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

FEBRUARY 21, 2007

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 February 21, 2007. This analysis should be read in conjunction with the financial statements and notes to the financial statements dated December 31, 2006 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, 2006. 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. We meet the transmission needs of over 85% of Albertans and our sole focus is on transmission, which allows us to bring forward the best and most innovative transmission practices, designs and solutions.

Flexibility and simplicity are core goals of how we work with our customers. We focus on proactively developing 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 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.

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, deliver to approximately 85% of the population 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. AltaLink receives over 90% of its revenue from the Alberta Electric System Operator (AESO), which is an independent, not-for-profit entity created by the Province of Alberta to administer the interconnected electric system in the province.

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. 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 subsidiaries, with Macquarie Transmission Alberta Ltd. owning the remaining 23.08%.

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 2006, the AIFR for AltaLink staff and key contractors was a combined rate of 0.89. The typical industry average is 4.0, with industry leaders posting AIFR's of less than 2.0. The CEA composite AIFR published value for 2005 was 2.76 representing CEA member utilities.

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 2006, AltaLink's SAIDI was 0.58 outage hours/delivery point. The most recent All Canada SAIDI benchmark published by the Canadian Electrical Association (CEA) for 2005 was 1.90.

SAIFI measures the average number of interruptions for a delivery point in a year. In 2006, AltaLink's SAIFI was 1.00 outages/delivery point. The most recent All Canada SAIFI benchmark published by the CEA for 2005 was 1.63.

HIGHLIGHTS OF 2006

- Delivered safely and efficiently over $125.1 million in additional facilities for customers, including generators, industrial and distribution customers and system projects for the AESO;
- Delivered safely and efficiently over $58.0 million in capital upgrades and replacements, managing the life and performance of existing facilities;
- Completed a 240kV interconnection project for MEG Energy as well as a new substation and line work for Christina Lake (EnCana);
- Received Permit and Licence for the Keephills Ellerslie Genesee 500kV Upgrade Project and commenced construction;
- Filed Permit and Licence application with the EUB for the transmission line component of the North-South 500kV line project, with an estimated cost of $495.0 million.
- Submitted Facilities Application to the EUB for Permit to Construct and Licence to Operate for the SW Development project;
- Filed General Tariff Application (GTA) for 2007 and 2008 in April 2006, received and responded to intervenor requests in June 2006 and completed the oral hearing portion of the GTA process in October 2006;
- Achieved net income of $35.6 million; and
- In September 2006, issued $150.0 million of debt securities with a term of thirty years.

RECENT DEVELOPMENTS

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. On July 28, 2005 AltaLink received EUB Decision 2005-082, which finalized AltaLink's compliance with Decision 2005-019. The Partnership filed a GTA on April 13, 2006 for the 2007 and 2008 test years. This application establishes the amounts of AltaLink's monthly tariff to the AESO and the Terms and Conditions of service by which the AESO will use AltaLink's transmission facilities. On February 16, 2007, the EUB issued Decision 2007-012 outlining the disposition of AltaLink's application for approval of its revenue requirement and deferral and reserve accounts for the period from January 1, 2007 to December 31, 2008. The Decision also outlined the settlement of the self-insurance reserve account for the period from May 1, 2004 to December 31, 2005.

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 EUB issued Decision 2004-052 on July 2, 2004 in which it approved a 35% deemed common equity ratio for the Partnership and a 9.6% ROE for the period ended December 31, 2004. The rate of return on common equity is adjusted annually for the years 2005 through 2008. The adjustment is calculated as 75% of the change in 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 ROE at 9.5% consistent with the adjustment formula. On November 22, 2005 the EUB issued an order setting the 2006 ROE at 8.93%. On November 30, 2006 the EUB issued an amended order setting the 2007 ROE at 8.51%.

Decision 2007-012 approved a reduction in the deemed common equity ratio from 35% to 33%, and an increase in the allowance for deemed income tax in the revenue requirement from 75% to 100%.

Financing Activities

On June 16, 2006, the EUB approved an application for AltaLink to issue up to $150.0 million of debt securities with a term of up to 30 years.

On September 21, 2006 AltaLink issued $150.0 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 prospectus has a 25 month life, and permits the Partnership to issue up to an aggregate of $500.0 million of medium-term 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 the implementation of a new 500kV system between Edmonton and Calgary.

The project includes (i) 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 , and (ii) the construction of a new 500kV transmission line from the Genesee substation (west of Edmonton) to the Langdon substation (southeast of Calgary). 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.) 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. AltaLink is currently in the construction phase of this project, with a targeted in-service delivery date of December 2007.

(ii.) 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 $495.0 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 held a public pre-hearing for the project's Permit and Licence application which began on November 2, 2006, and considered, 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 intervenors; c) the creation of a schedule which is in keeping with the need established for the 500kV line and the ability of the intervenors to properly participate. On January 18, 2007 the EUB adjourned the hearing to consider these matters until March 12, 2007, when the hearing is scheduled to begin in Red Deer, Alberta.

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 AESO's application to assess the need for the North-South 500kV project. The EUB had previously approved the AESO's need application in Decision 2005-031 on April 14, 2005. In considering the review request, the EUB stated that the need for the line was not in question but that it would assess if landowners had new information on the appropriateness of the west corridor. On December 6, 2006, the EUB issued Decision 2006-114 that confirmed that the west corridor is reasonable and in the public interest and therefore upheld Decision 2005-031.

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, 2006	For the twelve months ended December 31, 2005	For the eight months ended December 31, 2004
Total revenue ($ millions)	$ 201.4	$ 197.3	$ 114.5
Net income ($ millions)	35.6	37.3	21.0
Net income per unit ($)	0.11	0.11	0.06
Funds generated from operations ($ millions) [1]	98.1	96.0	53.6
Distributions per unit ($)	0.06	0.05	0.03
Total assets ($ millions)	1,323.2	1,143.2	1,037.4
Long-term debt, excluding current portion ($ millions)	700.2	621.7	564.8

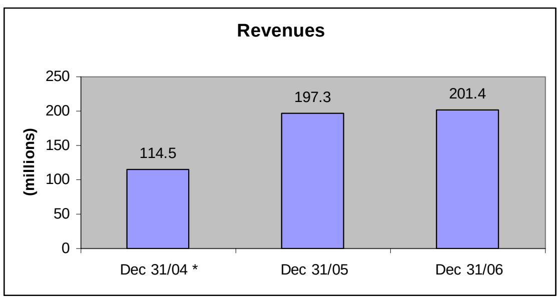
1. See note 1 under Liquidity and Capital Resources

Revenues

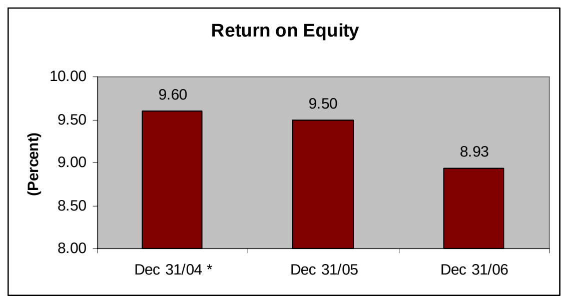
The $4.1 million increase in revenues in 2006 compared to 2005 is partially the result of higher tariff rates approved by the EUB, as well as an increase in miscellaneous revenue for services provided to Fortis and TransAlta. Tariff rates have increased primarily due to additional revenues as a result of new installed assets, 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 94% of the Partnership's total revenue.

The increase in operating revenues is lower than it might otherwise have been, as the EUB has consistently been lowering AltaLink's allowed rate of return on equity, from 9.6% in 2004 to 8.93% in 2006.

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 damages in the Empress region of Alberta.



* Eight-month period ended December 31, 2004



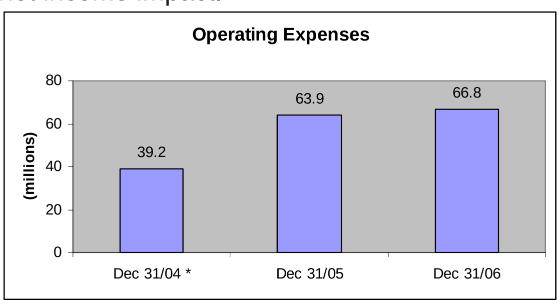
* Eight-month period ended December 31, 2004

Operating Expenses

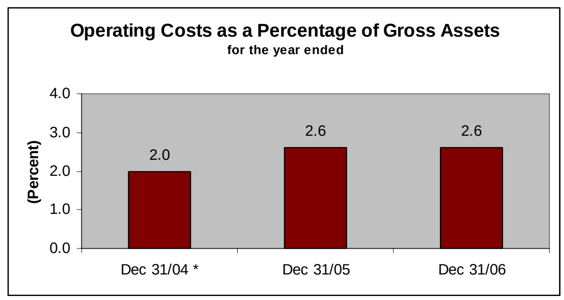
The $2.9 million increase in operating expenses in 2006 compared to 2005 is partially due to increased labour charges incurred as a result of AltaLink's growing operations and maintenance associated with a larger and aging asset base. A portion of the increased labour costs is recovered through miscellaneous revenue for services provided to Fortis and TransAlta. In addition, higher property taxes were incurred due to higher charges levied by municipalities and a larger rate base.

Although operating costs increased in total for 2006 compared to 2005, operating costs as a percentage of gross capital assets remained constant during this time period. It appears that this percentage increased significantly between 2004 and 2005. However, 2006 results are not directly comparable with 2005 due to the differing time periods involved and timing of when operating costs are incurred during the year.

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. 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 through tariff revenue, thereby eliminating any net income impact.



* Eight-month period ended December 31, 2004

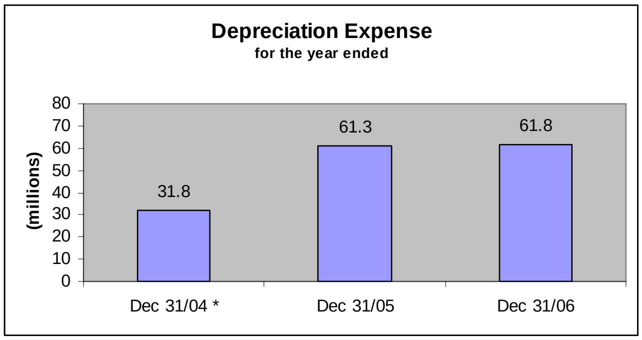


* Eight-month period ended December 31, 2004

Depreciation Expense

The $0.5 million increase in depreciation expense in 2006 is not significant compared to 2005, although there were considerable capital undertakings that were completed and added to property, plant and equipment. Depreciation is calculated on a straight-line basis with various rates ranging from 1.80% to 33.33% as approved by the EUB.

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 significant capital undertakings that were completed and added to property, plant and equipment.

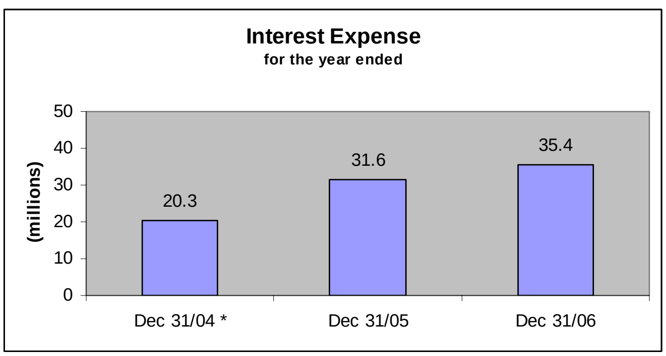


* Eight-month period ended December 31, 2004

Interest Expense

The $3.8 million increase in interest expense in 2006 compared to 2005 is due to a higher debt level in 2006 compared to 2005, as well as higher interest rates.

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.

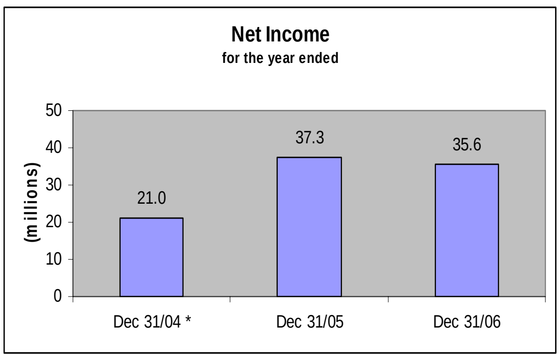


* Eight-month period ended December 31, 2004

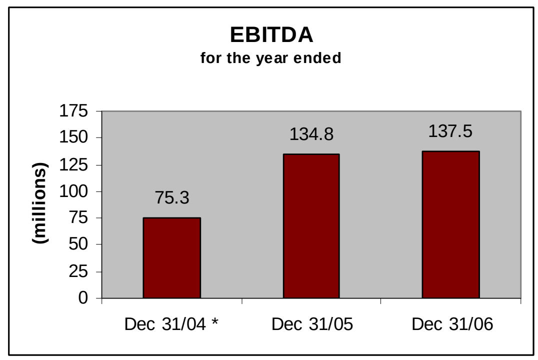
Net Income and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
Net Income for the year ended December 31, 2006 is lower than 2005 primarily as the increase of $4.1 million in revenues was offset by the combined impact of the increase in operating expenses of $2.9 million and the increase in interest costs of $3.8 million.

EBITDA as a percentage of revenue remained the same at 68.3% for the years ended December 31, 2006 and 2005.

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, 2005 net income included $2.4 million of adjustments related to 2004, arising from Decision 2005-019, which were recorded in 2005 as the Decision, which was not released until the first quarter of 2005. EBITDA as a percentage of revenue increased slightly to 68.3% in 2005 compared to 66.6% 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, 2005 to December 31, 2006:

	Increase ($millions)	Explanation
Restricted cash	17.2	Net additional 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	138.3	Construction costs primarily related to the KEG project, South West system upgrade, Christina Lake substation, Enmax Taber Wind interconnection and the Bassano FortisAlberta substation.
Net accounts payable – accounts receivable	(17.4)	Increase in engineering services payable, partially offset by increase in receivables from the AESO.
Other liabilities - short-term	18.5	Liability for construction funds held on account for customers until projects are energized.
Regulatory liabilities - long-term	(3.1)	Some regulatory liabilities have been reclassified to short term as regulatory applications are expected to be made to the EUB in 2007 for their disposition.
Long-term debt	78.5	Additional borrowings required to fund capital projects. $150.0 million of new debt was issued in September to fund capital projects and replace existing commercial paper debt.
Partners' capital	25.0	An equity injection from the limited partner to fund capital projects.

RESULTS FOR THE FOURTH QUARTER 2006

The fourth quarter is traditionally a very active quarter as much of AltaLink's construction activity occurs during the winter months. Due primarily to the recognition of an allowance for funds used during construction, total revenue of $53.7 million and net income of $11.0 million for this quarter are significantly higher than during the second and third quarters.

During the quarter ended December 31, 2006 property, plant and equipment additions totaling $35.4 million were funded by a combination of cash generated by operations and additional financing with the issuance of debt drawn on the commercial paper program.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	**For the twelve months ended December 31, 2006**	For the twelve months ended December 31, 2005
Cash and cash equivalents, beginning of year	**$ 0.0**	$ 0.0
Cash flow from (used in)		
Operating activities	**81.2**	89.4
Investing activities	**(163.8)**	(129.9)
Financing activities	**82.6**	40.5
Cash and cash equivalents, end of year	**$ 0.0**	$ 0.0
Ratios [1]		
Interest coverage debt:		
Income before interest and taxes (EBIT) coverage [2, 5]	**2.01X**	2.18X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage [3]	**3.88X**	4.27X
Cash flow coverage [4]	**2.77X**	3.04X
Cash flow/total debt [4, 6]	**14.0%**	15.4%
Debt/total capitalization [6, 7]	**62.2%**	61.8%

Proforma Earnings Coverage

AltaLink's interest requirements, after giving effect to the issue of the $150.0 million, 5.249% notes, amounted to $37.0 million for the 12 month period December 31, 2006. AltaLink's earnings before interest and income tax for the period then ended was $72.6 million which is 1.96 times AltaLink's interest requirements for this period.

Credit Ratings	
DBRS – Commercial Paper	**R-1 (low)**
DBRS – Senior Secured Bonds	**A**
S&P – Senior Secured Bonds	**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 financing expense divided by interest.
3. EBITDA Coverage- Income before interest, taxes, depreciation (including accretion) and amortization is equal to operating income before financing expenses, depreciation and amortization, divided by interest.
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 $8.2 million decrease in cash provided by operating activities is due to an increase in non-cash working capital, partially offset by a decrease in long-term regulatory accruals. The increase in non-cash working capital is made up of a $22.2 million increase in accounts receivable, partially offset by an increase in accounts payable and accrued 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
Investing activities for 2006 used cash of $163.8 million compared to $129.9 million for the year ended December 31, 2005. The $33.9 million increase in investing activities is primarily due to the construction activities associated with the increase in direct assign projects in 2006.

Financing Activities
Net cash from financing activities for the year ended December 31, 2006 was $82.6 million compared to $40.5 million for the year ended December 31, 2005, an increase of $42.1 million. Activities in 2006 included the issuance of $150.0 million in medium-term notes, which was partially offset by a reduction in the commercial paper program. AltaLink also received an equity injection of $25.0 million from its limited partner.

NON CAPITAL RESOURCES

People

The nature of AltaLink's labour force and the market where AltaLink competes for employees is dramatically changing. Historically the company has been able to recruit and attract employees from a large pool of candidates in Alberta and with many years of experience. The tight Alberta labour market, coupled with an increase in the need to build transmission in the province and across Canada has required greater effort to find, hire and retain a qualified workforce. AltaLink is aggressively enhancing its recruitment tools and practices to enable it to attract and retain qualified employees required to execute key strategies.

Process Improvement/Operational Excellence

AltaLink is committed to consistently delivering reliable, safe, cost effective transmission service to the province of Alberta. Driving towards operational excellence is made more challenging by an aging transmission system, rapid asset growth and the competitive environment for human resources.

AltaLink continues to employ new technology to improve the efficiency and optimize the performance of its transmission system.

In 2006, AltaLink completed an extensive review of its Maintenance Process and will be implementing changes/improvements to that process throughout 2007.

OFF-BALANCE SHEET ARRANGEMENTS
As at December 31, 2006, December 31, 2005 and December 31, 2004, AltaLink had no off-balance sheet arrangements except for the contracted commitments which are disclosed in Note 13 to the December 31, 2006 audited financial statements.

RELATED PARTY TRANSACTIONS

AltaLink 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 2006, the same amount that was paid to AILP for the year ended December 31, 2005, compared to $4.5 million for the eight-month period ended December 31, 2004 on its $85.0 million Series 3 Subordinated Bridge Bond. The bond has a repayment date of October 1, 2012, with interest being paid quarterly. As at December 31, 2006, the balance owing in respect of the bond was $85.0 million, together with accrued interest of $1.1 million.

During 2006 AltaLink paid SNC-Lavalin ATP Inc. $157.4 million for construction-related services, compared with $92.1 million for the year ended December 31, 2005. At December 31, 2006, AltaLink's payables included $44.3 million owing to SNC-Lavalin ATP Inc. The terms and conditions of this contract were reviewed by the EUB and approved in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the EUB Audit and Compliance Group.

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 expenses, 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.

Examples of significant estimates include: key economic assumptions used to determine the fair value of residual cash flows; the allowance for doubtful accounts, the allowance for inventory obsolescence; the estimated useful lives of assets; the recoverability of tangible assets; the recoverability of intangible assets with indefinite lives; the composition of future income tax liability; the accruals for payroll and other employee-related liabilities; certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets; and, the remaining recovery and settlement period of the regulated assets and liabilities.

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.

Management performed a goodwill impairment test in December 2006 by examining the business and regulatory environment, the ownership structure, the financing activities, income tax, credit ratings and interest rates. It also performed a discounted cash flow and net fair value analysis which compared favourably to the carrying amount of goodwill. Management concluded that there have been no significant changes in circumstances since the fair value determination in December 2005 and that the carrying value of the goodwill has not been impaired.

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, final retirement obligations for these assets have not been recognized 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 has collective bargaining agreements with two unions, the International Brotherhood of Electrical Workers (IBEW) and the United Utility Workers Association (UUWA). In 2004, AltaLink renewed its collective bargaining agreement with the UUWA on acceptable terms to December 31, 2006. As of February, 2007 AltaLink and the UUWA are in collective bargaining negotiations to renew this collective agreement. In December, 2006 AltaLink renewed its collective agreement with the IBEW until December 31, 2009. AltaLink's relationships with the labour unions are considered to be satisfactory. 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.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

QUARTER ENDED	TOTAL REVENUE **($millions)**	NET INCOME **($millions)**	UNITS OUTSTANDING **(millions)**	EARNINGS PER UNIT **($/unit)**
December 31, 2006	53.7	11.0	331.9	0.03
September 30, 2006	48.0	6.0	331.9	0.02
June 30, 2006	49.5	7.6	331.9	0.02
March 31, 2006	50.2	11.0	331.9	0.03
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

Revenue and net income for the quarters ended March and December 31, 2005 and 2006 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 January. Adjustments related to the 2002-2004 deferral account for direct assign capital projects were reflected in the December 2005 quarter.

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.

CHANGES IN ACCOUNTING POLICIES

The CICA has released new standards related to financial instruments; Section 3855 *Financial Instruments – Recognition and Measurement*; Section 3865, *Hedges*: Section 1530, *Comprehensive Income*; Section 3861 *Financial Instruments – Disclosure and Presentation*; and Section 3251, *Equity*. These sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet. These sections will require a financial instrument or non-financial derivative to be measured at fair value or using cost-based measures; establish how gains and losses are to be recognized and presented, including introducing comprehensive income; specify how hedge accounting should be applied; and establish new disclosures about an entity's accounting for designated hedging relationships and the methods and assumptions applied in determining fair values.

The mandatory effective date for Section 3855 *Financial Instruments – Recognition and Measurement;* Section 3865 *Hedges;* Section 1530, *Comprehensive Income;* Section 3861 *Financial Instruments – Disclosure and Presentation;* and Section 3251, *Equity* affects interim and annual financial statements for fiscal years beginning on or after October 1, 2006. AltaLink will implement these new standards effective January 1, 2007.

AltaLink intends to use the following methods and assumptions to estimate the fair value of its financial instruments:

i. *Cash and cash equivalents:* The carrying amount reported on the balance sheet approximates fair value;
ii. *Accounts Receivable:* The carrying amount reported on the balance sheet approximates fair value;
iii. *Short-term debt instruments:* The carrying amount reported on the balance sheet approximates fair value; and,
iv. *Long-term debt instruments*: The instruments are classified as held to maturity and their carrying values approximate the amortized cost using the effective interest method.

FINANCIAL INSTRUMENTS

The information with regard to financial instruments has been disclosed in Note 12 to the December 31, 2006 audited financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

AltaLink maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in provincial securities legislation. AltaLink evaluated its disclosure controls and procedures as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was performed under the supervision of the Chief Executive Officer and the Chief Financial Officer with the assistance of other AltaLink employees to the extent necessary and appropriate. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

INTERNAL CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

AltaLink maintains a set of internal controls and procedures over financial reporting which have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. AltaLink evaluated the design of its controls and procedures over financial reporting as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was performed under the supervision of the Chief Executive Officer and the Chief Financial Officer with the assistance of other AltaLink employees to the extent necessary and appropriate. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of these internal controls and procedures provided reasonable assurance regarding the reliability of financial reporting for the year ended December 31, 2006.

There were no changes in AltaLink's internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, AltaLink's internal control over financial reporting.

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 2007 will include the following applications:

- Approval of the permit to construct and licence to operate the Genesee to Langdon 500 kV transmission project (Hearing is scheduled to commence on March 12, 2007);
- Approval of the permit and licence to construct the southwest 240 kV transmission project;
- Approval of the direct assign capital deferral account disposition for May 2004 through December 2005;
- Approval of the direct assign capital deferral account disposition for 2006;
- Approval to restore other deferral accounts to the appropriate balance levels; and

PROPOSED TRANSACTIONS

Edmonton to Calgary 500 kV Transmission Project

In the AESO's Need Identification Application to the EUB in 2004, the AESO noted that the critical North-South transmission system had insufficient transmission capacity to meet the (then) current needs of market participants. The AESO indicated that this lack of capacity would result in "…a reduced ability to reliably serve load in central and southern Alberta, an increased level of congestion along the Edmonton to Calgary transmission path, and increased loading, making the transfers on the Edmonton to Calgary transmission path very inefficient." Based on its analysis, the AESO concluded that there was an urgent and compelling need to expand and enhance the North-South transmission system.

The EUB has approved the need for a project for the expansion and enhancement of the north-south transmission system between Edmonton and Calgary. This project includes the construction of a new 500kV 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. During 2006, AltaLink filed for and received Permit and Licence for the KEG component of the Project and has filed for Permit and Licence on the Genesee to Langdon component. A hearing is set for March 12, 2007 for the Genesee to Langdon component. Construction of KEG commenced in 2006 and is expected to be completed in late 2007. Construction of the Genesee to Langdon 500 kV line is expected to commence in late 2007.

Southwest Line Development

The 240 kV portion of the SW Development has been substantially impacted due to the uncertainty of reaching an agreement with the Piikani First Nation. AltaLink is now considering possible alternative routes which bypass First Nation lands. A hearing is anticipated in the second or third quarter of 2007.

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 February 21, 2007. 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.