ALTALINK, L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DECEMBER 16, 2004

The following discussion and analysis of financial condition and results of operations of AltaLink, L.P. (the "Partnership") should be read in conjunction with the Partnership's audited financial statements for the year ended April 30, 2004, as well as unaudited interim financial statements for the six months ended October 31, 2004 and previous Management's Discussion and Analysis (MD&A). Certain amounts in prior years have been reclassified to enable comparison with the current year's presentation.

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

Forward-Looking Statements

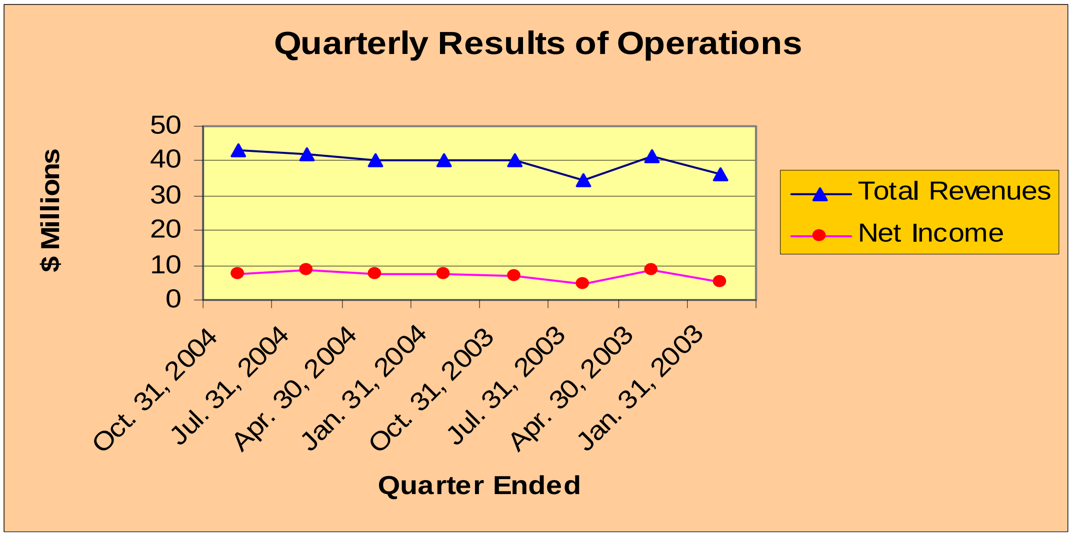
The following discussion includes forward-looking statements regarding the business and anticipated financial performance or conditions of the Partnership. These statements involve known and unknown risks and relate to future events and financial performance, business strategy, plans and objectives of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

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

Overview

The Partnership is an electricity transmission facility owner formed on July 3, 2001, to acquire TransAlta Energy Corporation's transmission business, and whose business is the ownership and operation of regulated electricity transmission facilities solely in the province of Alberta. The Partnership is managed by the General Partner, AltaLink Management Ltd. (the "General Partner") and has one Limited Partner, AltaLink Investments, L.P. ("AILP"). As a result of the acquisition of the transmission business in April 2002 for $829.1 million, the Partnership became the first independent transmission service provider in Canada, with more than 11,850 kilometres of transmission lines and approximately 260 substations that supply 85 per cent of the Alberta population. The Partnership also owns and operates the interconnection facilities which connect its network with the transmission system in British Columbia and allows electricity to flow into and out of Alberta. The Partnership is regulated by the Alberta Energy and Utilities Board ("EUB"), and as such its tariff revenue, depreciation rates and other matters affecting the financial statements are determined by the EUB.

Quarterly Results of Operations



Quarterly Results of Operations								
	Oct. 31 2004	**Jul. 31 2004**	**Apr. 30 2004**	**Jan. 31 2004**	**Oct. 31 2003**	**Jul. 31 2003**	**Apr. 30 2003**	**Jan. 31 2003**
Total revenues ($ millions) [1]	**43.6**	**41.7**	**40.5**	**40.4**	**40.0**	**34.2**	**41.3**	**36.3**
Net income ($ millions)[1]	**7.2**	**8.8**	**7.5**	**7.4**	**6.9**	**4.7**	**8.4**	**5.4**
Net income per unit ($)	**0.021**	**0.026**	**0.022**	**0.022**	**0.020**	**0.014**	**0.024**	**0.016**
Number of units (thousands)	**342,905**	**342,905**	**342,905**	**342,905**	**342,905**	**342,905**	**342,905**	**342,905**

Under regulation, the Partnership applies for rates on a forward test year basis. As such, the Partnership generally knows in advance what its tariff revenue, depreciation rates and other cost elements will be during a fiscal year. However, when the Partnership acquired the transmission business it did not have an approved final tariff in place and was receiving revenue under an interim tariff. In September 2002, the Partnership filed an application with the EUB to have tariff revenues set for the fiscal years ending April 30, 2003, and April 30, 2004. The EUB rendered a preliminary decision on August 3, 2003, and the final decision was issued March 23, 2004. For

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

the fiscal year ended April 30, 2003, management estimated what the approved tariff might be. Once a preliminary decision was received, the estimates were adjusted and the cumulative effect of the changes from April 30, 2003 was reflected in the period the decision was received. When the final decision was received, other adjustments were made as required.

Since April 30, 2004 the Partnership has received tariff revenue based upon an interim tariff. In order to have final rate decisions in advance of a fiscal year, the Partnership on February 27, 2004 filed a General Tariff Application ("GTA") to the EUB for approval of rates to the end of 2007.

Second Quarter Results

Financial Highlights Period Ended October 31				
($ millions)	**Quarter**		**Year-to-date**	
	2004	**2003**	**2004**	**2003**
Revenue	**43.6**	**40.0**	**85.3**	**74.2**
Operating expenses	**15.8**	**12.9**	**28.8**	**28.5**
Depreciation and accretion expenses	**12.6**	**11.8**	**25.1**	**18.1**
Interest and amortization of financing fees	**8.0**	**8.5**	**16.1**	**16.0**
Allowance for debt funds used during construction	**-**	**-**	**0.4**	**(0.1)**
Gain on the sale of assets	**-**	**0.1**	**0.3**	**0.1**
Net income	**7.2**	**6.9**	**16.0**	**11.6**

Net income for the quarter ended and year-to-date October 31, 2004, was $0.3 million and $4.4 million higher than for the quarter ended and year-to-date October 31, 2003 due primarily to higher interim tariff compared to 2003 tariff.

Revenue for the quarter ended October 31, 2004, was $3.6 million higher than the quarter ended October 31, 2003, due primarily to an increase in the tariff. Higher tariff revenue and the 2003 General Tariff Application ("GTA") adjustment in its entirety as a result of the August 3, 2003 EUB decision contributed to the year-to-date revenue increasing by $11.1 million. A drop in consulting and contract work partially offset these increases by causing a drop in miscellaneous revenue.

Operating expenses for the quarter ended October 31, 2004, were $2.9 million higher than the quarter ended October 31, 2003. This escalation was primarily due to an increase in salaries and benefits as a result of rising staffing levels, expenses for the GTA hearings in October, and an increase in insurance costs. The reason for the higher insurance costs was due to obtaining substation insurance and increased liability coverage. This was partially offset by a decrease in consulting costs.

Depreciation expense for the quarter ended October 31, 2004, was $0.8 million higher than the quarter ended October 31, 2003, owing to an increase in depreciable asset base as a result of additions in the year. The year-to-date depreciation expense was $7.0 million higher, resulting mainly from the effects of lower depreciation rates ordered in the August 3, 2003, EUB decision, with the effects of the reduction of the depreciation expense for fiscal 2003 being reflected in the quarter ended July 31, 2003. Additionally, depreciation for the year-to-date October 31, 2004, was higher due to an increase in the depreciable asset base as a result of additions in the year.

Second Quarter Balance Sheet

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

($ millions)	**Increase (Decrease)**	**Explanation**
Cash and cash equivalents	**(2.3)**	The decrease was primarily related to payment for capital assets additions, partially offset by cash generated from operations and financing activities.
Accounts receivable	**2.2**	The increase was mainly due to a rise in receivables due to a higher approved interim tariff and an increase in customer contributions.
Materials and supplies	**(1.3)**	On May 1, 2004, there was a change in the treatment of emergency towers and conductors, now considered capital assets. This change resulted in a reclassification of $1.0 million from materials and supplies to capital assets.
Accounts payable and accrued liabilities	**(9.0)**	The decrease was primarily related to the payment of linear, property and business taxes, currently in a prepaid balance, and a decrease in capital accruals. The decrease in capital accruals was a result of a drop in activity compared to year ended April 30, 2004. There was an increased level of activity at year ended April 30, 2004 to meet planned in-service dates.
Long term debt	**15.2**	The rise in long term debt related to an increase of approximately $15.2 million in Banker's Acceptances, primarily associated with the funding of capital projects.

Liquidity and Capital Resources

Sources of Liquidity and Capital Resources

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

- funds generated from operations;
- the issuance and sale of bonds;
- bank financing; and
- capital contributions from the Limited Partner.

The following table outlines the summary of cash flow:

Statements of Cash Flows

Period Ended October 31

	Quarter		Year-to-date	
($ millions)	**2004**	**2003**	**2004**	**2003**
Cash, beginning of period	**0.8**	**-**	**2.3**	**-**
Cash provided by (used in):				
Operating activities	**28.8**	**22.3**	**37.4**	**35.0**
Investing activities	**(27.2)**	**(21.3)**	**(48.6)**	**(49.7)**
Financing activities	**(2.4)**	**(0.9)**	**8.9**	**14.8**
Cash, end of period	**-**	**0.1**	**-**	**0.1**

Operating Activities

Cash from operating activities for the quarter ended October 31, 2004 was $28.8 million, an increase of $6.5 million from $22.3 million for October 31, 2003. The rise in operating cash is a result of higher interim tariff revenue. The year-to-date operating cash increased by $2.4 million as a result of a growth in revenue, partially offset by an increase in interest expense paid. Funds from operations will not be sufficient for the Partnership to fund repayment of existing indebtedness when due and to meet anticipated liquidity, maintenance and other capital expenditure requirements. Therefore, the Partnership expects to incur new indebtedness or equity injections to meet these requirements in the foreseeable future.

Financing Activities

Net cash from financing activities for the quarter ended October 31, 2004 was an outflow of $2.4 million compared to $0.9 million for the quarter ended October 31, 2003, an increased outflow of $1.5 million. Less financing was required as a result of an increase in cash from operating activities, partially offset by a capital expenditures increase in the quarter ended October 31, 2004. The year-to-date financing activities decreased by $5.9 million as a result of an increase in cash from operating activities, decrease in capital expenditures, and an opening cash balance at April 30, 2004.

Liquidity and Capital Resource Requirements

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

- payment of operating costs;
- capital expenditures to maintain, improve and expand transmission assets;
- acquisitions and other investing activities;
- servicing and repayment of debt; and
- distributions to partners.

Investing Activities

Net cash used in investing activities for the quarter ended October 31, 2004 was $27.2 million compared to $21.3 million for October 31, 2003, an increase of $5.9 million. This increase can be attributed to higher capital expenditures and an acquisition of a transmission assets from ATCO Power in the quarter ended October 31, 2004. The year-to-date investing activities decreased by $1.1 million as a result of lower capital expenditures in the first quarter partially offset by a rise in capital expenditures and an acquisition of transmission assets in the second quarter. The capital expenditures were related mainly to new transmission facilities, capital upgrades and replacements on existing transmission facilities, and expenditures on information technology.

In its last GTA, the Partnership has put forth $58.0 million and $31.1 million of capital expenditures for direct assigned projects, and capital replacement and upgrades projects respectively, for the eight month period ending December 31, 2004. Direct assigned projects are projects assigned to the Partnership by the Alberta Electric System Operator ("AESO") dealing mainly with new growth on the Alberta transmission grid. Capital replacements and upgrade programs are projects and programs initiated by the Partnership to sustain and ensure that the transmission assets continue to function and operate in an efficient and reliable manner.

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

Acquisitions and Other Investing Activities

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

Servicing and Repayment of Debt

As of October 31, 2004, the Partnership had outstanding debt (including capital lease obligations) of approximately $559.5 million. The Partnership expects to meet interest payments on outstanding indebtedness from internally generated funds, but relies on the proceeds from new indebtedness to be able to meet the principal obligations when due.

The Partnership manages interest rate risk by locking in interest rates for long periods through fixed rate debt. Approximately 91 per cent of the Partnership's long-term debt facilities have maturities of 2008 and beyond.

Change in Accounting Policy

Asset Retirement Obligations

On May 1, 2004, the Partnership adopted the recommendations of Section 3110 of the CICA Handbook, entitled "Asset Retirement Obligations", in respect of its transmission line assets. This section establishes standards for the recognition and measurement of the fair value of liabilities associated with the retirement of tangible long lived assets, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to the capitalized costs of the related assets are amortized to earnings in a systematic manner over their useful lives.

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 are identified throughout the foregoing MD&A of financial condition and results of operations of the Partnership.

Regulatory Approvals

The Partnership is and will be dependent upon rate orders which approve the revenue requirement for the transmission business. The rate orders or revenue tariffs are designed to permit the regulated transmission business the opportunity to recover allowed costs and earn a specified annual rate of return. If the Partnership's actual costs exceed allowed costs for any reason, the Partnership's financial performance will be adversely affected. Actual costs could exceed allowed costs if, for example, the Partnership incurs operation, maintenance and administration costs above those included in the Partnership's approved revenue requirement, incurs higher costs due to capital expenditures to upgrade or replace components in the existing system being at levels above those provided for in the rate orders, or incurs additional financing charges because of increased debt balances. To the extent that any costs are disallowed through the rates, it could have a materially adverse affect on the Partnership's financial performance. In addition, separate rulings on other matters from the EUB could result in costs of the Partnership to be unrecoverable.

Capital Resources

The Partnership's financial position and performance could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, capital expenditures and to repay maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on debt) will not be sufficient to fund the repayment of all existing debt when due and anticipated capital expenditures. There are limitations on the levels of equity capital available to the Partnership. Except for a 0.01% interest held by the general partner, 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 operations and financial position, conditions in the capital and bank credit markets, the ratings assigned to the Partnership by debt rating agencies, and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to the Partnership to fund such expenditures and repay existing debt. None of AILP, the General Partner or any owners of AILP or its general partner is obligated to provide further funding to the Partnership.

On August 12, 2004, the Partnership was notified by Standard and Poor's ("S&P") that its "A-" credit rating was affirmed but the outlook was changed from stable to negative. The change in the outlook ratings reflects the uncertainty surrounding the execution and timing of a planned replacement of debt at the Partnership's parent, AILP. S&P has indicated that upon the successful completion of the planned restructuring, the outlook of the Partnership is expected to return to stable. However, there can be no assurances that AILP will obtain the necessary regulatory approvals to complete the required refinancing within the time periods required by S&P. The ability to arrange sufficient and cost effective debt financing could be affected by a downgrade of the Partnership's credit rating.

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

Recent Developments

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

An important component of the revenue requirement for which the Partnership sought approval in its general rate application was the recovery of income taxes. As a Limited Partnership, the Partnership does not pay income taxes, but instead the tax consequences of its operations are borne by its partners on a pro rata basis based on their interest in the Partnership. The March 23, 2004 EUB decision reaffirmed the EUB's original decision which approved the inclusion of a deemed income tax allowance calculated in respect of income flowing to three of the four limited partners in AILP. The EUB disallowed the inclusion of deemed income taxes calculated in respect of the Ontario Teachers' Pension Plan Board ("OTPPB") affiliate which holds 25% of the limited partnership units in AILP.

Following receipt of the EUB's initial decision disallowing the full collection of deemed income tax, the Partnership applied to the EUB for review and variance of its decision. In March 2004, the EUB advised it would review its decision, with the scope of its consideration in the review being limited to (i) determining the correctness of the EUB's decision to deny an allowance in the Partnership's revenue requirement for income tax and large corporations tax related to OTPPB investment in AILP and the Partnership, and (ii) whether the EUB erred in their derivation of the formula for the adjustment to deemed common equity when it determined the impact of the OTPPB income tax disallowance on the Partnership's equity ratio. On July 23, 2004, and again on September 13, 2004, the Partnership responded to further requests for more information on this matter and the parties are currently in the process of submitting their final written arguments to the EUB. It is not possible to precisely determine the final approved tariff until the results of the appeal and the review and variance application are known. Further material adjustments may be required once the outcome of the review and variance application is known.

The Partnership has also filed an application with the Alberta Court of Appeal seeking leave to appeal certain elements of the EUB decision. The Leave to Appeal has been stayed pending the outcome of the EUB's review and variance process.

The Partnership has filed notice of its intention to change its fiscal year end from April 30 to December 30, effective as of December 31, 2004. The change of its fiscal year end was in response to a direction provided by the EUB to maintain its regulatory records on a calendar year-end basis. The change will allow AltaLink to align its fiscal year with its regulatory year.

The Partnership filed a GTA with the EUB as of February 27, 2004, and subsequently amended the application on April 21, 2004, to apply for rates for the eight months ending December 31, 2004, and the years ending December 31, 2005, December 31, 2006, and December 31, 2007. This tariff application is based on traditional cost of service methodology. The oral phase of the hearing of this GTA concluded on October 25, 2004, and a decision from the EUB is expected by the end of the first quarter of 2005.

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

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

On September 3, 2004, the Partnership filed a Capital Deferral Account Application with the EUB. The purpose of this application was to adjust for variations in the Partnership's revenue requirement caused by the differences arising from the actual versus forecast additions relating to direct assigned capital projects, with respect to the 2002/03 and 2003/04 periods. There is currently no fixed date for the EUB to assess the Application.

In May of 2004 the AESO filed a Need Application with the EUB requesting the approval for the enhancement of the North-South transmission system between Edmonton and Calgary. This work would include the construction of a new 500 kV transmission line from Genesee, west of Edmonton to Langdon, east of Calgary and the upgrade of the Keephills, Ellerslie and Genesee (KEG) transmission line to 500 kV. The total estimated cost of the proposed enhancements is $340 million. If the Need Application, as filed, is approved by the EUB, it is expected that the AESO will direct assign the majority of the work, approximately $322 million, to the Partnership. The Partnership would then follow-up with separate Facility applications to the EUB outlining the exact technical, routing and cost details for the two projects. The hearing associated with this 500kV transmission project started on December 6, 2004.