KEEPING THE LIGHTS ON

ALTALINK

2006 FINANCIAL REPORT

IT'S WHAT WE DO

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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 February 21, 2007. This analysis should be read in conjunction with the financial statements and notes to the financial statements dated December 31, 2006 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, 2006. 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. We meet the transmission needs of over 85% of Albertans and our sole focus is on transmission, which allows us to bring forward the best and most innovative transmission practices, designs and solutions.

Flexibility and simplicity are core goals of how we work with our customers. We focus on proactively developing 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 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.

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, deliver to approximately 85% of the population 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. AltaLink receives over 90% of its revenue from the Alberta Electric System Operator (AESO), which is an independent, not-for-profit entity created by the Province of Alberta to administer the interconnected electric system in the province.

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 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. (Macquarie), SNC-Lavalin Transmission Ltd. (SNC), OTPPB TEP Inc. and 3057246 Nova Scotia Company, as the limited partners. 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. On June 13, 2006, the EUB approved AltaLink's application to change its ownership structure, and the transaction was completed on June 23, 2006. Under the new ownership structure, SNC-Lavalin Group Inc. indirectly owns 76.92% of AltaLink through subsidiaries, with Macquarie owning the remaining 23.08%.

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 2006, the AIFR for AltaLink staff and key contractors was a combined rate of 0.89. The typical industry average is 4.0, with industry leaders posting AIFR's of less than 2.0. The CEA composite AIFR published value for 2005 was 2.76 representing Canadian Electrical Association (CEA) member utilities.

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 2006, AltaLink's SAIDI was 0.58 outage hours/delivery point. The most recent All Canada SAIDI benchmark published by the CEA for 2005 was 1.90.

SAIFI measures the average number of interruptions for a delivery point in a year. In 2006, AltaLink's SAIFI was 1.00 outages/delivery point. The most recent All Canada SAIFI benchmark published by the CEA for 2005 was 1.63.

HIGHLIGHTS OF 2006

- Delivered safely and efficiently over $125.1 million in additional facilities for customers, including generators, industrial and distribution customers and system projects for the AESO;
- Delivered safely and efficiently over $58.0 million in capital upgrades and replacements, managing the life and performance of existing facilities;
- Completed a 240 kV interconnection project for MEG Energy as well as a new substation and line work for Christina Lake (EnCana);
- Received Permit and Licence for the Keephills Ellerslie Genesee 500 kV Upgrade Project and commenced construction;
- Filed Permit and Licence application with the EUB for the transmission line component of the North-South 500 kV line project, with an estimated cost of $495.0 million;
- Submitted Facilities Application to the EUB for Permit to Construct and Licence to Operate for the SW Development project;
- Filed General Tariff Application (GTA) for 2007 and 2008 in April 2006, received and responded to intervenor requests in June 2006 and completed the oral hearing portion of the GTA process in October 2006;
- Achieved net income of $35.6 million; and
- In September 2006, issued $150.0 million of debt securities with a term of thirty years.

RECENT DEVELOPMENTS

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. On July 28, 2005 AltaLink received EUB Decision 2005-082, which finalized AltaLink's compliance with Decision 2005-019. The Partnership filed a GTA on April 13, 2006 for the 2007 and 2008 test years. This application establishes the amounts of AltaLink's monthly tariff to the AESO and the Terms and Conditions of service by which the AESO will use AltaLink's transmission facilities. On February 16, 2007, the EUB issued Decision 2007-012 outlining the disposition of AltaLink's application for approval of its revenue requirement and deferral and reserve accounts for the period from January 1, 2007 to December 31, 2008. The Decision also outlined the settlement of the self-insurance reserve account for the period from May 1, 2004 to December 31, 2005.

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 EUB issued Decision 2004-052 on July 2, 2004 in which it approved a 35% deemed common equity ratio for the Partnership and a 9.6% ROE for the period ended December 31, 2004. The rate of return on common equity is adjusted annually for the years 2005 through 2008. The adjustment is calculated as 75% of the change in 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 ROE at 9.5% consistent with the adjustment formula. On November 22, 2005 the EUB issued an order setting the 2006 ROE at 8.93%. On November 30, 2006 the EUB issued an amended order setting the 2007 ROE at 8.51%.

Decision 2007-012 approved a reduction in the deemed common equity ratio from 35% to 33%, and an increase in the allowance for deemed income tax in the revenue requirement from 75% to 100%.

Financing Activities

On June 16, 2006, the EUB approved an application for AltaLink to issue up to $150.0 million of debt securities with a term of up to 30 years.

On September 21, 2006 AltaLink issued $150.0 million of Series 2006-1 Medium-Term Notes at a coupon rate of 5.249% which mature on September 22, 2036. The debt was issued under AltaLink's short-form base shelf prospectus, dated May 5, 2006. The shelf prospectus has a 25-month life, and permits the Partnership to issue up to an aggregate of $500.0 million of medium-term notes. A shelf prospectus is an efficient method to meet the financing requirements associated with the capital growth and construction activities expected in the upcoming years.

Edmonton to Calgary 500 kV Transmission Development

The 500 kV development between the Edmonton and Calgary regions is the cornerstone of the expansion required to reinforce Alberta's transmission system. The EUB issued Decision 2005-031 on April 14, 2005 approving the need for the North-South expansion of the Alberta Interconnected Electric System (AIES), more specifically the implementation of a new 500 kV system between Edmonton and Calgary.

The project includes (i) the conversion (and re-energizing) of the "KEG System" of 240 kV lines between the Keephills and Genesee substations (west of Edmonton) and the Ellerslie substation (in South Edmonton) to 500 kV, and (ii) the construction of a new 500 kV transmission line from the Genesee substation (west of Edmonton) to the Langdon substation (southeast of Calgary). AltaLink owns and operates the transmission line connecting the KEG system, which is a 500 kV system currently energized at 240 kV that connects generating plants at AltaLink's Keephills substation and Epcor's Genesee substation with AltaLink's Ellerslie substation.

(i.) KEG Transmission Line Conversion Project On June 28, 2006, the EUB approved AltaLink's Permit and Licence application for the KEG conversion component of the 500 kV project, with an estimated project cost of $66.3 million. AltaLink is currently in the construction phase of this project, with a targeted in-service delivery date of December 2007.

(ii.) Genesee to Langdon 500 kV Transmission Line In September, AltaLink finalized its proposed route for the 500 kV line development project, having consulted with more than 2,500 landowners, including more than 2,000 face-to-face meetings and having hosted nine open houses along the project corridor. Based on the current project scope schedule and engineering parameters, the estimated cost of the 330 kilometre project is $495.0 million and the cost estimate is expected to be accurate within 20%. In a letter dated September 12, 2006, the AESO directly assigned the 500 kV line development project to AltaLink. On the same day, AltaLink filed its Permit and Licence application with the EUB for the project.

On October 18, 2006, the EUB adjourned a hearing to consider the Permit and Licence Application for the 500 kV transmission line that had been scheduled to begin on December 11, 2006. The adjournment was granted after the EUB received numerous requests from affected landowners to give them more time to prepare for the hearing. The EUB held a public pre-hearing for the project's Permit and Licence application which began on November 2, 2006, and considered, among other issues: a) the establishment of a list of issues for the hearing; b) the parameters by which standing will be granted to potential intervenors; and c) the creation of a schedule which is in keeping with the need established for the 500 kV line and the ability of the intervenors to properly participate. On January 18, 2007 the EUB adjourned the hearing to consider these matters until March 12, 2007, when the hearing is scheduled to begin in Red Deer, Alberta.

Review and Variance Hearing

On July 31, 2006, the EUB commenced a hearing to respond to landowner requests to review the selection of the west corridor during the AESO's application to assess the need for the North-South 500 kV project. The EUB had previously approved the AESO's Needs Application in Decision 2005-031 on April 14, 2005. In considering the review request, the EUB stated that the need for the line was not in question but that it would assess if landowners had new information on the appropriateness of the west corridor. On December 6, 2006, the EUB issued Decision 2006-114 that confirmed that the west corridor is reasonable and in the public interest and therefore upheld Decision 2005-031.

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 December 31, 2006	For the twelve months ended December 31, 2005	For the eight months ended December 31, 2004
Total revenue ($ millions)	**$ 201.4**	$ 197.3	$ 114.5
Net income ($ millions)	**35.6**	37.3	21.0
Net income per unit ($)	**0.11**	0.11	0.06
Funds generated from operations ($ millions)[1]	**98.1**	96.0	53.6
Distributions per unit ($)	**0.06**	0.05	0.03
Total assets ($ millions)	**1,323.2**	1,143.2	1,037.4
Long-term debt, excluding current portion ($ millions)	**700.2**	621.7	564.8

1. See note 1 under Liquidity and Capital Resources.

Revenues

The $4.1 million increase in revenues in 2006 compared to 2005 is partially the result of higher tariff rates approved by the EUB, as well as an increase in miscellaneous revenue for services provided to FortisAlberta and TransAlta. Tariff rates have increased primarily due to additional revenues as a result of new installed assets, 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 94% of the Partnership's total revenue.

The increase in operating revenues is lower than it might otherwise have been, as the EUB has consistently been lowering AltaLink's allowed rate of return on equity, from 9.6% in 2004 to 8.93% in 2006.

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 damages in the Empress region of Alberta.

Operating Expenses

The $2.9 million increase in operating expenses in 2006 compared to 2005 is partially due to increased labour charges incurred as a result of AltaLink's growing operations and maintenance associated with a larger and aging asset base. A portion of the increased labour costs is recovered through miscellaneous revenue for services provided to FortisAlberta and TransAlta. In addition, higher property taxes were incurred due to higher charges levied by municipalities and a larger rate base.

Although operating costs increased in total for 2006 compared to 2005, operating costs as a percentage of gross capital assets remained constant during this time period. It appears that this percentage increased significantly between 2004 and 2005. However, 2006 results are not directly comparable with 2005 due to the differing time periods involved and timing of when operating costs are incurred during the year.

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. 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 through tariff revenue, thereby eliminating any net income impact.

Depreciation Expense

The $0.5 million increase in depreciation expense in 2006 is not significant compared to 2005, although there were considerable capital undertakings that were completed and added to 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.

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 significant capital undertakings that were completed and added to property, plant and equipment.

Interest Expense

The $3.8 million increase in interest expense in 2006 compared to 2005 is due to a higher debt level in 2006 compared to 2005, as well as higher interest rates.

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)

Net Income for the year ended December 31, 2006 is lower than 2005 primarily as the increase of $4.1 million in revenues was offset by the combined impact of the increase in operating expenses of $2.9 million and the increase in interest costs of $3.8 million.

EBITDA as a percentage of revenue remained the same at 68.3% for the years ended December 31, 2006 and 2005.

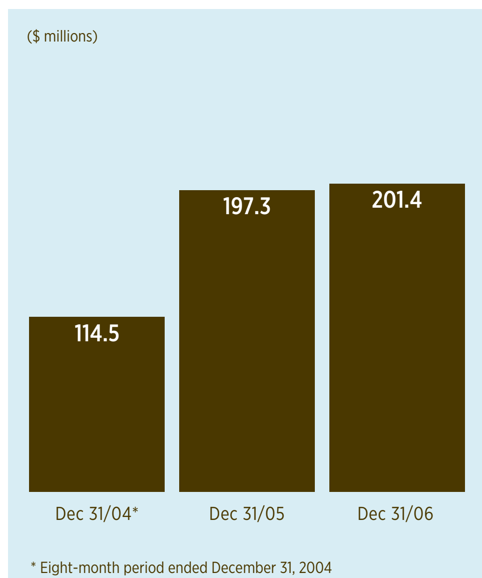
The results for the twelve-month period ended December 31, 2005 are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $16.3 million increase in net income in 2005 compared to 2004 is partially due to the differing time periods, 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, 2005 net income included $2.4 million of adjustments related to 2004, arising from Decision 2005-019, which were recorded in 2005 as the Decision, was not released until the first quarter of 2005. EBITDA as a percentage of revenue increased slightly to 68.3% in 2005 compared to 66.6% for the eight-month period ended December 31, 2004.

FINANCIAL POSITION

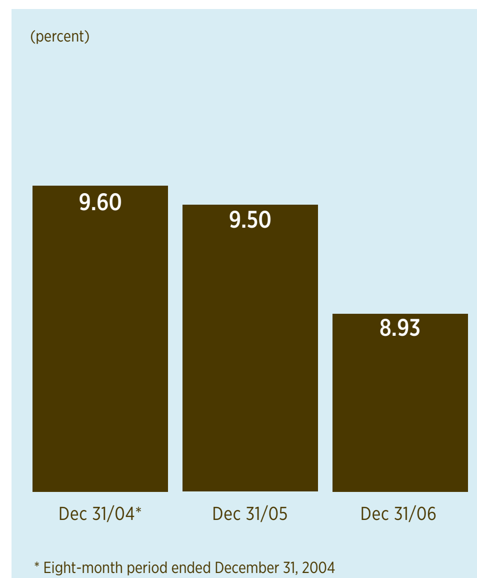
The following outlines the significant changes in the Partnership's balance sheet from December 31, 2005 to December 31, 2006:

	Increase ($ millions)	Explanation
Restricted cash	17.2	Net additional 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 & equipment	138.3	Construction costs primarily related to the KEG project, Southwest system upgrade Christina Lake substation, ENMAX Taber Wind interconnection and the Bassano FortisAlberta substation.
Net accounts payable – accounts receivable	(17.4)	Increase in engineering services payable, partially offset by increase in receivables from the AESO.
Other liabilities - short-term	18.5	Liability for construction funds held on account for customers until projects are energized.
Regulatory liabilities - long-term	(3.1)	Some regulatory liabilities have been reclassified to short term as regulatory applications are expected to be made to the EUB in 2007 for their disposition.
Long-term debt	78.5	Additional borrowings required to fund capital projects. $150.0 million of new debt was issued in September to fund capital projects and replace existing commercial paper debt.
Partners' capital	25.0	An equity injection from the limited partner to fund capital projects.

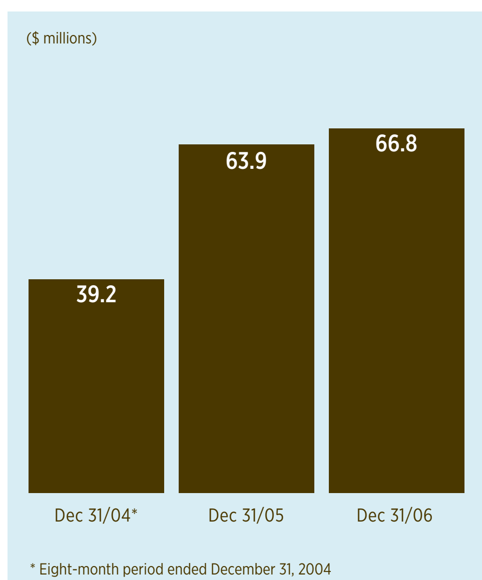
REVENUES



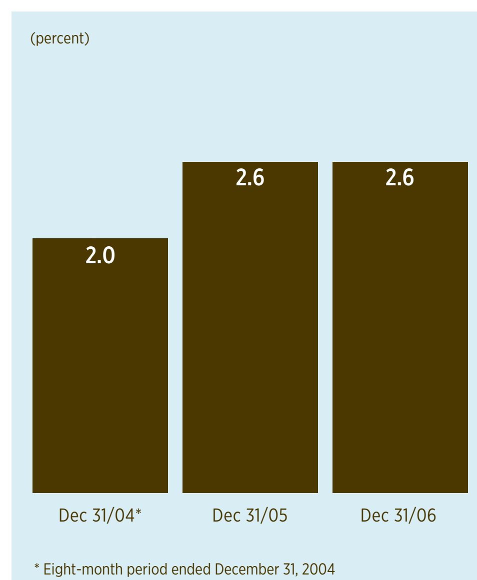
RETURN ON EQUITY



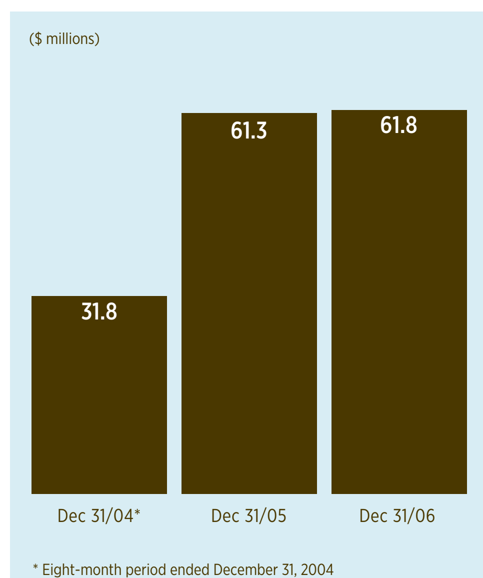
OPERATING EXPENSES



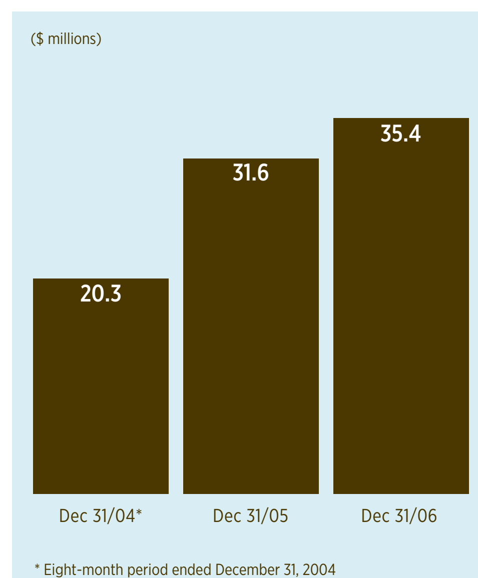
OPERATING COSTS AS A PERCENTAGE OF GROSS ASSETS for the year ended



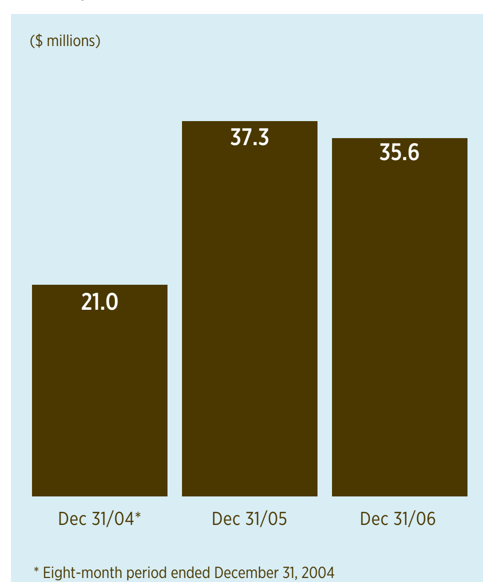
DEPRECIATION EXPENSE
for the year ended



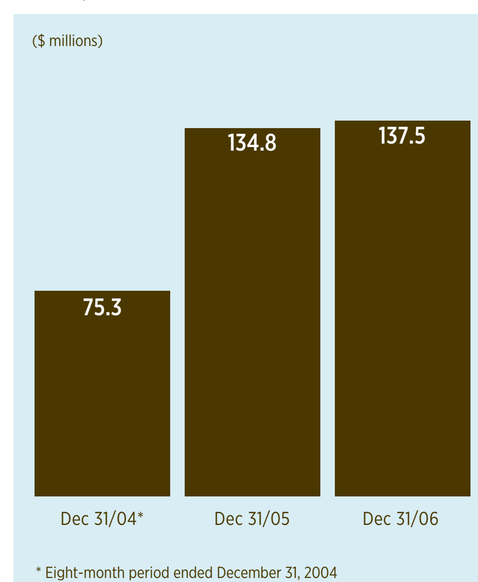
INTEREST EXPENSE
for the year ended



NET INCOME
for the year ended



EBITDA
for the year ended



RESULTS FOR THE FOURTH QUARTER 2006

The fourth quarter is traditionally a very active quarter as much of AltaLink's construction activity occurs during the winter months. Due primarily to the recognition of an allowance for funds used during construction, total revenue of $53.7 million and net income of $11.0 million for this quarter are significantly higher than during the second and third quarters.

During the quarter ended December 31, 2006 property, plant and equipment additions totaling $35.4 million were funded by a combination of cash generated by operations and additional financing with the issuance of debt drawn on the commercial paper program.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	**For the twelve months ended December 31, 2006**	For the twelve months ended December 31, 2005
Cash and cash equivalents, beginning of year	**$ 0.0**	$ 0.0
Cash flow from (used in):		
Operating activities	**81.2**	89.4
Investing activities	**(163.8)**	(129.9)
Financing activities	**82.6**	40.5
Cash and cash equivalents, end of year	**$ 0.0**	$ 0.0
Ratios[1]		
Interest coverage debt:		
Income before interest and taxes (EBIT) coverage[2, 5]	**2.01X**	2.18X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage[3]	**3.88X**	4.27X
Cash flow coverage[4]	**2.77X**	3.04X
Cash flow/total debt[4, 6]	**14.0%**	15.4%
Debt/total capitalization[6, 7]	**62.2%**	61.8%

Proforma Earnings Coverage

AltaLink's interest requirements, after giving effect to the issue of the $150.0 million, 5.249% notes, amounted to $37.0 million for the twelve-month period ended December 31, 2006. AltaLink's earnings before interest and income tax for the period then ended was $72.6 million which is 1.96 times AltaLink's interest requirements for this period.

Credit Ratings	
DBRS – Commercial Paper	R-1 (low)
DBRS – Senior Secured Bonds	A
S&P – Senior Secured Bonds	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 Coverage - Income before interest and taxes coverage is equal to operating income before financing expense divided by interest.
3. EBITDA Coverage- Income before interest, taxes, depreciation (including accretion) and amortization is equal to operating income before financing expenses, depreciation and amortization, divided by interest.
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 partner's equity.

Operating Activities

The $8.2 million decrease in cash provided by operating activities is due to an increase in non-cash working capital, partially offset by a decrease in long-term regulatory accruals. The increase in non-cash working capital is made up of a $22.2 million increase in accounts receivable, partially offset by an increase in accounts payable and accrued 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

Investing activities for 2006 used cash of $163.8 million compared to $129.9 million for the year ended December 31, 2005. The $33.9 million increase in investing activities is primarily due to the construction activities associated with the increase in direct assign projects in 2006.

Financing Activities

Net cash from financing activities for the year ended December 31, 2006 was $82.6 million compared to $40.5 million for the year ended December 31, 2005, an increase of $42.1 million. Activities in 2006 included the issuance of $150.0 million in medium-term notes, which was partially offset by a reduction in the commercial paper program. AltaLink also received an equity injection of $25.0 million from its limited partner.

NON-CAPITAL RESOURCES

People

The nature of AltaLink's labour force and the market where AltaLink competes for employees is dramatically changing. Historically the company has been able to recruit and attract employees from a large pool of candidates in Alberta and with many years of experience. The tight Alberta labour market, coupled with an increase in the need to build transmission in the province and across Canada has required greater effort to find, hire and retain a qualified workforce. AltaLink is aggressively enhancing its recruitment tools and practices to enable it to attract and retain qualified employees required to execute key strategies.

Process Improvement/Operational Excellence

AltaLink is committed to consistently delivering reliable, safe, cost effective transmission service to the province of Alberta. Driving towards operational excellence is made more challenging by an aging transmission system, rapid asset growth and the competitive environment for human resources.

AltaLink continues to employ new technology to improve the efficiency and optimize the performance of its transmission system.

In 2006, AltaLink completed an extensive review of its Maintenance Process and will be implementing changes/improvements to that process throughout 2007.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2006, December 31, 2005 and December 31, 2004, AltaLink had no off-balance sheet arrangements except for the contracted commitments which are disclosed in Note 13 to the December 31, 2006 audited financial statements.

RELATED PARTY TRANSACTIONS

AltaLink 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 2006, the same amount that was paid to AILP for the year ended December 31, 2005, compared to $4.5 million for the eight-month period ended December 31, 2004 on its $85.0 million Series 3 Subordinated Bridge Bond. The bond has a repayment date of October 1, 2012, with interest being paid quarterly. As at December 31, 2006, the balance owing in respect of the bond was $85.0 million, together with accrued interest of $1.1 million.

During 2006 AltaLink paid SNC-Lavalin ATP Inc. $157.4 million for construction-related services, compared with $92.1 million for the year ended December 31, 2005. At December 31, 2006, AltaLink's payables included $44.3 million owing to SNC-Lavalin ATP Inc. The terms and conditions of this contract were reviewed by the EUB and approved in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the EUB Audit and Compliance Group.

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 expenses, 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.

Examples of significant estimates include: key economic assumptions used to determine the fair value of residual cash flows; the allowance for doubtful accounts; the allowance for inventory obsolescence; the estimated useful lives of assets; the recoverability of tangible assets; the recoverability of intangible assets with indefinite lives; the composition of future income tax liability; the accruals for payroll and other employee-related liabilities; certain actuarial and economic assumptions used in determining defined benefit pension costs; accrued pension benefit obligations and pension plan assets; and, the remaining recovery and settlement period of the regulated assets and liabilities.

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.

Management performed a goodwill impairment test in December 2006 by examining the business and regulatory environment, the ownership structure, the financing activities, income tax, credit ratings and interest rates. It also performed a discounted cash flow and net fair value analysis which compared favourably to the carrying amount of goodwill. Management concluded that there have been no significant changes in circumstances since the fair value determination in December 2005 and that the carrying value of the goodwill has not been impaired.

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 obligations 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; or (iii) 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 has collective bargaining agreements with two unions, the International Brotherhood of Electrical Workers (IBEW) and the United Utility Workers Association (UUWA). In 2004, AltaLink renewed its collective bargaining agreement with the UUWA on acceptable terms to December 31, 2006. As of February, 2007 AltaLink and the UUWA are in collective bargaining negotiations to renew this collective agreement. In December, 2006 AltaLink renewed its collective agreement with the IBEW until December 31, 2009. AltaLink's relationships with the labour unions are considered to be satisfactory. 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.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

Quarter Ended	Total Revenue ($ millions)	Net Income ($ millions)	Units Outstanding (millions)	Earnings Per Unit ($/unit)
December 31, 2006	**53.7**	**11.0**	**331.9**	**0.03**
September 30, 2006	**48.0**	**6.0**	**331.9**	**0.02**
June 30, 2006	**49.5**	**7.6**	**331.9**	**0.02**
March 31, 2006	**50.2**	**11.0**	**331.9**	**0.03**
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

Revenue and net income for the quarters ended March and December 31, 2005 and 2006 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 January. Adjustments related to the 2002-2004 deferral account for direct assign capital projects were reflected in the December 2005 quarter.

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.

CHANGES IN ACCOUNTING POLICIES

The CICA has released new standards related to financial instruments: *Section 3855 Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3251, Equity.* These sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet. These sections will require a financial instrument or non-financial derivative to be measured at fair value or using cost-based measures; establish how gains and losses are to be recognized and presented, including introducing comprehensive income; specify how hedge accounting should be applied; and establish new disclosures about an entity's accounting for designated hedging relationships and the methods and assumptions applied in determining fair values.

The mandatory effective date for *Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3251, Equity* affects interim and annual financial statements for fiscal years beginning on or after October 1, 2006. AltaLink will implement these new standards effective January 1, 2007.

AltaLink intends to use the following methods and assumptions to estimate the fair value of its financial instruments:

i. **Cash and cash equivalents:** The carrying amount reported on the balance sheet approximates fair value;
ii. **Accounts receivable:** The carrying amount reported on the balance sheet approximates fair value;
iii. **Short-term debt instruments:** The carrying amount reported on the balance sheet approximates fair value; and
iv. **Long-term debt instruments:** The instruments are classified as held to maturity and their carrying values approximate the amortized cost using the effective interest method.

FINANCIAL INSTRUMENTS

The information with regard to financial instruments has been disclosed in Note 12 to the December 31, 2006 audited financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

AltaLink maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in provincial securities legislation. AltaLink evaluated its disclosure controls and procedures as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was performed under the supervision of the Chief Executive Officer and the Chief Financial Officer with the assistance of other AltaLink employees to the extent necessary and appropriate. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded the design and operation of these disclosure controls and procedures were effective.

INTERNAL CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

AltaLink maintains a set of internal controls and procedures over financial reporting which have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. AltaLink evaluated the design of its controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was performed under the supervision of the Chief Executive Officer and the Chief Financial Officer with the assistance of other AltaLink employees to the extent necessary and appropriate. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded the design of these internal controls and procedures provided reasonable assurance regarding the reliability of financial reporting for the year ended December 31, 2006.

There were no changes in AltaLink's internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, AltaLink's internal control over financial reporting.

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 2007 will include the following applications:

- Approval of the permit to construct and licence to operate the Genesee to Langdon 500 kV transmission project (Hearing is scheduled to commence on March 12, 2007);
- Approval of the permit and licence to construct the Southwest 240 kV transmission project;
- Approval of the direct assign capital deferral account disposition for May 2004 through December 2005;
- Approval of the direct assign capital deferral account disposition for 2006; and
- Approval to restore other deferral accounts to the appropriate balance levels.

PROPOSED TRANSACTIONS

Edmonton to Calgary 500 kV Transmission Project

In the AESO's Need Identification Application to the EUB in 2004, the AESO noted that the critical North-South transmission system had insufficient transmission capacity to meet the (then) current needs of market participants. The AESO indicated that this lack of capacity would result in "...a reduced ability to reliably serve load in central and southern Alberta, an increased level of congestion along the Edmonton to Calgary transmission path, and increased loading, making the transfers on the Edmonton to Calgary transmission path very inefficient." Based on its analysis, the AESO concluded that there was an urgent and compelling need to expand and enhance the North-South transmission system.

The EUB has approved the need for a project for the expansion and enhancement of the North-South transmission system between Edmonton and Calgary. This project includes 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. During 2006, AltaLink filed for and received Permit and Licence for the KEG component of the Project and has filed for Permit and Licence on the Genesee to Langdon component. A hearing is set for March 12, 2007 for the Genesee to Langdon component. Construction of KEG commenced in 2006 and is expected to be completed in late 2007. Construction of the Genesee to Langdon 500 kV line is expected to commence in late 2007.

Southwest Line Development

The 240 kV portion of the SW Development has been substantially impacted due to the uncertainty of reaching an agreement with the Piikani First Nation. AltaLink is now considering possible alternative routes which bypass First Nation lands. A hearing is anticipated in the second or third quarter of 2007.

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 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 annual information form for the year ended December 31, 2005 (the "2005 AIF"). 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 February 21, 2007. 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.

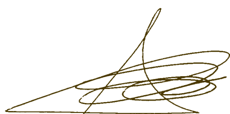
MANAGEMENT'S REPORT

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
Calgary, Canada
February 20, 2007

Richard McCabe
Acting Chief Financial Officer
Vice President, Controller
Calgary, Canada
February 20, 2007

AUDITORS' REPORT

To the Partners of AltaLink, L.P.

We have audited the balance sheet of AltaLink, L.P. as at December 31, 2006 and the statements of income and retained earnings, changes in partners' equity and cash flows for the year then ended. 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 audit.

We conducted our audit 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, 2006, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at December 31, 2005 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those financial statements in their report dated March 20, 2006.

Chartered Accountants
February 20, 2007
Calgary, Alberta

BALANCE SHEET

(in thousands of dollars)

As at	December 31, 2006	December 31, 2005
ASSETS		
Current		
Cash and cash equivalents [note 12a]	**$ —**	$ —
Restricted cash [note 12b]	**47,214**	29,968
Accounts receivable [note 8]	**39,716**	17,714
Materials and supplies	**1,226**	1,012
Prepaid expenses and deposits	**2,473**	2,203
Regulatory assets [note 3]	**5,320**	—
	95,949	50,897
Property, plant and equipment [note 6]	**1,003,567**	865,288
Deferred financing fees	**5,501**	5,516
Regulatory assets [note 3]	**2,620**	7,582
Accrued benefit pension asset [note 11]	**2,466**	2,755
Construction materials and supplies	**11,039**	9,108
Goodwill	**202,066**	202,066
	$ 1,323,208	$ 1,143,212
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable and accrued liabilities [note 8]	**$ 68,173**	$ 28,775
Other liabilities [note 14]	**49,368**	30,879
Regulatory liabilities [note 3]	**6,421**	113
Current portion of long-term debt [note 7]	**128**	122
	124,090	59,889
Accrued employment benefits liabilities [note 11]	**1,446**	1,225
Other liabilities	**1,332**	1,866
Regulatory liabilities [note 3]	**14,982**	18,123
Asset retirement obligations [note 4]	**56,380**	56,276
Long-term debt [notes 7 & 8]	**700,218**	621,711
	898,448	759,090
COMMITMENTS AND CONTINGENCIES [notes 5 & 13]		
Partners' equity		
Partners' capital [note 10]	**363,536**	338,536
Retained earnings	**61,224**	45,586
	424,760	384,122
	$ 1,323,208	$ 1,143,212

See accompanying notes to the financial statements

STATEMENT OF INCOME AND RETAINED EARNINGS

(in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005
REVENUE		
Operating and miscellaneous revenue	**$ 199,272**	$ 196,053
Allowance for equity funds used during construction	**2,084**	1,239
	201,356	197,292
EXPENSES		
Operating [note 8]	**66,769**	63,926
Depreciation and accretion	**64,826**	64,337
	131,595	128,263
	69,761	69,029
Interest and amortization of deferred financing fees [notes 7 & 8]	**(37,020)**	(33,203)
Allowance for debt funds used during construction	**2,569**	1,382
	35,310	37,208
Gain on the sale of assets	**328**	92
Net income for the year	**35,638**	37,300
Retained earnings, beginning of year	**45,586**	24,286
Distributions	**(20,000)**	(16,000)
Retained earnings, end of year	**$ 61,224**	$ 45,586

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN PARTNERS' EQUITY

(in thousands)	Units	Limited Partner	General Partner	Total
Balance at December 31, 2004	331,904	$ 362,786	$ 36	$ 362,822
Net income for the year	—	37,296	4	37,300
Distributions	—	(15,998)	(2)	(16,000)
Balance at December 31, 2005	331,904	384,084	38	384,122
Net income for the year	—	35,634	4	35,638
Equity injection	—	25,000	—	25,000
Distributions	—	(19,998)	(2)	(20,000)
Balance at December 31, 2006	**331,904**	**$ 424,720**	**$ 40**	**$ 424,760**

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

(in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005
OPERATING ACTIVITIES		
Net income for the year	**$ 35,638**	$ 37,300
Items not involving cash		
Depreciation	**61,853**	61,342
Amortization of deferred financing fees	**1,591**	1,614
Accretion expense	**2,973**	2,996
Allowance for funds used during construction	**(4,653)**	(2,621)
Gain on the sale of assets	**(328)**	(92)
Asset retirement obligations settled	**(323)**	(1,339)
Change in long-term regulatory accruals	**1,335**	(3,444)
Change in other non-cash items	**(26)**	247
Funds generated from operations	**98,060**	96,003
Change in non-cash working capital items [note 15]	**(16,862)**	(6,623)
Cash provided by operating activities	**81,198**	89,380
INVESTING ACTIVITIES		
Capital expenditures	**(199,381)**	(139,811)
Increase in customer contributions	**35,298**	9,840
Proceeds from the sale of assets	**332**	91
Cash used in investing activities	**(163,751)**	(129,880)
FINANCING ACTIVITIES		
Increase in debt	**189,382**	57,041
Debt repayment	**(110,869)**	(115)
Decrease in lease obligations	**3**	(29)
Distributions paid	**(20,000)**	(16,000)
Settlement of deferred financing fees	**(1,089)**	(67)
Increase in restricted cash	**(17,246)**	(29,968)
Increase in other liabilities	**17,372**	29,638
Equity injection	**25,000**	—
Cash provided by financing activities	**82,553**	40,500
Net increase in cash and cash equivalents	**—**	—
Cash and cash equivalents, beginning of year	**—**	—
Cash and cash equivalents, end of year	**$ —**	$ —
Cash interest paid during the year	**$ 33,294**	$ 28,673

See accompanying notes to the financial statements

1. NATURE OF OPERATIONS

AltaLink, L.P. (the Partnership or AltaLink) 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 own and operate regulated transmission assets in Alberta, and acquired electrical transmission assets from TransAlta Energy Corporation (TransAlta) on April 29, 2002. Although the General Partner holds legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

Prior to June 23, 2006, the Partnership indirectly had four limited partners, SNC Lavalin Transmission Ltd. (SNC) (49.995%), OTPPB TEP Inc. (24.998%), Macquarie Transmission Alberta Ltd. (Macquarie) (14.999%) and 3057246 Nova Scotia Company (9.999%). On June 13, 2006, the Alberta Energy and Utilities Board (EUB) approved the Partnership's application to change its ownership structure and the transaction was completed on June 23, 2006. Under the new ownership structure, SNC-Lavalin Transmission Ltd. indirectly owns 76.915% of AltaLink, L.P. through subsidiaries, with Macquarie Transmission Alberta Ltd. owning the remaining 23.075% limited partnership interest. Financial adjustments between the limited partners for this change in ownership were effective as of May 31, 2006.

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 Alberta's portion of the interconnection facilities which connect its network with the transmission system in British Columbia, and allow electricity to flow into and out of Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The Partnership's management has prepared the financial statements of the Partnership in accordance with Canadian generally accepted accounting principles (GAAP) and with the accounting policies described in Note 2(b) for the recognition and measurement of assets and liabilities arising from rate regulation. 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.

Examples of significant estimates include: key economic assumptions used to determine the fair value of residual cash flows; the allowance for doubtful accounts; the allowance for obsolescence of materials and supplies; the estimated useful lives of assets; the recoverability of tangible assets including estimates of future costs to retire physical assets; the recoverability of intangible assets with indefinite lives, such as goodwill; the composition of future income tax liability; the accruals for payroll and other employee-related liabilities; certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets; and, the remaining recovery and settlement period of the regulated assets and liabilities.

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 not-for-profit system operator, the Alberta Electric System Operator (AESO).

The Partnership operates under cost of service regulation as prescribed by the EUB. Forecast 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 accounts for some transactions or events differently than it would in the absence of rate regulation; namely, the timing of recognition of certain assets, liabilities, revenues or expenses. This results in the creation of regulatory assets or liabilities.

Through the rate-setting process, certain expenses and credits are deferred as assets or liabilities on the balance sheet until the time they are recovered from or refunded to customers. Regulatory assets represent 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 amounts collected from customers which are either held as reserves for future use or are to be refunded to customers in future periods 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 of a prior period, 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 or 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 major replacements and upgrades to property, plant and equipment if these costs have been included in capital assets 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 contributions from customers. These contributions are recorded as an offset to 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 rates approved by the EUB are based on the estimated useful lives of assets, and as such are also used by the Partnership 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. The capital costs for regulatory purposes are greater than those reflected in these financial statements. The effective depreciation rates under GAAP range from 1.13% to 33.33%. For regulatory purposes the net proceeds from the retirement or disposal of an asset in the normal course of business is reflected in accumulated depreciation. When a regulated asset is retired or disposed of in the normal course of business, 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.

Management performed a goodwill impairment test in December 2006 by examining the business and regulatory environment, the ownership structure, the financing activities, credit ratings, and interest rates. It also performed a discounted cash flow and net fair value analysis, which compared favourably to the carrying amount of goodwill. Management concluded that there have been no significant changes in circumstances since the fair value determination in December 2005 and that the carrying value of the goodwill has not been impaired.

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 benefit cost of the partnership's defined benefit pension and post-retirement benefits plans is actuarily determined, by plan, using the projected benefit method pro-rated on service and management's best estimate assumptions, including assumptions of expected long-term rate of return on plan assets, discount rates, salary escalation and expected growth rate of health care costs. The liability discount rate is determined based on a portfolio of high-quality corporate bonds with cash flows that match the expected benefit payments under the plan. 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 accrued 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 lifetime 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)	December 31, 2006	Change to regulatory asset/liability balance in 2006	Remaining recovery settlement period (years)	December 31, 2005
Regulatory assets				
Self insurance reserve[A, B]	$ 3,085	$ (308)	1	$ 3,393
Regulated financing fees[B]	2,251	(487)	2-30	2,738
Hearing costs reserve[A, B]	1,755	1,012	1	743
Canada Revenue Agency deferral	369	180	2	189
Direct assigned capital deferral account	480	(39)	1	519
Total regulatory assets	7,940			7,582
Less: Current regulatory assets	5,320			—
Long-term regulatory assets	$ 2,620			$ 7,582
Regulatory liabilities				
Self-insurance reserve[A, B]	$ 413	$ 413	—	$ —
Pension liability account[B]	3,805	94	—	3,711
Pension asset offset	2,466	(289)	—	2,755
Future income tax liability[B]	8,100	—	—	8,100
Property tax deferral account[A]	1,679	731	1	948
Insurance deferral account[A]	2,040	719	1	1,321
Non-issued debt deferral account[A]	2,496	1,499	1	997
Canada Revenue Agency reserve[A, B]	404	—	—	404
Total regulatory liabilities	21,403			18,236
Less: Current regulatory liabilities	6,421			113
Long-term regulatory liabilities	$ 14,982			$ 18,123

A. For the identified 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, 2006 is nil (December 31, 2005 – nil).

B. These identified regulatory assets and liability accounts are included in the rate base and subject to return on investment.

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:

a) 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 the approved forecast, then the reserve will grow and may be refunded in the next regulatory period. If expenses are higher than forecast, the excess costs are recoverable in the next regulatory period, 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 correspondingly reduces the amount of revenue recognized in the current period.

The Partnership has a number of reserve accounts. The hearing costs reserve account represents a reserve for costs incurred during hearings in which the Partnership is an Applicant. The self insurance reserves provide financial protection from uninsurable or uninsured losses and represents claims costs incurred by the Partnership. 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 revenue on the income statement.

The pension liability represents amounts for pension expense which AltaLink collected in revenue but for which no contribution has been made into the plan. It is expected that this liability on the regulatory books will be extinguished through either the future required funding of the plan, while not recognizing any pension expense and resulting revenue, or through a refund to the customers.

b) Deferral Accounts

Deferral accounts are intended to mitigate the impact to customers as a result 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 the tariff earned on forecasted capital additions and those earned on actual capital additions for projects directly assigned by the AESO. The property tax, insurance and non-issued debt deferral accounts were established by the EUB 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 a debt issue due to changes in interest rates, a change in term or change in issue costs. 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 revenue on the income statement.

c) Regulated Financing Fees

As directed by the EUB, finance fees associated with the Partnership's initial Bridge Bonds were rolled over into replacement debt and they are being amortized over the respective terms of the new debt issues: five years (2003-2008) for the $100 million debt issue and 10 years (2003-2013) for the $200 million debt issue. 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, 2006 amortization of finance fees totaled $1.59 million (December 31, 2005 - $1.6 million), which is $0.487 million (December 31, 2005 - $0.487 million) higher than would have been recorded in the absence of rate regulation.

d) 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.

In the absence of rate regulation, under GAAP, the amount of pension expense that would have been recorded for the year ended December 31, 2006 is $2.45 million (December 31, 2005 - $1.85 million) versus $2.16 million (December 31, 2005 - $1.70 million) actually recorded as a result of rate regulation. Consequently, net income for the year ended December 31, 2006 is $0.289 million (December 31, 2005 - $0.148 million) higher than would have been recorded in the absence of rate regulation.

e) Future Income Tax Liability

As prescribed by EUB directive, the Partners' income tax expense is recovered through AltaLink's tariff revenues based on the taxes payable method for provincial tax and on the liability method for federal tax. Therefore, rates include the recovery of future federal 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 an adjustment to 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 revenue 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.

f) 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 EUB issued Decision 2004-052 on July 2, 2004, in which it approved a 35% deemed common equity ratio for the Partnership and a 9.6% ROE for the period ended December 31, 2004. The rate of return on common equity is adjusted annually for the years 2005 through 2008. The adjustment is calculated as 75% of the change in 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 ROE at 9.5%, consistent with the adjustment formula. On November 22, 2005, the EUB approved an ROE of 8.93% for 2006. On November 30, 2006, the EUB issued an amended order setting the 2007 ROE at 8.51%.

g) 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.

The regulatory rate base consists of property, plant and equipment less the cost of assets under construction and includes a provision for working capital, site restoration costs, and the regulatory asset and liability accounts identified in the table on page 28.

4. ASSET RETIREMENT OBLIGATIONS

As of December 31, 2006, the estimated total undiscounted amount of asset retirement obligations was approximately $145.7 million (December 31, 2005 - $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 2007 and 2047. Discount rates ranging from 4.40% to 5.14% were used to calculate the carrying value of the asset retirement obligations.

(in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005
Balance, beginning of year	**$ 56,276**	$ 54,162
Net change in liabilities for the year	**(2,546)**	457
Liabilities settled in year	**(323)**	(1,339)
Accretion expense	**2,973**	2,996
Balance, end of year	**$ 56,380**	$ 56,276

For the year ended December 31, 2006, GAAP required $2.973 million (December 31, 2005 - $2.996 million) to be recorded as accretion expense to the asset retirement obligations and $2.622 million (December 31, 2005 - $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.

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

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

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

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

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

5. CONTINGENCIES

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 the Partnership. 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. The Partnership 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, 2006.

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 the Partnership, it is the Partnership's position that the claim constitutes an excluded liability under the acquisition agreement and the Partnership has provided notice to TransAlta of its intention to seek indemnification in respect thereof from TransAlta.

The Partnership has received a notice from Imperial Oil Limited (IOL) claiming indemnification by the Partnership in the approximate amount of $23.0 million pursuant to the terms of an interconnection agreement between the Partnership and IOL dated May 18, 2006. The indemnity claim arises from a disruption to power service on December 13, 2006, which caused a portion of IOL's refinery to shut down. The claim includes approximately $21.0 million relating to alleged production losses incurred during the shut down. It is the Partnership's position that both the interconnection agreement with IOL and the Liability Protection Regulation (Alberta) shield the Partnership from liability for indirect damages, including loss of production. Currently, the Partnership and IOL are in discussions to resolve the issue, and therefore the potential outcome and amount of any settlement are presently unknown. As a result, no amounts have been accrued in relation to this issue at December 31, 2006.

In addition, from time to time, AltaLink is subject to other legal proceedings, assessments and claims in the ordinary course of business. At this time, in the opinion of management, none of these matters is reasonably expected to result in a material adverse effect on AltaLink's financial position.

6. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2006			December 31, 2005		
(in thousands of dollars)	**Cost**	**Accumulated depreciation**	**Net book value**	Cost	Accumulated depreciation	Net book value
Transmission network	**$ 1,102,376**	**$ (211,832)**	**$ 890,544**	$ 955,155	$ (161,257)	$ 793,898
Assets under construction	**84,049**	**—**	**84,049**	37,250	—	37,250
Long-lived asset[1]	**44,101**	**(15,127)**	**28,974**	46,805	(12,665)	34,140
	$ 1,230,526	**$ (226,959)**	**$ 1,003,567**	$ 1,039,210	$ (173,922)	$ 865,288

1. Long-lived asset is the offset to the Asset Retirement Obligation, which is disclosed in long-term liabilities.

The total amount of AFUDC capitalized for the year ended December 31, 2006 was $4.653 million, and $2.621 million for the year ended December 31, 2005.

At December 31, 2006, the Partnership reclassified $140.5 million (December 31, 2005 - $139.0 million) from regulatory liabilities to plant, property and equipment. This liability was originally recorded to reflect costs associated with future site restoration, which were recovered through rates allowed by the regulator, based on the original acquisition cost of the transmission assets. The liability was reclassified as the capital assets balance included in the rate base calculation is net of the provision for future site restoration costs. This reclassification only affects the balance sheet and has no impact on the income statement.

7. DEBT

(in thousands of dollars)	**Effective interest rate**	Maturing	**December 31, 2006**	December 31, 2005
Series 3, 8.00% [note 8]	**8.010%**	2012	**$ 85,000**	$ 85,000
Series 03-1, 4.45%	**5.070%**	2008	**100,000**	100,000
Series 03-2, 5.43%	**5.700%**	2013	**325,964**	326,086
Series 06-1, 5.249%	**5.270%**	2036	**150,000**	—
Commercial paper	**4.340%**	2009	**39,382**	110,747
Total debt			**700,346**	621,833
Less: short-term debt			**128**	122
Total long-term debt			**$ 700,218**	$ 621,711

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, Series 06-1 Senior 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, Series 06-1 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, 2006, the Partnership had $285.0 million of credit facilities which mature in 2009.

(in thousands of dollars)	Committed	Drawdowns	Maturity Date
Commercial paper back up facility	$ 200,000	$ —	December 13, 2009
Credit facility	85,000	—	May 4, 2009
	$ 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, 2006, borrowing under this program was $39.4 million (December 31, 2005 - $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 12 days as at December 31, 2006 (December 31, 2005 – 41 days).

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.

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, 2006, the Partnership had letters of credit outstanding totaling $0.860 million (December 31, 2005 - $0.070 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 have no right to early redemption and mature on 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 unpaid interest, and in some circumstances a premium.

Series 06-1 The Notes 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 amount, any accrued and unpaid interest, and in some circumstances a premium.

d) Interest Expense

(in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005
Deferred financing fees amortized	**$ 1,591**	$ 1,613
Interest on debt	**35,429**	31,590
Total interest and amortization of deferred financing fees on debt	**37,020**	33,203
Less: short-term portion of interest on debt	**7**	1
Total long-term portion of interest and amortization of deferred financing fees	**$ 37,013**	$ 33,202

e) Principal Repayments

(in thousands of dollars)	
Maturing	
2007	$ 128
2008	100,000
2009	39,381
2010	—
2011	—
2012 and thereafter	560,837
	$ 700,346

8. RELATED PARTY TRANSACTIONS

In 2002, AltaLink executed a ten-year contract with SNC-Lavalin ATP Inc., a subsidiary of SNC-Lavalin Inc., for the provision of engineering, procurement and construction management services for directly assigned capital projects undertaken by AltaLink. The terms and conditions of this contract were reviewed by the EUB and approved in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the EUB Audit and Compliance Group.

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)	**Year ended December 31, 2006**	Year ended December 31, 2005
Included in operating costs are the following amounts charged from related parties:		
Employee compensation and benefit charges	**$ 36,434**	$ 29,763
Consulting services	**83**	79
Operating expenses	**12**	18
Interest expense on Series 3 Subordinated Bond	**6,800**	6,800
Financing fees	**—**	68
Included in property, plant and equipment additions are the following amounts charged from related parties:	**157,378**	92,105
Included in miscellaneous revenue are the following amounts charged to related parties:	**159**	463

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

(in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005
AltaLink Management Ltd.	**$ (2,842)**	$ (1,595)
AltaLink Investment Management Ltd.	**(193)**	305
SNC Lavalin ATP Inc.	**(44,267)**	(13,094)
AltaLink Investments, L.P.	**(1,136)**	(1,136)

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 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 pertaining to the fiscal period ended December 31, 2004, has been reflected in the financial statements for the twelve months ended December 31, 2005.

On February 16, 2007, the EUB issued Decision 2007-012 outlining the disposition of AltaLink's application for approval of its revenue requirement and deferral and reserve accounts for the period from January 1, 2007 to December 31, 2008. The Decision also outlined the settlement of the self-insurance reserve account for the period from May 1, 2004 to December 31, 2005.

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.

During the year, the Partners contributed $25.0 million of additional equity, although no partnership units were distributed.

11. EMPLOYEE FUTURE BENEFITS PLANS

	Year ended December 31, 2006		Year ended December 31, 2005	
(in thousands of dollars)	Pension Plans	Other benefits	Pension plans	Other benefits
Fair value of plan assets				
Balance, beginning of year	$ 7,666	$ —	$ 6,895	$ —
Transfers to defined benefit option	—	—	15	—
Employee contributions	18	—	18	—
Company contributions	—	5	—	2
Benefit payments	(35)	(5)	(6)	(2)
Actual return on plan assets (net)	854	—	744	—
Balance, end of year	8,503	—	7,666	—
Accrued benefits obligation				
Balance, beginning of year	7,051	1,294	5,210	1,090
Plan amendments in year	—	327	—	—
Transfers to deferred contribution option	—	—	15	—
Current service cost	188	89	148	70
Employee contributions	18	—	18	—
Benefit payments	(35)	(5)	(6)	(9)
Interest cost	362	69	342	63
Experience loss (gain)	53	(18)	1,324	80
Balance, end of year	7,637	1,756	7,051	1,294
Funded status				
Funded status – surplus (deficit)	866	(1,756)	615	(1,294)
Supplemental pension plan	—	(188)	—	(140)
Unamortized past service costs	—	477	—	170
Unamortized actuarial losses	1,600	21	2,140	39
Accrued asset (liability), end of year	$ 2,466	$ (1,446)	$ 2,755	$ (1,225)
Amortization period in years	5	12	6	12
	%	%	%	%
Discount rate	5.0	5.0	5.0	5.0
Expected long-term rate of return on plan assets	7.0	—	7.0	—
Rate of compensation increase	4.0	—	3.8	—
Health care cost escalation	—	9.50	—	10.0
Dental care cost escalation	—	4.50	—	4.5
Provincial Health Care premium escalation	—	2.25	—	2.3

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 component under the TransAlta plan will continue in that component, and all other employees and any new employees are covered under a defined contribution component. 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, which includes base salary plus short-term incentive pay.

The latest actuarial valuation was done as at December 31, 2004 and was extrapolated to December 31, 2006. 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)	Year ended December 31, 2006 Registered	Year ended December 31, 2006 Other	Year ended December 31, 2005 Registered	Year ended December 31, 2005 Other
Current service cost	**$ 188**	**$ 89**	$ 148	$ 70
Interest cost on benefits obligation	**362**	**69**	342	63
Actual return on plan assets	**(854)**	**—**	(744)	—
Actuarial obligation gain/losses	**53**	**(18)**	(1,002)	187
Plan amendments	**—**	**327**	—	—
Difference between expected return and actual return on plan assets	**318**	**—**	261	—
Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefits obligation for the year	**222**	**18**	1,143	(192)
Difference between amortization of past service costs for the year and actual plan amendments for the year	**—**	**(307)**	—	20
Defined benefit expense	**289**	**178**	148	148
Regulatory adjustment to offset expense	**(289)**	**—**	(148)	—
Defined benefit expense recognized in financial statements	**—**	**178**	—	148
Defined contribution expense of registered pension plan	**2,157**	**—**	1,705	—
Supplemental pension expense	**—**	**47**	—	39
Net expense recognized in the financial statements	**$ 2,157**	**$ 225**	$ 1,705	$ 187

The total defined contribution expense was $2.2 million for the twelve months ended December 31, 2006 (December 31, 2005 - $1.7 million).

Effective May 1, 2004, the defined contribution plan requires members and AltaLink, the plan sponsor, to make contributions of 2% and 8% respectively, of pension eligible earnings, which include base salary plus short-term incentive pay.

Sensitivity to changes in assumed health care cost trend rates as at December 31, 2006 are as follows:

(in thousands of dollars)	One percentage point increase	One percentage point decrease
Effect on total service and interest cost	$ 18	$ (16)
Effect on post-retirement benefits obligation	176	(158)

The asset mix as of December 31, 2006 comprises of 65% equity, 33% bonds, and 2% cash.

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.

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, 2006 the fair values of the outstanding long-term debt are as follows:

(in thousands of dollars)	**December 31, 2006**	December 31, 2005
Series 3 Subordinated Bond	**$ 85,000**	$ 101,200
Series 03-1 Senior Bonds	**100,212**	100,751
Series 03-2 Senior Bonds	**341,206**	345,441
Series 06-1 Senior Bonds	**153,129**	—

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. It also includes costs related to future maintenance and operation of certain assets. As construction expenditures are incurred for specified projects the cash is drawn down to fund the construction. Restricted cash is held in short-term investments, the carrying values of which do not differ materially from the fair values. Cash earned an effective interest rate of 4.24% at December 31, 2006 and 3.22% at December 31, 2005.

c) Concentrations of Credit Risk

The Partnership has a concentration of credit risk as approximately 88% of its accounts receivable balance is due from the AESO (December 31, 2005 – 91%). For the year ended December 31, 2006, tariff revenues accounted for approximately 94% (December 31, 2005 – 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 September 22, 2005 the Partnership entered into a 20-year operating lease for a new head office in 2006. The Partnership's previous ten-year operating lease entered into on June 1, 2002 was partially surrendered on November 30, 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)	
2007	$ 1,970
2008	1,938
2009	2,057
2010	2,047
2011	2,047
2012 and thereafter	28,235
	$ 38,295

14. OTHER LIABILITIES

Other liabilities consist of the following:

(in thousands of dollars)	**December 31, 2006**	December 31, 2005
Other liabilities	**$ 2,312**	$ 3,107
Funds received in advance of construction	**48,388**	29,638
Total other liabilities	**50,700**	32,745
Less: short-term portion of other liabilities	**980**	1,241
Less: short-term portion of funds received in advance of construction	**48,388**	29,638
Total other liabilities long-term	**$ 1,332**	$ 1,866

15. SUPPLEMENTARY CASH FLOW INFORMATION

Change in non-cash working capital items related to operations

(in thousands of dollars)	**December 31, 2006**	December 31, 2005
(Increase) decrease in accounts receivable	**$ (22,189)**	$ (1,767)
(Increase) decrease in materials and supplies	**(214)**	(112)
(Increase) decrease in prepaid expenses and deposits	**(269)**	(871)
(Decrease) increase in accounts payable and accrued liabilities	**5,083**	(994)
(Decrease) increase in other liabilities	**(261)**	831
Increase in short-term debt	**—**	1
(Decrease) increase in short-term regulatory liabilities	**988**	(3,711)
	$ (16,862)	$ (6,623)

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year'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 voluntarily 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, Alina Osorio, 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 and 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 also 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 risk management policies and procedures and reviewing 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.

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, its committees and individual members. 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 responsible for the implementation of initiatives to maintain AltaLink's high standard of corporate governance practices.

BOARD OF DIRECTORS

DAVID TUER Chairman of the Board Mr. Tuer was appointed Chairman of the Calgary Health Region in 2001. He is an independent businessman and former President and Chief Executive Officer of PanCanadian Petroleum Limited, prior to its merger in 2002 with AEC to form EnCana Corporation. He also serves on the Board of Directors of a number of public companies, including Canadian Natural Resources Limited.

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

KRISH KRISHNAMOORTHY Director Mr. Krishnamoorthy was formerly the Executive Vice President of SNC-Lavalin and a member of the Office of the President. During his tenure he was responsible for the company's chemical and petroleum business sector and its European operations. He oversaw the development and implementation of procedures and standards for project management, administration, project control, engineering, procurement, construction and commissioning. Mr. Krishnamoorthy holds a Bachelor of Science (Chemical Engineering) degree, an MA SC. (Chemical Engineering) degree and an MBA degree. He currently serves as Advisor to the Chief Executive Officer for SNC-Lavalin.

PAUL MCCOY Director Mr. McCoy is President of Trans-Elect Development Company, LLC, an independent electric transmission company. Before this position he served as Executive Vice President of Trans-Elect Inc., Senior Vice President of Unicom Corp. and President of the Transmission Group of Commonwealth Edison Co. Mr. McCoy has held a number of leadership positions involving major industry organizations. He has significant experience working with State and Federal utility regulators in the United States regarding policy issues on electricity transmission systems. He earned a BSEE degree from the Illinois Institute of Technology and is a Registered Professional Engineer.

DOUGLAS MITCHELL Q.C. Director Mr. Mitchell helped to lead the national merger resulting in the new firm of Borden Ladner Gervais LLP (BLG), Barristers and Solicitors, and is BLG's National Co-Chairman. 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 in January 1999 after previously serving as Co-Chair since 1995. Mr. Mitchell also served as Commissioner of the Canadian Football League from June 1984 to March 1989 and as a member of the National Hockey League Board of Governors from 1980 to 1984.

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

ALINA OSORIO Director Ms. Osorio is the Chief Executive Officer of Macquarie Essential Assets Partnership, a fund which invests in essential infrastructure assets in Canada. She is also Managing Director of Macquarie North America Ltd. Prior to joining Macquarie in 2003, Ms. Osorio worked in the Utilities and Infrastructure Group at RBC and has had extensive experience in providing financial and structuring advice to numerous utility and infrastructure related companies.

GREGORY J. SMITH Director Mr. Smith is the President and Chief Executive Officer of Macquarie Power and Infrastructure Income Fund and also holds the position of Head, IB Funds Division for Macquarie North America Ltd. He is a director of a number of companies, including Macquarie North America Ltd, 407 International Inc., Sea to Sky Highway and Leisureworld Senior Care. Prior to joining Macquarie in 2003, Mr. Smith was Managing Director of RBC Capital Partners – Mezzanine Fund.

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

MANAGEMENT TEAM

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 serves as the Vice Chair on the Board of Governors for Bow Valley College. He is also a member of the Board

and Executive Committee of the Canadian Electricity Association, chairs the Association's Environment commitment and Responsibility Program and is the current past chair of its Transmission Council.

DENNIS FREHLICH Executive Vice President and Chief Operating Officer As a registered professional engineer, Dennis has 20 years of experience in the electric industry with a focus in the areas of transmission and distribution. Dennis has experience in the divestiture of the retail and distribution business from a vertically integrated utility. For over 10

years, Dennis has provided leadership for the operations, maintenance, engineering, and construction of transmission facilities 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 National Energy Board where he handled gas and electricity facilities applications.

ZORA LAZIC Senior Vice President, Regulatory and Client Services With more than 15 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, 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 double degree in Civil Law (B.C.L.) and Common Law (LL.B.) 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.

CORPORATE INFORMATION

DIRECTORS

DAVID TUER[1]
Chairman of the Board

PIERRE ANCTIL[2]
Director

KRISH KRISHNAMOORTHY
Director

PAUL McCOY[2]
Director

DOUGLAS MITCHELL Q.C.[2]
Director

PATRICIA NELSON[1]
Director

ALINA OSORIO
Director

GREGORY SMITH[2]
Director

ROBERT TURGEON[1]
Director

COMMITTEE MEMBERS

1 Audit

2 Human Resources and Governance

EXECUTIVES

SCOTT THON
President and Chief Executive Officer

DENNIS FREHLICH
Executive Vice President and
Chief Operating Officer

LEIGH CLARKE
Senior Vice President,
Law and Public Affairs

ZORA LAZIC
Senior Vice President,
Regulatory and Client Services

DUANE LYONS
Senior Vice President,
Business Development

LINDA SHEA
Senior Vice President,
Human Resources

RICHARD McCABE
Acting Chief Financial Officer
Vice President, Controller

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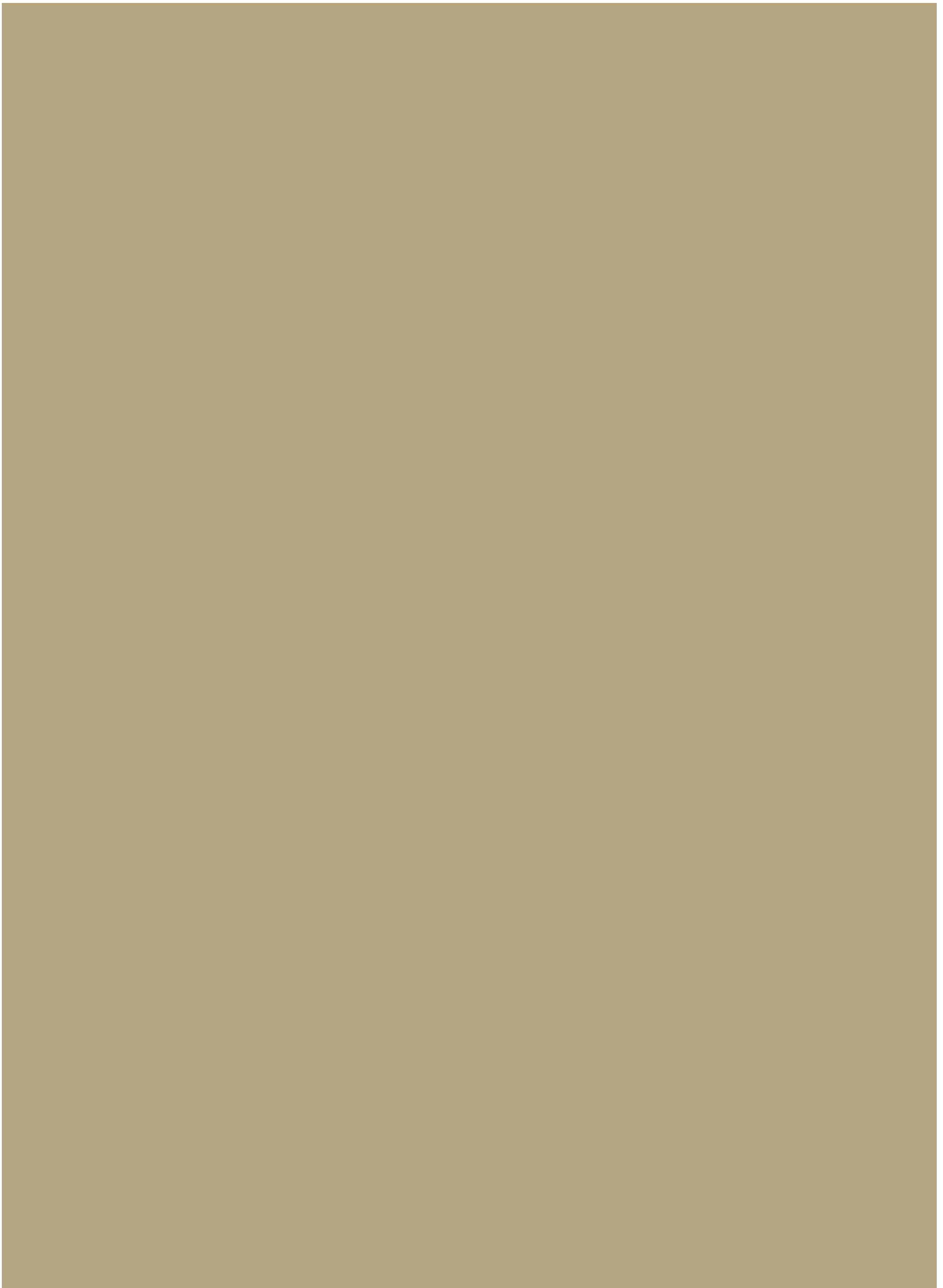

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