ALTALINK, L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONIDITION AND RESULTS OF OPERATIONS

MAY 24, 2006

The following Management's Discussion and Analysis (MD&A) is the responsibility of AltaLink, L.P. (AltaLink or the Partnership) management and should be read in conjunction with AltaLink's unaudited interim financial statements for the 3 months ended March 31, 2006 and 2005, and should also be read in conjunction with the audited financial statements and MD&A included in the Annual Report as at and for the year ended December 31, 2005. The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and procedures as those used in preparing the audited consolidated annual financial statements for the year ended December 31, 2005. All tabular amounts in the following MD&A are in millions of dollars unless otherwise noted.

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.

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 population of 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.

OWNERSHIP

The Partnership's operations are managed by its general partner, AltaLink Management Ltd. (AML or the General Partner). The Partnership has one limited partner, AltaLink Investments, L.P. (AILP). AILP has one limited partner, AltaLink Holdings, L.P. (AHLP). AHLP was formed as a limited partnership under the laws of Alberta pursuant to the provisions of a limited partnership agreement dated February 16, 2005 between AltaLink Investment Management Ltd. (AIML), as general partner, and Macquarie Transmission Alberta Ltd., 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.

HIGHLIGHTS Q1 2006

- Year to date capital expenditures include $43 million invested on direct assigned projects and $5.5 million in capital upgrades;

- AltaLink received a Direct Assign letter from the Alberta Electric System Operator (AESO) for the South KEG Conversion Project, a component of the Edmonton to Calgary 500 kV Transmission Project, and formally filed Permit and Licence applications for the KEG conversion to 500kV and SW system upgrades;

- The Partnership's 2007-2008 General Tariff Application (GTA) was completed and filed with the EUB.

RECENT DEVELOPMENTS

General Tariff Applications

As a regulated entity, the Partnership applies to the EUB for tariff rates on a forward test year basis. In late March 2006, AltaLink provided a preliminary draft of the 2007-2008 GTA to the EUB. On April 13, 2006, AltaLink filed its formal application for approval of its GTA for years ending December 31, 2007 and 2008. AltaLink has applied for a combined revenue requirement of $463.5 million for the two years. For 2007 AltaLink has requested a 14.3% increase to the revenue requirement previously set by the EUB for 2006 and an 8.3% increase from 2007 for 2008. The increase in revenue requirement requested by AltaLink is primarily due to system growth, true-ups of deferral and reserve accounts, increases in vegetation management expenditures, increases arising from the restructuring of transmission tower payments, and the effects of inflation and salary escalations. A decision is expected by the end of the first quarter of 2007.

Proposed Change of Ownership

On November 4, 2005, AltaLink announced that the AHLP limited partners had reached an 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. A decision with respect to the change of ownership is expected in the second quarter of 2006.

Edmonton to Calgary 500 kV Transmission Development

The EUB issued Decision 2005-031 on April 14, 2005 approving the need for the North-South expansion of the Alberta Interconnected Electric System (AIES), more specifically, a new 500 kV line between Edmonton and Calgary. This project includes (i) the construction of a new 500 kV transmission line from the Genesee substation (west of Edmonton) to the Langdon substation (east of Calgary), and (ii) the conversion (and re-energizing) of the Keephills, Ellerslie and Genesee (KEG) transmission line from 240 kV to 500 kV operation. AltaLink owns and operates the KEG transmission line, which is a 500 kV system currently energized at 240 kV that connects generating plants west of Edmonton at Keephills and Genesee with AltaLink's Ellerslie substation south of Edmonton. AltaLink also owns and operates Alberta's only 500 kV system, which is an approximately 200 km section of 500 kV transmission line from AltaLink's Langdon substation east of Calgary to its interconnection point with BC Hydro's transmission grid at Phillips Pass (in the vicinity of Crowsnest Pass).

(i) Genesee to Langdon 500kV Transmission Line

AltaLink received the AESO's May 18, 2005, letter stating the AESO's intention to direct assign the project to AltaLink and assigning to AltaLink certain necessary activities to be completed before the project is direct assigned. The AESO letter directs that AltaLink 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 all activities, including landowner engagement, required to submit a facility application to the EUB for the project. AltaLink commenced its landowner consultation process and is currently working on a proposal to provide service based on the corridor for expansion approved in Decision 2005-031. Now in the final stages of route refinement for the 500 kV Development between the Edmonton and Calgary regions, the Partnership has consulted with more than 2,500 landowners, including more than 2,000 face-to-face meetings, and hosted nine open houses along the project corridor. As per the project schedule, the Partnership has initiated spring environmental testing to complete the required environmental impact assessment for the project, allowing the filing of the permit and licence application to construct the line to proceed as scheduled in the third quarter of 2006. Therefore, by remaining on schedule, this project will address the reliability and efficiency concerns identified by the Alberta Electric System Operator in its May 20, 2004 Need Application to the EUB. On November 22, 2005, an application from a landowner group seeking a review and variance of EUB Decision 2005-031 was filed. Other landowner groups have made similar requests. On April 6, 2006, the EUB announced that it will hold a hearing to review the portion of Decision 2005-031 relating to the selection of the west corridor for the proposed 500kV transmission line. If the EUB selects an alternative corridor, the completion of the proposed 500kV line may be delayed. However, it is not possible to predict the outcome of the review and variance hearing or whether AltaLink will experience delays in obtaining regulatory approval for, or commencement or construction of, the project.

(ii) KEG Transmission Line Conversion Project

On March 15, 2006, AltaLink received a letter from the AESO whereby the AESO directly assigned a portion of the Edmonton to Calgary 500 kV Transmission Project consisting of the KEG transmission line upgrade project to AltaLink. In response, AltaLink filed its facility application with the EUB on March 30, 2006 for the KEG portion of the project, setting out an estimated project cost of $66.3 million.

SELECTED FINANCIAL INFORMATION:

	Three Months Ended March 31, 2006	2005
Total revenue	$ 50.2	$ 53.8
Net Income	11.0	11.9
Net Income per unit ($)	0.033	0.036
Funds generated from operations	25.5	30.4
Distributions per unit ($)	0.015	0.012
Total assets	1,344.7	1,282.3
Long-term debt, excluding current portion	637.4	621.7

For the first quarter of 2006, total revenue decreased to $50.2 million compared to $53.8 million for the same period in 2005. AltaLink revenues primarily consist of tariff revenues as established by the EUB. During March 2005, AltaLink received EUB Decision 2005-019, and as a result, the 2005 first quarter revenue includes revenue adjustments required by the decision. Monthly tariff revenue for 2006 has been established at $15.9 million compared to average monthly tariff revenue of $14.8 million for 2005.

Depreciation decreased from $18.3 million during first quarter 2005 to $15.0 million for the first quarter of 2006. The period-to-period decrease is due to adjustments relating to differing depreciation rates and their effect on prior periods being processed during March 2005, as specified by EUB Decision 2005-019.

Net income for the three months ended March 31, 2006 was $11.0 million compared to $11.9 million for the first quarter 2005. Although 2006 revenues were higher than the 2005 revenues, 2005 net income was affected by adjustments required to reflect the results of EUB Decision 2005-019.

FINANCIAL POSITION

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

	Change $	Explanation
Restricted cash	25.7	Increase in funds received in advance of construction for customer specific projects. Cash will be available for AltaLink usage upon energization of projects.
Property, plant and equipment	35.0	Increase includes expenditures for construction costs with respect to direct assigned projects.
Accounts payable and accrued liabilities	13.4	Reflects accruals arising from increased expenditures resulting from the higher level of construction activities.
Other liabilities	25.6	Increased liability for construction funds held on account for customer specific projects until projects are energized.
Long-term debt	15.7	Additional borrowings under commercial paper program required to fund capital projects.

LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended March 31, 2006	2005
Cash and cash equivalents, beginning of period	$ 0.0	$ 0.0
Cash flow from (used in):		
Operating activities	31.6	27.3
Investing activities	(42.4)	(35.5)
Financing activities	10.8	8.6
Cash and cash equivalents, end of period	$ 0.0	$ 0.4
Ratios[1]		
Interest coverage on debt:		
Income before interest and taxes (EBIT) coverage[2, 5]	2.34X	2.56X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage[3]	4.32X	5.13X
Cash flow coverage	3.12X	4.00X
Cash flow/total debt[4, 6]	4.0%	5.3%
Debt/total capitalization[6, 7]	62.0%	60.9%
Credit ratings		
DBRS – Commercial Paper	R-1(low)	NA
DBRS – Senior Secured Bonds	A	A
S&P – Senior Secured Bonds	A-	A-

EBIT[2] Coverage Ratio for the twelve months ended March 31, 2006 2.13X

[1] Funds generated in operations and ratios in this table are non-GAAP financial measures and do not have any standardized meaning prescribed by GAAP and are unlikely to be comparable to similar statistics published by other companies. They are presented since they are commonly referred to by debt holders and other interested parties for their use in analyzing the Partnership's financial position.
[2] EBIT coverage - Income before interest and taxes coverage is equal to operating income before interest expense divided by interest expense.
[3] EBITDA coverage - Income before interest, taxes, depreciation (including accretion) and amortization is equal to operating income before interest expense, depreciation and amortization, divided by interest expense.
[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

Cash from operating activities increased by $4.3 million in 2006 compared to the same period in 2005. The period-to-period increase is due to adjustments in depreciation and non-cash working capital accounts as a result of EUB Decision 2005-019.

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, AltaLink anticipates using a combination of additional borrowings under its capital markets platform, internally generated cash flows or equity injections from its limited partner to fund capital expenditures in connection with existing facilities and new construction projects.

Investing Activities

Investing activities included capital expenditures of $37.7 million in the first quarter of 2006 (three months ended March 31, 2005 - $33.7 million). Significant projects currently in progress are the MEG Transmission Line, the Christina Lake 240/25 kV Line, the Bassano 435S new 138/25 kV Transformer, Southwest Transmission Development, and Calgary Capacitor Banks. AltaLink is also continuing with its program for capital upgrades and replacements.

Financing Activities

For the three months ended March 31, 2006, net cash provided by financing activities increased by $2.2 million compared to 2005. AltaLink issued an additional $15.7 million under the commercial paper program, bringing the total commercial paper issuances to $126.5 million and total long-term debt outstanding to $637.4 million as at March 31, 2006 (March 31, 2005 - $621.7 million). The Partnership also received an additional $25.7 million in cash from customers in advance of construction, which is shown as restricted cash, and will become available for AltaLink's use when these projects are energized.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

Quarter Ended	Total Revenue ($ millions)	Net Income ($ millions)	Units Outstanding (millions)	Earnings Per Unit ($/unit)
March 31, 2006	50.2	11.0	331.9	0.033
December 31, 2005	47.5	10.0	331.9	0.030
September 30, 2005	43.2	7.5	331.9	0.023
June 30, 2005	52.8	7.9	331.9	0.024
March 31, 2005	53.8	11.9	331.9	0.036
December 31, 2004*	29.2	5.0	331.9	0.015
October 31, 2004	43.6	7.2	331.9	0.022
July 31, 2004	41.7	8.8	331.9	0.027

*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 2005-019 in March 2005. The impact of adjustments arising from EUB Decision 2005-019 resulted in the cumulative 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 2005-019, 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 was 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.

RELATED PARTY TRANSACTIONS

In the normal course of business, the Partnership transacts with its general partner and other related entities. The amounts included in accounts receivable and accounts payable for related parties are as follows:

	March 31, 2006	December 31, 2005
Included in accounts receivable	$ 0.3	$ 0.3
Included in accounts payable	28.3	15.8

In addition, as at March 31, 2006 there is $85 million (December 31, 2005 - $85 million) owing to AILP. During the first quarter of 2006, AltaLink incurred construction-related costs of $47 million due to SNC-Lavalin ATP Inc., compared to $13.4 million during the first quarter of 2005.

OUTLOOK

AltaLink continues its focus on delivering safe, reliable and cost-effective transmission of electricity for the benefit of Albertans.

Regulatory

The Partnership filed the GTA for 2007 and 2008 on April 13, 2006. This application establishes the amount of the monthly charge to the AESO and the Terms and Conditions of Service by which the AESO will use AltaLink's transmission facilities. Public hearing of the application is set for September 2006 with a decision expected by early 2007.

Additional regulatory activity and expected decisions include the final decision with respect to the change of ownership, capital deferral filings, and additional Permit and Licence applications for the KEG conversion to 500 kV, the North-South 500 kV line from Edmonton to Calgary and the SW system upgrades.

Shelf Prospectus
On May 5, 2006 AltaLink filed a short form base shelf prospectus to facilitate the issuance of medium term notes. This shelf has a 25 month life, and permits the Partnership to issue up to an aggregate of $500 million of notes. This financing is an efficient method to meet the financing requirements associated with the capital growth and construction activities expected in the upcoming years.

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", "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, and short-term borrowing rates; business strategy; plans and objectives of management for future operations; forecast business results; and anticipated financial performance or condition of AltaLink.

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

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

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

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

- the risks associated with being subject to extensive regulation including risks associated with EUB action or inaction;
- the 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;
- 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 potential for service disruptions and increased costs if AltaLink fails to maintain and improve its aging asset base; and
- 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.

AltaLink cautions prospective investors that the above list of factors is not exhaustive. 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 disclosed under the heading "*RISK FACTORS*" 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 May 24, 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 AIF, is available on SEDAR at www.sedar.com.