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

JULY 22, 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 July 22, 2008. This analysis should be read in conjunction with the unaudited financial statements and notes to the financial statements for the three and six months ended June 30, 2008 and should also be read in conjunction with the audited financial statements and MD&A for the year ended December 31, 2007. The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) using the same accounting policies and procedures as in the audited annual financial statements for the year ended December 31, 2007 except for the changes in accounting policies cited in Note 2 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 approaches the need for expansion using a culture of "No Net New" which focuses on not just simply building more lines and towers but finding new ways to get more out of the existing grid, re-using already built lines and focusing on new technologies, that can minimize the impact on the land and landowners.

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 encourage employee wellness and proactively provide opportunities for employee engagement, growth and development. In addition, we believe it is important to 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. Transmission costs account for 5% to 10% of the average electricity bill in Alberta. AltaLink has operated its transmission system for about 30% less than the average Canadian utility between 2002 and 2006.

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 forecasted 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. AltaLink's transmission grid is also about preparing for tomorrow while we power the lives of Albertans today. With electricity consumption growing by the equivalent of adding two cities the size of Red Deer every year, we are focused on responding to the needs of Albertans to keep the lights on. We are focused on finding new ways to meet the electricity need while reducing the impact of our operations on the land and on customers affected by our facilities. Using new transmission technology, improving our landowner consultation, making more efficient use of the land and reaching innovative agreements with First Nations are some of the ways we're partnering with our stakeholders

Our job comes down to delivering both electricity and customer value, while reducing our environmental footprint, building relationships in Alberta communities, and upholding the highest standards of safety and reliability.

PERFORMANCE MEASUREMENT

Highlights of Second Quarter 2008

- Net income for the quarter of $9.6 million;
- Delivered safely and efficiently $25.3 million in capital expenditures for additional facilities for customers, including generators, industrial and distribution customers and system projects for the Alberta Electric System Operator;
- Delivered safely and efficiently $13.6 million in capital upgrades and replacements, managing the life and performance of existing facilities;
- Supported the AESO in the public consultation meetings regarding the need for reinforcement of the transmission system between Edmonton and Calgary;
- On April 6, 2008, the KEG transmission line became the first 500kV line to be energized in Alberta in more than 20 years;
- Refinanced $100.0 million of long-term debt which matured during the quarter;
- In conjunction with the United Utility Workers' Association of Canada (UUWA), implemented an improved job evaluation system for our UUWA staff which is more transparent, easier to understand and considers both internal employee equity and external market conditions; and,
- Named "The Best Place to Work" in the Energy/Oil and Gas category according to the July/August 2008 issue of *Calgary Inc.* magazine.

Safety and Reliability

Benchmarks are shown in the MD&A for the year ended December 31, 2007. AltaLink's safety record has significantly outperformed the industry average every year. As well, AltaLink has worked hard to ensure the transmission system is reliable. As a result, customers experienced 30% fewer outages and when outages occurred, the power was restored 20% more quickly than the Canadian average from 2002 to 2006.

LIQUIDITY AND CAPITAL RESOURCES

	Six Months ended June 30,	
	2008	2007
($ millions)		
Cash and cash equivalents, beginning of period	**$ —**	$ —
Cash flow from (used in)		
Operating activities	**76.9**	46.7
Investing activities	**(65.6)**	(103.9)
Financing activities	**(11.3)**	57.2
Cash and cash equivalents, end of period	**$ —**	$ —
Ratios [1]		
Interest coverage debt:		
Income before interest and taxes (EBIT) coverage [2, 5]	**2.01X**	2.01X
Income before interest, taxes, depreciation and amortization (EBITDA) coverage [3, 5]	**3.72X**	3.74X
Cash flow coverage [4, 5]	**2.42X**	2.48X
Cash flow/total debt [4, 6]	**6.35%**	6.44%
Debt/total capitalization [6, 7]	**61.61%**	61.70%

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 financial instruments accounting standards.
7. Total Capitalization - Consists of debt and partners' equity.

Pro Forma Earnings Coverage

	Twelve Months ended June 30,	
	2008	2007
Earnings-to-interest coverage on total Indebtedness [1]	**1.91X** [2]	1.96X [3]

1. Earnings-to-interest coverage on total Indebtedness is equal to net income before interest expense (excluding amortization of deferred financing fees) on all Indebtedness and income taxes divided by annual interest requirements on long-term debt (including capitalized interest). The foregoing ratios do not give effect to the issue of any Notes under the Offering or any use of proceeds therefrom.
2. AltaLink's interest requirements on all Indebtedness amounted to approximately $43.1 million for the 12 months ended June 30, 2008. AltaLink's earnings before interest and income tax for the 12 months ended June 30, 2008 were approximately $82.4 million, which is 1.91 times AltaLink's interest requirements on all Indebtedness for this period.
3. AltaLink's interest requirements on all Indebtedness amounted to approximately $38.1 million for the 12 months ended June 30, 2007 after giving effect to the issue of the $150.0 million 5.249% notes. AltaLink's earnings before interest and income tax for the 12 months ended June 30, 2007 were approximately $74.8 million after giving effect to the issue of the $150.0 million 5.249% notes, which is 1.96 times AltaLink's interest requirements on all Indebtedness for this period.

	Six Months ended June 30,	
	2008	2007
Credit Ratings		
DBRS – Commercial Paper	**R-1 (low)**	**R-1 (low)**
DBRS – Senior Secured Bonds	**A**	**A**
S&P – Senior Secured Bonds	**A-**	**A-**

On May 9, 2008, S&P confirmed the above rating, with a stable trend, and on May 28, 2008, DBRS confirmed the above ratings, both with stable trends.

Operating Activities

For the six months ended June 30, 2008, cash from operating activities increased by $30.1 million compared to the same period in 2007. The period-to-period increase is mainly due changes in non-cash working capital as prepaid deposits on capital equipment increased by $12.5 million, while accounts payable decreased by a similar amount during the first six months of 2007. In 2008, those account balances have remained stable as construction activity has slowed compared with a year ago.

During the first half of 2008, cash flow from operating activities funded 100% of the cash requirements for capital spending and other investing activities. For the six months ended June 30, 2007, cash flow from operating activities funded 43% of the cash requirements for capital spending. The remainder was funded primarily by an equity injection of $25.0 million and a debt issuance of $42.9 million.

A similar pattern was noted for the second quarter of 2008, cash flow from operating activities increased by $11.2 million compared to the same period in 2007.

Investing Activities
Investing activities included capital expenditures of $77.6 million in the first half of 2008 and $40.2 million for the second quarter (six months ended June 30, 2007 - $109.5 million; second quarter - $61.7 million) as construction activity was lower than in the comparative periods. Significant projects currently in progress are the Southwest Development from Lethbridge to Pincher Creek, the Waupisoo substation in Northern Alberta and the Enbridge Rosyth Upgrade project. AltaLink is also continuing with its program of capital upgrades and replacements to improve the safety and reliability of the electricity system.

Financing Activities
For the six months ended June 30, 2008, cash provided by financing activities decreased by $68.5 million compared to the previous year (the decrease was $42.0 million for the second quarter 2008 versus 2007) as the capital expenditure program to date in 2008 was fully funded by cash generated internally, while the capital activities for the same periods in 2007 were funded largely by the issuance of debt ($42.9 million) and equity contributions from the partners ($25.0 million).

Long-term debt increased $58.2 million compared to a year ago which was used to finance capital activity in the latter half of 2007. In the second quarter of 2008, AltaLink refinanced its Series 03-1 4.450% $100.0 million debt issue, which matured on June 5, 2008, under its capital markets platform with the Series 08-1 5.243% notes. The interest rate difference on the refinancing will increase interest expense by $0.8 million annually, which is fully recoverable from the AUC. No additional long-term debt was issued in the first half of 2008, as sufficient cash was generated internally and debt under the commercial paper program remained at year-end levels.

During 2007 and the first six months of 2008, temporary excess cash balances and cash received in advance of construction and operating and maintenance fees were invested in short-term interest-bearing instruments. At no time were any of these investments held in asset-backed commercial paper.

MAJOR CAPITAL PROJECTS

Southwest Development Project
On August 10, 2007, AltaLink applied to the AUC for a Permit to construct and Licence to operate the South West 240kV project, between Pincher Creek and Lethbridge to support both growing demand and to connect the fast-growing wind generation in the region. The double circuit line is needed to connect wind generation in the region. On January 21, 2008, AltaLink received AUC information requests, which are a normal first step of the regulatory process, and on March 25, 2008, the AUC provided formal notice of AltaLink's facility application. Interested parties had until June 30, 2008 to comment on the application. The AUC has scheduled a pre-hearing meeting for July 23, 2008 in Lethbridge. This meeting will consider such things as scope, timing and location of the hearing, including the relevant issues to be examined.

The transmission permits to cross reserve lands have been approved by the Blood First Nation and the Piikani First Nation. The permits have been executed by AltaLink and are presently waiting for execution by Indian and Northern Affairs Canada.

KEG Transmission Line Conversion Project
The project included the conversion of the lines between the Keephills, Ellerslie and Genesee substations ("KEG System") from 240kV to 500kV. AltaLink owns and operates the transmission lines connecting the KEG system, which was a 500kV system that had been energized at 240kV that connects generating plants at AltaLink's Keephills substation and Epcor's Genesee substation with AltaLink's Ellerslie substation.

On April 6, 2008, the KEG transmission line became the first 500kV line to be energized in Alberta in more than 20 years.

Edmonton to Calgary 500kV Transmission Development

Construction of a new 500kV transmission line between the Edmonton and Calgary regions is required to reinforce Alberta's transmission system. On April 14, 2005, the AUC issued Decision 2005-031 approving the need as put forward by the Independent System Operator (AESO) for the construction of the new 500kV line.

On September 30, 2007, the regulator issued Decision 2007-075 voiding Decision 2005-031. 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 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. 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 are pursuing short-term mitigation measures to reduce the reliability risk until a long-term solution can be developed.

The AESO has hosted a number of open houses across central Alberta in June, 2008 and will continue to do so during July and August as part of their consultation regarding the need to reinforce the transmission system between Edmonton and Calgary. To date, they have spoken with more than 1,000 people who have visited the open houses to learn more about the need for new transmission lines. AESO is consulting on four options, three of which are primarily within AltaLink's service territory, and the fourth would be carried out in conjunction with ATCO Electric. At each of these locations, AltaLink is supporting the AESO in explaining the role of a transmission company when siting and building lines. It is expected that the AESO will make a decision on the need for the line and the approximate location of the route later in 2008, after it has reviewed all of the input that it has received.

The AESO is also consulting on a variety of technical options for the reinforcement between Edmonton and Calgary. These include

- A single circuit 500kV line, which is the lowest initial capital cost option;
- A double-circuit 500kV line to replace an existing 240kV line leaving a land footprint similar to what is already in existence;
- A low impedance double-circuit 500kV tower design that is visually smaller than traditional designs, but also further improves the efficiency of the grid; and,
- A high voltage direct current (HVDC) line, that requires a much smaller tower, and also allows the removal of an existing 240kV line.

Proposed Heartland Project

The AESO has identified that current and future proposals for oil sands upgraders in the area northeast of Edmonton, known as Heartland, have the potential to increase electricity demand and to require transmission reinforcement in the Fort Saskatchewan area. This transmission reinforcement project (the "Heartland Project") is at an early stage of development. Neither the nature of the Heartland Project nor any potential routes have been determined at this point and neither a Needs Identification Document nor a facilities application has been filed with the Alberta Utilities Commission.

On March 7, 2008, the Partnership and EPCOR Utilities Inc. (EPCOR), through subsidiaries created for this purpose, formed a limited partnership known as the Heartland Transmission L.P., which, subject to AUC approval, would own new transmission facilities in the region on behalf of both AltaLink and EPCOR. The transmission development is expected to occur over the next five years.

REGULATORY MATTERS

Prior to January 1, 2008, AltaLink was regulated by the EUB, and is continuing to be regulated by the AUC, under a cost-of-service methodology, whereby all prudently incurred 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 together with any 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.

In addition to the applications related to major capital projects, the more significant applications that are expected to be considered by the AUC during 2008, although decisions may not be received until 2009, include the following:

- Direct Assign capital deferral account disposition (Application number 1561334) for May 2004 through December 2006, which was filed on February 15, 2008;
- Direct Assign capital deferral account for the year 2007;
- Restoration of other deferral accounts to the appropriate balance levels;
- General Tariff Application (GTA) for the fiscal years ending December 31, 2009 and 2010. A key element of the application will be AltaLink's proposal to address the expected decrease in cash flow credit metrics arising from the forecast large capital expenditure program.

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%.

Generic Cost of Capital

The AUC 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 AUC 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 AUC will consider undertaking a review of the formula. 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.

In Utility Order U2008-178, released on May 22, 2008, the AUC approved AltaLink's issuance of Series 08-1 Secured medium-term notes.

On June 21, 2008, the AUC issued Decision 2008-051. The AUC found that there was a reasonable basis to review the ROE level and the adjustment mechanism in a generic proceeding. In addition, capital structure will also be considered, on a utility-specific basis, in the generic proceeding along with the ROE adjustment formula.

ENVIRONMENT

AltaLink strives for continual environmental improvement to ensure legislative requirements and industry best practices are met or exceeded. Part of our environmental commitment is to the conservation of birds through our avian protection plan that protects wildlife and reduces impacts on birds from collision with transmission lines and substation or utility pole electrocutions. AltaLink is also active in the protection of wildlife and has worked with industry experts to create a product called GREENJACKET ™, a special material that covers substation equipment to protect wildlife and prevent outages. Prior to the use of this product, wildlife accounted for approximately 20% of outages. On the 15 substations with GREENJACKET ™, there has only been one wildlife related outage. In addition, bird nests built on utility poles are relocated to safer locations, such as nearby platforms provided by AltaLink. AltaLink also uses two types of marking devices on lines to reduce bird collisions with overhead transmission lines. Research has demonstrated that the installation of these markers has reduced collisions by 60% to 90%.

PEOPLE

AltaLink has more than 380 skilled and dedicated employees working to keep the lights on. Like other Alberta companies, AltaLink is currently facing unprecedented growth and increasing operational challenges. This is occurring at a time when the competition for people is high, there are significant pressures on compensation, and the labour market is tight. As a company, AltaLink has aggressively enhanced its people strategies to attract and retain qualified employees and to ensure that staff is developed, engaged and aligned with overall corporate strategies and business plans. AltaLink has just been named "The Best Place to Work" in the Energy/Oil and Gas Category, according to the July/August 2008 issue of *Calgary Inc.* magazine.

ACCOUNTING POLICY AND RELATED DISCLOSURES

CHANGES IN ACCOUNTING POLICIES

CHANGES IMPACTING THE 2008 FINANCIAL STATEMENTS

Financial Instruments

With effect from January 1, 2007, AltaLink adopted the following accounting standards: Canadian Institute of Chartered Accountants (CICA) 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 these 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 for 2007, as described below.

Prior to the adoption of the standards, AltaLink classified its deferred financing fees as an asset on the balance sheet and amortized such fees using the straight-line method. With the adoption of the standards, deferred financing fees have been reclassified as an offset to long-term debt on the balance sheet. In addition, the effective interest rate method has been used to calculate the amortization of deferred financing fees. The change in the method of amortization has resulted in an adjustment to opening retained earnings, which has been captioned as "Transition adjustment on adoption of financial instruments standards".

Effective January 1, 2008, AltaLink adopted the following Handbook Sections: 3862 – *Financial Instruments – Disclosures*, and Section 3863 – *Financial Instruments – Presentation*, which were effective for interim periods beginning on or after October 1, 2007.

i) Section 3862, *Financial Instruments – Disclosures* describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, *Financial Instruments – Presentation* replaced Section 3861, *Financial Instruments – Disclosure and Presentation.*

ii) Section 3863 – *Financial Instruments – Presentation*, establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of *Financial Instruments – Presentation* does not have any effect on the Partnership's financial statements.

The recognition, de-recognition and measurement policies followed in the financial statements for periods prior to the adoption of these standards are not reversed and, therefore, those financial statements are not restated.

Capital Disclosures

As described in Note 6 of the Q2 2008 financial statements, effective January 1, 2008, the Partnership 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.

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* does not have any effect on the Partnership's financial statements.

Contributions and Operating and Maintenance Fees in Advance

Prior to January 1, 2008, contributions in advance of construction included cash received in advance for capital projects as well as cash received in advance for future operating and maintenance costs. As the latter amounts have become more significant, effective January 1, 2008, these amounts have been shown separately on the financial statements; however, there has been no change in the accounting policy.

CHANGES IMPACTING FUTURE FINANCIAL STATEMENTS

Goodwill and Intangible Assets

CICA Handbook Section 3064 – *Goodwill and Intangible Assets* which is required to be adopted for fiscal years beginning on or after October 1, 2008 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062 and as a result, there is no impact on AltaLink's financial statements. The Partnership will adopt this standard on January 1, 2009.

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 December 31, 2007 financial statements.

International Financial Reporting Standards (IFRS)

Impact of IFRS
On February 13, 2008, the CICA Accounting Standards Board (AcSB) confirmed that the conversion to IFRS from Canadian GAAP will be required for publicly accountable profit-oriented enterprises effective for interim and annual financial statements beginning on or after January 1, 2011. On May 9, 2008, the AcSB issued an "omnibus" exposure draft related to the implementation of IFRS with comments due by July 31, 2008.

In Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies relating to Changeover to IFRS,* the Canadian Securities Administrators (CSA) noted the conversion to IFRS represents a change due to the implementation of new accounting standards. As a result, the transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Partnership's reported financial position and results of operations. The Notice requires AltaLink to discuss in its interim MD&A the elements, timing and status of its IFRS conversion plan. This information is provided below.

The Partnership is using a project management approach to address its IFRS conversion requirements and has identified the following key elements of the four phases of the project:

Phase 1 – Project Initiation and Initial Assessment

This phase, which is currently in progress and has been underway since the first quarter of this year, will continue until the end of 2008 and consists of the following activities:

- Performing an initial high-level assessment of the key areas which the IFRS conversion is expected to impact AltaLink's accounting, financial reporting, financial systems, processes and business or will pose a significant challenge to AltaLink;
- Preparing a project charter including establishing sound project governance and the initial work plan and timeline.
- Communicating and educating key internal stakeholders regarding the IFRS conversion; and,
- Initiating IFRS training by determining knowledge needs by staff level and business function and implementing an education program.

Current status:

- Completed an initial diagnostic analysis which provided information on the major differences between IFRS and Canadian GAAP for the Partnership.
- Prepared and obtained approval from the Steering Committee and Working Committee of the project charter which includes the project governance and the initial work plan and timeline.
- Completed the first part of an in-house IFRS training course for relevant staff.
- The initial high level assessments of the relevant IFRS standards are currently in progress. This includes an assessment of the key areas of impact on financial reporting, the accounting process, accounting policies, information technology and data systems, regulatory reporting and other business activities that may be influenced by GAAP measures such as debt covenants, capital requirements and compensation arrangements.

Phase 2 – Detailed Assessment Phase

This phase will be carried out in the first and second quarters of 2009, and will include performing a detailed assessment of potential impacts on accounting, financial reporting, treasury, regulatory and operations systems and processes, together with the required changes. It will also include a detailed analysis of IFRS and Canadian GAAP accounting and disclosure differences that are applicable to AltaLink, as well as determining IFRS 1 requirements and analysis of the benefits of the optional exemptions which provide relief to the requirement of full retrospective application;

Phase 3 – Design Phase

This phase will be carried out in the third and fourth quarters of 2009, and will include designing and preparing implementation plans, including changes required to systems and process, for all project work streams required for IFRS conversion, and finalizing communication strategies and training programs to be carried out during the execution phase.

Phase 4 – Execution Phase (Q3, 2009 +)

This phase will be carried out starting in the third quarter of 2009, and continue to the changeover date (January 1, 2011) and beyond, and consists of the following:

- preparing opening IFRS balance sheet as at the date of transition, January 1, 2010;
- preparing full IFRS interim and annual financial statements for the transition period ending December 31, 2010 for comparative disclosure in the IFRS interim and year-end financial statements the following year;
- preparing interim and annual IFRS financial statements for the year ending December 31, 2011;
- continuing IFRS compliance by developing new accounting policies, accounting manuals, guidelines, processes for reporting packages to regulator, internal management and owners;
- developing revised internal control and disclosure control processes, updating key controls as required and addressing any internal or disclosure control deficiencies; and,
- developing detailed training and knowledge transfer to appropriate individuals.

Potential for Early Adoption

The CSA also issued Concept Paper 52-402, which requested feedback on the potential early adoption of IFRS as well as the use of US GAAP by domestic issuers.

On June 27, 2008 CSA Staff Notice 52-321, *Early Adoption of IFRS* was issued, which indicated, among other things, that they would be prepared to grant an exemption to allow Canadian financial statement issuers to adopt IFRS early on a case-by-case basis, provided that they could demonstrate that they had met certain conditions. These conditions include a careful assessment of the readiness of the issuers' staff, board of directors, audit committee, auditors, investors and other market participants to deal with the change. In addition, the issuer is expected to consider the implications of early adoption on its obligations under securities legislation, including those relating to CEO and CFO certifications, business acquisition reports, offering documents, forward-looking information and previously released material.

At this time, AltaLink is not planning to adopt IFRS early.

Transition Matters

IFRS 1, *First Time Adoption of International Accounting Standards,* provides transitional guidance and relief for an entity adopting IFRS for the first time. The International Accounting Standards Board (IASB) has stated that it plans to issue an exposure draft relating to certain amendments to the IFRS 1 standard in order to assist Canadian entities adopting IFRS for the first time in carrying out a smoother transition. One such exemption relating to rate regulated accounting would, if adopted, result in a significant reduction in the time and effort required to transition from the current Canadian accounting model to IFRS. If the proposal in the exposure draft is accepted, it is anticipated an amended IFRS 1 standard will be issued late in 2009.

In addition, on May 23, 2008 the AUC launched a collaborative process to examine issues affecting the regulatory process related to the adoption of IFRS. AltaLink has expressed its interest in participating and has also identified key issues it would like the AUC to address.

Critical Accounting Estimates

The preparation of our quarterly and annual 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 in which we operate 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. We base our 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 associated 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. For a more detailed description of these estimates, see the December 31, 2007 MD&A. Listed below is the only change since that date.

Assets Under Construction

Included in Assets under construction is approximately $40.3 million in capital expenditures, related to the Edmonton to Calgary 500kV transmission line project. AltaLink incurred these expenditures pursuant to direction letters issued by the AESO, which is a normal step in 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. Regulatory proceedings are expected to commence in 2008. 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.

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 $1.7 million in the second quarter of 2008 and $6.8 million for the year ended December 31, 2007 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 June 30, 2008, the balance owing in respect of the bond was $85.0 million, together with accrued interest of $1.1 million.

AltaLink paid SNC-Lavalin ATP Inc. (ATP) $24.7 million for construction-related services for the first half of 2008, compared with $110.4 million for the year ended December 31, 2007. At June 30, 2008, AltaLink's payables included $19.8 million (December 31, 2007 - $21.9 million) owing to ATP. The reduction in the amount payable compared to year-end was due to delays in construction of two major projects as a result of postponements in the regulatory approval process. In 2002, AltaLink executed a ten-year contract with SNC-Lavalin ATP, a subsidiary of SNC Lavalin Inc., for the provision of engineering, procurement and construction management services for directly-assigned capital projects undertaken by AltaLink. The terms and conditions of this contract were reviewed by the AUC 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.

RESULTS OF OPERATIONS

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the Financial Statements for the most recent financial periods is set forth below:

	Three months ended June 30		**Six months ended June 30**	
	2008	2007	**2008**	2007
Total revenue ($ millions)	**58.5**	52.9	**116.1**	106.7
Net income ($ millions)	**9.6**	8.3	**21.2**	19.6
Funds generated from operations ($ millions) [1]	**23.6**	22.7	**50.9**	47.8
Net income per unit ($)	**0.029**	0.025	**0.064**	0.059
Distributions per unit ($)	**0.017**	0.016	**0.033**	0.033
Total assets ($ millions)	**1,462.5**	1,379.6	**1,462.5**	1,379.6
Long-term debt, excluding current portion ($ millions) [2]	**800.5**	743.1	**800.5**	743.1

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.

FINANCIAL POSITION

The following outlines the significant changes in the Partnership's balance sheet from December 31, 2007 to June 30, 2008:

	Increase/Decrease ($millions)	Explanation
Accounts receivable	(20.8)	Decrease in receivables from the AESO as December 31, 2007 figures included two outstanding payments versus one payment at the end of June 2008.
Property, plant and equipment	34.5	Construction costs primarily related to the South West System upgrade, the Waupisoo substation, the Enbridge Rosyth Upgrade project and capital maintenance.
Contributions in advance of construction	(6.0)	Decrease is mainly due to refunds, half yearly payment of interest to the AESO and to funds used in construction projects.
Current Regulatory liabilities	4.5	Increase is mainly due to the direct assigned capital deferral account.
Long-term Regulatory liabilities	1.7	Increase is due to the property tax deferral account.

RESULTS FOR THE SECOND QUARTER 2008

Net Income

Net Income for the three and six months ended June 30, 2008 is higher than 2007 primarily due to the increase in transmission tariff revenue which is partially offset by increases in operating expenses, depreciation and interest expense.

Revenues

Total revenue of $58.5 million increased by $5.7 million in the second quarter of 2008 compared to the same quarter in 2007. Transmission tariffs approved by the AUC increased by $5.0 million while the allowance for funds used during construction (AFUDC) increased by $0.7 million. For the year-to-date, total revenue increased by $9.4 million as transmission tariffs increased by $7.9 million while the AFUDC increased by $0.9 million compared to the previous year. Tariff revenues received from the AESO, which constitute 94% (2007 – 95%) of the Partnership's total revenue, have increased primarily due to growth in transmission assets and recovery of increased operating costs.

For the six months ended June 30, 2008, AltaLink incurred property, plant and equipment expenditures totaling $77.6 million ($109.5 million in 2007), all of which were funded by cash generated by operations, and capital projects with a total value of $38.3 million ($43.6 million in 2007) were completed and added to the regulatory rate base. The resulting increase in revenue reflects allowed returns on capital invested and recovery of depreciation charges on new capital additions. The increase in rate base as well as in the allowed rate of return on equity, from 8.51% in 2007 to 8.75% in 2008 have had an impact on the growth in total revenue.

Miscellaneous revenues include services provided on a cost recovery basis to other utilities. The provision of such services has no significant impact on net income.

Operating Expenses

Operating expenses include salaries and wages (net of transfers to capital projects), contracted manpower, general staff related costs and insurance. The $3.2 million increase ($5.0 million increase for the year-to-date) in operating expenses in Q2 2008 compared to Q2 2007 reflects wage increases and general inflation, additional manpower and related expenses incurred as a result of AltaLink's continued growth. A portion of the increased operating costs is recovered through miscellaneous revenue for services provided to other utilities.

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

For the three months ended June 30, 2008, EBITDA was $38.2 million, $3.6 million higher than the $34.6 million recorded in the corresponding quarter in 2007. For the six months ended June 30, 2008, EBITDA was $78.5 million compared with $72.3 million for the first half of 2007.

1. EBITDA is equal to net income before financing expenses, taxes, depreciation (including accretion) and amortization.

Depreciation and Accretion Expense

Depreciation is calculated on a straight-line basis with various rates ranging from 1.32% to 33.33% as approved by the AUC. The $1.6 million increase ($2.7 million increase for the year-to-date) in depreciation and accretion expense in Q2 2008 compared to Q2 2007, is due to the capital projects that were completed and added to property, plant and equipment.

Interest Expense
The $0.7 million increase in interest expense ($1.8 million increase for the year-to-date) in Q2 2008 compared to Q2 2007 reflects $58.2 million of commercial paper and other short-term debt borrowed over the past twelve months to fund ongoing capital expenditure programs, partially offset by lower short-term interest rates on debt. Over the past year, the Bank of Canada and other central banks have significantly reduced short-term interest rates to maintain liquidity in uncertain global capital markets. The average effective interest rates on commercial paper decreased to 3.51% from 4.49% in the in the last twelve months.

SUMMARY OF QUARTERLY FINANCIAL INFORMATION

QUARTER ENDED	TOTAL REVENUE **($millions)**	NET INCOME **($millions)**	UNITS OUTSTANDING **(millions)**	NET INCOME PER UNIT **($/unit)**
June 30, 2008	58.5	9.6	331.9	0.029
March 31, 2008	57.6	11.6	331.9	0.035
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

Prior to January 1, 2007 the Allowance for Funds Used During Construction was being recorded in total revenue only in December and January, and this resulted in higher net incomes for those quarters. Starting in 2007, the allowance for funds used during construction was recorded in total revenue 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.

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 (AIF) 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 significant risks facing the Partnership and the strategies used to manage the risks.

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 are as follows:

- Regulatory Approvals
- Capital Resources
- Labour Relations
- Insurance
- Damage from Natural Disasters
- Operations and Maintenance
- Environmental and Safety

These risks are discussed more thoroughly in the annual MD&A.

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, distributions 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 July 22, 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 is available on SEDAR at www.sedar.com.