnership has a concentration of credit risk as approximately 86% of its accounts receivable balance is due from the Alberta Electric System Operator (April 30, 2004 – 91%), 4% of the accounts receivable balance is due from TransAlta Utilities Corporation (April 30, 2004 – 5%) and 6% is due from FortisAlberta (April 30, 2004 – nil). For the eight month period ended December 31, 2004, tariff revenues accounted for approximately 95% (April 30, 2004 – 94%) of the operating revenues. The remaining 5% (April 30, 2004 – 6%) was comprised mainly of revenue from tower and land leases and the provision of services to others.

12. COMMITMENTS

On June 1, 2002 the Partnership entered into a 10 year operating lease for premises. The Partnership has received leasehold improvement allowances from the landlord in the amount of $1,114 in fiscal 2003, and additional $132 in May of 2004. On June 1, 2004 the Partnership entered into another five year operating lease for premises, and received a leasehold improvement allowance from the landlord in the amount of $396. There are additional operating leases that are for premises in Red Deer, Lethbridge and Calgary that all have lease terms up to five years. Of the total expected minimum lease payments 95% relates to the Partnership's head office.

Expected minimum lease payments in future years are as follows:

Calendar Year	
2005	$ 1,040
2006	1,049
2007	1,039
2008	984
2009 and thereafter	2,665
	$ 6,777

13. SUPPLEMENTAL CASH FLOW INFORMATION

A) Change in Non-Cash Working Capital Items Related to Operations:

	December 31, 2004	April 30, 2004
Change in non-cash working capital items related to operations		
(Increase) decrease in accounts receivable	$ (2,197)	$ 222
Decrease (increase) in materials and supplies	63	(160)
Decrease (increase) in prepaid expenses and deposits	21	(266)
Decrease (increase) in regulatory asset	719	(928)
(Decrease) increase in accounts payable and accrued liabilities	(8,911)	11,857
Increase in other liabilities	202	17
Increase (decrease) in regulatory liabilities	2,613	(6,604)
Increase in short-term debt	54	56
	$ (7,436)	$ 4,194

B) Change in Other Non-Cash Items Related to Operations:

	December 31, 2004	April 30, 2004
Change in other non-cash items related to operations		
Decrease in accrued benefit pension asset	$ 34	$ 310
Increase in accrued employment benefits liabilities	112	175
Increase in other liabilities	761	103
(Decrease) increase in regulatory liabilities	(3,810)	7,442
Increase in asset retirement obligations	1,346	2,834
	$ (1,557)	$ 10,864

14. COMPARATIVE FIGURES

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

CORPORATE GOVERNANCE AND COMPOSITION OF THE BOARD

The Board of AltaLink Management Ltd. consists of nine directors who provide a wide diversity of business experience. All of the Board members are independent of management and are unrelated directors. Each of the unrelated directors is free from any business or other relationship that could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interest of AltaLink, other than interests and relationships that arise solely as a result of shareholding.

Board Committees and Their Mandates

The Board has an Audit Committee and a Human Resources and Governance Committee. All committee members are independent of management. In the case of its Audit Committee, AltaLink has voluntarily complied with the independence requirements prescribed in Multilateral Instrument 52-110.

Audit Committee

Chair: Patricia Nelson
Members: David Tuer, Robert Turgeon

The Audit Committee reviews AltaLink's interim financial statements and annual audited financial statements and certain corporate disclosure documents, including the annual information form, management's discussion and analysis, offering documents (including all prospectuses and other offering memoranda), before they are approved by the Board. The Committee reviews and makes a recommendation to the Board in respect of the appointment of the external auditor and meets to discuss and review the audit plans of internal and external auditors. The committee questions the external and internal auditors independently of management. In addition to reviewing and reporting to the Board on AltaLink's risk management policies and procedures, it also monitors accounting, financial reporting and internal control procedures to determine their effectiveness and to ensure compliance with AltaLink's policies and avoidance of conflicts of interest.

Human Resources and Governance Committee

Chair: Paul McCoy

Members: Pierre Anctil, Doug Mitchell, Gregory Smith

The Human Resources and Governance Committee reviews succession plans for key management positions within AltaLink, human resource policies and plans and the performance and development of the CEO and other senior officers of AltaLink. The Committee makes recommendations to the Board with respect to the salary and other remuneration to be awarded to executive officers of AltaLink. It also makes recommendations to the Board in respect to various other compensation matters including long- and short-term incentives such as bonuses, pension plans and other benefits, and is responsible for overseeing the development and management of these programs.

It is also the Committee's mandate to assess the effectiveness of the Board as a whole and of its committees. It assesses AltaLink's approach to corporate governance (including its internal policies and codes of conduct) and monitors the relationship between management and the Board. The Committee is responsible for the composition of various Board committees, recommendations regarding Chairmanship of the Board and for the assessment of Board performance. The Committee also reviews and recommends compensation for Board and committee service. The Committee is also mandated to undertake such initiatives as are necessary to maintain AltaLink's high standard of corporate governance practices.

BOARD OF DIRECTORS

David Tuer, Chairman of the Board

Mr. Tuer was President and Chief Executive Officer and a director of PanCanadian Petroleum Limited and its parent company, PanCanadian Energy Corporation from 1994 to 2001. Currently, he serves as Chairman of the Calgary Health Region, director of Canadian Natural Resources Limited and director of Rockwater Capital Corporation. He is a former Assistant Deputy Minister of Energy for the Province of Alberta and has served as Chairman of Mount Royal College in Calgary.

Pierre Anctil, Director

Mr. Anctil has been involved in the supervision of strategic business planning and organizational development, the negotiation of transactions and the assumption of leadership roles in both public and private organizations. He is Executive Vice President and member of the Office of the President for SNC-Lavalin Group Inc., Executive Sponsor for SNC-Lavalin's Investment division, and manager of an infrastructure projects and investments portfolio. Mr. Anctil holds a Bachelor of Engineering degree from École Polytechnique and an MBA from École des Haute Études Commerciales in Montréal.

Robert Bertram, Director

Mr. Bertram is the Executive Vice President, Investments for the Ontario Teachers' Pension Plan Board. He has been responsible for the investment management of the Ontario Teachers' Pension Plan since 1990. Mr. Bertram is a Chartered Financial Analyst and earned his BA at the University of Calgary and his MBA at the University of Alberta. Mr. Bertram is a member of the Association of Investment Management and Research and a past Chair of the Pension Investment Association of Canada. Mr. Bertram is a director of a number of companies including Cadillac Fairview Corporation Ltd., Maple Leaf Sports & Entertainment Ltd., The Institute of Corporate Directors, The Canadian Public Accountability Board and a member of the Investment Advisory Committee of the Toronto Community Fund.

Krish Krishnamoorthy, Director

Mr. Krishnamoorthy, Executive Vice President of SNC-Lavalin and a member of the Office of the President, is responsible for the company's chemical and petroleum business sector and its European operations. He oversees the development and implementation of procedures and standards for project management, administration, project control, engineering, procurement, construction and commissioning. Mr. Krishnamoorthy holds a Bachelor of Science (Chemical Engineering) degree, an MA SC. (Chemical Engineering) degree and an MBA degree.

Paul McCoy, Director

Mr. McCoy is Executive Vice President of Trans-Elect, Inc. Prior to joining Trans-Elect, Inc. four years ago, Mr. McCoy served as Senior Vice President of Unicom Corp. and President of the Transmission Group of Commonwealth Edison Co. Mr. McCoy has held a number of leadership positions involving major industry organizations. He has significant experience working with State and Federal utility regulators in the United States regarding policy issues on electricity transmission systems. He earned a BSEE degree from the Illinois Institute of Technology and is a Registered Professional Engineer.

Douglas Mitchell, Director

Mr. Mitchell helped to lead the national merger resulting in the new firm of Borden Ladner Gervais LLP (BLG), Barristers and Solicitors, and is BLG's National Co-Chairman and Regional Managing Partner for the Calgary office. He is the past President of the Calgary Chamber of Commerce and was appointed by Premier Ralph Klein to Chair the Alberta Economic Development Authority effective January 1999 after previously serving as Co-Chair since 1995. Mr. Mitchell also served as Commissioner of the Canadian Football League from June 1984 to March 1989 and as a member of the National Hockey League Board of Governors from 1980 to 1984.

Patricia Nelson, Director

Ms. Nelson retired as a Member of the Legislative Assembly for Calgary-Foothills in November 2004. In her four terms with the Legislative Assembly, Ms. Nelson served as Minister of Finance and Chair of the Treasury Board, preceded by her roles as Minister of Energy, Minister of Economic Development and Tourism, Minister of Government Services and Deputy Government House Leader. Ms. Nelson graduated from the University of Calgary with a Bachelor of Commerce degree and has 15 years experience in the oil and gas industry. She previously was controller of Sabre Energy Ltd. and Petroterra Natural Resources Ltd. and the manager of financial control with Suncor Inc.

Gregory Smith, Director

Mr. Smith joined Macquarie North America Ltd. in 2003 as Head of the Infrastructure and Specialized Funds division for Canada. Previously, Mr. Smith was Managing Director of RBC Capital Partners – Mezzanine Fund. Mr. Smith is a director of Macquarie North America Ltd., Macquarie Canadian Infrastructure Management Limited (the general partner of Macquarie Essential Assets Partnership), Macquarie Power Income Fund (a generation Income Trust on the TSX) and 407 International Inc.

Robert Turgeon, Director

Mr. Turgeon is Past President of Trans-Québec & Maritimes Pipeline Inc. During his tenure as President, Mr. Turgeon directed the planning and representations to regulatory authorities and governments of major pipeline work, in addition to guiding major corporate restructuring.

MANAGEMENT

Scott Thon, President and Chief Executive Officer

Scott is the President and Chief Executive Officer of AltaLink, Canada's first independent transmission company. With more than $1 billion in assets, including 11,600 kilometres of transmission lines and approximately 260 substations, AltaLink is Alberta's largest electric transmission owner and operator, providing transmission service to more than 85 per cent of Albertans. As a registered professional engineer who graduated with a Bachelor of Science in Electrical Engineering from the University of Saskatchewan, Scott is also a graduate of the University of Western Ontario's Richard Ivey School of Business Executive Program. With close to 20 years of power industry experience, he has held positions in Risk Management, Energy Trading, Independent Power Production and Transmission Operations and Construction. In 1996, Scott also led the development and implementation of the trading system for Canada's first competitive power pool for electricity in the province of Alberta. Scott is the Chair of the Transmission Council for the Canadian Electricity Association, and also serves on the Boards of Directors for the Calgary Children's Initiative, United Way of Calgary and Area, The Banff-Calgary International Writers Festival, The Canadian Electrical Association and the Board of Governors for Bow Valley College.

Dimitrios (Jim) Leonidas, Executive Vice President and Chief Financial Officer

Jim is a Chartered Accountant who holds a Bachelor of Agricultural Engineering degree from McGill University. Beginning his career in the Audit department of Coopers & Lybrand, Jim progressed to a position as Vice President and General Manager of Securiplex, a wholly-owned subsidiary of SNC-Lavalin Inc. With 14 years of experience in all aspects of international finance and operations, he has facilitated projects in Brazil, Chile, Europe, the Middle East, Thailand, Turkey and the United States. Jim is a member of the Institute of Chartered Accountants of Ontario and Canada.

Dennis Frehlich, Executive Vice President and Chief Operating Officer

As a Registered Professional Engineer, Dennis has 18 years of experience in the electric industry with a focus in the areas of transmission and distribution. He earned his degree, with distinction, from the University of Saskatchewan in 1987 and has since held expanding operational leadership positions in the electric industry ranging from technical engineering, asset and project management to business development and marketing. He has extensive experience in the divestiture of the retail and distribution business from a vertically integrated utility, and has provided leadership for the operations, maintenance, engineering, and construction of transmission facilities for several years within Alberta, most recently in his current position with AltaLink. Dennis is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA) and is an Executive Member of CIGRE (International Council on Large Electric Systems) Canada.

Zora Lazic, Senior Vice President, Regulatory and Client Services

With more than 14 years experience in various areas of the electricity industry, Zora is a valued addition to the AltaLink management team. Her background involves work with a utility, a power marketer, an Independent System Operator (ISO), and energy crisis management with a state agency with responsibility for markets, external affairs, contracts, compliance, regulatory and legal matters both in the regulated and de-regulated side of the industry. Prior to joining AltaLink in September 2004, Zora's previous roles included serving as Associate General Counsel of a utility and a power marketer, Governor on an ISO and a Power Exchange Board of Governors, Vice President Client Services at the California ISO, Advisor to the Deputy Director of California Energy Resources Scheduling and an additional two years of corporate and commercial experience in a major law firm. Zora holds a Masters of Law from Cambridge University (UK) and a Bachelor of Law degree from McGill University. She is a member of the Board of Directors for Discovery House.

Duane Lyons, Senior Vice President, Business Development

Duane has been extensively involved in various aspects of the electric power industry in Alberta and internationally for more than 35 years. Prior to joining AltaLink, he led the development of numerous energy projects in Canada, Mexico, Australia, New Zealand and the United States. A native of Saskatchewan, Duane holds a Bachelor of Science degree in Electrical Engineering from the University of Saskatchewan. He is also a graduate of the Executive Program of the School of Business from the University of Western Ontario. As Senior Vice President of Business Development, Duane is responsible for leading AltaLink's growth initiatives. He has been heavily involved in identifying the need for transmission expansion in Alberta and evaluating appropriate alternatives to meet Alberta's future transmission demands. Duane is a member of the Association of Professional Engineers Geologists and Geophysicists of Alberta (APPEGA). He is also an active participant in the Policy and Regulatory Development group of the Canadian Electrical Association's Transmission Council.

Linda Shea, Senior Vice President, Human Resources

With more than 20 years experience as a member of several senior management teams in the oil and gas and telecommunications industries, Linda has an extensive background in human resources management, organizational change and effectiveness, leadership development and succession planning. Her exposure to international business change and multi-functional teams has provided Linda with a broad understanding of global human resource solutions. Prior to joining AltaLink in February 2005, Linda offered consulting services to the oil and gas industry and to the airline industry in Australia. Linda holds a Master of Science degree in Organizational Development from American University, Washington, DC, and a Bachelor of Arts degree from Mount Allison University in Sackville, New Brunswick.

Leigh Clarke, Vice President, Law and Public Affairs & Corporate Secretary

Leigh has been extensively involved in the Alberta electricity industry since the early 1990s. Upon graduating from the University of Alberta in 1991, Leigh was called to the Alberta bar in 1992 and acted as regulatory counsel to TransAlta Utilities from that time until 1999. Leigh was also seconded to the Law Branch of the NEB where he handled gas and electricity facilities applications. Prior to joining AltaLink, Leigh spent two years in the junior oil and gas and alternative fuel sectors as Vice President Law and as Corporate Secretary. As a member of AltaLink's senior management team, he is responsible for leading AltaLink's legal initiatives and legal risk management efforts; the establishment and maintenance of its governance structures; and its internal and external communications requirements. He provides advice and counsel to AltaLink's CEO, its Executive team and Board of Directors on a wide variety of strategic legal, governance and communications matters. Born and raised in Calgary, Leigh is a member of the Law Society of Alberta, the Canadian Bar Association, and the Association of General Counsel of Alberta.

Alan Skiffington, Vice President, Information Technology and Facility Management

Alan holds a Bachelor of Science degree in Economics from the University of Victoria. He has been involved in the field of information technology since 1992, most recently as the Regional Director of Western Canada for SNC-Lavalin Inc. Alan has also worked in the field of international thermal power in the areas of risk assessment and financial analysis. Alan is a member of the Information Systems Audit and Control Association (ISACA) and the Alberta Power Industry's CIO (Chief Information Officer) Group.

CORPORATE INFORMATION

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Chairman
Calgary Health Region

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Robert Bertram
Executive Vice President, Investments
The Ontario Teachers' Pension Plan Board

Krish Krishnamoorthy
Executive Vice President
Office of the President
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Paul McCoy [2]
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Douglas Mitchell [2]
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Gregory Smith [2]
Managing Director
Macquarie North America Ltd.

Robert Turgeon [1]
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Trans-Québec & Maritimes Pipeline Inc.

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[2] Human Resources and Governance

SENIOR MANAGEMENT

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President and Chief Executive Officer

Dimitrios (Jim) Leonidas
Executive Vice President and Chief Financial Officer

Dennis Frehlich
Executive Vice President and Chief Operating Officer

Zora Lazic
Senior Vice President, Regulatory & Client Services

Duane Lyons
Senior Vice President, Business Development

Linda Shea
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