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

MARCH 4, 2008

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) is the responsibility of AltaLink, L.P. (AltaLink or the Partnership) management and reflects events known to management to March 4, 2008. This analysis should be read in conjunction with the audited financial statements and notes to the financial statements dated December 31, 2007 that have been prepared using 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, 2006, except for the change in accounting policies cited in Note 3(a) to the financial statements, upon the initial adoption of new accounting standards. Unless otherwise indicated, a reference to a year relates to the Partnership's fiscal year ended December 31, 2007.

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 Information" legal advisory contained at the end of this MD&A.

VISION, BUSINESS AND STRATEGY

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 through a focus on quality and continuous improvement, which allows us to bring forward the best and most innovative transmission practices, designs and solutions.

Creating customer value is a core goal of AltaLink. We focus on effectively listening, communicating and working with our customers and stakeholders who rely on or are impacted by our business, to ensure that our mutual needs are met.

AltaLink operates in an environment where there is a high level of competition for talented people. To enable us to attract and retain the high quality workforce required to sustain our business, we are creating a culture of innovation and excellence. We encourage employee wellness and proactively provide opportunities for employee engagement, growth and development. In addition, we give back to the communities in which we live and operate through financial support and employee participation.

BUSINESS

The Partnership's sole business purpose is owning and operating regulated electricity transmission assets in Alberta and it is the largest transmission owner in the province. AltaLink currently owns and operates approximately 52% of the transmission lines used in Alberta's high-voltage electricity transmission system, supplying approximately 85% of the population of Alberta with transmission services, and is 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 Utilities Commission (AUC), successor to the Alberta Energy and Utilities Board (EUB). Effective January 1, 2008, the AUC assumed responsibility from the EUB for regulating all investor-owned natural gas, electric and water utilities, certain gas pipelines and certain municipally-owned electric utilities. The AUC approves the tariffs to be charged by Transmission Facility Owners (such as the Partnership). In doing so, the AUC 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.

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. On June 13, 2006, the AUC 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%.

STRATEGY

AltaLink's objective is to be the leading owner and operator of regulated electricity transmission in Alberta. AltaLink is committed to meeting the needs of its customers 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.

PERFORMANCE MEASUREMENT

The following measures are an indication of the Partnership's success in meeting our operational objectives. For the safety and reliability measures discussed below, lower numbers indicate a higher level of performance with regard to meeting the objectives:

Highlights of 2007

- Achieved net income of $37.6 million;
- Delivered safely and efficiently over $121.0 million in additional facilities for customers, including generators, industrial and distribution customers and system projects for the AESO;
- Delivered safely and efficiently over $43.4 million in capital upgrades and replacements, managing the life and performance of existing facilities;
- Completed construction of Keephills-Ellerslie-Genesee 500kV upgrade project and Watson Creek and Amelia substations;
- Received AUC approval of AltaLink's 2007 and 2008 tariffs;
- Filed application for Permit and Licence with the AUC for the proposed 240kV Southwest Project;
- Completed conversion of Keephills-Ellerslie-Genesee system to 500kV; and,
- Developing and implementing GREENJACKET™ (in conjunction with CANTEGA™), a first of its kind substation protection system which improves customer reliability by reducing bird and animal contacts.

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 2007, the AIFR for AltaLink staff and key contractors was a combined rate of 1.02 (2006 – 0.89). The Canadian Electrical Association (CEA) composite AIFR published value for 2006 was 2.92 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 2007, AltaLink's SAIDI was 1.41 outage hours/delivery point (2006 – 0.58). The most recent All Canada SAIDI benchmark published by the CEA was 1.52 for 2006. The largest single outage was due to a train derailment damaging a substation. This resulted in an extended outage while the train was removed from the substation, contributing 0.31 to SAIDI in 2007.

SAIFI measures the average number of interruptions for a delivery point in a year. In 2007, AltaLink's SAIFI was 1.38 outages/delivery point (2006 – 1.00). The most recent All Canada SAIFI benchmark published by the CEA was 1.70 for 2006.

LIQUIDITY AND CAPITAL RESOURCES

	For the year ended December 31, 2007	For the year ended December 31, 2006
($ millions)		
Cash and cash equivalents, beginning of year	**$ 0.0**	$ 0.0
Cash flow from (used in)		
Operating activities	**96.3**	81.2
Investing activities	**(217.4)**	(163.8)
Financing activities	**121.1**	82.6
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]	**1.92X**	2.01X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage [3, 5]	**3.62X**	3.88X
Cash flow coverage [4, 5]	**2.47X**	2.77X
Cash flow/total debt [4, 6]	**12.58%**	14.00%
Debt/total capitalization [6, 7]	**62.11%**	62.25%

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 net income before interest expense divided by interest.
3. EBITDA Coverage - Income before interest, taxes, depreciation (including accretion) and amortization is equal to net 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, adjusted for the change in presentation of deferred financing fees due to the implementation of the new financial instruments accounting standards.
7. Total Capitalization - Consists of debt and partners' equity.

Proforma Earnings Coverage

AltaLink's interest expense for the year ended December 31, 2006 was $35.4 million. However, AltaLink had issued $150.0 million in medium-term notes in September 2006. If these notes had been outstanding for the entire year, AltaLink's interest expense would have been $37.0 million. This would have reduced AltaLink's interest coverage ratio, based on earnings from 2.01X to 1.96X. No adjustment is required for 2007 as the related debt was outstanding throughout the year.

Credit Ratings	
DBRS – Commercial Paper	**R-1 (low)**
DBRS – Senior Secured Bonds	**A**
S&P – Senior Secured Bonds	**A-**

Operating Activities

The $15.2 million increase in cash provided by operating activities is due to a reduction in non-cash working capital partially offset by an increase in regulatory liabilities. The decrease in non-cash working capital is due to the decrease in accounts payable and accrued liabilities, as a result of the delays experienced in obtaining regulatory approvals for two major projects.

Investing Activities

Investing activities for 2007 used cash of $217.4 million compared to $163.8 million for the year ended December 31, 2006. The $53.6 million increase in investing activities is primarily due to the construction activities associated with the increase in direct assign projects in 2007.

During 2007, cash flow from operating activities funded 44% of the cash requirements for capital spending and other investing activities. The remainder was funded primarily by issuing $100.7 million of new long-term debt, together with equity contributions from owners.

Financing Activities

Net cash from financing activities for the year ended December 31, 2007 was $121.1 million compared to $82.6 million for the year ended December 31, 2006, an increase of $38.5 million. Activities in 2007 included an increase in debt of about $100.7 million, primarily in the form of commercial paper and bankers' acceptances. AltaLink also received an equity injection of $45.0 million from its limited partner, and paid out distributions of $21.6 million.

No long-term debt was issued in 2007. Instead, debt was issued under the commercial paper and bankers' acceptance programs as AltaLink's financing needs were less than the optimal size for new issues.

During 2007 temporary excess cash balances and balances held on behalf of customers were invested in short-term interest-bearing instruments. At no time during 2007 were any of these investments held in asset-backed commercial paper.

MAJOR CAPITAL PROJECTS AND REGULATORY MATTERS

General Tariff Applications

On February 16, 2007, the AUC issued Decision 2007-012 outlining the disposition of AltaLink's application for and approved its revenue requirement and deferral and reserve accounts, as amended, 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. On June 19, 2007, the AUC issued Decision 2007-050 that approved AltaLink's compliance filing with AUC directives from Decision 2007-012 regarding the 2007 and 2008 tariffs. 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%.

Southwest Development Project

On August 10, 2007, AltaLink applied to the AUC for a Permit and Licence for the South West 240kV project, between Pincher Creek and Lethbridge. The double circuit line is needed to connect wind generation in the region. On January 21, 2008, AltaLink received AUC information requests. AltaLink anticipates that this application will be set for hearing in 2008.

KEG Transmission Line Conversion Project

The project included the conversion 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 lines 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.

On June 28, 2006, the AUC approved AltaLink's Permit and Licence application for the KEG conversion, with an estimated project cost of $66.3 million. Commissioning and testing of AltaLink's portion of the project was completed in the fourth quarter, 2007. On August 14, 2007, the Alberta Electric System Operator (AESO) issued a letter to stakeholders informing them of an issue with an EPCOR Genessee transformer that would delay energization of the project to the second quarter of 2008.

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 regulator issued Decision 2005-031 on April 14, 2005 approving the need for the North-South expansion of the Alberta Interconnected Electric System (AIES), as put forward by the Independent Alberta Transmission Planner, the AESO, more specifically the establishment of a new 500kV system between Edmonton and Calgary.

In September, 2006, 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.

Subsequently, hearings to review the application were held and landowners filed a number of appeals.

On September 30, 2007, the regulator issued Decision 2007-075 voiding the decision on the AESO's Need Identification Document (Decision 2005-031), the related review and variance decision (Decision 2006-114) and AltaLink's 500kV Edmonton to Calgary facility application (Application 1478550). Decision 2007-075 was issued based on circumstances that the EUB's administration of the hearings had "accumulated into a reasonable apprehension of bias". The EUB stated that "the Board is profoundly troubled by the impact actions taken by Board officials…to protect its security have had on…the public's perception of the Board."

Delays in the permit and licence hearing and decision make the project's 2009-2010 winter peak in-service date unachievable. The AESO has determined that the transmission system south of Edmonton will be operating below North American reliability standards by the fall/winter peak of 2009-2010, increasing the likelihood of rotating power outages for the more than 1.5 million Albertans living south of Edmonton. While AltaLink is protected against liability from outages, the Partnership remains concerned about its ability to provide continuous electricity service to southern Alberta through the 2009-2010 winter peak. The AESO and AltaLink will be seeking short-term mitigation measures to reduce the reliability risk until a long-term solution can be constructed.

The AESO has indicated that in 2008 they will bring forward new applications that provide a long-term solution to the North-South transmission path between Edmonton and Calgary, and provide reliable service to Albertans. AltaLink has committed to assisting the AESO in this regard.

Changes to Governing Legislation

On April 11, 2007, the Government of Alberta updated the Transmission Regulation to improve the process for developing transmission projects in Alberta. Among its updates, the Transmission Regulation clarifies the roles of both the AESO and the AUC to acknowledge the technical expertise of the AESO and to provide for the streamlining of regulatory approvals for smaller projects and customer interconnections. AltaLink expects that these updates will have a positive effect on the development of transmission projects by further clarifying the roles and responsibilities of industry participants.

On June 14, 2007, the Government of Alberta introduced Bill 46, the Alberta Utilities Commission Act, to separate the EUB into two separate regulatory agencies. The Energy Resources Conservation Board will be primarily responsible for oil and natural gas regulation and the Alberta Utilities Commission will be primarily responsible for the oversight of public utilities, including Transmission Facility Owners such as AltaLink. The AUC Act was given Royal Assent on December 7, 2007.

In late 2007, the Government of Alberta updated the Transmission Regulation to include direction to the AESO regarding the importance of both land use and geographic diversity when planning new transmission facilities. Specifically, the regulation now directs the AESO to consider, amongst other factors, solutions that reduce the amount of land required for new facilities and to ensure that land is used as efficiently as possible by maximizing throughput. Such measures are expected to include the building of higher capacity facilities combined with the salvage of existing lower capacity lines as well as staged capacity increases in order to reduce the need for additional land rights for subsequent capacity increases. The new provisions direct the AESO to consider such measures notwithstanding that they may lead to additional cost.

PEOPLE

AltaLink is currently facing unprecedented growth and increasing operational challenges. Like other Alberta companies, this is occurring at a time for AltaLink when the competition for people is high, there are significant pressures on compensation, and the labour market is tight. AltaLink has aggressively enhanced its people strategies to enable it to attract and retain qualified employees and to ensure that its staff is developed, engaged and aligned with the overall corporate strategies and business plans.

OUTLOOK

Regulatory

AltaLink was regulated by the EUB, and will continue to be regulated by the AUC, effective January 1, 2008 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 Partnership plans to finance these significant capital investments and schedule maturities of long-term debt through a prudent combination of cash flow from operating activities, issuing new long-term debt and equity contributions from partners.

The more significant applications that are expected to be ruled on by the AUC during 2008 include the following:

- Approval of the permit to construct and licence to operate the Edmonton to Calgary 500 kV transmission development project;
- Approval of the permit to construct and licence to operate the Southwest 240 kV transmission project;
- Approval of the Direct Assign capital deferral account disposition for May 2004 through December 2006;
- Approval to restore other deferral accounts to the appropriate balance levels;
- General Tariff Application for a number of forecast years beginning with 2009.

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

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 AUC will consider undertaking a review of the formula. On November 30, 2004, the AUC issued an order setting the 2005 ROE at 9.5% consistent with the adjustment formula. On November 22, 2005 the AUC issued an order setting the 2006 ROE at 8.93%. On November 30, 2006 the AUC issued an amended order setting the 2007 ROE at 8.51%. On November 30, 2007 the AUC issued an amended order setting the 2008 ROE at 8.75%.

On February 21, 2008, the AUC initiated a proceeding to seek the views of parties on whether the adjustment mechanism continues to yield a fair return and whether or not common equity ratios for all utilities should be considered on a generic basis

Proposed Heartland Project

In 2008, the AESO will be bringing forward transmission development requirements to meet the expected increase in customer load associated with oil refinery and upgrader development in the region just northeast of the Edmonton area, known as the Heartland Region. AltaLink will be working with the City of Edmonton transmission facility owner, EPCOR, and the AESO to move these future transmission developments through the necessary approval processes and construction stages. The transmission development is expected to occur over the next five years.

ACCOUNTING POLICY AND RELATED DISCLOSURES

CHANGES IN ACCOUNTING POLICIES

Changes Impacting the 2007 Financial Statements

Effective January 1, 2007, the Partnership adopted the new accounting requirements outlined in the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. The adoption of the new standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings. The comparative financial statements have not been restated. For a description of the principal changes, see Note 3(a) to the financial statements for the year ended December 31, 2007.

CHANGES IMPACTING FUTURE FINANCIAL STATEMENTS

Capital Disclosures

Effective January 1, 2008, AltaLink has adopted the new CICA Handbook Section 1535, *Capital Disclosures.* This section requires the Partnership to disclose AltaLink's capital structure, description of and compliance with externally imposed capital requirements and the Partnership's objectives, policies and processes for managing its capital. The adoption will require additional disclosure but is not expected to have any effect on the Partnership's financial statements.

Inventories – Materials and Supplies

Effective January 1, 2008, the Partnership has adopted the new CICA Handbook Section 3031, *Inventories*. This section requires the Partnership to expand its disclosure on the measurement and recognition of materials and supplies. The adoption of Inventories will require additional disclosure but is not expected to have any effect on the Partnership's financial statements.

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, *Goodwill and Intangible assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Partnership will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Partnership is currently evaluating the impact of the adoption of this new Section on its financial statements. The Partnership does not expect that the adoption of this new Section will have a material impact on its financial statements.

Accounting for Rate-Regulated Operations

Beginning on January 1, 2009, section 1100 of the CICA Handbook – *Generally Accepted Accounting Principles* - will be amended to remove a temporary exemption pertaining to the recognition of assets and liabilities arising from rate regulation. In addition, effective the same date, section 3465 of the CICA Handbook – *Income Taxes* - will also be amended. The adoption of the new standards is expected to have an impact on the recognition and measurement and disclosure and presentation of regulatory asset retirement obligations, reserve and deferral accounts, pension assets, future income tax liabilities and allowance for funds used during construction. For a more detailed description of these expected changes, see Note 3(b)(ii) to the financial statements.

Accounting Changes

CICA Handbook Section 1506 - Accounting Changes is effective for fiscal years beginning on or after January 1, 2007. The changes covered by this section include changes in accounting policy, changes in accounting estimates and correction of errors. Under section 1506, voluntary changes in accounting policy are only permitted if they result in financial statements that provide more reliable and relevant information. When a change in accounting policy is made, this change is applied retrospectively unless impractical. Changes in accounting estimates are generally applied prospectively and material prior period errors are corrected prospectively. The only impact in the current year is to provide disclosure of when the Partnership has not applied a new source of Generally Accepted Accounting Principles that has been issued but is not yet effective. This is the case with CICA Handbook section 3862 - Financial Instruments Presentations, which are required to be adopted for fiscal years ending on or after October 1, 2007. The Partnership will adopt these standards on January 1, 2008 and it is expected that the only effect on the Partnership will be incremental disclosures regarding the significance of financial instruments for the Partnership's financial position and performance including the nature, extent and management of risks arising from financial instruments to which the Partnership is exposed. This is also the case with section 1535 – Capital Disclosures and section 3064 – Goodwill and Intangible Assets discussed in notes 3(b)(i) and 3(b)(ii) respectively.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Partnership's financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Certain estimates are necessary since the regulatory environment the Partnership operates within often requires amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions, or other regulatory proceedings. Due to inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates. The Partnership bases its estimates and judgments on historical experience, including experience with the regulatory process, 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 obsolescence of materials and supplies; the estimated useful lives of assets; the recoverability of intangible assets including estimates of future costs to retire physical assets or the recoverability of costs association with direct assigned projects that have been delayed in the regulatory process; the recoverability of intangible assets with indefinite lives, such as goodwill; 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 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 2007 by examining the business and regulatory environment, the ownership structure, the financing activities, 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 2006 and that the carrying value of the goodwill has not been impaired.

Assets Under Construction

Included in Assets under construction is approximately $35.0 million in capital expenditures, related to the 500kV Project, for which proceedings are expected to recommence in 2008. AltaLink incurred these expenditures pursuant to direction letters issued by the AESO, which is a normal step within the regulatory process. In addition, the AESO has acknowledged that these costs should be recovered and that it is prepared to support AltaLink in an application for recovery. It is the opinion of management that these expenditures will be capitalized and recovered through the regulatory process. Should a need for an adjustment arise as a result of the regulatory process, management will reflect the impact in the financial statements related to the period when the regulatory decision is made.

Revenue Recognition

Revenues from rate-regulated operations are recognized on the accrual basis in accordance with rates and policies set by the regulator, and include an estimate of services provided but not yet billed. Any revenue that has been received but not yet earned is classified as other liabilities in the financial statements.

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 retirement 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 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 equipment.

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, no obligation has been recognized at this time because the date of final removal cannot be reasonably determined.

Employee Future Benefits

All accrued obligations for employee benefit plans 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.

TRANSACTIONS WITH RELATED PARTIES

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 2007, the same amount that was paid to AILP for the year ended December 31, 2006 and December 31, 2005 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, 2007, the balance owing in respect of the bond was $85.0 million, together with accrued interest of $1.1 million.

During 2007 AltaLink paid SNC-Lavalin ATP Inc. (ATP) $110.4 million for construction-related services, compared with $149.7 million for the year ended December 31, 2006. At December 31, 2007, AltaLink's payables included $21.9 million (2006 - $44.3 million) owing to ATP. The reductions in the amounts paid to ATP and the payable at year-end were due to delays in construction of two major projects as a result of delays in the regulatory approval process. The terms and conditions of this contract were reviewed by the AUC and approved in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the AUC Audit and Compliance Group.

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, 2007. 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, 2007. 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, 2007.

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

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:

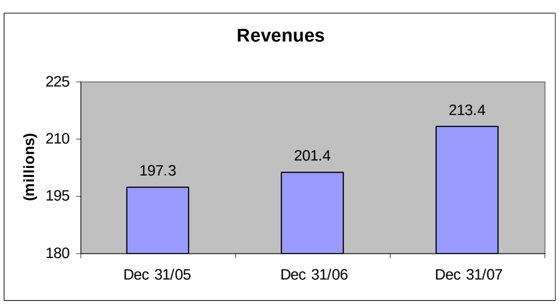
	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Total revenue ($ millions)	$ 213.4	$ 201.4	$ 197.3
Net income ($ millions)	37.6	35.6	37.3
Net income per unit ($)	0.113	0.107	0.112
Funds generated from operations ($ millions) [1]	100.7	98.1	96.0
Distributions per unit ($)	0.065	0.060	0.048
Total assets ($ millions)	1,450.3	1,323.2	1,143.2
Long-term debt, excluding current portion ($ millions) [2]	800.9	700.2	621.7

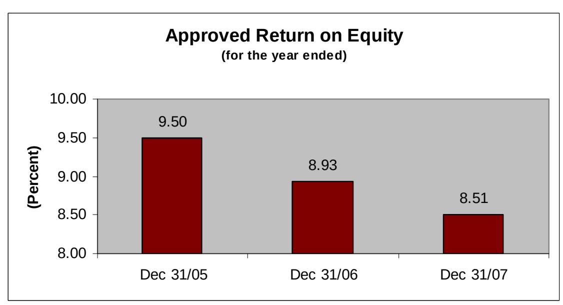
1. See note 1 under Liquidity and Capital Resources
2. The long-term debt balance is shown before deducting the deferred financing fees, which have been offset against this amount in the financial statements, in accordance with the requirements of the financial instruments accounting standards.

Revenues

The $12.0 million increase in revenues in 2007 compared to 2006 is partially the result of higher tariff rates approved by the AUC, 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% (2006 - 94%) of the Partnership's total revenue.

The increase in operating revenues is lower than it might otherwise have been, as the AUC has consistently been lowering AltaLink's allowed rate of return on equity, from 9.50% in 2005 to 8.51% in 2007. This reduction explains why the net income in 2007 is only marginally higher than in 2005, although the level of assets has increased significantly.

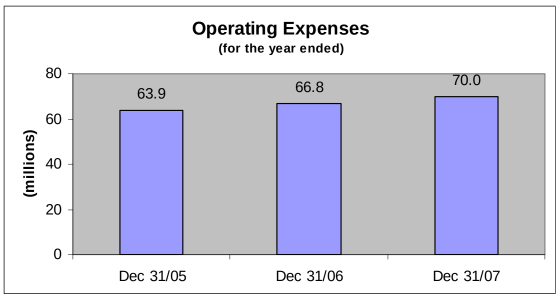


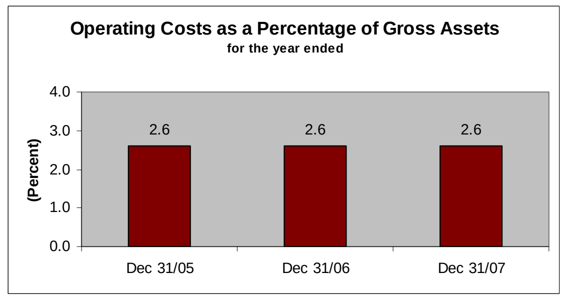


Operating Expenses

Operating expenses include salaries and wages costs, net of transfers to capital projects, contracted manpower costs, general staff related costs, and insurance and property tax costs. The $3.2 million increase in operating expenses in 2007 compared to 2006 is partially due to increased labour charges incurred as a result of wage increases and AltaLink's growing operations and maintenance associated with a larger and aging asset base. A portion of the increased operating 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. In the face of this growth, the increase in operating costs of 4.8% is slightly less than the 2007 CPI for Alberta of 5.0%. The $2.9 million increase between 2006 and 2005 was also due to growth in operations and maintenance.

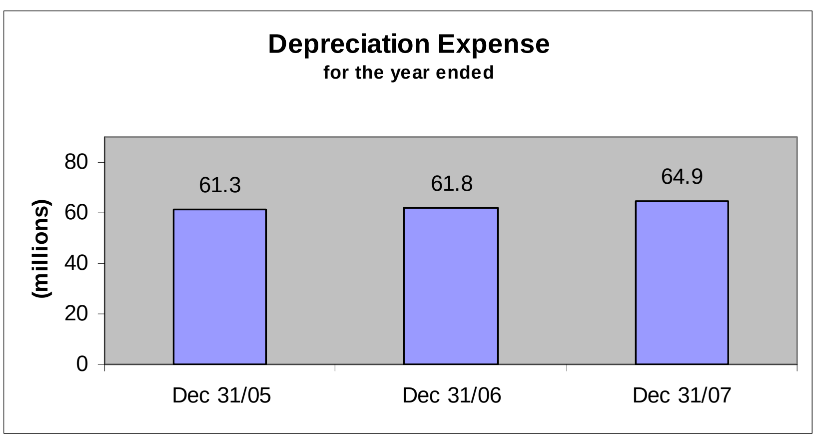
Although operating costs increased in total for 2007 compared to 2006, operating costs as a percentage of gross capital assets remained constant during this time period.





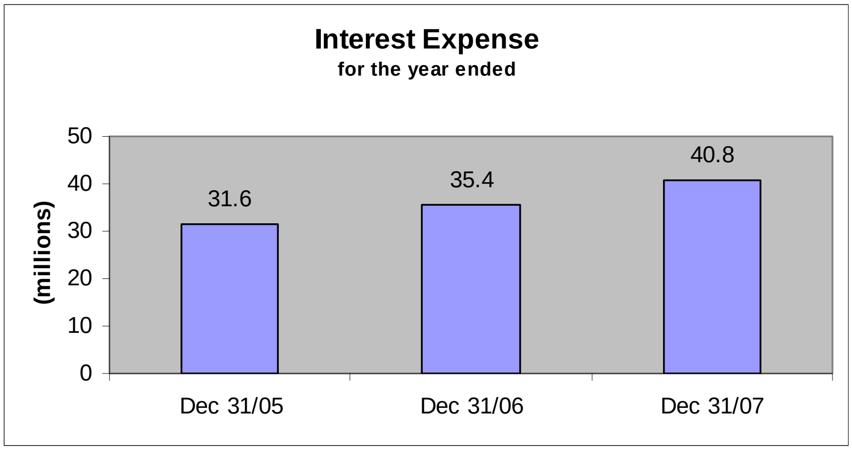
Depreciation Expense

Depreciation is calculated on a straight-line basis with various rates ranging from 2.01% to 33.33% as approved by the AUC. The $3.1 million increase in depreciation expense in 2007 compared to 2006, is due to the capital projects that were completed and added to property, plant and equipment. The depreciation expense in 2006 is comparable to 2005.



Interest Expense

The $5.4 million (15.3%) increase in interest expense in 2007 compared to 2006 is due to a higher debt level in 2007 compared to 2006. Total long-term debt increased by $100.7 million (14.3%) in the form of AltaLink's commercial paper and bankers' acceptances, while the average effective interest rates on these programs increased to 4.89% from 4.34% (12.7%) from 2006 to 2007. The $3.8 million increase in interest expense in 2006 compared to 2005 is due to the $78.5 million (12.6%) increase in debt compared to the previous year, together with an increase in interest rates from 4.2% to 4.34% (3.3% increase).

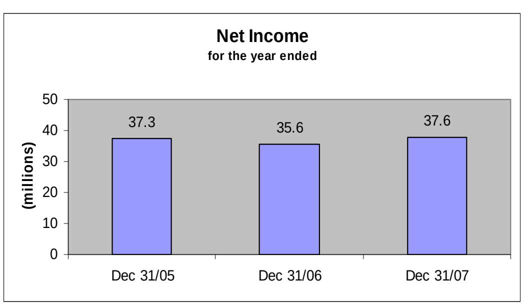


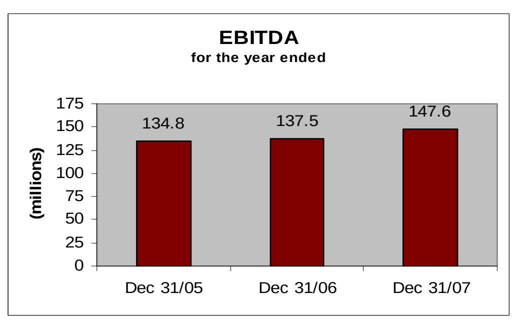
Net Income and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) [1]

Net Income for the year ended December 31, 2007 is higher than 2006 primarily due to the increase of $11.4 million in transmission tariff revenue which is partially offset by increases in operating expenses, depreciation and interest expense.

Net income for the year ended December 31, 2006 was lower than 2005 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 and the lower regulated return on equity of 8.51% in 2007 versus 8.93% in 2006.

For the year ended December 31, 2007, EBITDA as a percentage of revenue was 69.2%, which is not significantly different from that of 2006, which was 68.3%. For the years ended December 31, 2006 and 2005, EBITDA as a percentage of revenue remained the same, at 68.3%.





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.

FINANCIAL POSITION

The following outlines the significant changes in the Partnership's balance sheet from December 31, 2006 to December 31, 2007:

	Increase/ (Decrease)	Explanation
	($millions)	
Prepaid expenses and deposits	5.7	Increase due to equipment deposits paid to SNC-ATP for various capital projects
Regulatory assets	(5.3)	Decrease due to the recovery of both the self-insurance reserve and hearing cost balances.
Property, plant & equipment	134.6	Construction costs primarily related to the KEG project, South West system upgrade, Genesee to Langdon 500kV, Dry Creek and Fort Assiniboine projects.
Contributions in advance of construction	(6.3)	Decrease due to additions of $21.4, offset by repayments to customers of $12.2 million and use during construction of $15.0 million, with net adjustments of $0.5 million.
Net accounts payable – accounts receivable	(28.5)	Decrease in engineering services payable, partially offset by an increase in receivable from the AESO.
Long-term debt	93.6	Additional borrowings required to fund capital projects.
Partners' capital	45.0	Equity injections from the limited partner to fund capital projects.

RESULTS FOR THE FOURTH QUARTER 2007

Revenue is received relatively evenly throughout the year, while activities and related expenses occur unevenly. Total revenue of $52.0 million and net income of $8.0 million for this quarter is marginally lower than during the second and third quarters.

During the quarter ended December 31, 2007 property, plant and equipment additions totaling $18.1 million were funded by a combination of cash generated by operations and the issuance of debt drawn on the commercial paper program.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

QUARTER ENDED	TOTAL REVENUE **($millions)**	NET INCOME **($millions)**	UNITS OUTSTANDING **(millions)**	NET INCOME PER UNIT **($/unit)**
December 31, 2007	52.0	8.0	331.9	0.024
September 30, 2007	54.7	10.0	331.9	0.030
June 30, 2007	52.9	8.3	331.9	0.025
March 31, 2007	53.9	11.2	331.9	0.033
December 31, 2006	53.7	11.0	331.9	0.033
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	0.022
June 30, 2005	52.8	7.9	331.9	0.024
March 31, 2005	53.8	11.9	331.9	0.036

Revenue and net income for the quarter ended December 31, 2007 is lower than in the three previous quarters due to adjustments related to deferral accounts, including the direct assign capital projects deferral account.

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. In 2007, the allowance for funds used during construction was recorded on a monthly basis, as it has increased in materiality compared to prior years. Adjustments related to the 2002 – 2004 deferral account for direct assigned 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 2005-019 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.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2007, December 31, 2006 and December 31, 2005, AltaLink had no off-balance sheet arrangements except for the contracted commitments which are disclosed in Note 14 to the December 31, 2007 audited financial statements.

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. For a more detailed description of the risks faced by the Partnership, please see the section of the Partnership's Annual Information Form entitled *"Risk Factors"*.

AltaLink has instituted controls and other mitigating measures to manage these risks. AltaLink's risk management program includes an annual risk assessment that identifies and provides an overview of the top risks facing the Partnership and the strategies used to manage the risks.

The following are the more significant items which have an impact on the financial condition and results of operations of the Partnership, identified throughout the foregoing discussion and analysis by management.

Regulatory Approvals

The Partnership is dependent upon decisions made by the AUC, 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 AUC 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 2007, AltaLink renewed its collective bargaining agreement with the UUWA on acceptable terms to December 31, 2009. In December, 2006 AltaLink renewed its collective agreement with the IBEW on acceptable terms 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 AUC 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 AUC 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 and Safety

AltaLink is subject to various laws, regulations and guidelines governing safety and 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.

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 AUC 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 AIF, for example)
- decisions from the AUC 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 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 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 AUC 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. Such risk factors that could lead to such differences include, without limitation, legislative and regulatory developments that could affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity, timing and extent of changes in prevailing interest rates, currency exchange rates, inflation levels and general economic conditions in geographic areas where AltaLink operates, results of financing efforts, changes in counterparty risk and the impact of accounting standards issued by Canadian standard setters.

All forward-looking information herein is given as of March 4, 2008. 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.