R E S P O N D I N G

AltaLink

financial report 2005

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INTRODUCTION

The following Management's Discussion and Analysis (MD&A) is the responsibility of AltaLink, L.P. (AltaLink or the Partnership) management and reflects events known to management to March 20, 2006. This analysis should be read in conjunction with the financial statements and notes to the financial statements dated December 31, 2005, that have been prepared using Canadian generally accepted accounting principles (GAAP). Unless otherwise indicated, a reference to a year relates to the Partnership's fiscal year ended December 31, 2005. This MD&A is intended to provide the reader with an understanding of our business, our strategy and performance, our expectations of the future and how we manage risk and capital resources. In accordance with its terms of reference, the Audit Committee of the Partnership's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A.

Readers should also read the "Forward-Looking Statements" legal advisory contained at the end of this MD&A.

VISION

As the province's largest electric transmission company, our focus is serving Albertans through delivering a safe, reliable and cost effective transmission grid. In meeting the transmission needs of over 85% of Albertans, our sole focus on transmission allows us to bring forward the best and most innovative transmission practices, designs and solutions.

Our team-oriented work environment encourages employees to challenge the status quo as we focus on delivering results for our customers. While we work hard, we encourage employee wellness and proactively provide opportunities for employee growth and development. Giving back to the communities in which we live and operate through employee participation and financial support are at the heart of who we are.

Flexibility and simplicity are at the core of how we work with our customers. We proactively develop relationships with our customers and stakeholders who rely on or are impacted by our business, listen and respond to their business needs, and strive for trust and mutual respect in these relationships.

OUR BUSINESS

The Partnership owns and operates regulated transmission assets in Alberta and was the first independent transmission owner and operator in Canada. We currently own and operate approximately 52% of the transmission lines used in Alberta's high-voltage electricity transmission system, supply approximately 85% of the transmission load in Alberta, and we are the principal transmission services provider to most major urban centres in Alberta. The Partnership also owns and operates the interconnection facilities that connect the Alberta network with the transmission system in British Columbia, allowing electricity to flow into and out of Alberta. The Partnership is a regulated electric utility under the jurisdiction of the Alberta Energy and Utilities Board (EUB). The EUB must approve the tariffs charged by Transmission Facility Owners (such as the Partnership). In doing so, the EUB determines the Partnership's revenue requirement, being the revenues required to cover the forecast costs of the transmission business plus an approved return-on-investment on a fixed forward test year basis. In response to an EUB directive, the Partnership changed its fiscal year end from April 30 to December 31, effective for the period ended December 31, 2004. The change of fiscal year end was required to align the Partnership's fiscal year with the regulatory year.

OWNERSHIP

The Partnership's operations are managed by its general partner, AltaLink Management Ltd. (AML or the General Partner). The Partnership has one limited partner, AltaLink Investments, L.P. (AILP). AILP has one limited partner, AltaLink Holdings, L.P. (AHLP). AHLP was formed as a limited partnership under the laws of Alberta on February 16, 2005, pursuant to the provisions of a limited partnership agreement dated February 16, 2005, between AltaLink Investment Management Ltd. (AIML), as general partner, and Macquarie Transmission Alberta Ltd., SNC-Lavalin Transmission Ltd., OTPPB TEP Inc. and 3057246 Nova Scotia Company, as the limited partners. The limited partners of AHLP were formerly the limited partners of AILP. As part of the formation of AHLP, these limited partners contributed their limited partnership units in AILP to AHLP and were issued the same proportionate limited partnership interests in AHLP as they held in AILP.

BUSINESS STRATEGY

AltaLink's objective is to be the leading owner and operator of regulated electricity transmission in Alberta. AltaLink seeks to realize this objective by delivering safe, reliable and cost-effective transmission of electricity for the benefit of Albertans today and by prudently expanding our transmission network for the benefit of Albertans today and tomorrow. We deliver on our prudent expansion commitment through: (i) investment in new transmission facilities; (ii) investment in upgrades and maintenance of our existing transmission assets; and (iii) acquisitions of existing regulated transmission assets in Alberta.

The following measures are an indication of the Partnership's success in meeting our operational objectives:

Safety The All Injury Frequency Rate (AIFR) is the safety benchmark widely used by the transmission industry. It measures the number of medical aid and lost-time incidents per 200,000 hours worked. In 2005, AltaLink's AIFR was 0.68 for AltaLink staff and 1.92 for contractors, resulting in a combined rate of 1.41. The typical industry average is 4.0, with industry leaders posting AIFR's of less than 2.0.

Reliability The System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI) are used by AltaLink to help monitor the uninterrupted delivery of power and continued reliability of the utility's overall transmission network over a period of time.

SAIDI measures on average the number of hours of outages for a delivery point in a year. In 2005, AltaLink experienced two major storms, at Empress and Crowsnest Pass, which led to a SAIDI measure of 4.74. These storms are considered to be unusual occurrences. Adjusting for the impact of these occurrences yields an amended SAIDI of 1.73 for 2005. The most recent SAIDI benchmark published by the Canadian Electrical Association (CEA) was 2.62.

SAIFI measures the average number of interruptions for a delivery point in a year. In 2005, the major storms referred to above led to a SAIFI measure of 1.21. Adjusting for the impact of these occurrences yields an amended SAIFI of 1.15 for 2005. The most recent benchmark published by the CEA was 2.04.

HIGHLIGHTS OF 2005

- Delivered safely and efficiently on over $90.0 million in new facilities for customers, including generators, industrial and distribution customers and system projects for the AESO;
- Delivered safely and efficiently on over $33.0 million in capital upgrades and replacements, managing the life and performance of existing facilities;
- Received EUB Decisions 2005-019 and 2005-082 approving rates for test periods from 2004 to 2006;
- Achieved net income of $37.3 million;
- Successfully recovered from Empress and Crowsnest Pass storms;
- Received letter of intent from the AESO for the Edmonton to Calgary 500 kV Transmission project;
- Successfully implemented contractor safety certification and formalized employee safety certification;
- Received a draft letter from the AESO for the Direct Assignment of the Southwest Upgrade project;

- Completed five year telecommunications project in which we replaced our analog microwave system with a state-of-the-art digital system; and
- Successfully developed and implemented the new customer interconnection process which now permits customers to deal directly with AltaLink.

RECENT DEVELOPMENTS

Generic Cost of Capital The EUB conducted a generic cost of capital hearing for the purpose of considering a standardized approach to determining the rate of return on equity (ROE) and capital structure for all of the gas and electric utilities under its jurisdiction, including the Partnership. The proceeding concluded in April 2004, and the EUB issued Decision 2004-052 on July 2, 2004. Among other things, the EUB approved a 9.6% rate of return on common equity for the Partnership for the period ended December 31, 2004. The decision also approved a 35% deemed common equity ratio for the Partnership on the assumption that the disallowance of 25% of deemed income taxes in an earlier decision of the EUB was continued. If the Partnership were to have had a full income tax allowance included in its approved revenue requirement, the deemed common equity ratio for the Partnership would have been 33%. The rate of return on common equity will be adjusted annually for the years 2005 through 2009. The adjustment is calculated as 75% of the change in the yield of long-term Government of Canada bonds. It was further provided that if the adjustment exceeds +/-2%, the EUB will consider undertaking a review of the formula. On November 30, 2004, the EUB issued an order setting the 2005 return on common equity at 9.5% consistent with the aforementioned adjustment formula. In accordance with the EUB's ROE direction, the revised ROE for 2006 is 8.93%. On February 16, 2006, the EUB approved AltaLink's revised revenue requirement to reflect the generic ROE of 8.93% for 2006.

Capital Deferral Account On August 3, 2003, the EUB issued Decision 2003-061 approving the Partnership's establishment of a capital deferral account in relation to capital projects assigned from the AESO. The capital deferral account is intended to capture the difference between the Partnership's forecast costs and the actual costs of capital projects directly assigned by the AESO to AltaLink, with respect to the 2002-03 and 2003-04 fiscal periods. Through this account, the EUB reviews the Partnership's actual costs of direct assigned capital projects to determine whether the actual costs are prudently incurred, and adjusts the Partnership's approved revenue requirement to reflect any positive or negative variance. The EUB approved in Decision 2005-120 the Partnership's deferral account application in its entirety with respect to the 2002-03 and 2003-04 fiscal periods.

General Tariff Applications As a regulated entity, the Partnership applies to the EUB for tariff rates on a forward test year basis. On March 2, 2005, the EUB issued Decision 2005-019 relating to the general tariff application for the period from May 1, 2004 through December 31, 2006. The decision resulted in the monthly tariff revenue for the last six months of 2005 increasing to $15.9 million, inclusive of adjustments for the period from May 1, 2004 to June 30, 2005, compared to the recorded monthly interim tariff of $13.8 million. On July 28, 2005 AltaLink received EUB Decision 2005-082, which finalized AltaLink's compliance with Decision 2005-019.

Change of Year End The EUB directed AltaLink to maintain its regulatory records on a calendar year end basis. In response AltaLink changed its fiscal year end from April 30 to December 31, effective December 31, 2004. The change allows AltaLink to align its fiscal year with its regulatory year.

Proposed Change of Ownership On November 4, 2005, AltaLink announced that the AHLP limited partners had reached agreement regarding changes to their ownership of AHLP, subject to regulatory approval from the EUB. AltaLink made an application to the EUB on December 9, 2005 for regulatory approval of the proposed ownership changes.

Pursuant to agreements between the AHLP limited partners as announced, the AHLP limited partnership interests held by the Trans-Elect, Inc. affiliate (9.999% of the outstanding equity of AHLP) and by the Ontario Teachers affiliate (24.9975% of the outstanding equity of AHLP) are to be sold, subject to EUB approval, leaving affiliates of SNC-Lavalin and Macquarie Essential Assets Partnership (MEAP) as the sole AHLP limited partners. Upon completion of the transactions, SNC-Lavalin affiliates will own approximately 77% of the outstanding equity of AHLP, and a MEAP affiliate will own approximately 23% of the outstanding equity of AHLP.

In addition to changes to the AHLP limited partners, changes to the ownership of AML and AIML would, subject to regulatory approval from the EUB, be made concurrently with the changes to the ownership of AHLP.

RESULTS OF OPERATIONS

Selected Financial Information

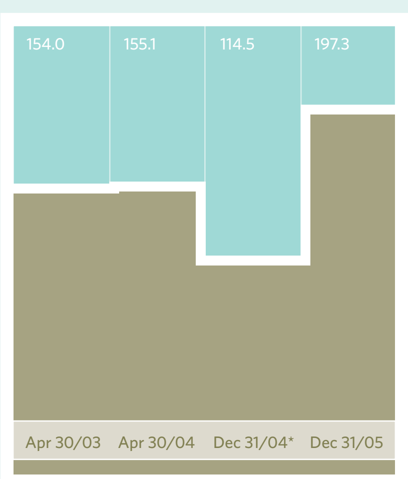
Selected annual financial information derived from the Financial Statements for the three most recently completed financial years is set forth below:

	For the twelve months ended Dec. 31, 2005	For the eight months ended Dec. 31, 2004	For the twelve months ended April 30, 2004
Total revenues ($ millions)	**$ 197.3**	$ 114.5	$ 155.1
Net income ($ millions)	**37.3**	21.0	26.5
Net income per unit ($)	**0.11**	0.06	0.08
Funds generated from operations ($ millions)[1]	**96.0**	53.6	79.0
Distributions per unit ($)	**0.05**	0.03	0.04
Total assets ($ millions)	**1,282.3**	1,146.4	1,118.5
Long-term debt, excluding current portion ($ millions)	**621.7**	564.8	544.2

1. See note 1 under Liquity and Capital Resources.

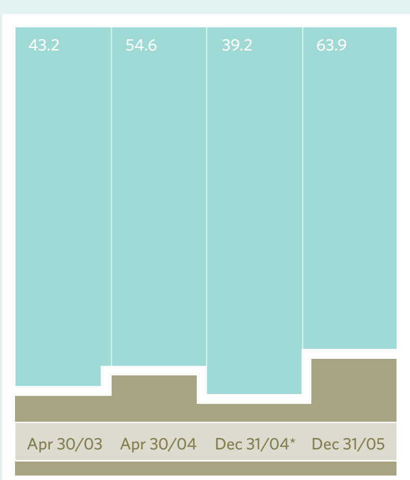
Revenues The results for the twelve-month period ended December 31, 2005, are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $82.8 million increase in revenues in 2005 compared to 2004 is partially due to the differing time periods, the amount of which cannot be readily calculated. The remainder of the increase is the result of higher tariff rates approved by the EUB, as well as tariff adjustments relating to 2004 and an increased revenue recovery for storm damage in the Empress region of Alberta. Tariff rates have increased primarily as a result of additional revenues required to recover increased returns as a result of

Revenues
(for the year ended, in millions)



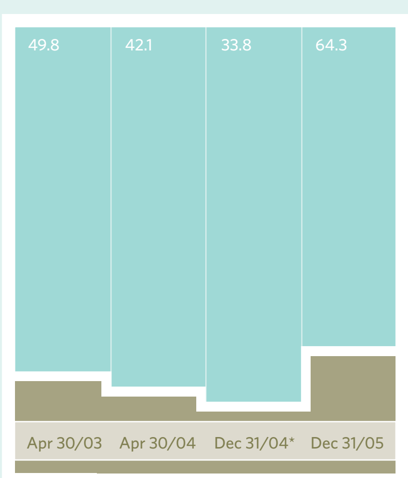
* Eight-month period ended December 31, 2004

Operating Expenses
(for the year ended, in millions)



* Eight-month period ended December 31, 2004

Depreciation & Accretion
(for the year ended, in millions)



* Eight-month period ended December 31, 2004

a larger rate base; increased operating expenses required to support both a larger asset base and an aging transmission system; and increased depreciation charges being incurred on newly capitalized transmission assets. Tariff revenues received from the AESO constitute 95% of the Partnership's total revenue.

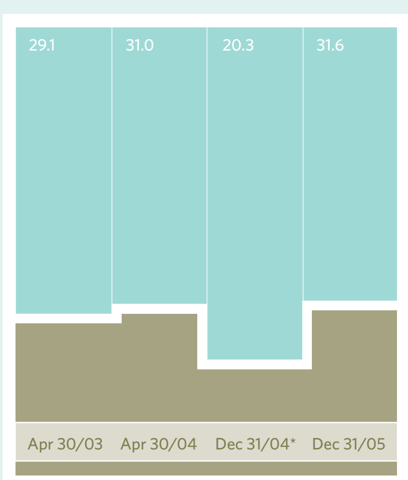
Operating Expenses The results for the twelve-month period ended December 31, 2005, are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $24.8 million increase in operating expenses in 2005 compared to 2004 is partially due to the differing time periods, the amount of which cannot be readily calculated. The remainder of the increase was primarily due to increased labour charges incurred as a result of AltaLink's growing operations and maintenance associated with a larger and an aging asset base. Increased self-insurance expenses as a result of the Empress storm also contributed to the increase in operating expenses. The charges to self-insurance were offset with a corresponding recovery from tariff revenue, thereby eliminating any net income impact.

Depreciation Expense The results for the twelve-month period ended December 31, 2005, are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $29.5 million increase in depreciation expense in 2005 compared to 2004 is partially due to the differing time periods, the amount of which cannot be readily calculated. The remainder of the increase was primarily due to the significant capital undertakings that were completed and added to the property, plant and equipment base throughout the year. Depreciation is calculated on a straight-line basis with various rates ranging from 1.80% to 33.33% as approved by the EUB. The EUB also approved increases to the allowable depreciation rates during 2005.

Interest Expense The results for the twelve-month period ended December 31, 2005, are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $11.3 million increase in interest expense in 2005 compared to 2004 is partially due to the differing time periods. The remainder of the increase was primarily due to the higher debt level in 2005 compared to 2004.

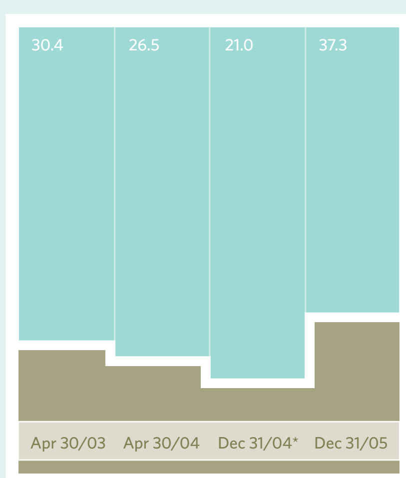
Net Income and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) The results for the twelve-month period ended December 31, 2005, are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $16.3 million increase in net income in 2005 compared to 2004 is partially due to the differing time periods, the amount of which cannot be readily calculated. The remainder of the increase was due to higher revenues, which were partially offset by increased operating expenses and depreciation. In addition, EBITDA as a percentage of revenue (net income before interest and depreciation and accretion) increased slightly to 67.5% in 2005 compared to 65.6% for the eight months ended December 31, 2004.

Interest
(for the year ended, in millions)



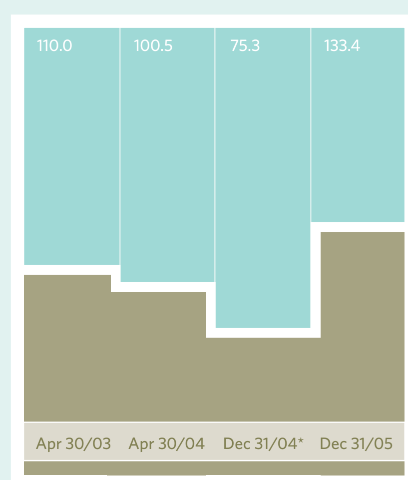
* Eight-month period ended December 31, 2004

Net Income
(for the year ended, in millions)



* Eight-month period ended December 31, 2004

EBITDA
(for the year ended, in millions)



* Eight-month period ended December 31, 2004

Financial Position

The following outlines the significant changes in the Partnership's balance sheet from December 31, 2004 to December 31, 2005:

	Increase ($millions)	Explanation
Restricted cash	30.0	Funds received in advance of construction. As construction expenses are incurred for specified projects, the cash is moved from restricted cash to cash and cash equivalents.
Property, plant and equipment	101.3	Construction costs primarily related to the Cordel–Metiskow system upgrade, the Terasen Pipelines substation and transmission line facilities, the PetroCanada Yasa, Trans Canada Marlboro and Air Products industrial substations and the Viscount and Breton FortisAlberta distribution substations.
Other liabilities - short-term	30.5	Liability for construction funds held on account for customers until projects are energized.
Regulatory liabilities - long-term	28.2	Increased in regulatory asset retirement obligation due to increased rates of recovery for salvage as approved in EUB Decision 2005-019.
Long-term debt	56.9	Additional borrowings required to fund capital projects. Funds were acquired using the newly established commercial paper program.

Results for the Fourth Quarter 2005

As a result of the change in year-end that took place during fiscal 2004, the fourth-quarter results for the year ended December 31, 2005 are compared to the two month third-quarter results for the period ended December 31, 2004. After taking the one month timing difference into consideration, the fourth-quarter results for 2005 improved compared to 2004. The improvement is primarily due to increased monthly tariff revenue, $15.9 million per month during the three months ended December 31, 2005 compared to $13.8 million per month during the two months ended December 31, 2004. Increased revenues were partially offset by increased labour and depreciation charges.

During the quarter ended December 31, 2005 property, plant and equipment additions totalling $45.4 million were funded by a combination of funds generated by operations and additional financing with the issuance of debt drawn on the newly established commercial paper program.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	**For the twelve months ended Dec. 31, 2005**	For the eight months ended Dec. 31, 2004	For the twelve months ended April 30, 2004
Cash and cash equivalents, beginning of year	**$ 0**	$ 2.3	$ 0
Cash flow from (used in):			
Operating activities	**89.4**	45.5	84.1
Investing activities	**(129.9)**	(58.9)	(84.3)
Financing activities	**40.5**	11.1	2.5
Cash and cash equivalents, end of year	**$ 0**	$ 0	$ 2.3
RATIOS[1]			
Interest coverage on debt:			
Income before interest and taxes (EBIT) coverage[2,5]	**2.13X**	1.98X	1.84X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage[3]	**4.22X**	3.70X	3.23X
Cash flow coverage[4]	**3.04X**	2.64X	2.54X
Cash flow/total debt[4,6]	**15.4%**	9.5%	14.5%
Debt/total capitalization[6,7]	**61.8%**	60.9%	60.8%
CREDIT RATINGS			
DBRS - Commercial Paper	**R-1(low)**	NR	NR
DBRS - Senior Secured Bonds	**A**	A	A
S&P - Senior Secured Bonds	**A-**	A-	A-

1. Funds generated in operations and ratios in this table are non-GAAP financial measures and do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to similar statistics published by other companies. They are presented since they are commonly referred to by debt holders and other interested parties for their use in analyzing the Partnership's financial position.
2. EBIT - Income before interest and taxes coverage is equal to operating income before financing expense divided by interest.
3. EBITDA - Income before interest, taxes, depreciation (including accretion) and amortization is equal to operating income before financing expenses, depreciation and amortization, divided by interest amortization.
4. Cash flow – Consists of funds generated in operations before changes in non-cash working capital.
5. Interest expense – Interest expense excluding amortization of deferred financing fees on debt.
6. Debt – Consists of short-term and long-term debt.
7. Total capitalization - Consists of short-term and long-term debt and partners' equity.

Operating Activities The results for the twelve-month period ended December 31, 2005 are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $43.9 million increase in cash provided by operating activities is partially due to the differing time periods, the amount of which cannot be readily calculated. The remainder of the increase was primarily due to increased tariff revenues, partially offset by a decrease in non-cash working capital, including a $1.7 million decrease in accounts receivable and a $3.7 million decrease in short-term regulatory liabilities.

Cash from operations will not be sufficient for AltaLink to fund repayment of existing indebtedness when due or to meet anticipated liquidity, maintenance and other capital expenditure requirements. Therefore, AltaLink anticipates using a combination of additional borrowings under its capital markets platform, internally generated cash flows or equity injections from its limited partner to fund capital expenditures in connection with existing facilities and new construction projects.

Investing Activities The results for the twelve-month period ended December 31, 2005, are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. Investing activities for 2005 used cash of $129.9 million compared to $58.9 million for the eight-month period in 2004 and $84.3 million for the year ended April 30, 2004. The $71.0 million increase in investing activities is partially due to the differing time periods, the amount of which cannot be readily calculated. The remainder of the increase was primarily due to the increase in direct assign projects from the AESO in 2005. The Cordel-Metiskow system upgrade was the most significant completion during 2005. Throughout each year, AltaLink also continued with its targeted program for capital upgrades and replacements to manage the impact of aging facilities on system reliability.

Financing Activities The results for the twelve-month period ended December 31, 2005, are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $29.4 million increase in financing activities is partially due to the differing time periods, the amount of which cannot be readily calculated. Net cash from financing activities for the year ended December 31, 2005, was $40.5 million compared to $11.1 million for the eight-month period ended December 31, 2004, and $2.5 million for the year ended April 30, 2004. Activities in 2005 included the issuance of $110.7 million of commercial paper and a corresponding reduction in the amounts drawn under the credit facility of $53.7 million. AltaLink also received $30.0 million in cash from customers in advance of construction, which is shown as restricted cash, and will become available for use in operations as specific projects progress.

As a result of the establishment of the commercial paper program in 2005, AltaLink has revised its credit facility instruments by amending the $185.0 million credit facility to become an $85.0 million credit facility and establishing a second credit facility in the amount of $200.0 million as a back-up facility, which will only be used as support for the commercial paper program.

Cash inflows for the eight-month period ended December 31, 2004, were primarily generated by the issuance of debt under AltaLink's $185.0 million credit facility. During the year ended April 30, 2004, debt funding was issued in the amount of $463.0 million, consisting of the Series 03-1 Senior Bonds and Series 03-2 Senior Bonds for proceeds of $426.2 million, and $36.8 million issuance of debt under the $185.0 million credit facility. Funds raised were used to repay the Series 1 and Series 2 Senior Bridge Bonds.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2005, December 31, 2004, and April 30, 2004, the Partnership had no off-balance sheet arrangements except for the contracted commitments which are disclosed in Note 13 to the December 31, 2005, audited financial statements.

RELATED PARTY TRANSACTIONS

The Partnership enters into various transactions with its general partner, AML, its limited partner, AILP, AILP's general partner, AIML, and with AILP's limited partner, AHLP. These transactions are in the normal course of operations and are recorded at the exchange values based on normal commercial rates. The employees that provide administrative and operational services to AltaLink are employed by the General Partner, and the Partnership has indemnified the General Partner for all associated expenses and liabilities.

AltaLink recorded interest expense of $6.8 million in 2005 compared to $4.5 million for the eight months ended December 31, 2004, and $13.1 million for the year ended April 30, 2004, on its $85.0 million Series 3 Subordinated Bridge Bond payable to its limited partner, AILP. The bond has a repayment date of October 1, 2012, with interest being paid quarterly. As at December 31, 2005, the total owing in respect of the bond was $86.1 million.

During 2005 AltaLink paid SNC-Lavalin ATP Inc. $94.6 million for construction-related services. For the eight months ended December 31, 2004, and the year ended April 30, 2004, SNC-Lavalin ATP Inc provided capital construction services costing $47.6 million and $55.9 million respectively. As at December 31, 2005, AltaLink payables included $13.1 million owing to SNC-Lavalin ATP Inc.

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. These factors 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.

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. Goodwill impairment occurs 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.

Revenue Recognition Regulated revenues are recognized in accordance with GAAP on the accrual basis at the rates and policies as set by the EUB, and include an estimate of services provided, but not yet billed.

Asset Retirement Obligations The Partnership recognizes the fair value of liabilities associated with the retirement of tangible long-lived assets, and records a corresponding increase to its 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.

Asset obligations are legal obligations that may apply to both the retirement of an entire transmission line, 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 transmission line. Asset retirement obligations are recorded as a liability, with a corresponding increase to property, plant and assets.

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 have not been recognized. While there will be future retirement obligations associated with the final retirement of these assets, final retirement obligation for these assets have not been recognized because the date of final removal cannot be reasonably determined.

Employee Future Benefits All accrued obligations for employee benefit plans, post-employment and post-retirement benefits are determined using the projected benefit method. In valuing post-retirement benefits as well as cost of pension benefits, the Partnership uses management's best estimate assumptions, except for the 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 accordance with GAAP, cumulative net unamortized actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets are amortized over the expected average remaining service period of active employees receiving benefits under the plan. For valuing pension assets, the

Partnership uses market values. 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 ratemaking purposes.

RISKS AND 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 related to the financial condition and results of operations of the Partnership are identified throughout the foregoing discussion and analysis by management.

Regulatory Approvals The Partnership is dependent upon decisions made by the EUB, which approves 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 to provide its services, including a fair return on the equity of the owners. If the Partnership's actual costs exceed approved costs, the Partnership's financial performance will be adversely affected. Actual costs could exceed approved costs in the following circumstances (i) if the Partnership incurs operational, maintenance or administration costs above those included in the Partnership's approved revenue requirement; (ii) if it incurs costs due to capital expenditures to upgrade or replace components in the existing system at levels above those provided for in the EUB decisions; (iii) 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 rates, it could have a material adverse effect 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, the repayment of 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 in the Partnership's capital operations. There may be limitations on the levels of equity capital available to the Partnership. Except for a 0.01% interest held by AltaLink Management Ltd., the Partnership is wholly owned by AILP and does not presently use its equity securities as a primary source of capital. 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 the Partnership's operations and financial position, conditions in the capital and bank credit markets, the ratings assigned to the Partnership and its securities 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 Partnership or any owners of AHLP is obligated to provide further funding to the Partnership.

Labour Relations Approximately 58% of AltaLink's employees are members of labour unions, which have entered into collective bargaining agreements. The provisions of such agreements can affect the flexibility and efficiency of the operation of the transmission business. AltaLink's relationships with the labour unions are considered to be satisfactory and, in 2004, AltaLink renewed its collective bargaining agreements on acceptable terms to December 31, 2006. There can be no assurance that current relations will go unchanged in future negotiations with one or more of the unions or that the terms under the present collective bargaining agreements will be renewed. The inability to maintain or to renew the agreements on acceptable terms could result in increased labour costs or service interruptions arising from labour disputes that are not provided for in approved revenue requirements, which could have an adverse effect on the operational results, cash flow or net income of AltaLink.

Insurance There can be no assurance that AltaLink will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise. The occurrence of a significant uninsured claim or a claim in excess of the coverage maintained by

AltaLink could have a material adverse effect on the operational results, cash flow or net income of AltaLink if the related amounts are not provided for in approved revenue requirements.

Damage From Weather or Other Disasters AltaLink's facilities are exposed to the effects of severe weather conditions or other acts of nature. Losses could arise from damage to assets or facilities from sources beyond AltaLink's control. Such losses could substantially exceed insurance coverage or may not be approved by the EUB for recovery.

Operations and Maintenance AltaLink's transmission system requires maintenance, improvement and replacement. AltaLink could experience service disruptions or increased costs if it is unable to maintain its asset base. The inability to obtain EUB approval for maintenance or operating expenditures, or the failure to carry out required maintenance programs, could have a material adverse effect on the operational results, cash flow or net income of AltaLink.

Environmental AltaLink is subject to various laws, regulations and guidelines governing the management, transportation and disposal of hazardous substances relating to the protection of the environment. Failure to comply with such laws or regulations could result in civil or criminal penalties, the costs of which may be material to AltaLink and may have a material adverse effect on its operational results, cash flow or net income.

CHANGES IN ACCOUNTING POLICIES

Accounting for Rate Regulation The Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants issued an Accounting Guideline (AcG-19) that addressed disclosure for entities subject to rate regulation. The guideline requires disclosure regarding the nature and effects of rate regulation, as well as additional information on how rate regulation has affected the entity's financial statements. AltaLink has adopted AcG-19 for the fiscal year ended December 31, 2005, and the required disclosure has been reported within the financial statements.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

Quarter Ended	Total Revenue ($millions)	Net Income ($millions)	Units Outstanding (millions)	Earnings per Unit ($/unit)
December 31, 2005	**47.5**	**10.0**	**331.9**	**0.03**
September 30, 2005	**43.2**	**7.5**	**331.9**	**0.02**
June 30, 2005	**52.8**	**7.9**	**331.9**	**0.02**
March 31, 2005	**53.8**	**11.9**	**331.9**	**0.04**
December 31, 2004*	29.2	5.0	331.9	0.02
October 31, 2004	43.6	7.2	331.9	0.02
July 31, 2004	41.7	8.8	331.9	0.03
April 30, 2004	40.5	7.5	331.9	0.02

*Two-month period ended December 31, 2004

For the eight-month fiscal period ended December 31, 2004, the Partnership operated under an interim tariff, which was lower than the tariff revenue eventually approved in Decision 2005-19 in March 2005. The impact of adjustments arising from EUB Decision 2005-19 resulted in the cumulative estimated effects of the adjustments from the eight-month period being reflected in the quarter ended March 31, 2005.

The revenue for the quarter ended June 30, 2005, was higher than in most of the other quarters, primarily as a result of the final adjustments from Decision 2005-19, as well as an increase in tariff revenue recognized as a result of the storm damage on the Empress System, which had no impact on net income.

Revenue and net income for the quarter ended December 31, 2005, were higher than in most of the other quarters, primarily as a result of the allowance for funds used during construction being recorded only in December and adjustments related to the 2002-2004 deferral account for direct assign capital projects being reflected in this quarter.

FINANCIAL INSTRUMENTS

The information with regard to financial instruments has been disclosed in Note 12 to the December 31, 2005 audited financial statements.

OUTLOOK

Regulatory

AltaLink will continue to be regulated by the EUB under a cost-of-service methodology, whereby all prudent costs are recovered and the return on rate base, as determined by the generic cost of capital decision, is achieved. AltaLink is expecting the Alberta economy to continue to grow in the near term, which is expected to result in an increase in the need for rate base assets, with a corresponding increase in regulated earnings.

The more significant applications that will be presented to the EUB for approval during 2006 will include the following applications:

- Approval of the tariff revenues for 2007-2008;
- Approval of the permit and licensing to construct the Keephills to Ellerslie to Genesee 500 kV project;
- Approval of the permit and licensing to construct the Genesee to Langdon 500 kV transmission project;
- Approval of the permit and licensing to construct the southwest 240 kV transmission project;
- Approval of the direct assign capital deferral account disposition for May 2004 through December 2005; and
- Approval to restore the self-insurance reserve to the approved balance.

If the proposed change of ownership is approved by the EUB (see Recent Developments) then it is anticipated that AltaLink will include in its General Tariff Application with the EUB to be filed in 2006 deemed income tax in AltaLink's revenue requirement equal to 100% of the income tax calculated for AltaLink on a stand alone basis and would reflect a 33% equity ratio in the approved revenue requirement consistent with the EUB's determination in the generic cost of capital decision.

Future Accounting Pronouncements

Conditional Asset Retirement Obligations The AcSB has issued an Emerging Issue Committee Abstract (EIC-159), which addresses the recognition of conditional asset retirement obligations. The abstract requires entities to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The standard should be applied retroactively, with restatement of prior periods, to all financial statements for interim and annual reporting periods ending after March 31, 2006.

Financial Instruments New accounting standards for financial instruments have been issued, which for AltaLink will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The standards address the criteria for recognition of financial instruments on the balance sheet and the measurement of financial instruments for related gains and losses.

Rate-Regulated Operations The AcSB has approved a project to examine the need to modify existing accounting standards to deal with the unique characteristics of rate-regulated operations. The project is reviewing the circumstances under which rate regulated entities may create assets and liabilities, and how such items should be measured.

AltaLink is in the process of determining the information necessary to comply with the standards noted above and any relevant information will be reported as required in accordance with the timelines of the standards.

PROPOSED TRANSACTIONS

Edmonton to Calgary 500 kV Transmission Project In May 2004, the AESO filed a needs identification application with the EUB requesting approval for the expansion and enhancement of the North-South transmission system between Edmonton and Calgary. This project, as set out in the needs identification application, would include the construction of a new 500 kV transmission line and substations from the Genesee substation (west of Edmonton) to the Langdon substation (east of Calgary) and the conversion of the Keephills, Ellerslie and Genesee (KEG) transmission line from 240 kV to 500 kV operation. The AESO's preliminary estimate of the project cost of the proposed enhancements within the needs identification application was $340 million plus or minus 30%, in 2004 dollars (based on 2003 cost inputs). On April 14, 2005, the EUB issued Decision 2005-031 approving the need for the transmission project set out in the application. Thereafter, the Partnership received the AESO's May 18, 2005, letter stating the AESO's intention to direct assign the project to the Partnership and assigning to the Partnership certain necessary path activities to be completed before the project can be direct assigned. The AESO letter directs that the Partnership may incur preliminary costs up to $35 million in order to complete the necessary activities. These activities include further definition of the project functional specifications, preliminary engineering to develop a project proposal to the AESO, and landowner engagement, and all other activities required to submit a facility application to the EUB for the project. AltaLink has commenced landowner consultations and is working on further refinements of the cost estimates to be submitted to the AESO in a proposal to provide service. AltaLink expects to file facilities applications for both KEG and the North-South line in 2006.

Southwest Line Development On March 31, 2004, the AESO filed a needs identification application with the EUB requesting approval for the enhancement of the transmission system in southwest Alberta between Pincher Creek and Lethbridge. 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. On May 17, 2005, the EUB issued Decision 2005-049 approving the need for the transmission project set out in the application. In June 2005, the Partnership submitted to the AESO a proposal to provide service. The proposal refines the scope of and specifications for the proposed project and sets out an estimated project cost of $91 million with an estimated accuracy of plus 20%/minus 10%. Thereafter, the Partnership received the AESO's November 2, 2005, letter whereby the Partnership was direct-assigned the project and requested to submit for EUB approval a transmission facility application, based on the Partnership's project proposal, in order to meet the need previously approved by the EUB. To assist in meeting in-service dates, the AESO had previously directed that the Partnership could incur preliminary costs up to $49.5 million in order to complete certain critical path activities. These activities include detailed engineering, procurement of long-lead equipment, landowner engagement and all activities required to submit a facility application to the EUB for the project in the approved need application. On December 21, 2005, AltaLink filed for a permit and license for the first portion of the project from Goose Lake to Peigan. On February 10, 2006, AltaLink filed for a permit and license for the second portion of the project from Peigan to Lethbridge.

DISCLOSURE CONTROLS

In compliance with the requirements of Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, AltaLink's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of their disclosure controls and procedures as at the end of the annual reporting period. Based on this evaluation, AltaLink has concluded that its disclosure controls and procedures are effective as of December 31, 2005.

FORWARD-LOOKING INFORMATION

Prospective investors should be aware that this MD&A may contain certain statements or disclosures that constitute forward-looking information under applicable securities laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that AltaLink anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as "forecast", "future", "may", "will", "expect", "anticipate", "believe", "potential", "enable", "plan", "continue", "contemplate" or other comparable terminology. Forward-looking information presented in such statements or disclosures may, without limitation, relate to applications to the EUB for approval of, among other things, AltaLink's revenue requirements and deferral and reserve accounts, anticipated income taxes and treatment of costs for applicable test periods, operating expenses, maintenance programs, capital costs and direct assigned projects, capital structure and return on equity, return on rate base, financing plans, interest rates, short-term borrowing rates, business strategy, plans and objectives of management for future operations, forecast business results, and anticipated financial performance or condition of AltaLink.

Various factors or assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. These factors and assumptions include, but are not limited to:

- No unforeseen changes in the legislative and operating framework for Alberta's electricity market (refer to "Alberta's Electricity Market Structure" in AltaLink's 2005 Annual Information Form (AIF), for example)
- Decisions from the EUB concerning outstanding tariff and other applications which are consistent with past regulatory practices and decisions (refer to "The Transmission Business - Business Strategy; - Revenue Tariffs" and "Alberta's Electricity Market Structure" in AltaLink's 2005 AIF, for example) ;
- No unforeseen changes in rate-of-return and deemed capital structures for AltaLink's transmission businesses (refer to "The Transmission Business - Business Strategy; - Revenue Tariffs" and "Alberta's Electricity Market Structure" in AltaLink's 2005 AIF, for example);
- A stable competitive environment; and
- No significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

These assumptions and factors are based on information currently available to AltaLink including information obtained by AltaLink from third-party industry analysts. In some occurrences, material assumptions and factors are presented or discussed elsewhere herein in connection with the statements or disclosure containing the forward-looking information. AltaLink cautions prospective investors that the foregoing list of material factors and assumptions is not exhaustive.

The forward-looking information in statements or disclosures in this MD&A is based (in whole or in part) upon factors which may cause actual results, performance or achievements of AltaLink to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. These factors are based on information currently available to AltaLink including information obtained by AltaLink from third-party industry analysts. Actual results may differ materially from those predicted by such forward-looking statements. While AltaLink does not know what impact any of these differences may have, its business, results of operations, financial condition and its credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking statements include, among other things:

- The risks associated with being subject to extensive regulation including risks associated with EUB action or inaction;
- The potential for service disruptions and increased costs if AltaLink fails to maintain and improve its aging asset base;
- The risks to our facilities posed by severe weather, other natural disasters or catastrophic events and AltaLink's limited insurance coverage for losses resulting from these events;
- The risks associated with forecasting AltaLink's revenue requirements and the possibility that AltaLink could incur operational, maintenance and administrative costs above those included in AltaLink's approved revenue requirement; and
- The risk that AltaLink is not able to arrange sufficient cost effective financing to repay maturing debt and to fund capital expenditures, dividends and other obligations.

Other factors which could cause actual results, performance or achievements of AltaLink to differ materially from those contemplated (whether expressly or by implication) in the forward-looking statements or other forward-looking information are disclosed in AltaLink's publicly filed disclosure documents, including those found under "Risk Factors" herein and in AltaLink's AIF for the year ended December 31, 2005. Such risk factors that could lead to such differences include, without limitation, legislative and regulatory developments that could 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 AltaLink operates, results of financing efforts, changes in counterparty risk and the impact of accounting standards issued by Canadian standard setters.

All forward-looking information herein is given as of March 20, 2006. AltaLink is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of these risks, uncertainties and assumptions, prospective investors should not place undue reliance on these forward-looking statements. **Any forward-looking information contained herein is expressly qualified by this statement.**

ADDITIONAL INFORMATION

Additional information relating to AltaLink including the Partnership's Annual Information Form (AIF) is available on SEDAR at www.sedar.com.

ALTALINK, L.P.'S 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 20, 2006

ALTALINK, L.P.'S auditors' report

To the Partners of AltaLink, L.P.:

We have audited the balance sheets of AltaLink, L.P. as at December 31, 2005, and 2004, and the statements of income and retained earnings, changes in partners' equity and cash flows for the year ended December 31, 2005, 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, 2005, and 2004, and the results of its operations and its cash flows for the year ended December 31, 2005, the eight months ended December 31, 2004, and the year ended April 30, 2004, in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
March 20, 2006

ALTALINK, L.P.'S balance sheets

(in thousands of dollars)

As at	Dec. 31, 2005	Dec. 31, 2004
ASSETS		
Current		
Cash and cash equivalents (note 12a)	**$ -**	$ -
Restricted cash (note 12b)	**29,968**	-
Accounts receivable (notes 7 & 8)	**17,714**	16,465
Materials and supplies	**1,012**	900
Prepaid expenses and deposits	**2,203**	1,332
	50,897	18,697
Property, plant and equipment (notes 6 & 7)	**1,004,331**	903,061
Deferred financing fees	**5,516**	6,575
Regulatory assets (note 3)	**7,582**	4,991
Accrued benefit pension asset (note 11)	**2,755**	2,903
Construction materials and supplies	**9,108**	8,099
Goodwill	**202,066**	202,066
	$1,282,255	$1,146,392
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 8)	**$ 28,775**	$ 28,298
Other liabilities (note 14)	**30,879**	410
Regulatory liabilities (note 3)	**113**	3,824
Short-term debt (note 7)	**122**	144
	59,889	32,676
Accrued employment benefits liabilities	**1,225**	1,052
Other liabilities	**1,866**	1,940
Regulatory liabilities (note 3)	**157,166**	128,949
Asset retirement obligations (note 4)	**56,276**	54,162
Long-term debt (notes 7 & 8)	**621,711**	564,791
	898,133	783,570
COMMITMENTS AND CONTINGENCIES (NOTES 5 & 13)		
Partners' equity		
Partners' capital (note 10)	**338,536**	338,536
Retained earnings	**45,586**	24,286
	384,122	362,822
	$1,282,255	$1,146,392

See accompanying notes

ALTALINK, L.P.'S statements of income and retained earnings

(in thousands of dollars)	**Twelve months ended Dec. 31, 2005**	Eight months ended Dec.31, 2004	Twelve months ended April 30, 2004
REVENUE			
Operating and miscellaneous revenue (note 8)	**$ 196,053**	$ 113,937	$ 154,886
Allowance for equity funds used during construction	**1,239**	545	222
	197,292	114,482	155,108
EXPENSES			
Operating (note 8)	**63,926**	39,164	54,570
Depreciation	**61,341**	31,801	39,304
Accretion (note 4)	**2,996**	1,988	2,834
	128,263	72,953	96,708
	69,029	41,529	58,400
Interest and amortization of deferred financing fees on debt (notes 7 & 8)	**(33,203)**	(21,499)	(32,286)
Allowance for debt funds used during construction	**1,382**	625	242
	37,208	20,655	26,356
Gain on the sale of assets	**92**	338	153
Net income for the period	**37,300**	20,993	26,509
Retained earnings (deficit), beginning of period	**24,286**	12,593	(1,066)
Distributions	**(16,000)**	(9,300)	(12,850)
Retained earnings, end of period	**$ 45,586**	$ 24,286	$ 12,593

See accompanying notes

ALTALINK, L.P.'S statements of changes in partners' equity

(in thousands)	Units	Limited Partner	General Partner	Total
Balance at April 30, 2003	331,904	$ 337,436	$ 34	$ 337,470
Net income for the period	-	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
Net income for the period	-	37,296	4	37,300
Distributions	-	(15,998)	(2)	(16,000)
Balance at December 31, 2005	**331,904**	**$ 384,084**	**$ 38**	**$ 384,122**

See accompanying notes

ALTALINK, L.P.'S statements of cash flows

(in thousands of dollars)	**Twelve months ended December 31, 2005**	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
OPERATING ACTIVITIES			
Net income for the period	**$ 37,300**	$ 20,993	$ 26,509
Items not involving cash			
Depreciation and amortization of deferred financing fees	**62,956**	32,964	40,313
Accretion	**2,996**	1,988	2,834
Allowance for funds used during construction	**(2,621)**	(1,170)	(464)
Gain on the sale of assets	**(92)**	(338)	(153)
Asset retirement obligations settled	**(1,339)**	(642)	(866)
Long-term regulatory accruals	**(3,444)**	(1,103)	10,214
Other non-cash items	**247**	907	588
Funds generated in operations	**96,003**	53,599	78,975
Change in non-cash working capital items (note 15)	**(6,623)**	(8,155)	5,122
Cash provided by operating activities	**89,380**	45,444	84,097
INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(139,811)**	(72,571)	(92,898)
Increase in customer contributions	**9,840**	13,063	8,430
Proceeds from the sale of assets	**91**	635	161
Cash used in investing activities	**(129,880)**	(58,873)	(84,307)
FINANCING ACTIVITIES			
Decrease in lease obligations	**(29)**	(78)	(81)
Increase in debt	**57,041**	20,763	463,006
Repayment of debt	**(115)**	(164)	(440,454)
Distributions paid	**(16,000)**	(9,300)	(12,850)
Settlement of deferred financing fees	**(67)**	(95)	(7,108)
Increase in restricted cash	**(29,968)**	–	–
Increase in other liabilities	**29,638**	–	–
Cash provided by financing activities	**40,500**	11,126	2,513
Net (decrease) increase in cash and cash equivalents	**–**	(2,303)	2,303
Cash and cash equivalents, beginning of period	**–**	2,303	–
Cash and cash equivalents, end of period	**$ –**	$ –	$ 2,303
Cash interest paid during the period	**$ 28,673**	$ 17,524	$ 20,888

See accompanying notes

Twelve months ended December 31, 2005, and eight months ended December 31, 2004

1. NATURE OF OPERATIONS

AltaLink, L.P. (the Partnership or ALP) was formed under the laws of the Province of Alberta on July 3, 2001, and is managed by AltaLink Management Ltd. (the General Partner). The Partnership has one limited partner, AltaLink Investments, L.P. (AILP). The Partnership was formed to acquire and operate the electrical transmission assets from TransAlta Energy Corporation (TransAlta). These transmission assets were acquired on April 29, 2002. Although the General Partner may hold 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. The Partnership also owns and operates the interconnection facilities which connect its network with the transmission system in British Columbia, and allow 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 the 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 ALP's management has prepared the financial statements of the Partnership in accordance with Canadian generally accepted accounting principles (GAAP). All amounts reported are in Canadian dollars unless otherwise stated. GAAP 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 EUB, pursuant to the Electric Utilities Act (Alberta) (EUA), the Public Utilities Board Act (Alberta), and the Hydro and Electric Energy Act (Alberta). These acts and their respective 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 operates under cost of service regulation as prescribed by the EUB. Earnings are determined on the basis of return on 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, as explained further below.

The Partnership accounts for certain transactions in accordance with applicable regulation (regulatory accounting) when three criteria are met: (i) the rates for regulated services or products provided to customers are established by or are subject to approval by an independent, third-party regulator; (ii) the regulated rates are designed to recover the cost of providing the services or products; and (iii) 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 Partnership may account for a transaction or event differently than it would in the absence of rate regulation; namely, the timing of recognition of certain assets, liabilities, revenues and expenses. This results in the creation of regulatory assets and liabilities.

Through the rate-setting process, certain expenses and credits are deferred as assets and liabilities on the balance sheet until the time they are recovered from or refunded to customers. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods that will be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are to be refunded to customers through the rate-setting process. For information regarding the regulatory assets and liabilities recorded by the Partnership, see note 3 "Regulatory Assets and Liabilities".

When the EUB issues a decision affecting the financial statements, the effects of the decision are recorded in the period in which the decision is received. However, if in management's judgment a reasonable estimate can be made regarding the impact an impending future decision will have on the current year's financial statements, an estimate will be recorded in the current year for the expected impact.

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 property, plant and equipment. Those items representing construction material for property, plant and equipment are classified as long-term assets. The assets are valued at the lower of cost and net realizable value. Cost is determined on a moving average cost basis, other than for major equipment which is determined on a specific item basis.

e) Property, plant and equipment Property, plant and equipment are carried at cost, which includes direct labour, materials and allocated overheads, less depreciation. The Partnership capitalizes some major maintenance to property, plant and equipment if these costs have been included in capital for regulatory purposes and are expected to be recovered within rates. The Partnership capitalizes 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, plant and equipment.

Depreciation is calculated on a straight-line basis with various rates ranging from 1.80% 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 regulatory rate setting purposes, which over all are greater than those reflected in these financial statements. The effective depreciation rates under GAAP range from 1.17% to 33.33%. For regulatory purposes the net proceeds from the retirement or disposal of the asset adjusts the accumulated depreciation. 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.

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. 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. Current service costs are expensed in the period in which they are incurred.

The cost of the Partnership's defined benefit pension plan, post-retirement and post-employment benefits is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of the expected long-term rate of return on plan assets, salary escalation, retirement ages and expected growth rate of health care costs. The liability discount rate is determined based on a portfolio of Corporate AA bonds with terms to maturity that, on average, matches the terms of the obligation. Market values are used to value benefit plan assets.

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.

When the recognition of a transfer of employees and employee related benefits gives rise to a curtailment and a settlement of obligations, the curtailment is accounted for prior to settlement.

Under regulatory accounting principles, the employee future benefit expense ultimately recognized in these financial statements is that which is recognized for rate making purposes (note 3).

i) Taxes As a limited partnership, the Partnership does not pay income taxes. 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.

m) Asset retirement obligations The fair value of liabilities for asset retirement obligations is recognized in the period they are incurred. A corresponding increase to the carrying amount of the related asset is recorded and depreciated over the life of the asset. The amount of the liability is subject to re-measurement at each reporting period and is accreted over the estimated time period until settlement of the obligation.

3. REGULATORY ASSETS AND LIABILITIES

The following are the regulatory assets and liabilities:

(in thousands of dollars)	Dec. 31, 2005	Change to regulatory asset/liability balance in 2005**	Remaining recovery settlement period (years)
REGULATORY ASSETS			
Self insurance reserve*	**$ 3,393**[1]	$ 4,334	5-12
Regulated financing fees	**2,738**[3]	(487)	2-7
Hearing cost reserve*	**743**[1]	534	1
Canada Revenue Agency deferral	**189**[2]	189	1
Direct assigned capital deferral account	**519**[2]	(1,039)	1
	$ 7,582		
REGULATORY LIABILITIES			
Pension liability reserve*	**$ 3,711**[1]	$ (3,471)	–
Pension asset offset	**2,755**[4]	(148)	–
Future income tax liability*	**8,100**[5]	–	–
Property tax deferral account	**948**[2]	948	1
Insurance deferral account	**1,321**[2]	1,295	1
Non-issued debt deferral account	**997**[2]	997	1
Canada Revenue Agency reserve*	**404**[1]	(1,096)	–
Regulatory asset retirement obligations	**139,043**[6]	30,061	1-72
Total regulatory liabilities	**$ 157,279**		
Less: current regulatory liabilities	**113**		
Long-term regulatory liabilities	**$ 157,166**		

* The Partnership's rate base does not include an allowance for a return on investment for these items.

** For each of the reserve and deferral accounts, the change in the regulatory asset/liability balance in the current year is equal to the difference between actual and approved forecast expenses, which is offset by a corresponding adjustment to revenue. Therefore the net income effect of the change in the reserve and deferral regulatory asset/liability account balances for the twelve months ended December 31, 2005, is nil.

Footnotes 1 to 6 are on pages 25 and 26.

For some of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the EUB in determining the item's treatment for rate-setting purposes.

The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

[1]**Reserve accounts** The Partnership's reserve accounts represent amounts that are initially funded through EUB approved accruals. Actual costs incurred in relation to the respective reserve are charged against the reserve, thereby decreasing the balance. If the Partnership's actual expenses are lower than forecast then the reserve will grow and may be refunded in the next application. If expenses are higher than forecast, the excess costs are recoverable in the next application, to the extent that they are considered prudent by the EUB.

The Partnership's revenue requirement is not adjusted for these additional costs until such time as they are filed as part of the next application. However, as there is reasonable assurance of cost recovery, to match the revenue adjustment to the correct period, the corresponding additional revenue is recognized in the financial statements as the reserve amounts are exceeded. Conversely, to the extent actual costs are less than the approved forecast, the Partnership will correspondingly reduce the amount of revenue recognized in the current period.

The Partnership has a number of reserve accounts. The hearing costs reserve represents a reserve for intervener costs and costs incurred by the Partnership during hearings. The self insurance reserve provides financial protection from uninsurable or uninsured losses and represents claims costs incurred by the Partnership. The pension liability reserve tracks the difference between pension plan income, annual pension expense based on actuarial reports and EUB approved annual pension plan funding. The Canada Revenue Agency (CRA) reserve captures the provincial tax effect of claims which have not yet received CRA approval. In the absence of rate-regulation, these reserve accounts would not exist on the balance sheet and would be recorded as period expenses or income on the income statement.

[2]**Deferral accounts** Deferral accounts are intended to mitigate the impact of variances between forecast and actual costs. To the extent actual costs differ from the approved forecast, the following year's revenue requirement may be adjusted accordingly. The Partnership has a number of deferral accounts. The Partnership's direct assigned capital deferral account captures the difference between rates earned on forecasted capital additions and those earned on actual capital additions for projects direct assigned by the AESO. The property tax, insurance and non-issued debt deferral accounts were recently established by the EUB in Decision 2005-019 received in March 2005. The intent of the insurance deferral account is to manage the impact of non-controllable cost variances with respect to commercial insurance premiums. The property tax deferral account is intended to mitigate the uncertainty associated with forecasting the growth in property tax base and mill rates. The non-issued debt deferral account records the differences between the forecast and actual cost of debt due to changes in interest rates, a change in term or change in the issue costs of a debt issue. The CRA deferral account records the differences between the forecasted provincial tax effect of expense claims and the actual expense claims which have been filed with the CRA.

In the absence of rate-regulation, these deferral accounts would not exist on the balance sheet and would be recorded as period expenses or income on the income statement.

[3]**Regulated financing fees** As directed by the EUB, finance fees associated with the Partnership's initial Bridge Bonds were rolled over into the replacement debt and amortized over the respective terms of the new debt issues where the $100.0 million debt issue is amortized over five years and the $200.0 million debt issue is amortized over 10 years. The balance represents the unamortized debt issue costs. The regulatory asset is amortized and included in operating results on the same basis and over the same period as that approved for rate-setting purposes. In the absence of rate regulation, GAAP would require the write-off of unamortized debt issue costs in the year the debt is retired.

For the year ended December 31, 2005, amortization of finance fees totalled $1.6 million, which is $0.487 million higher than would have been recorded in the absence of rate regulation. Unamortized finance fees are included in working capital and the associated amortization is reflected in the debt rate calculation.

[4]**Pension asset offset** 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 which would be recorded in the absence of rate regulation to the amount allowed for rate setting purposes.

In the absence of rate regulation, under GAAP, the amount of pension expense that would have been recorded for the year ended December 31, 2005, is $1.85 million versus $1.70 million actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2005, is $0.148 million higher than would have been recorded in the absence of rate regulation.

[5]**Future income tax liability** As prescribed by EUB directive, income tax expense is recovered through customer rates based on the taxes payable method for provincial tax and on the liability method for federal tax. Therefore, rates include the recovery of future income taxes related to temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes.

The Partnership is not subject to income tax. The future income tax liability was acquired from TransAlta on the acquisition of the transmission assets and liabilities. It represents the loss of future revenue that would have otherwise been payable to the Partnership as TransAlta collected both current and future taxes in their rate revenues and the Partnership inherited these tax and accounting basis differences. The regulatory liability will be drawn down and included in operating results once the tax and temporary accounting differences reverse. Currently, there is no income effect associated with the future income tax liability as tax and temporary accounting differences have not reversed.

[6]**Regulatory asset retirement obligations** GAAP requires the Partnership to record liabilities for all legal obligations associated with the retirement of property, plant and equipment. These liabilities are recorded at their fair values in the period in which the obligation is incurred, with an accompanying addition to the recorded cost of the asset. As a rate regulated entity, the Partnership recorded a provision for future asset retirement costs recovered through tariff rates. The amounts recovered through rates differ from the amount recognized under GAAP. This difference is represented in the regulatory asset retirement obligations. Any future rates are expected to be adjusted for any difference between asset retirement costs actually incurred and amounts currently collected in rates.

For the year ended December 31, 2005, GAAP required $2.996 million to be recorded as accretion expense to the asset retirement obligations and $2.697 million to be recorded as depreciation expense for the asset retirement costs that are added to the carrying amounts of property, plant and equipment. In comparison, the Partnership recovered $6.4 million in tariff rates over the same time period. This difference is recognized as an addition/decrease to the regulatory liability balance. In the absence of rate regulation the regulated asset retirement obligations would not be on the balance sheet and would be recorded as period expense or income on the income statement.

a) Generic cost of capital On July 2, 2004, the EUB issued its Decision 2004-052 with respect to the Generic Cost of Capital proceeding. It details a standardized approach to rate of return and capital structure for participating utilities. Decision 2004-052 set a generic rate of return on common equity (Return on Equity or ROE) of 9.60% for 2004. Decision 2004-052 also approved an annual adjustment mechanism or formula for the purpose of establishing the generic ROE for 2005 and later years. This mechanism yielded an ROE of 9.50% for 2005.

The EUB decision concluded that the Partnership may earn an ROE using a deemed equity ratio of 35%.

b) Other items affected by rate regulation The EUB permits AFUDC to be included in the rate base, based on the Partnership's weighted average cost of capital. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is depreciated over future periods as part of the total cost of the related asset, based on the expectation that depreciation expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only an interest component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation.

For rate setting purposes the property, plant and equipment amount included in the rate base calculation is the cost of property, plant and equipment less the provision for future removal and site restoration and the cost of assets under construction and unamortized software.

4. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2005, the estimated total undiscounted amount of asset retirement obligations was approximately $154.0 million. The obligations will be settled over the useful lives of the assets, with the majority of the retirements estimated to occur between 2006 and 2040. Discount rates ranging from 4.81% to 5.67% were used to calculate the carrying value of the asset retirement obligations.

(in thousands of dollars)	**December 31, 2005**	December 31, 2004
Balance, beginning of period	**$ 54,162**	$ 52,816
Liabilities incurred in period	**457**	–
Liabilities settled in period	**(1,339)**	(642)
Accretion expense	**2,996**	1,988
Balance, end of period	**$ 56,276**	$ 54,162

5. CONTINGENCY

The General Partner has been named as a party to an action commenced on December 5, 2005, by George and Karen Gray alleging the improper operation of specific transmission assets owned by AltaLink. The amount of damages claimed by the plaintiffs is estimated at $7.0 million. The claim alleges that the operational concerns began in 1984 and also names TransAlta as a party to the action. AltaLink acquired the transmission business from TransAlta in 2002 and intends to work with TransAlta to defend the claim. At this time management is unable to predict the outcome of the claim, therefore a provision for the liability is not included in the financial statements as at December 31, 2005.

The General Partner has been named as a party to an action commenced on August 14, 2003, by the United Utility Workers Association and others, in respect of the use and control of pension funds acquired from TransAlta in connection with the purchase of the transmission business. The General Partner has not been required to file a statement of defence at this time and does not believe that it will be required to defend. As the claim relates directly to actions taken by TransAlta prior to the acquisition of the transmission business by AltaLink, it is AltaLink's position that the claim constitutes an excluded liability under the Acquisition Agreement and AltaLink has provided notice to TransAlta of its intention to seek indemnification in respect thereof from TransAlta.

6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2005			December 31, 2004		
(in thousands of dollars)	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Transmission network	**$1,128,602**	**$ (161,521)**	**$ 967,081**	$1,010,441	$ (129,526)	$ 880,915
Assets under construction	**37,250**	**–**	**37,250**	22,146	–	22,146
	$1,165,852	**$ (161,521)**	**$1,004,331**	$1,032,587	$ (129,526)	$ 903,061

The total amount of AFUDC capitalized for the twelve months ended December 31, 2005, was $2.621 million, $1.17 million for the eight months ended December 31, 2004, and $0.464 million for the twelve months ended April 30, 2004.

7. DEBT

(in thousands of dollars)	Effective interest rate	Maturing	December 31, 2005	December 31, 2004
Series 3 8.00% (note 8)	8.01%	2012	**$ 85,000**	$ 85,000
Series 03-1 4.45%	5.07%	2008	**100,000**	100,000
Series 03-2 5.43%	5.71%	2013	**326,086**	326,202
Capital lease obligations		2005	**–**	28
Commercial paper	4.20%	2008	**110,747**	–
Credit facility		2008	**–**	53,705
Total debt			**621,833**	564,935
Less: short-term debt		2006	**122**	144
Total long-term debt			**$ 621,711**	$ 564,791

As per the amended and restated master trust indenture dated April 28, 2003, between the Partnership, the General Partner, and BNY Trust Company of Canada, as trustee, the Partnership has secured the obligations relating to the Series 03-1 Senior Bonds, Series 03-2 Senior Bonds, Series 3 Subordinated Bonds, and its credit facilities. Collateral for the secured debt obligations consists of a first floating charge security interest on the Partnership's assets. The Series 03-1 Senior Bonds, Series 03-2 Senior Bonds and the credit facilities rank equally with each other and all future senior secured indebtedness that is issued by the Partnership.

a) Credit facility As at December 31, 2005, the Partnership had $285.0 million of credit facilities which mature in 2008.

	Committed	Drawdowns	Maturity Date
Commercial paper back up facility	$ 200,000	$ –	Dec. 12, 2008
Credit facility	85,000	–	May 5, 2008
	$ 285,000	$ –	

The commercial paper back-up facility provides support for the borrowing under the unsecured commercial paper program of $200.0 million. As at December 31, 2005, borrowing under this program was $110.7 million. This amount has been classified as long-term debt because the committed commercial paper back-up facility maturity date exceeds one year. The average maturity period for the commercial paper debt is 41 days as at December 31, 2005.

The $200.0 million commercial paper back-up facility can only be used to support the commercial paper program by way of Canadian prime rate loans and bankers' acceptances.

As a result of the establishment of the commercial paper program in 2005, AltaLink has revised its credit facility instruments by amending the $185.0 million credit facility to become an $85.0 million credit facility.

The $85.0 million credit facility may be used for capital expenditures and general corporate purposes. This $85.0 million facility bears interest at either the lenders' rates for Canadian prime rate loans, U.S. base rate loans, bankers' acceptances or LIBOR loans, plus applicable margins.

b) Letters of credit As at December 31, 2005, the Partnership had letters of credit outstanding totalling $0.070 million (December 31, 2004 - $0.089 million).

c) Debt facilities ***Series 3*** Interest on the Series 3 Subordinated Bond is payable quarterly on February 1, May 1, August 1 and November 1. The payment of the principal and interest of the Series 3 Subordinated Bond is subordinated to all senior bonds. The Series 3 Subordinated Bond is payable to AILP.

Series 03-1 and Series 03-2 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 upon not less than 30 days and not more than 60 days notice at a redemption price of the principal, any accrued and outstanding interest, and in some circumstances a premium.

d) Interest expense

(in thousands of dollars)	**Twelve months ended December 31, 2005**	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
Deferred financing fees amortized	**$ 1,613**	$ 1,163	$ 1,181
Interest on debt	**31,590**	20,336	31,105
Total interest and amortization of deferred financing fees on debt	**$ 33,203**	$ 21,499	$ 32,286
Less: short-term portion of deferred financing fees amortized	**-**	-	172
Less: short-term portion of interest on debt	**1**	4	5,936
Total interest and amortization of deferred financing fees on long-term debt	**$ 33,202**	$ 21,495	$ 26,178

e) Principal repayments

Maturing (in thousands of dollars)	
2006	$ 122
2007	128
2008	210,882
2009	142
2010 and thereafter	410,559
	$ 621,833

8. RELATED PARTY TRANSACTIONS

In the normal course of business, the Partnership transacts with its partners and other related entities under common control. The following transactions were measured at the exchange amount:

(in thousands of dollars)	**Twelve months ended December 31, 2005**	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
Included in operating costs are the following amounts charged from related parties:			
Employee compensation and benefit charges	**$ 29,763**	$ 17,475	$ 22,762
Consulting services	**4**	10	–
Operating expenses	**18**	25	178
Interest expense on Series 3 Subordinated Bond	**6,800**	4,552	13,097
Financing fees	**68**	–	2,183
Included in property, plant and equipment are the following amounts charged from related parties:	**96,985**	47,595	55,898
Included in miscellaneous revenue are the following amounts charged to related parties:	**463**	288	935

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

(in thousands of dollars)	**December 31, 2005**	December 31, 2004
AltaLink Management Ltd.	**$ (1,595)**	$ 262
AltaLink Investment Management Ltd.	**305**	88
SNC Lavalin ATP Inc.	**(13,094)**	(13,797)
AltaLink Investments, L.P.	**(1,136)**	(1,133)

9. REGULATORY DECISIONS

On March 12, 2005, the Partnership received Decision 2005-019 from the EUB which relates to the Partnership's general tariff application for the period covering May 1, 2004, through December 31, 2006. On July 28, 2005, in Decision 2005-082, the EUB approved the Partnership's compliance with Decision 2005-019. The effect of the decisions has been reflected in these financial statements for the twelve months ended December 31, 2005. Part of the Decision resulted in a $7.5 million increase in tariff revenue relating to 2004, which has been recorded in the December 31, 2005, net income.

10. 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 Partnership is also authorized to issue preferred partnership units which have the same rights, privileges, restrictions and conditions attaching to all other units except that in the event of the liquidation, dissolution or winding-up of the Partnership, holders of each preferred unit are entitled to participate preferentially in any distribution. The Partnership has not issued any preferred units.

The General Partner does not hold any units in the Partnership. It manages the operations of the Partnership, and has a 0.01% interest in the profits, losses and capital distributions of the Partnership.

Any units issued by the Partnership must be first offered to the existing limited partners in proportion to their ownership interests. Any units offered for sale by any of the existing limited partners to non-owners must first be offered to the existing limited partners. Generally, only units not purchased by the existing limited partners can be issued to outside parties.

11. EMPLOYEE FUTURE BENEFITS PLANS

(in thousands of dollars)	December 31, 2005 Pension plans	December 31, 2005 Other benefits	December 31, 2004 Pension plans	December 31, 2004 Other benefits
FAIR VALUE OF PLAN ASSETS				
Balance beginning of period	$ 6,895	$ –	$ 6,523	$ –
Transfers to defined benefit option	15	–	–	–
Employee contributions	18	–	12	–
Company contributions	–	2	–	–
Experience gain adjustment	–	–	56	–
Benefit payments	(6)	(2)	–	–
Actual return on plan assets (net)	744	–	360	–
Balance, end of period	$ 7,666	$ –	$ 6,951	$ –
ACCRUED BENEFIT OBLIGATION				
Balance, beginning of period	$ 5,210	$ 1,090	$ 4,701	$ 770
Plan amendments in the period	–	–	–	205
Transfers to deferred contribution option	15	–	–	–
Current service cost	148	70	92	39
Employee contributions	18	–	12	–
Benefit payments	(6)	(9)	–	–
Interest cost	342	63	202	43
Experience loss	1,324	80	203	33
Balance, end of period	$ 7,051	$ 1,294	$ 5,210	$ 1,090
FUNDED STATUS				
Funded status – surplus (deficit)	$ 615	$ (1,294)	$ 1,685	$ (1,090)
Unamortized past service costs	–	170	–	191
Unamortized actuarial (gains) losses	2,140	39	1,218	(38)
Balance, end of period	$ 2,755	$ (1,085)	$ 2,903	$ (937)
Amortization period in years	6	10	7	10
	%	%	%	%
Discount rate	5.0	5.0	6.0	6.0
Expected long-term rate of return on plan assets	7.0	–	7.0	–
Rate of compensation increase	3.8	–	3.5	–
Health care cost escalation	–	10.0	–	9.0
Dental care cost escalation	–	4.5	–	4.0
Provincial Health Care premium escalation	–	2.3	–	2.5

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 that are part of the defined benefit plan. 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.

Those members who at the date of the acquisition were covered by the defined benefit option under the TransAlta plan will continue in that option, and all other employees and any new employees are covered under a defined contribution option. The defined benefit provisions of the plan provide a final average pay type benefit. The defined contribution component of the registered pension plan established by the General Partner changed from a 10% employer contribution plan on May 1, 2004, 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 December 31, 2004. The effective date of the next required valuation for funding purposes is December 31, 2007.

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

(in thousands of dollars)		Dec. 31, 2005 Registered		Other		Dec. 31, 2004 Registered		Other		April 30, 2004 Registered		Other
Current service cost	$	148	$	70	$	92	$	39	$	133	$	32
Interest cost on benefit obligation		342		63		202		43		274		46
Interest on pension fund assets		(744)		-		(360)		–		(410)		–
Actuarial obligation gains/losses		(1,002)		187		204		33		–		–
Amortization of experience losses		–		–		–		–		74		–
Plan amendments		–		–		–		205		–		–
Difference between expected return and actual return on plan assets		261		–		56		–		–		–
Difference between actuarial gain recognized for the year and actual actuarial gain on accrued benefit obligation for the period		1,143		(192)		(160)		(34)		–		–
Difference between amortization of past service costs for the year and actual plan amendments for the period		-		20		–		(191)		–		–
Defined benefit expense	$	148	$	148	$	34	$	95	$	71	$	78
Regulatory adjustment to offset expense		(148)		–		(34)		–		(71)		–
Defined benefit expense recognized in financial statements	$	-	$	148	$	–	$	95	$	–	$	78
Defined contribution expense of registered pension plan		1,705		–		952		–		2,957		–
Defined benefit pension income due to EUB decision		–		–		–		–		2,863		–
Supplemental pension expense		–		39		–		38		–		98
Net expense recognized in the financial statements	**$**	**1,705**	**$**	**187**	$	952	$	133	$	5,820	$	176

The total defined contribution expense of $1.7 million for the twelve months ended December 31, 2005, (eight months ended December 31, 2004 - $0.952 million) was provided in the following manner: $0.006 million was taken out of the defined benefit surplus (December 31, 2004 - nil) $1.6 million (December 31, 2004 -$0.9 million) was provided by cash contributions and the remaining $0.113 million (December 31, 2004 - $0.077million) will be cash contributions next year.

Sensitivity to changes in assumed health care cost trend rates as at December 31, 2005 are as follows:

(in thousands of dollars)	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	**15**	(13)
Effect on post-retirement benefit obligation	**130**	(116)

12. 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 3.22% at December 31, 2005, and 1.45% at December 31, 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, 2005, the fair values of the outstanding debt are as follows:

(in thousands of dollars)	**December 31, 2005**	December 31, 2004
Series 03-1 Senior Bonds	**100,751**	103,888
Series 03-2 Senior Bonds	**345,441**	339,198
Series 3 Subordinated Bond	**101,200**	88,630

Borrowings under commercial paper and the bank credit facility are for short-terms and are market rate based, thus the carrying values approximate fair value.

b) Restricted cash Restricted cash consists of cash provided to the Partnership by customers in advance of construction. As construction expenses are incurred for specified projects the cash moves from restricted cash to cash and cash equivalents.

c) Concentrations of credit risk The Partnership has a concentration of credit risk as approximately 91% of its accounts receivable balance is due from the AESO (December 31, 2004 – 86%). For the twelve month period ended December 31, 2005, tariff revenues accounted for approximately 94% (December 31, 2004 – 95%; April 30, 2004 – 94%) of operating revenues. The remainder was comprised mainly of revenue from tower and land leases and the provision of services to others.

13. COMMITMENTS

On June 1, 2002, the Partnership entered into a 10 year operating lease for premises. On June 1, 2004, the Partnership entered into a five year operating lease for a separate premise, and received a leasehold improvement allowance from the landlord in the amount of $0.396 million. On September 22, 2005, the partnership entered into a 20 year operating lease for a new head office in 2006. The Partnership is committed to additional operating leases 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:

(in thousands of dollars)	
2006	$ 1,861
2007	2,651
2008	2,624
2009	2,627
2010 and thereafter	32,769
	$ 42,532

14. OTHER LIABILITIES

Other liabilities consist of the following:

(in thousands of dollars)	December 31, 2005	December 31, 2004
Other liabilities	$ 1,241	$ 410
Funds received in advance of construction	29,638	-
	$ 30,879	$ 410

15. SUPPLEMENTARY CASH FLOW INFORMATION

Change in non-cash working capital items related to operations:

(in thousands of dollars)	Twelve months ended December 31, 2005	Eight months ended December 31, 2004	Twelve months ended April 30, 2004
(Increase) decrease in accounts receivable	$ (1,767)	$ (2,197)	$ 221
(Increase) decrease in materials and supplies	(112)	63	(159)
(Increase) decrease in prepaid expenses and deposits	(871)	21	(266)
(Decrease) increase in accounts payable and accrued liabilities	(994)	(8,911)	11,858
Increase in other liabilities	831	202	17
(Decrease) increase in regulatory liabilities	(3,711)	2,613	(6,604)
Increase in short-term debt	1	54	55
	$ (6,623)	$ (8,155)	$ 5,122

16. COMPARATIVE FIGURES

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

CORPORATE GOVERNANCE

The role of the Board and its committees is to provide independent, effective leadership to supervise the management of AltaLink's business and affairs. AltaLink supports this role through its dedication to effective corporate governance practices which meet or exceed the requirements of any regulatory authorities.

AltaLink is proud of its commitment to corporate governance and believes that good governance practices add value for all stakeholders. AltaLink's Board is entirely independent from management and comprised of a diverse group of experienced individuals all with the same goal of providing responsible stewardship for AltaLink. The Board is therefore able to act in the best interests of AltaLink without being unduly influenced by management.

AltaLink's dedication to strong corporate governance practices is also exemplified through the requirements for its Audit Committee. AltaLink voluntary elects to require its Audit Committee members to meet the independence and financial literacy requirements that security regulators set for exchange traded companies. AltaLink believes that such practices support higher investor confidence in its financial controls and reporting.

As part of its practices, AltaLink provides orientation for new directors and continuing education initiatives for the Board as a whole. The Board has also approved the AltaLink Code of Ethics as a statement of the ethical principles expected of AltaLink's directors, officers and employees.

The Board is currently comprised of nine members: David Tuer (Chairman of the Board), Pierre Anctil, Robert Bertram, Krish Krishnamoorthy, Paul McCoy, Douglas Mitchell Q.C., Patricia Nelson, Gregory Smith and Robert Turgeon.

BOARD COMMITTEES

The stewardship of AltaLink is the responsibility of the Board and its two committees: the Audit Committee and the Human Resources and Governance Committee.

AUDIT COMMITTEE

Chair: Patricia Nelson
Members: David Tuer, Robert Turgeon

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities for financial reporting, controls and risk management. The Committee reviews the annual and quarterly financial statements and certain corporate disclosure documents, including management's discussion and analysis, 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 monitors accounting, financial reporting, control and audit functions.

The Audit Committee meets to discuss and review the audit plans of internal and external auditors, and questions the external and internal auditors independently of management. The process also involves reviewing and reporting to the Board on AltaLink's risk management policies and procedures and reviews the internal control procedures to determine their effectiveness and to ensure compliance with AltaLink's policies and avoidance of conflicts of interest. The Committee is responsible for the implementation and effectiveness of AltaLink's Code of Ethics and for monitoring compliance with the Inter-Affiliate Code of Conduct.

AltaLink voluntarily elects to require its Audit Committee to meet the independence and financial literacy requirements that security regulators set for exchange traded companies. Audit Committee members are independent of AltaLink's management, owners, and auditors, and they bring a wealth of experience in understanding and supervising financial reporting. The Chair of the Audit Committee, Ms. Nelson, is the former Minister of Finance for the Province of Alberta and served on the Alberta Treasury Board for 12 years, including four years as Chair of the Treasury Board.

HUMAN RESOURCES AND GOVERNANCE COMMITTEE

Chair: Paul McCoy
Members: Douglas Mitchell, Q.C., Pierre Anctil and Gregory Smith

Among its responsibilities, the Human Resources and Governance Committee performs the functions of a compensation committee and a nominating committee. Its mandate includes the responsibility to assist the Board on human resources and legal corporate governance issues, and management of AltaLink on human resource matters. The Committee is specifically committed to the continuing review, development and improvement of strong corporate governance practices which the Board and management believe are the cornerstones of investor trust and good management.

The Human Resources and Governance Committee reviews succession plans for key management positions within AltaLink, human resources policies and plans, and the performance and development of the CEO and other senior officers of AltaLink. It also makes recommendations to the Board in respect of all other compensation matters including long- and short-term incentives such as bonus plans and other benefits, and is responsible for developing these programs. The Committee is also responsible for the compensation for Board and committee service.

It is 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 also obligated to undertake such initiatives as are necessary to maintain AltaLink's high standard of corporate governance practices.

DAVID TUER
Chairman of the Board

Mr. Tuer is the President of Value Creation Inc. He is on the Board of Directors of Canadian Natural Resources Limited, Rockwater Capital Corporation and is the Chairman of the Board for Sequoia Oil and Gas Trust. Mr. Tuer was appointed Board Chair to the Calgary Health Region in 2001.

PIERRE ANCTIL
Director

Mr. Anctil is Executive Vice President and member of the Office of the President for SNC-Lavalin Group Inc., and Executive Sponsor for SNC-Lavalin's Investment division and General Engineering and Environment divisions. Mr. Anctil holds a Bachelor of Engineering degree from École Polytechnique and an MBA from École des Hautes Études Commerciales in Montréal.

ROBERT BERTRAM
Director

Mr. Bertram is the Executive Vice President, Investments for the Ontario Teachers' Pension Plan. He has been responsible for the investment management of the Ontario Teachers' Pension Plan since 1990. He graduated from the ICD/Rotman Corporate Governance College and obtained an ICD.D, earned his BA at the University of Calgary and his MBA at the University of Alberta. Mr. Bertram is a member of not-for-profit boards including the Institute of Corporate Directors and the Canadian Public Accountability Board.

KRISH KRISHNAMOORTHY
Director

Mr. Krishnamoorthy recently retired as Executive Vice President of SNC-Lavalin Group and a member of the Office of the President. He was responsible for the company's Chemicals and Petroleum business segment. During a career spanning 41 years, he has overseen the execution of prestigious mega-projects in Alberta and internationally.

PAUL McCOY
Director

Mr. McCoy is Managing Director and Chief Operating Officer of Trans-Elect, Inc. Prior to joining Trans-Elect, Inc. six 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.

DOUGLAS MITCHELL Q.C.
Director

Mr. Mitchell helped to lead the national merger resulting in the new firm 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.

PATRICIA NELSON
Director

Ms. Nelson, CEO of the Calgary Health Trust, 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.

GREGORY J. SMITH
Director

Mr. Smith is the Head of the Infrastructure and Specialized Funds division for Macquarie North America Ltd. and Chief Executive Officer of Macquarie Power Income Fund (an Income Trust listed on the TSX). Mr. Smith is a director of Macquarie North America Ltd., Macquarie Canadian Infrastructure Management Limited (the general partner of Macquarie Essential Assets Partnership), 407ETR International, Sea-to-Sky Highway and Leisureworld Senior Care.

ROBERT TURGEON
Director

Mr. Turgeon is Past President of Trans-Québec and 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.

SCOTT THON
President and Chief Executive Officer

With more than 20 years of power industry experience, Scott has held positions in Risk Management, Energy Trading, Independent Power Production and Transmission Operations and Construction. Scott is a registered professional engineer who graduated with a Bachelor of Science in Electrical Engineering from the University of Saskatchewan. He is also a graduate of the University of Western Ontario's Richard Ivey School of Business Executive Program. Scott serves on the Board of Directors for the United Way of Calgary and Area 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 Science Degree in Agricultural Engineering from McGill University. He also holds a graduate diploma in Public Accountancy from Concordia University. With 16 years of experience in all aspects of domestic and international finance as well as operations, he has facilitated projects in Brazil, Chile, Europe, the Middle East, Thailand, Turkey and the United States.

DENNIS FREHLICH
Executive Vice President and Chief Operating Officer

As a registered professional engineer, Dennis has 19 years of experience in the electric industry with a focus in the areas of transmission and distribution. Dennis 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.

LEIGH CLARKE
Senior Vice President, Law and Public Affairs

Leigh has been extensively involved in the Alberta electricity industry since the early 1990s. 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. 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 from that time until 1999. Leigh was also seconded to the law branch of the NEB where he handled gas and electricity facilities applications.

ZORA LAZIC
Senior Vice President, Regulatory and Client Services

With more than 14 years experience in various areas of the electricity industry, Zora's background involves work with a major Canadian 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 deregulated side of the industry. Zora holds a Masters of Law from Cambridge University (UK) and a Bachelor of Law from McGill University.

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. As Senior Vice President of Business Development, Duane is responsible for leading AltaLink's growth initiatives. He has been heavily involved in evaluating appropriate alternatives to meet Alberta's future transmission demands. Prior to joining AltaLink, he led the development of numerous energy projects in Canada, Mexico, Australia, New Zealand and the United States.

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 extensive background in human resource management, organizational change and effectiveness, leadership development, and mergers and acquisitions. Linda holds a Master of Science in Organizational Development from American University, Washington, DC.


Scott Thon


Dimitrios Leonidas


Dennis Frehlich


Leigh Clarke


Zora Lazic


Duane Lyons


Linda Shea

DIRECTORS

DAVID TUER[1]
Chairman of the Board

PIERRE ANCTIL[2]
Director

ROBERT BERTRAM
Director

KRISH KRISHNAMOORTHY
Director

PAUL McCOY[2]
Director

DOUGLAS MITCHELL Q.C.[2]
Director

PATRICIA NELSON[1]
Director

GREGORY SMITH[2]
Director

ROBERT TURGEON[1]
Director

COMMITTEE MEMBERS

[1] Audit
[2] Human Resources and Governance

EXECUTIVES

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President and Chief Executive Officer

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