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

MARCH 20, 2006

INTRODUCTION

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

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

VISION

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

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

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

OUR BUSINESS

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

OWNERSHIP

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

BUSINESS STRATEGY

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

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

Safety

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

Reliability

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

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

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

HIGHLIGHTS OF 2005

- Delivered safely and efficiently on over $90.0 million in new facilities for customers, including generators, industrial and distribution customers and system projects for the AESO;
- Delivered safely and efficiently on over $33.0 million in capital upgrades and replacements, managing the life and performance of existing facilities;
- Received EUB Decisions 2005-019 and 2005-082 approving rates for test periods from 2004 to 2006;
- Achieved net income of $37.3 million;
- Successfully recovered from Empress and Crowsnest Pass storms;
- Received letter of intent from the AESO for the Edmonton to Calgary 500 kV Transmission project;
- Successfully implemented contractor safety certification and formalized employee safety certification;
- Received a draft letter from the AESO for the Direct Assignment of the Southwest Upgrade project; and
- Completed five year telecommunications project in which we replaced our analog microwave system was replaced with a state-of-the-art digital system;
- Successfully developed and implemented the new customer interconnection process which now permits customers to deal directly with AltaLink.

RECENT DEVELOPMENTS

Generic Cost of Capital

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

Capital Deferral Account

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

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

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

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

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

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

RESULTS OF OPERATIONS

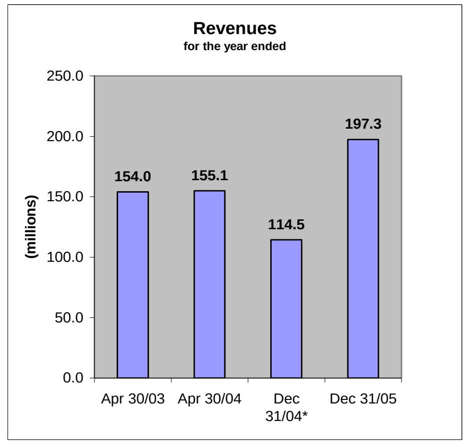
SELECTED FINANCIAL INFORMATION
Selected annual financial information derived from the Financial Statements for the three most recently completed financial years is set forth below:

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

1. See note 1 under Liquidity and Capital Resources

Revenues

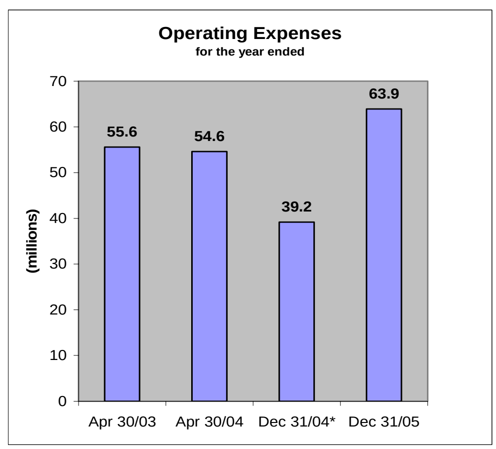
The results for the twelve-month period ended December 31, 2005 are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $82.8 million increase in revenues in 2005 compared to 2004 is partially due to the differing time periods, the amount of which cannot be readily calculated. The remainder of the increase is the result of higher tariff rates approved by the EUB, as well as tariff adjustments relating to 2004 and an increased revenue recovery for storm damage in the Empress region of Alberta. Tariff rates have increased primarily as a result of additional revenues required to recover increased returns as a result of a larger rate base; increased operating expenses required to support both a larger asset base and an aging transmission system; and increased depreciation charges being incurred on newly capitalized transmission assets. Tariff revenues received from the AESO constitute 95% of the Partnership's total revenue.



* Eight-month period ended December 31, 2004

Operating Expenses

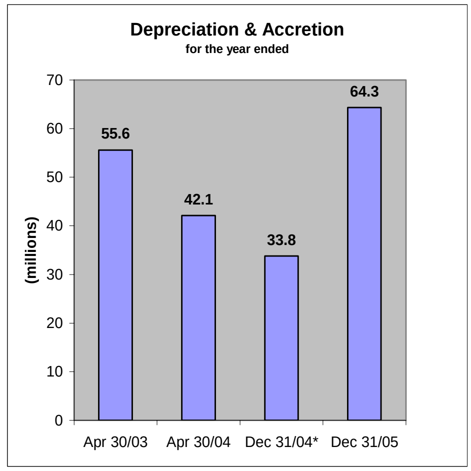
The results for the twelve-month period ended December 31, 2005 are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $24.8 million increase in operating expenses in 2005 compared to 2004 is partially due to the differing time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



* Eight-month period ended December 31, 2004

Depreciation Expense

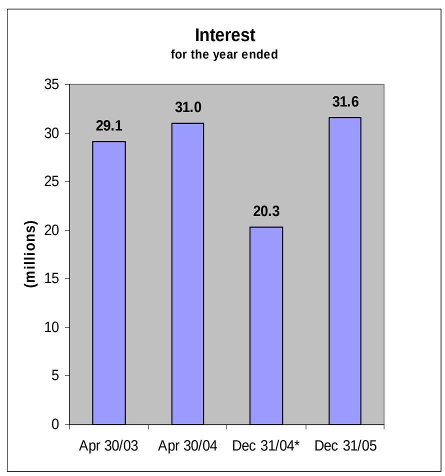
The results for the twelve-month period ended December 31, 2005 are not directly comparable with those of the previous period, which only covered the eight-month period to December 31, 2004. The $29.5 million increase in depreciation expense in 2005 compared to 2004 is partially due to the differing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



* Eight-month period ended December 31, 2004

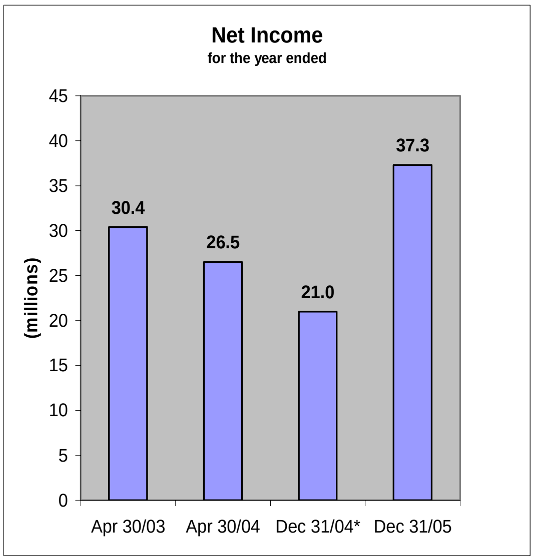
Interest Expense

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

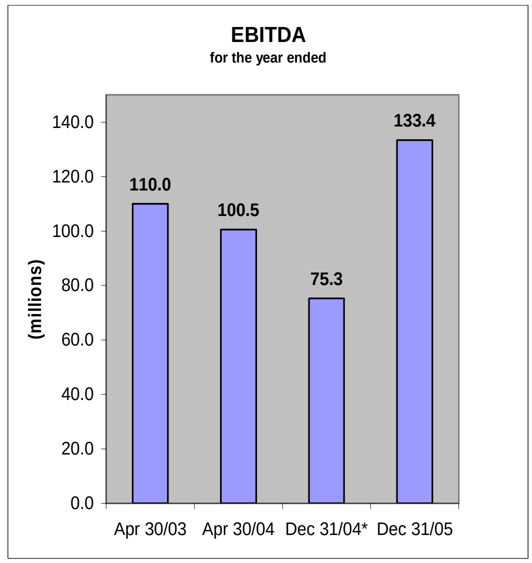


* Eight-month period ended December 31, 2004

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



* Eight-month period ended December 31, 2004



* Eight-month period ended December 31, 2004

FINANCIAL POSITION

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

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

RESULTS FOR THE FOURTH QUARTER 2005

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Goodwill

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

Revenue Recognition

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

Asset Retirement Obligations

The Partnership recognizes the fair value of liabilities associated with the retirement of tangible long-lived assets, and records a corresponding increase to its carrying amount of the related assets. This corresponding increase is amortized to earnings in a systematic manner over the useful lives of the assets. The Partnership recognizes its statutory, contractual and legal obligations for asset retirements. The discounted present value of the liability accretes over time for changes in the present value, with the accretion expense included in depreciation.

Asset obligations are legal obligations that may apply to both the retirement of an entire transmission line, or to parts of the larger system. Interim retirement obligations are recognized in the latter circumstances when a component is retired prior to the retirement of the entire transmission line. Asset retirement obligations are recorded as a liability, with a corresponding increase to property, plant and assets.

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

Employee Future Benefits

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

RISKS AND UNCERTAINTIES

The Partnership and the transmission business are subject to a variety of risks and uncertainties that may have material and adverse effects, financial and otherwise, on the results of the Partnership's operations. As well, various risks related to the financial condition and results of operations of the Partnership are identified throughout the foregoing discussion and analysis by management.

Regulatory Approvals

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

Capital Resources

The Partnership's financial position and performance could be adversely affected if it fails to arrange sufficient and cost-effective financing to fund, among other things, the repayment of maturing debt. Funds generated from operations after payment of expected expenses (including interest payments on debt) will not be sufficient to fund the repayment of all existing debt when due and anticipated capital expenditures in the Partnership's capital operations. There may be limitations on the levels of equity capital available to the Partnership. Except for a 0.01% interest held by AltaLink Management Ltd., The Partnership is wholly owned by AILP and does not presently use its equity securities as a primary source of capital. The ability to arrange sufficient and cost-effective debt financing could be affected by numerous factors, including the regulatory environment in Alberta, the results of the Partnership's operations and financial position, conditions in the capital and bank credit markets, the ratings assigned to the Partnership and its securities by debt rating agencies, and general economic conditions. There can be no assurance that sufficient capital will be available on acceptable terms to the Partnership to fund such expenditures and repay existing debt. None of AILP, the Partnership or any owners of AHLP is obligated to provide further funding to the Partnership.

Labour Relations

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

Insurance

There can be no assurance that AltaLink will be able to obtain or maintain adequate insurance in the future at rates it considers reasonable. Further, there can be no assurance that available insurance will cover all losses or liabilities that might arise. The occurrence of a significant uninsured claim or a claim in excess of the coverage maintained by AltaLink could have a material adverse effect on the operational results, cash flow or net income of AltaLink if the related amounts are not provided for in approved revenue requirements.

Damage from Weather or Other Disasters

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

Operations and Maintenance

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

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

CHANGES IN ACCOUNTING POLICIES

Accounting for Rate Regulation

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

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

QUARTER ENDED	TOTAL REVENUE **($millions)**	NET INCOME **($millions)**	UNITS OUTSTANDING **(millions)**	EARNINGS PER UNIT **($/unit)**
December 31, 2005	47.5	10.0	331.9	0.03
September 30, 2005	43.2	7.5	331.9	0.02
June 30, 2005	52.8	7.9	331.9	0.02
March 31, 2005	53.8	11.9	331.9	0.04
December 31, 2004*	29.2	5.0	331.9	0.02
October 31, 2004	43.6	7.2	331.9	0.02
July 31, 2004	41.7	8.8	331.9	0.03
April 30, 2004	40.5	7.5	331.9	0.02

*Two-month period ended December 31, 2004

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

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

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

FINANCIAL INSTRUMENTS

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

OUTLOOK

REGULATORY

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

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

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

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

FUTURE ACCOUNTING PRONOUNCEMENTS

Conditional Asset Retirement Obligations

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

Financial Instruments

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

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

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

PROPOSED TRANSACTIONS

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

Southwest Line Development
On March 31, 2004, the AESO filed a needs identification application with the EUB requesting approval for the enhancement of the transmission system in southwest Alberta between Pincher Creek and Lethbridge. Subsequent to the hearing that ended July 12, 2004, the EUB requested the AESO to provide additional information regarding this project whereby the AESO complied and filed such information on November 4, 2004. On May 17, 2005, the EUB issued Decision 2005-049 approving the need for the transmission project set out in the application. In June 2005, the Partnership submitted to the AESO a proposal to provide service. The proposal refines the scope of and specifications for the proposed project and sets out an estimated project cost of $91 million with an estimated accuracy of plus 20%/minus 10%. Thereafter, the Partnership received the AESO's November 2, 2005 letter whereby the Partnership was direct-assigned the project and requested to submit for EUB approval a transmission facility application, based on the Partnership's project proposal, in order to meet the need previously approved by the EUB. To assist in meeting in-service dates, the AESO had previously directed that the Partnership could incur preliminary costs up to $49.5 million in order to complete certain critical path activities. These activities include detailed engineering, procurement of long-lead equipment, landowner engagement and all activities required to submit a facility application to the EUB for the project in the approved need application. On December 21, 2005 AltaLink filed for a permit and licence for the first portion of the project from Goose Lake to Peigan. On February 10, 2006 Altalink filed for permit and licence for the second portion of the project from Peigan to Lethbridge.

DISCLOSURE CONTROLS

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

FORWARD LOOKING INFORMATION

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

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

- no unforeseen changes in the legislative and operating framework for Alberta's electricity market (refer to "*ALBERTA'S ELECTRICITY MARKET STRUCTURE*" in AltaLink's 2005 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 March 15, 2006. AltaLink is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws. Because of these risks, uncertainties and assumptions, prospective investors should not place undue reliance on these forward-looking statements. **Any forward-looking information contained herein is expressly qualified by this statement.**

ADDITIONAL INFORMATION

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