ALTALINK, L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OCTOBER 30, 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 9 months ended September 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 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's sole focus is owning and operating regulated electricity transmission assets in Alberta and it is the largest transmission owner in the province. 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 with transmission services, 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, 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%.

HIGHLIGHTS THIRD QUARTER 2006

- Year to date capital expenditures include $132.1 million invested on new build projects directly assigned by the AESO and $44.1 million in maintenance capital upgrades;

- The Partnership filed its General Tariff Application (GTA) for 2007 and 2008 in April, 2006, received and responded to intervener requests in June 2006 and completed the oral hearing portion of the GTA process in October 2006;

- In September 2006, the partnership issued $150 million of debt securities with a term of thirty years;

- During the quarter, AltaLink completed a 240kV interconnection project for MEG Energy as well as a new substation and line work for Christina Lake (EnCana); and

- The Partnership filed a Permit and Licence application with the EUB for the transmission line component of the North-South 500kV line project, with an estimated cost of $495 million.

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 stated 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 is expected to release their decision prior to year-end 2006.

Regulatory

The Partnership filed the GTA for 2007 and 2008 on April 13, 2006 and the EUB held an oral hearing of the application between September 19 and October 2, 2006.

Financing Activities

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

On September 21, 2006 AltaLink issued $150 million of Series 2006-1 Medium-Term Notes at a coupon rate of 5.249% which mature on September 22, 2036. The debt was issued under AltaLink's short form base shelf prospectus, dated May 5, 2006. The 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 system 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 (southeast of Calgary), and (ii) the conversion (and re-energizing) of the "KEG System" of 240kV lines between the Keephills and Genesee substations (west of Edmonton) and the Ellerslie substation (in South Edmonton) to 500kV. AltaLink owns and operates the transmission line connecting the KEG system, which is a

500kV system currently energized at 240kV that connects generating plants at AltaLink's Keephills substation and Epcor's Genesee substation with AltaLink's Ellerslie substation.

(i.) Genesee to Langdon 500kV Transmission Line

In September, AltaLink finalized its proposed route for the 500kV line development project, having consulted with more than 2,500 landowners, including more than 2,000 face-to-face meetings and having hosted nine open houses along the project corridor. Based on the current project scope schedule and engineering parameters, the estimated cost of the 330 kilometre project is $495 million and the cost estimate is expected to be accurate within twenty percent. In a letter dated September 12, 2006, the AESO directly assigned the 500kV line development project to AltaLink. On the same day, AltaLink filed its Permit and Licence application with the EUB for the project.

On October 18, 2006, the EUB adjourned a hearing to consider the Permit and Licence Application for the 500kV transmission line that had been scheduled to begin on December 11, 2006. The adjournment was granted after the EUB received numerous requests from affected landowners to give them more time to prepare for the hearing. The EUB has scheduled a public pre-hearing for the project's Permit and Licence application to begin on November 2, 2006, that will consider, among other issues: a) the establishment of a list of issues for the hearing; b) the parameters by which standing will be granted to potential interveners; c) the creation of a schedule which is keeping with the need established for the 500kV line and the ability of the interveners to properly participate.

(ii.) KEG Transmission Line Conversion Project

On June 28, 2006, the EUB approved AltaLink's Permit and Licence application for the KEG conversion component of the 500kV project, with an estimated project cost of $66.3 million.

SELECTED FINANCIAL INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Total revenue ($millions)	48.0	43.1	147.7	149.7
Net income ($millions)	6.0	7.5	24.6	27.2
Funds generated from operations ($millions)	23.0	28.0	71.1	75.9
Net income per unit ($)	0.018	0.023	0.074	0.082
Distributions per unit ($)	0.015	0.010	0.045	0.034

For the third quarter of 2006, total revenue increased to $48.0 million compared to $43.1 million for the same period in 2005. AltaLink revenues primarily consist of tariff revenues as established by the EUB. During the first three quarters of 2005, AltaLink received EUB Decision 2005-019 and Decision 2005-082, and as a result the 2005 first and third 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 $15.4 million during third quarter 2006 from $13.6 million during the third quarter of 2005. Depreciation for the nine months ended September 30, 2006 was $45.3 million compared to $46.7 million for the same period in 2005. The nine 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 September 30, 2006 was $6.0 million compared to $7.5 million for the third quarter of 2005. Net income for the nine months ended September 30, 2006 was $24.6 million compared to $27.2 million for the nine months ended September 30, 2005. The period-to-period decrease in net income was primarily due to the adjustments required to reflect the results of EUB decisions 2005-019 and 2005-082.

FINANCIAL POSITION

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

	Change $ (millions)	Explanation
Restricted Cash	19.8	Increase in funds received in advance of construction for customer specific projects. Cash will be available for AltaLink usage upon customer approval, no later than energization of projects.
Property, plant and equipment	102.9	Increase includes mainly additions in net book value to WIP, direct assigned projects, and capital upgrade projects.
Accounts payable and accrued liabilities	39.9	Reflects accruals arising from increased expenditures resulting from the higher level of construction activities.
Other liabilities (current)	20.5	Increased liability for construction funds held on account for customer specific projects until projects are energized.
Long-term debt	39.2	Additional borrowings required to fund capital projects.

LIQUIDITY AND CAPITAL RESOURCES	Nine months ended September 30	
	2006	2005
Cash and cash equivalents, beginning of period	—	—
Cash flow from (used in):		
Operating activities	77.7	70.0
Investing activities	(115.3)	(91.7)
Financing activities	39.3	26.8
Cash and cash equivalents, end of period	1.8	5.1
Ratios [1]		
Interest coverage on debt:		
Income before interest and taxes (EBIT) coverage [2, 3]	1.95X	2.16X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage [4]	3.83X	4.30X
Cash flow coverage [5]	2.75X	3.24X
Cash flow/total debt [5, 6]	10.8%	12.2%
Debt/ total capitalization [6,7]	61.5%	61.8%

Proforma Earnings Coverage

AltaLink's interest requirements, after giving effect to the issue of the $150 million 5.249% notes, amounted to $36,872,000 for the 12 months ended September 30, 2006. AltaLink's earnings before interest and income tax for the 12 months then ended was $68,664,000, which is 1.86 times AltaLink's interest requirements for this period.

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 September 30, 2006, cash from operating activities decreased by $6.6 million compared to the same period in 2005. The period-to-period decrease is due to changes in non-cash working capital accounts as a result of EUB Decision 2005-019. For the nine months ended September 30, 2006, net cash from operating activities was $77.7 million compared to $70.0 million for the nine months ended September 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 $40.5 million in the third quarter of 2006 (three months ended September 30, 2005 - $31.9 million). For the nine months ended September 30, 2006 capital expenditures totalled $129.3 million (nine months ended September 30, 2005 - $91.8 million). Significant projects currently in progress are the KEG Transmission Line, the Christina

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

Financing Activities

For the three months ended September 30, 2006, cash provided by financing activities increased by $9.9 million compared to 2005. For the nine months ended September 30, 2006, cash provided by financing activities increased $12.5 million versus 2005 to $39.3 million. During the third quarter, AltaLink repaid its commercial paper balance of $168.5 million. The total long-term debt outstanding increased to $660.9 million as at September 30, 2006 (December 31, 2005 - $621.7 million). During the third quarter, restricted cash decreased by $15.1 million as two projects were energized, reducing the balance to $49.8 million. The $49.8 million represents cash received from customers in advance of construction, which is shown as restricted cash. These funds will become available for AltaLink's use as approval is received from the customer for expenditures, but no later than 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)
September 30, 2006	48.0	6.0	331.9	0.018
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

* 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:

	September 30, 2006	December 31, 2005
Included in accounts receivable	$ 0.1	$ 0.3
Included in accounts payable	51.0	15.8

In addition, as at September 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 $40.8 million for the third quarter 2006, and $112.9 million year-to-date September 30, 2006, compared to $21.0 million during the third quarter 2005, and $51.2 million year-to-date September 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 its GTA for 2007 and 2008 on April 13, 2006, and the EUB held an oral hearing of the application between September 19 and October 2, 2006. This application requests the EUB to establish 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. A decision from the EUB on this application is expected in the first quarter of 2007. On October 3, 2006, the EUB issued Order U2006—253 ordering that the 2006 transmission tariff for AltaLink be continued on an interim and refundable basis until final tariffs for the 2007 and 2008 test years are approved. 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;
- As required by the EUB, on September 29, 2006, AltaLink submitted a projected cost estimate to implement a Uniform System of Accounts and Minimum Filing Requirements (USA-MFR). The hearing is set for November 28, 2006 to determine if the adoption of the USA – MFR is in the public interest.

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 business (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. Risk factors that could lead to such differences include, without limitation, legislative and regulatory developments that could affect costs or 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 October 20, 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.