ALTALINK, L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AUGUST 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 6 months ended June 30, 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 Information" legal advisory at the end of this MD&A.

OUR BUSINESS

The Partnership owns and operates regulated electricity 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. (Macquarie), SNC-Lavalin Transmission Ltd. (SNC), OTPPB TEP Inc. and 3057246 Nova Scotia Company, as 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. On June 13, 2006, the EUB approved AltaLink's application to change its ownership structure. Under the new ownership structure, SNC-Lavalin Group Inc. indirectly owns 76.92% of AltaLink, L.P. through its subsidiaries, with Macquarie Transmission Alberta Ltd. owning the remaining 23.08%.

HIGHLIGHTS SECOND QUARTER 2006

- Year to date capital expenditures include $78.0 million invested on new build projects directly assigned by the AESO and $29.5 million in maintenance capital upgrades;
- In June 2006, the EUB approved AltaLink's application to change its ownership structure;
- In June 2006, the EUB approved AltaLink's Permit and Licence application for the Edmonton to Calgary KEG conversion for the 500kV upgrade;
- The Partnership filed its General Tariff Application (GTA) for 2007 and 2008 in April, 2006, and received and responded to intervenor requests in June 2006; and
- In June 2006, the EUB approved AltaLink's application to issue up to $150 million in debt securities with a term of up to thirty years.
- In June 2006, SNC and Macquarie injected $20 million of additional equity capital into ALP.

RECENT DEVELOPMENTS

Review and Variance Hearing

On July 31, 2006, the EUB commenced a hearing to respond to landowner requests to review the selection of the west corridor during the Need process of the North-South 500kV project. The EUB has been clear that the need for the line is not in question but it will assess if landowners have new information on the appropriateness of the west corridor. The EUB had not released their decision at the writing of this report.

Change of Ownership

On June 13, 2006, the EUB approved AltaLink's application to change its ownership structure and the transaction was completed on June 23, 2006. Under the new ownership structure, SNC-Lavalin Group Inc. indirectly owns 76.92% of AltaLink, L.P. through its subsidiaries, with Macquarie Transmission Alberta Ltd. owning the remaining 23.08% limited partner interest. Financial adjustments for this change in ownership transactions were effective as of May 31, 2006.

Shelf Prospectus

On May 15, 2006 AML applied to the EUB for an order to authorize ALP to issue up to $150 million of debt securities with a term of up to 30 years. On June 16, 2006, the EUB approved the application.

The related debt will be issued under AltaLink's short-form base shelf prospectus which has been implemented 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. A shelf prospectus is an efficient method to meet the financing requirements associated with the capital growth and construction activities expected in the upcoming years.

Edmonton to Calgary 500kV Transmission Development

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

The project includes (i) the construction of a new 500kV 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 240kV to 500kV operation. AltaLink owns and operates the KEG transmission line, which is a 500kV system currently energized at 240kV that connects generating plants west of Edmonton at Keephills and Genesee with AltaLink's Ellerslie substation south of Edmonton.

(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 of 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 500kV 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 has 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. The permit and licence application will include an updated cost estimate to reflect market-driven material and labour increases and to account for refined engineering plans and the proposed routing of the line.

(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 500KV 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. On June 28, 2006, the EUB approved AltaLink's Permit and Licence application for KEG conversion of the 500kV project.

SELECTED FINANCIAL INFORMATION

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Total revenue ($millions)	49.5	52.8	99.7	106.6
Net income ($millions)	7.6	7.8	18.6	19.7
Funds generated from operations ($millions)	21.0	16.4	46.5	46.8
Net income per unit ($)	0.023	0.024	0.056	0.059
Distributions per unit ($)	0.015	0.012	0.030	0.024

For the second quarter of 2006, total revenue decreased to $49.5 milllion compared to $52.8 million for the same period in 2005. AltaLink revenues primarily consist of tariff revenues as established by the EUB. During the first and second quarters of 2005, AltaLink received EUB Decision 2005-019 and Decision 2005-082, and as a result the 2005 first and second quarter revenue include revenue adjustments required by the decisions. 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 increased to $14.9 million during second quarter 2006 from $14.8 million during the second quarter of 2005. Depreciation for the six months ended June 30, 2006 was $29.9 million compared to $33.1 million for the same period in 2005. The six month period-to-period decrease is due to adjustments relating to differing depreciation rates and their effect on prior periods being processed during March and June of 2005, as specified by EUB decision 2005-019.

Net income for the three months ended June 30, 2006 was $7.6 million compared to $7.8 million for the second quarter of 2005. Net income for the six months ended June 30, 2006 was $18.6 million compared to $19.7 million for the six months ended 2005. The period-to-period decrease in net income was primarily due to 2005 adjustments required to reflect the results of EUB decision 2005-019 and 2005-082.

FINANCIAL POSITION

The following outlines the significant changes in the Partnership's balance sheet from December 31, 2005 to June 30, 2006.

	Change $ (millions)	Explanation
Restricted Cash	34.9	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	75.6	Increase includes mainly additions in net book value to WIP, direct assigned projects, and capital upgrade projects.
Accounts payable and accrued liabilities	26.7	Reflects accruals arising from increased expenditures resulting from the higher level of construction activities.
Other liabilities (current)	35.2	Increased liability for construction funds held on account for customer specific projects until projects are energized.
Long-term debt	20.4	Additional borrowings under commercial paper program required to fund capital projects.

LIQUIDITY AND CAPITAL RESOURCES	Six months ended June 30	
	2006	2005
Cash and cash equivalents, beginning of period	0.0	0.0
Cash flow from (used in):		
Operating activities	46.6	32.7
Investing activities	(76.9)	(60.4)
Financing activities	30.3	27.7
Cash and cash equivalents, end of period	0.0	0.0

Ratios [1]

Interest coverage on debt:		
Income before interest and taxes (EBIT) coverage [2, 5]	2.10X	2.29X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage [3]	4.02X	4.59X
Cash flow coverage	2.77X	3.03X
Cash flow/total debt [4, 6]	7.2%	7.8%
Debt/ total capitalization	60.9%	61.6%
Credit ratings		
DBRS – Commercial Paper	R-1 (low)	N/A
DBRS – Senior Secured Bonds	A	A
S&P – Senior Secured Bonds	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 coverage – Income before interest and taxes coverage is equal to operating income before interest expense divided by interest expense.

3 Interest expense – interest expense excludes amortization of deferred financing fees on debt.

4 EBITDA coverage – Income before interest expense, taxes and depreciation (including accretion) is equal to operating income before interest expense and depreciation, divided by interest expense.

5 Cash flow – Consists of funds generated in operations before changes in non-cash working capital.

6 Total debt – consists of short-term and long-term debt.

7 Total Capitalization – Consists of short-term and long-term debt and partners' equity.

Operating Activities

For the three months ended June 30, 2006 cash from operating activities increased by $9.6 million 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. For the six-months ended June 30, 2006, net cash from operating activities was $46.6 million compared to $32.7 million for the six months ended June 30, 2005. The increase was due to adjustments that were reflected in non-cash working capital accounts as a result of EUB decisions 2005-019 and 2005-082.

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 $49.5 million in the second quarter of 2006 (three months ended June 30, 2005 - $25.2 million). For the six months ended June 30, 2006 capital expenditures totaled $87.2 million (six months ended June 30, 2005 - $58.8 million). Significant projects currently in progress are the KEG Transmission Line, the Christina Lake

240/25kV Line, the Bassano 435S new 138/25kV Transformer, Southwest Transmission Development, and Calgary Capacitor Banks. AltaLink is also continuing its program of capital upgrades and replacements.

Financing Activities

For the three months ended June 30, 2006, cash provided by financing activities increased by $0.4 million compared to 2005. For the six months ended June 30, 2006, cash provided by financing activities increased $2.6 million to $30.3 million. During the second quarter, AltaLink repaid $3.0 million of commercial paper bringing the balance to $123.4 million. The total long-term debt outstanding increased to $642.2 million as at June 30, 2006 (June 30, 2005 - $621.8 million). During the second quarter 2006, ALP received $20 million cash by way of an equity injection from its Limited Partner, AILP. During the second quarter, the Partnership also received an additional $9.1 million in cash from customers in advance of construction, which is shown as restricted cash, bringing the total cash received in advance of construction during the six months ended June 30, 2006 to $64.9 million. These funds will become available for AltaLink's use when these projects are energized.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

Quarter ended	Total Revenue	Net Income	Units Outstanding	Earnings per Unit
	($millions)	($millions)	(millions)	($/unit)
June 30, 2006	49.5	7.6	331.9	0.023
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.

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:

	June 30, 2006	December 31, 2005
Included in accounts receivable	$ 0.3	$ 0.3
Included in accounts payable	42.6	15.8

In addition, as at June 30, 2006 there is $85 million (December 31, 2005 - $85 million) owing to AILP. AltaLink incurred construction-related costs through SNC Lavalin ATP Inc. of $28.4 million for the second quarter 2006, and $75.4 million year-to-date June 30, 2006, compared to $16.8 million during the second quarter 2005, and $30.2 million year-to-date June 30, 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, received intervener requests for information on June 8, 2006, and responded to these requests on June 28, 2006. This application establishes the amounts of the monthly tariff to the AESO and the Terms and Conditions of Service by which the AESO will use AltaLink's transmission facilities. Oral hearing of the application is set for September 2006, with a decision expected by early 2007. AltaLink will continue to be regulated by the EUB on a forward test year cost-of-service basis.

Other applications that AltaLink expects to file with the EUB before the end of the year include:

- Application to dispose of the Direct Assign Capital Deferral Account in relation to the 2004 and 2005 fiscal periods;
- Application for Permits and Licences to construct and operate the Southwest Alberta 240kV Transmission development project; and
- Application for Permits and Licences to construct and operate the Edmonton to Calgary 500kV Transmission development project.
- Application for interim rates to become effective January 1, 2007 pending receipt of the EUB decision regarding the 2007-08 GTA.

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 rate; 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 expensive 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 form 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 August 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.