ALTALINK, L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AUGUST 22, 2005

AltaLink, L.P.'s (the "Partnership") discussion and analysis of financial condition and results of operations should be read in conjunction with the Partnership's audited financial statements for the eight-month stub year ended December 31, 2004, as well as unaudited interim financial statements for the three and six months ended June 30, 2005 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.

QUARTERLY RESULTS OF OPERATIONS

Quarterly Results of Operations

	Jun. 30 2005	Mar. 31 2005	Two-month Stub Period Dec. 31 2004	Oct. 31 2004	Jul. 31 2004	Apr. 30 2004	Jan. 31 2004	Oct. 31 2003	Jul. 31 2003
Total revenues ($ millions)[1]	52.8	53.8	29.2	43.6	41.7	40.5	40.4	40.0	34.2
Net income ($ millions)[1]	7.9	11.9	5.0	7.2	8.9	7.5	7.4	6.9	4.7
Net income per unit ($)	0.024	0.036	0.015	0.022	0.027	0.022	0.022	0.021	0.014
Number of units (thousands)	331,904	331,904	331,904	331,904	331,904	331,904	331,904	331,904	331,904

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

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

On March 12, 2005, the Partnership received Decision 2005-019 from the EUB, which relates to the general tariff application for the period covering May 1, 2004 through December 31, 2006. On July 28, 2005 the EUB approved the Partnership's compliance with Decision 2005-019. The effect of this decision has been reflected in these financial statements.

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

SECOND QUARTER RESULTS OF OPERATIONS

Financial Highlights

Three and six months ended June 30, 2005 and July 31, 2004

($ millions)	Three months ended June 30, 2005	Three months ended July 31, 2004	Six months ended June 30, 2005	Six months ended July 31, 2004
Revenue	52.8	41.7	106.6	83.9
Operating expenses	21.3	13.0	36.6	28.0
Depreciation and accretion expenses	15.5	12.5	34.7	24.6
Interest and amortization of financing fees	8.2	8.0	16.2	16.0
Allowance for debt funds used during construction	0.0	0.4	0.5	0.8
Gain on sale of assets	0.1	0.3	0.1	0.3
Net income	7.9	8.9	19.7	16.4

During the three and six months ended June 30, 2005, the Partnership operated on an interim tariff supplied by the EUB.

Net income for the three months ended June 30, 2005 was $1.0 million lower than for the three months ended July 31, 2004 due primarily to higher labor, depreciation (increased depreciation rates and increased property, plant and equipment) and accretion expenses compared to July 31, 2004. Net income for the six months ended June 30, 2005 was $3.3 million higher than for the six months ended July 31, 2004 as a result of an increased interim tariff compared to 2004 as well as adjustments to tariff revenue as a result of the EUB Decision 2005-19.

The $11.1 million increase in revenue for the three months ended June 30, 2005 and $22.7 million for the six months ended June 30, 2005, resulted primarily from the EUB Decision 2005-19 adjustments, the higher interim tariff and an increase in tariff recognized as a result of the storm damage on the Empress System.

The higher operating expenses of $8.3 million for the three months ended June 30, 2005 and $8.6 million for the six months ended June 30, 2005 are due primarily to an increase in self insurance expenses, resulting from the storm damage to the Empress system at the end of June 2005 being put to the self insurance reserve. The increase in insurance expense had an exact offset in tariff revenue, resulting in no net income impact.

Higher depreciation rates, increases in property, plant and equipment, and the full effects of the Decision 2005-19 GTA adjustment related to stub 2004 resulted in an increase in depreciation expense for the three months ended June 30, 2005 of $3.0 million and an increase of $10.1 million for the six months ended June 30, 2005.

BALANCE SHEET

The following table outlines the significant changes in the balance sheets between June 30, 2005 and December 31, 2004:

($ millions)	Increase (Decrease)	Explanation
Accounts receivable	4.7	The increase in accounts receivable related mainly to an estimated refund due as a result of the GTA decision and as a result of amounts relating to customer contributions.
Prepaid expenses and deposits	2.2	The increase in prepaid expenses and deposits is a result of annual insurance premiums and property taxes being paid in the second quarter.
Regulatory assets	15.1	The increase in regulatory assets is related to adjustments from the GTA decision and costs incurred as a result of the storm damage on the Empress system at the end of June 2005 being applied to the self insurance reserve.
Property, plant and equipment	47.8	The increase in property, plant and equipment reflects the Partnership's investment in its infrastructure across Alberta after depreciation and changes in site restoration rates as a result of the GTA decision.
Accounts payable and accrued liabilities	(3.7)	The decrease is primarily a result of large payments to vendors prior to the end of the quarter offset by higher accruals as a result of the storm damage on the Empress system at the end of June 2005.
Regulatory liabilities	24.8	The increase was mainly due to an increase in the site restoration liability as a result of changes in rates from the GTA decision.
Long term debt	35.9	The increase in long term debt was due to an increase in bankers acceptances in order to fund increases in property, plant and equipment.

LIQUIDITY AND CAPITAL RESOURCES

The following table outlines the summary of cash flows:

Statements of Cash Flows

Three and six months ended June 30, 2005 and July 31, 2004

($ millions)	Three months ended June 30, 2005	Three months ended July 31, 2004	Six months ended June 30, 2005	Six months ended July 31, 2004
Cash, beginning of period	0.4	2.3	-	0.9
Cash provided by (used in):				
Operating activities	4.8	8.6	32.1	40.9
Investing activities	(24.3)	(21.4)	(59.8)	(29.8)
Financing activities	19.1	11.3	27.7	(11.2)
Cash, end of period	-	0.8	-	0.8

Sources of Liquidity and Capital Resources

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

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

Operating Activities

Cash from operating activities for the three months ended June 30, 2005 was $4.8 million, a decrease of $3.8 million from $8.6 million for the three months ended July 31, 2004. Cash from operating activities for the six months ended June 30, 2005 was $32.1 million, a decrease of $8.8 million from $40.9 million for the six months ended July 31, 2004. The decrease in operating cash is primarily due to a change in non-cash working capital such as accounts receivable, materials and supplies, and accounts payable. Cash from operations will not be sufficient for the Partnership to fund repayment of existing indebtedness when due or to meet anticipated liquidity, maintenance and other capital expenditure requirements. Therefore, the Partnership expects to incur new indebtedness or equity injections to meet these requirements in the foreseeable future.

Financing Activities

Net cash from financing activities for the three months ended June 30, 2005 was an inflow of $19.1 million, an increase of $7.8 million from an inflow of $11.3 million for the three months ended July 31, 2004. For the six months ended June 30, 2005 there was an inflow of $27.7 million compared to an outflow of $11.2 million for the six months ended July 31, 2004, a change of $38.9 million. Increased financing was required as a result of cash from operating activities being less than capital additions during the period.

Liquidity and Capital Resource Requirements

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

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

Investing Activities

Net cash used in investing activities for the three months ended June 30, 2005 was $24.3 million, compared to $21.4 million for the three months ended July 31, 2004, an increase of $2.9 million. For the six months ended June 30, 2005 net cash used in investing activities was $59.8 million, an increase of $30.0 million from $29.8 million for the six months ended July 31, 2004. Increased capital expenditure was the primary reason for the increase in investing activities. Capital expenditures were mainly associated with new transmission facilities, capital upgrades and replacements on existing transmission facilities, and expenditures on information technology.

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

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

Acquisitions and Other Investing Activities

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

Servicing and Repayment of Debt

As of June 30, 2005, the Partnership had outstanding debt of approximately $600.7 million. The Partnership expects to meet interest payments on outstanding indebtedness from internally generated funds, but relies on the proceeds from new indebtedness to be able to meet the principal obligations when due.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Partnership's financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and costs, and related disclosures of contingencies because the determination of many of these amounts is dependent on future events. The Partnership bases its estimates and judgements 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 judgements 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 judgements.

RECENT DEVELOPMENTS

EUB Revenue Requirement

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

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

Following receipt of the EUB's initial decision (Decision 2003-061 dated August 3, 2003) disallowing the 25 per cent 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's investment in AILP and the Partnership, and (ii) whether the EUB erred in their derivation of the formula for the adjustment to deemed common equity when it determined the impact of the OTPPB income tax disallowance on the Partnership's equity ratio. On July 23, 2004, and again on September 13, 2004, the Partnership responded to requests for information on this matter. The Partnership submitted its final argument on November 26, 2004 to the EUB.

On February 16, 2005, the EUB issued Decision 2005-011 and upheld its earlier decision in response to the Partnership's Review and Variance application, maintaining its denial of the Partnership's 25 per cent collection of deemed income taxes.

The Partnership has withdrawn its application to the Alberta Court of Appeal for leave to appeal Decision 2003-061 which was previously stayed pending the outcome of the EUB's review and variance process.

General Tariff Application

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

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

On March 12, 2005, the Partnership received the 2004-2007 GTA, Decision 2005-019. This decision approved the Tariff Application for two years and eight months, covering the period of May 1, 2004 through December 31, 2006. On July 28, 2005 the EUB approved the Partnership's compliance with Decision 2005-019. The effect of this decision has been reflected in the June 30, 2005 financial statements for the three and six months ended June 30, 2005.

The effect on net income from the decision reflected in the June 30, 2005 financial statements is an increase of $8.7 million. Total revenues increased by $15.9 million as a result of the decision.

Generic Cost of Capital

The EUB conducted a generic cost of capital hearing for the purpose of considering a standardized approach to determine the rate of return on equity and capital structure for all the gas and electric utilities under its jurisdiction, including the Partnership. The proceeding 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 had 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 issued an order setting the 2005 return on common equity at 9.5 per cent consistent with the aforementioned adjustment formula.

Capital Deferral Account

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

Edmonton to Calgary 500kV Transmission Project

In May 2004, the Alberta Electric System Operator (AESO) filed a Need Application with the EUB requesting the approval for the enhancement of the North-South transmission system between Edmonton and Calgary. This work would include the construction of a new 500 kV transmission line from the Genesee substation (west of Edmonton) to the Langdon substation (east of Calgary) and the re-energizing of the Keephills, Ellerslie and Genesee (KEG) transmission line from 240 kV to 500 kV. The AESO's total estimated cost of the proposed enhancements within the Need Application was $340 million plus or minus 30 per cent, in 2004 dollars. On April 14, 2005, the EUB issued Decision 2005-031 approving the Need Application. On May 18, 2005 the Partnership received a letter from the AESO stating the intention to direct assign the project to the Partnership. Before the AESO can give the direct assignment under the *Hydro and Energy Act* to the Partnership, certain activities need to be completed. The letter from the AESO directs that the Partnership may incur costs up to $35 million in order to complete the activities. These activities include further definition of the project functional specifications, preliminary engineering to develop a project proposal to the AESO, and all activities, including landowner engagement, required to submit a permit and license application to the EUB for the project.

Southwest Line Development

In April of 2004, the AESO filed a Need Application with the EUB requesting approval for the enhancement of the Southwest transmission system between Pincher Creek and North Lethbridge. The AESO's total estimated project cost within the Need Application was $68 million plus or minus 30 percent, in 2004 dollars. Subsequent to the hearing that ended July 12, 2004, the EUB requested the AESO to provide additional information regarding this project whereby the AESO complied and filed such information on November 4, 2004. On May 17, 2005, the EUB issued Approval U2005-184 approving the Need Application. On July 12, 2005, the Partnership received a letter from the AESO stating that they had not yet reviewed the Partnership's project proposal dated June 16, 2005 and therefore are not yet in a position to fully direct assign the project. The AESO states its intention to direct assign the project to the Partnership once the project proposal is reviewed. In order to assist in meeting in service dates, the AESO directed that the Partnership may incur costs up to $49.5 million in order to complete the activities. These activities include detailed engineering, procurement of long lead equipment and all activities, including landowner engagement, required to submit a permit and license application to the EUB for the project.